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Am:

PRIME MINISTER

Community Budget

At its meeting on 12th September OD Committee commissioned some further work, both on the United Kingdom budget problem itself and on the way in which we might play the hand. This is in hand: but there are several strands in the build up to what we all know is going to be an extremely difficult negotiation, and you may find it helpful to know what work is going on and see how it fits together.

2. First, as to dates: you are going to Rome on 4th-5th October and will be in Luxembourg on 18th-19th October. The ECOFIN Council will meet again on 15th October and we should get the Commission's second paper containing proposals shortly thereafter. Your bilateral with Chancellor Schmidt is on 31st October; this will come immediately after meetings of the Foreign Affairs Council and the Fisheries Council. Your meeting with President Giscard on 19th-20th November will also coincide with meetings of ECOFIN and probably the Foreign Affairs Ministers at which final preparations for the European Council in Dublin (29th-30th November) will be made. So far as you are concerned it is the bilateral meeting with Chancellor Schmidt which is the crucial one. If you cannot reach some understanding with him, the prospects for the Dublin meeting will be bleak. Conversely his support would be invaluable for your subsequent meeting with President Giscard. (The two of them will certainly have been in touch beforehand.)

3. This means that you ought to have some idea before the end of October about the cards which you will have to play when it comes to the Dublin meeting. You have already called for a paper from the Foreign and Commonwealth Secretary on the threats which could if necessary be used in order to get our way. This will cover not just ways of turning off the tap (where the Chancellor of the Exchequer is already looking into the legalities) but the range of possibilities for blocking progress in other areas of Community activities (new expenditures,

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CAP prices, and the 1 per cent VAT ceiling etc.). But we also need to prepare ourselves on other issues where we may come under pressure to make concessions in exchange for a budget deal. Here you and your colleagues will have to consider whether this pressure, if it arises, has to be resisted or whether there is any room for movement in the context of a satisfactory budget deal. The three issues which have so far been mentioned by one or more of our Community partners are energy, EMS and fisheries. The position on these is as follows:-

- (i) OD(E) at its meeting on 13th September called for a further paper from the Secretary of State for Energy on what scope there might be within the energy sector (including the possible use of long-term contracts) for being helpful without damage to our national interest.
- (ii) You will shortly be getting a paper from the Chancellor on EMS which you have agreed should in due course go to OD. This should enable decisions to be taken by mid-October about whether or not the United Kingdom should enter the exchange rate mechanism and, if so, when.
- (iii) Fisheries. You have called for a report from the Minister of Agriculture about his consultations (Mr. Pattison's letter of 9th August refers) and this should be ready by the end of September or very early in October. This is probably the trickiest issue and you may want to discuss it again informally before putting it to OD(E), or more probably OD under your chairmanship.

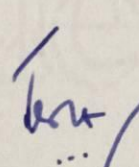
4. Finally, there is the need to keep an eye on the whole range of Community business during the coming weeks so that, while defending legitimate British interests, we do not necessarily sour the atmosphere or dissipate the goodwill which you and your colleagues have established. The European Secretariat of the Cabinet Office is preparing a paper on the prospects for Community business during the remainder of this year which will go to OD(E). We need to be on the look out for minor items where we could be helpful. It

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may make sense to allow issues to come to the European Council in Dublin if this helps other Heads of Government to justify in domestic political terms doing something for us on the budget.

5. I think these various pieces of work will provide the necessary background for preparing for your visit to Bonn. We can see nearer the time whether it is sensible to take them at OD or during your briefing meeting. Even if there is no scope for direct links, the defence issues which will come up in Bonn will also be important to the atmosphere of the discussions on the budget. It will only be after the bilateral with Schmidt and Giscard that the tactics for Dublin can be finally decided.

6. I am copying this minute to the Foreign and Commonwealth Secretary in his capacity as Chairman of OD(E).


(John Hunt)

20th September 1979



10 DOWNING STREET

Prime Minister.

This was in last night's
box but I am not sure
whether in fact you saw it.

Ph

We need to do a
lot more work yet.

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Handwritten: JRB
Euro Pol

10 DOWNING STREET

From the Private Secretary

MR. VILE
CABINET OFFICE

Community Budget

The Prime Minister has seen Sir John Hunt's minute of 20 September on this subject. She has not commented in detail on the minute but she has noted that a lot more work needs to be done.

I am sending a copy of this minute to Roderic Lyne (FCO).

M. O'D. B. ALEXANDER

24 September 1979

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Handwritten: E. G. ...