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subject copy filed on Germany: Schmidt visits Pt 2

PARTIAL RECORD OF A DISCUSSION BETWEEN THE PRIME MINISTER AND  
THE CHANCELLOR OF THE FEDERAL REPUBLIC OF GERMANY, HERR SCHMIDT,  
AT NO.10 DOWNING STREET ON 25 FEBRUARY 1980

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Present:

Prime Minister                      Chancellor Schmidt  
Mr. Michael Alexander      H.E. Dr. Jürgen Ruhfus

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COMMUNITY BUDGET

Chancellor Schmidt said that he hoped the Commission would come up with a proposal capable of resolving the problem of Britain's contribution to the Community Budget. The approach currently being adopted to the European Council would get nowhere. Either far more effective preparations should be put in hand or the budgetary question should be pushed into the background. The Prime Minister agreed that better preparation was needed. She was not prepared to have a repeat of the disastrous meeting in Dublin. But the problem could not be pushed into the background. There would have to be some movement on 31 March. Failing such movement her position would become impossible.

The Prime Minister asked whether the difficulty lay in the failure of anyone so far to come up with the right scheme for solving the problem or whether it was a question of the unwillingness of the other members to pay the bill. Chancellor Schmidt said that no-one had done a sufficiently thorough-going or sophisticated analysis of the problems. Too much of the talk had been in terms of gross figures. These figures needed to be broken down into their components i.e. the contributions made by the VAT, by tariffs, by levies and MCAs. The role of the various funds, e.g. the social and regional funds, needed to be considered in more depth. All this could only be done either by the Commission or by the Presidency.

Chancellor Schmidt asked whether the Prime Minister would be prepared to take the lead in proposing the revision of the CAP.

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The Prime Minister said that she would but that she considered the chances of getting support from the others would be small. Chancellor Schmidt said that the Prime Minister might be right but the effort would have to be made. Failure to reform the CAP would be more painful and more damaging than any reform. He agreed with the Prime Minister that it might take three or four years or even a little longer to put through an effective programme of reform. The Prime Minister repeated that she would be willing to make the effort but observed that it would be easier if the Commission's own proposals in the area did not invariably damage British farming.

Chancellor Schmidt said that if Britain could make a gesture on fish and find a way of solving the sheepmeat problem it would enormously improve Britain's negotiating position. He recognised Britain's views on the latter subject but sometimes it was necessary to acquiesce in things that were wrong. It would also be very helpful if Britain were to join the EMS. The Prime Minister said that Britain would continue to press ahead in good faith with the negotiations on fish and sheepmeat - as indeed we had done immediately after Dublin where fish was concerned. As regards EMS, if Britain had joined in the autumn, the present exchange rate would have taken us well out of the grid. The effort to have stayed within the grid would have resulted in a major increase in the money supply. Chancellor Schmidt said that whether or not Britain was in the EMS, the exchange rate was going to rise. He did not think that membership of the EMS would alter the fate of British currency one way or the other. There might be some difficulties. Indeed the Federal Republic had experienced some itself. But British membership of the EMS would help Europe as a whole greatly. He hoped that the Prime Minister would think seriously about it.

Chancellor Schmidt asked whether the Commission should be instructed to produce a possible package solution to the Budget problem. He and Lord Carrington had discussed the idea with President Jenkins at dinner two days previously. Mr. Jenkins had said that the Commission bureaucracy was probably incapable of producing such an approach. All that he could do would be to write a personal letter setting out a solution to the nine Heads of Government.

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The Prime Minister said that she thought it should be for the Presidency to follow up this idea. She doubted whether in present circumstances the Commission President (whom Chancellor Schmidt had noted was under suspicion of being excessively favourable to the British viewpoint) carried sufficient weight. Signor Cossiga very much wished to be helpful. Although he had problems of his own, it looked as though he would probably remain in office until the Venice meetings. Chancellor Schmidt agreeing that Signor Cossiga should be asked to carry the matter forward said that he should nonetheless be urged to make full use of the Commission in doing so. The Prime Minister agreed. Chancellor Schmidt also suggested that Signor Cossiga should be told that the Prime Minister and the Chancellor had discussed the question of reform of the CAP and had agreed that steps to achieve this should now be put in hand. The Prime Minister agreed that this message should be conveyed to Signor Cossiga by each Government's representatives.

#### Structure of the Commission

Chancellor Schmidt commented that Mr. Jenkins was a good but not a great President of the Commission. (The only really effective President of the Commission, according to Chancellor Schmidt, had been M. Monnet. He had been willing to exploit all the potentialities of his position while remaining in the background.) The Commission as presently organised was an impossible organisation. There was no need to have more than four or five Commissioners. Unfortunately, the smaller members would never agree to a radical reduction in the number of Commissioners. Perhaps an inner Cabinet should be envisaged. The Prime Minister agreed with Chancellor Schmidt's analysis.

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