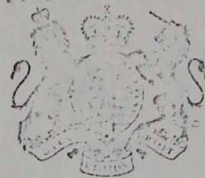


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Original on: Euro Pol.  
Budget Pt 8

Good Pd

10 DOWNING STREET

From the Principal Private Secretary

28 May 1980

Dear Paul,

EUROPEAN COUNCIL

The Prime Minister met the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and the Minister of Agriculture this morning to discuss the present position on outstanding Community issues and to settle the line to be taken at the working dinner with Signor Colombo this evening and at the Foreign Affairs Council tomorrow. Mr. Franklin was also present. The meeting had before it Mr. Franklin's minute of 27 May 1980.

FARM PRICES

The Minister of Agriculture said that the French had now told the Commission that they were proposing to introduce national aids which would give their farmers price increases that were equivalent to the figures agreed by the Eight. The Commission were likely to say that they needed more information about the French proposals and wanted more time to consider them. Nonetheless, the indications were that the French would introduce national aids at the end of the month. We should make it clear that action of this kind by France would be contrary to the Treaty of Rome and that if the French went ahead, the consequences for them would be very serious. We should do all we could to rally our partners against the French and not let them simply acquiesce in unilateral action by France. If we did nothing, France would be seen by the rest of the Community to be getting away with it again and our general position in relation to our other partners would inevitably be weakened, with implications for the negotiations on other issues.

It was pointed out in discussion that if the French acted illegally on national aids as well as on sheep meat, this would make it easier for us to withhold our VAT contribution.

UK BUDGET CONTRIBUTION

The Chancellor of the Exchequer said that he had had a number of useful bilateral meetings in the margins of the previous day's meeting of ECOFIN. Herr Lahnstein had told him that Germany's internal budgetary problem was not an insuperable obstacle to settling the issue of the British budget contribution: a supplementary budget at the time of the Federal elections would be difficult for the Germans but not impossible. Signor Pandolfi had told him that if there was to be

/a budget settlement

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a budget settlement lasting three years, the figure for the first year would have to be higher than 538 meua and he had mentioned a figure of 600 meua. He was also doubtful whether a figure could be fixed for 1982. At the Council meeting itself nobody had seriously criticised the Commission's paper and they had agreed that it should be submitted to the Foreign Affairs Council as a basis for discussion. Although our aim of a settlement lasting three years was acknowledged, the meeting had echoed Signor Pandolfi's doubts about the feasibility of settling on a figure for the third year. No-one, however, thought that any agreement could apply to 1980 only. There was increasing concern in the Council about the inevitable collision between the 1% VAT ceiling, the growth of CAP expenditure and the problem of solving the issue of our budget contribution. Other members of the Council appeared to accept the need for all to share in the risks of further growth in the budget and in discussing the Dutch refund-based approach to the problem of our contribution, they had recognised the need for indexation. He had developed this idea since the meeting of the Council and had now worked out the outline of a scheme which provided a refund indexed in line with growth of the Community Budget (the Chancellor gave his colleagues at this point a note of the figures for the scheme). Although our partners would almost certainly regard the scheme as too favourable to us, it might be worth introducing into the negotiations at some point.

Mr. Franklin said that there was likely to be considerable difficulty in getting a precise figure agreed for 1982, whatever solution we went for, because of the uncertainty over how much room there would be within the 1% VAT ceiling. There would in any case have to be a major review of the Community's finances some time during the next 18 months. For these reasons it might suit our interests better to have a formulation which required the Commission to propose a figure for the third year taking account of the outcome of any general review of the Community's financial arrangements, but with a commitment that if there was no comprehensive solution our net contribution in 1982 should be limited in the same way as that for 1981.

The Foreign and Commonwealth Secretary said that he was not at all sure that there would be a serious discussion of our budget problem at the Foreign Affairs Council. Monsieur Francois-Poncet would not be present, and it now seemed likely that Herr Genscher would not be there either. Nonetheless, we should make it clear that we were ready to try to make progress towards a solution.

In discussion it was agreed that the Foreign and Commonwealth Secretary's opening position should be the proposal we had made in Luxembourg (line 2 of the table attached to Mr. Franklin's minute of 27 May). If our partners showed any readiness to come towards us, he should be ready to move to Mr. Jenkins' figure of 586 meua for 1980, though the corresponding figures for 1981 and 1982 should be based not on line 8 of the table attached to Mr. Franklin's minute but on the 72% formula of line 6. It was important that our net contribution should not rise above 700 meua in any one year. It might make discussion in the Council too complicated to float the Chancellor of the Exchequer's new formula and it would be better therefore not to use it at this stage.

/It was agreed that



It was agreed that if there was no progress at the Council and if the French went ahead with the introduction of national aids, we should need to respond quickly. One possibility was to impose levies on imports from France to compensate for the disadvantages to which we would be put nationally by French levies on British sheep meat and by the French Government's assistance to their farmers. There might, however, be a number of difficulties about proceeding in this way, and there was agreement that it would be better to respond to illegal French actions by withholding our VAT contribution to the Community Budget. The Cabinet Office should look urgently at the possibility of delaying by two or three days our VAT contribution for May, if this had not already been paid over. A step of this kind would not come as a surprise to our partners, since the Foreign and Commonwealth Secretary had warned Community Ambassadors the previous day that if the French did anything illegal, we would withhold.

#### SHEEP MEAT

It was agreed that there could be no agreement on a sheep meat regime without a settlement of the budget problem. Moreover, the Prime Minister would be seeing Mr. Muldoon at the weekend and there could not therefore be an agreement on sheep meat before then. The Minister of Agriculture should accordingly explore at the Agriculture Council later today a system of variable premia for the United Kingdom and Ireland. He should also seek to establish how it was proposed to dispose of surplus sheep meat that would result from any intervention in France.

#### FISH

The Minister of Agriculture said that the British fishing industry was now in an explosive frame of mind, and if any text dealing with principles mentioned equal access, there was likely to be an outcry. The wording which we had put to the Germans ought to satisfy them, though they would probably not accept it because they wanted some recognition of the commitment to equal access at least outside the 12 mile limit. Because the phrase "equal conditions of access" appeared in Article 2 of the basic fisheries regulation which had been codified and agreed by the last Government in 1976, we were on weak legal ground in seeking a formula which did not mention equal access.

Mr. Franklin said that the French were now lining up with the Germans on fish. Germany was trying to pre-judge in their own favour the negotiation on a fisheries agreement which would inevitably have to take place. They were seeking now a movement of substance on our part which would go beyond either of the two formulae set out in his minute. We could not agree to that. We were simply trying to preserve our existing position prior to the negotiation.

The Prime Minister said that fish was a major political issue which if it went wrong, could lead to our eventual withdrawal from the Community.

It was agreed that at the Foreign Affairs Council the Foreign and Commonwealth Secretary should not move from the form of words which the Minister of Agriculture had put to the Germans in bilateral talks.

/MEETING WITH SIGNOR COLOMBO



MEETING WITH SIGNOR COLOMBO

It was agreed that the line to be taken with Signor Colombo later today was to tell him that we were still seeking a settlement lasting three years and embodying the kind of net contribution which we had indicated at Luxembourg. We should make it clear that if a satisfactory settlement was not reached, the Community would be facing a very serious crisis. We should also let Signor Colombo know that we were totally opposed to any French plan to introduce national aids for their farmers and that if France went down this road, it would be necessary to respond immediately. If he pressed us on the need to reach agreement on sheep meat and fish in parallel with movement towards a budget settlement, we should explain to him the efforts we were continuing to make.

I am sending copies of this letter to Martin Hall (Treasury), Garth Waters (Ministry of Agriculture) and David Wright (Cabinet Office).

Yours we,

Blair Whitmore.

Paul Lever, Esq.,  
Foreign and Commonwealth Office.