

This is a copy. The original has been extracted and retained under Section 3(4)

CONFIDENTIAL

PRIME MINISTER

Prime Minister

P.A. 1/11/76

To be before your Briefing Meeting tomorrow I very much agree with Sir John on both counts. GJM 1/11/76

European Council Briefing Meeting

I should like to offer you two thoughts in advance of your briefing meeting tomorrow.

2. The first is that I was very struck by two remarks which I heard on Thursday. During the discussion on Community Affairs at Cabinet that day, you expressed doubt about the progress that had been made in bringing home to our partners the seriousness of our Budget problem: but that night I sat next to the Governor of the Bank of France who told me that when he went to see President Giscard about something connected with the Tokyo Summit all he got in reply was a ten-minute lecture on how much the President had been impressed by your visit and on how you were someone to be treated seriously.

3. The walls of the EEC Budget are not going to collapse at the first sound of the trumpet, but equally so I think it would be wrong to underestimate the extent to which our partners' attitudes have changed recently. Until last December's European Council our problem was barely recognised. Since then, and especially since the present Government took office, the majority of our partners have come to recognise both the existence and the scale of our problem. What is more (and this of course was what underlay President Giscard's remarks to M. Clappier) they have recognised that it is much more difficult to rebuff this Government than its predecessor. I know you are, and rightly, impatient for action but your talks with Chancellor Schmidt and President Giscard both went well. We now have evidence * ~ * that Schmidt himself is persuaded of the need to ease our financial burden in the Community as a means of reinforcing the Government's commitment to Europe. The bilateral visits undertaken recently by the Foreign and Commonwealth Secretary and the Lord Privy Seal have also borne some fruit. Similarly the Commission's thinking has shifted considerably. After stone-walling through the earlier discussions on convergence the Commission now likewise acknowledged the size of our problem and are ready to play a role in suggesting remedies.

* ~ * Passage deleted and retained under S.3(4)
Wayland
17 November 2009

CONFIDENTIAL

4. It would be foolish to think that our partners will lean over backwards at Strasbourg to meet us. You will not get the remit to the Commission that we want without a fight; and even if we get it the real battle will only have begun. But I think you should not underrate the extent of the progress which you have already made in getting the main Heads of Government concerned to accept that there is a problem which has to be taken seriously. And, as always with the EEC, once the political commitment is there, the mechanical solutions can be found.

5. My second point relates to the fact that we have few cards, other than determination and reiteration of the Government's commitment to Europe, to play in the difficult negotiations on the Budget. One painless card is however to swap some of the United Kingdom's reserves for ECU's. In your talk with President Giscard you said that it might be possible to do this at the time of the exchange rate review: but I wonder whether it is worth considering taking this step at Strasbourg.

6. It is common ground with the Treasury and the Bank of England that, because of the way the mechanics have been agreed, the exchange of 20 per cent of reserves against ECU's has virtually no practical effect: it carries neither risk nor financial benefit. By the same token, it is not a move for which we could expect our partners to pay. On the other hand, it could have considerable presentational value at the forthcoming Strasbourg meeting. At that meeting you will be pressing the rest of the Community for action on the Budget. You will also be steering a careful course on energy between being co-operative and avoiding commitments about our domestic energy supplies.// At the same time you will be presenting the Government's more constructive approach to Europe, and in this context a gesture like announcing the Government's intention to exchange reserves for ECU would go down well. The Treasury may be fearful that such a move at this stage would be interpreted as a commitment to join the exchange rate mechanism later: but if you accompanied it by a clear statement that the Government did not intend to review that question until the autumn, any such risk would be avoided. If we do not play this small card

CONFIDENTIAL

now, its presentational value will diminish. If the Government decides to join the exchange rate mechanism in the autumn, the deposit of reserves follows automatically and will carry no extra kudos. If the Government decides to stay out, the deposit of reserves would not take any tricks and would be too late to have any influence on attitudes towards our main thrust on the Budget. This is a point that you could raise at your briefing meeting on Tuesday afternoon.

Joh

(John Hunt)

18th June, 1979