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From the Private Secretary

21 December, 1979.

Dear George,

Community Budget

The Prime Minister held a meeting this morning with the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Lord Privy Seal, the Secretary of State for Energy and the Minister of State (Mr. Buchanan Smith) Ministry of Agriculture, Fisheries and Food.

There was general agreement that, in addition to the improvements in the Financial Mechanism which had been on offer at Dublin, we should now press hard to secure a receipts mechanism which would operate automatically to raise the level of our receipts per head nearer to the Community average. In this way, we should not have to argue each year over individual programmes: the amount we received would rise as total Community expenditure rose. It was likely that the Commission would propose a special fund for the UK for a limited period of years, and some of the uses for such a fund which they might favour could raise problems of additionality. However, it might prove possible to marry the idea of a fund with ideas for a mechanism as suggested in the note by officials.

The conclusions in the note by officials (viz. that, while we should continue to press for it, restructuring of the Community budget would not produce early or sufficient relief for the UK) were generally endorsed. There was some discussion about the 1980 Budget. The Prime Minister said she was extremely anxious that the Government should work closely with Mr. Scott Hopkins and the Conservative MEPs. The present procedures could be improved. We had been wrong to side with the French and Germans against the amendments to the draft budget proposed by the Parliament. The Chancellor of the Exchequer said OD(E) had recently discussed the problem but he still felt there was a political gap between the Government and Conservative MEPs. While it might not always be the case, in the immediate future it was in the UK's interest to side with the majority of the European Parliament. They were likely to be more favourable, e.g., to cuts in agricultural expenditure than were the majority of the Council. The Lord Privy Seal said that he was planning

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to meet Conservative MEPs before each session of the Parliament. It was difficult to tell whether the dispute over the 1980 budget would help our aim of restructuring the budget or deflect the Community's attention from our immediate budget problem.

On tactics, the Lord Privy Seal said he was now trying to set up a series of bilateral meetings for early January beginning with the Dutch and the Germans and leaving the French and the Danes (who had been most difficult in Dublin) to the end. In these contacts he would rest on the Prime Minister's statement after Dublin that we were looking for a genuine compromise in which we had limited room for manoeuvre. This implied that we were willing to accept some net contribution. In the meantime it was no longer helpful to refer to "broad balance", and if we cited the case of France it should be for purposes of comparison rather than as a statement of our position. He would hope to report to the Prime Minister by the third week in January, i.e., before the expected visit to London by the Italian Prime Minister, Signor Cossiga, which should if possible be arranged for the fourth week in January. The Government would need to consider then what threats might be necessary. Although the Germans had shown great reluctance to part from the French, their attitude remained crucial and they might be ready to put more pressure on the French especially if they feared that otherwise we might leave the Community. Nor should we under-rate the help we might get from the Benelux countries who were distrustful of the French.

On related issues the Secretary of State for Energy said Count Lambsdorff had told him that Chancellor Schmidt's attitude on the budget issue would be much influenced by what we were willing to do with North Sea oil in a sub-crisis situation. There was still a failure to recognise that we had behaved very responsibly towards the rest of the Community. We were already doing something substantial for the Community on prices and supplies. So far as the UK was concerned, North Sea oil gave us the advantage of receipts from our exports and some greater security of supply, but it did not give us cheap oil. By mid-January we would come under pressure to raise our prices following the Caracas meeting and this could produce new difficulties with our Community partners. They should understand that we could choose to exercise continued restraint or threaten to push up our prices, although the latter course would have wide repercussions. It was suggested that, although we should not over-rate the importance of North Sea oil as a source of supply for the Community, it was nevertheless worth while re-examining whether our oil policies could be exploited within the Community in order to advance our budget objectives. For instance, in a sub-crisis we might offer to make oil available at spot prices. But

basically our approach should be one of threatening to be less helpful than in the past rather than offering further positive help.

On fisheries there was general agreement that we could not allow discussions on the Common Fisheries Policy to become linked to the budget issue. As we had done before Dublin, we should aim to show that progress was being made.

Summing up the discussion, the Prime Minister said:-

- (a) the two papers by officials had been broadly endorsed;
- (b) the Lord Privy Seal should carry out bilateral consultations on the lines suggested and report back as early as possible in January. It would also be helpful if the Chancellor of the Exchequer would contact his opposite numbers especially the German and Italian Finance Ministers;
- (c) OD(E) would consider in January the tactical handling of energy, fisheries, and sheepmeat in relation to the budget issue along the lines agreed at the meeting;
- (d) apart from an interim meeting which might be necessary, there should be a further Ministerial discussion in the third week of January to consider a report on the Lord Privy Seal's consultations as well as the result of work currently in hand on the withholding of Community contributions and policies of obstruction within the Community if we did not make satisfactory progress on our budgetary requirement.

I am sending copies of this letter to the Private Secretaries of the members of OD(E), to Bill Burroughs (Department of Energy), and to Martin Vile (Cabinet Office).

*Yours ever*

*Nicholas Alexander*

G.G.H. Walden, Esq.,  
Foreign and Commonwealth Office.