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COMMUNITY BUDGET

As you know, the Germans vetoed the idea of trilateral talks, but Lord Bridges and Mr Franklin had several hours of useful talks with their French and German opposite numbers over the weekend. Although they did not produce any very noteworthy developments, they at least showed a serious concern to prepare the ground for the European Council. The fact that our French and German colleagues had met beforehand was evident on a number of issues, but their preoccupations were somewhat different.

2. In Paris, the French argued that the atmosphere was deteriorating due both to suspicions among French farmers that we were attacking the CAP and to our continued demands (as shown by Sir Michael Butler's intervention in Coreper) which were so excessive as to call into question Community principles. This may have reflected a toughening up of the French negotiating position following a meeting their officials had had with President Giscard earlier in the week. On the substance of the issues, their position has not substantially changed although some of the specific suggestions they came forward with were unhelpful. Attitudes on the related issues were not especially rigid, and the French were careful on each point not to look explicitly beyond the March meeting.
3. In Bonn, there was the usual attempt to shelter behind the French ("we will go along with whatever our partners are ready to do") but great anxiety about what we might do if no agreement was reached on 31 March. There was unease about the state of preparation for the Council and agreement that we should press the Italian Presidency to produce a paper.
4. On specific issues -
  - (a) Herr Fischer told Lord Bridges that the figure the French had mentioned to the Germans was 800-900 m.u.a.
  - (b) There appears to be a Franco-German line up against any automatic mechanism for receipts and in favour of a settlement for three years. The justification advanced is that, by that time, the Government's economic policies will have re-established our capacity to pay.

(c) The Germans want to stick to 520 m.u.a. on the contributions side in 1980 (even if the revised figures produce a different result) whereas the French are still looking for ways to be more restrictive on the Financial Mechanism.

(d) An Article 235 regulation for increasing Community expenditure in the United Kingdom is now accepted; but whereas the Germans want to concentrate on industrial regions in decline, the French want the money spent on specific measures, where possible relating to the other disputed issues (eg oil and fisheries).

(e) On CAP prices, the Germans want economies but have electoral difficulties about being specific on price levels. Even the French suggested that they might in the end be content with general guidelines from the European Council which would effectively stop us blocking a later settlement; but they undoubtedly intend to ensure that nothing on the budget is formally settled until agricultural prices have been actually agreed.

(f) On energy, nothing very specific emerged, but the Germans asked us to think about Community stockpiling of oil.

(g) On fisheries, there is a clear danger that the Germans and the French will ask us for some commitment to principles on access and not just statements about the need for early progress.

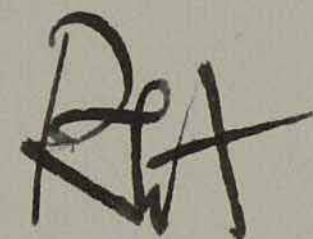
(h) On sheepmeat, the German position, like ours, is to prefer a premia system to intervention but they made it clear to us that at the end of the day they would accept some restricted form of intervention.

(i) On E.M.S., the news that we were re-examining our position (without any commitment) was greeted with precisely opposite emotions in Paris and Bonn.

5. These reports confirm that the gap is still large and we have very little time in which to prepare for the possibility of closing it. By the end of this week we should have a clearer idea of the kind of paper which the Italian Presidency might be willing to put forward; and we shall know the revised

Commission figures for 1980. It seems inevitable that you will go to the European Council with a considerable gap to be closed. There is a link, certainly in the minds of the French and the Germans, between amount and duration. The harder we press for a durable solution, the more difficult it will be to get a satisfactory figure for 1980. You will have to consider what is the minimum period of years which would be acceptable. I do not see much prospect of getting an automatic receipts mechanism, and we shall have to work on review arrangements which ensure that the amount coming to us by way of increased receipts can be adjusted if our net contribution looks like creeping up again; and that the arrangements will continue if, as is all too likely, circumstances have not changed sufficiently (through growth in our relative GAP or restructuring of the budget, or both) to make the special arrangements no longer necessary. Officials are looking at ways of achieving this.

6. On the related issues, our problem is going to be to preserve a reasonable equilibrium in the negotiations depending on the extent to which we secure satisfaction on the budget. As it happens, the French probably see it that way too. Their aim will be to get a firm commitment from us that we will accept agricultural price increases slightly above those proposed by the Commission. But the French priorities on commodities are not the same as the Germans; in particular the French only want small increases in cereals. We might therefore be able to get away with general commitments on the agricultural price package in exchange for settling the essential elements of the budget, including the figure for 1980. In reality, the French would still have the means to hold up the discussions on the detailed implementing regulations until the details of the price package had been agreed by the Agriculture Ministers; and we would be able to do the same in the opposite sense. What we must not do is give any assurances that we will settle CAP prices (or sheepmeat) until we have a budget deal which is acceptable to the Government.



ROBERT ARMSTRONG

17 March 1980