

COVERING CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

14 March 1980

Dear Michael

VISIT BY THE PRESIDENT OF THE EUROPEAN COMMISSION

I attach a brief for the Prime Minister's meeting with the President of the European Commission, Mr Roy Jenkins, for which you asked in your letter of 5 March to Paul Lever.

I am sending copies to John Wiggins (Treasury) and Garth Waters (MAFF).

*Yours ever
Michael*

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Private Secretary to the
Lord Privy Seal

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London

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PRIME MINISTER'S MEETING WITH PRESIDENT OF COMMISSION: 17 MARCH 1980

POINTS TO MAKE

BUDGET/CONVERGENCE

1. Useful meeting between Commission and UK officials on 3 March. Established ample scope for adequate UK solution through extra expenditure in UK in addition to revised Financial Mechanism. We shall be leaving the running on this and the new regulation to the Commission in the first instance. Important that Commission proposals seen as independent and objective. Ready to help as necessary.
2. Commission line on recent French insistence on new Commission proposals clearly right.
3. Outstanding decision for Member States is on amount and duration.
4. Commission can help on duration by not ruling out possibility of receipts formula based on differential between UK receipts per capita and Community average. Although initial objections of principle to this, increasing signs that some members considering it seriously. Best means of avoiding annual haggle and ensuring solution lasts as long as the problem. Prepared to consider alternative if achieve same objectives.
5. System could be reviewed in 1986 in the sixth year like 1975 at the same time as Financial Mechanism.
6. On amount UK position remains that we are ready to be a modest net contributor, but it cannot be more than a few hundred mEUA.

Restructuring

7. Part of solution should be a firm commitment to restructure the Budget so that not more than 55% goes on CAP Guarantee Section.

Timing

8. Must make real headway at Brussels. Parliamentary problem if no agreement in sight would be insurmountable.

LINKAGE

9. Holding to line that formal linkage not helpful. But cannot object if others wish to include discussion of other items which they see as related at European Council. Ready to make progress on all fronts but

/on

on the merits of each case.

BUDGET RELATED ISSUES

EMS

10. Schmidt attaches considerable importance to our membership as earnest of Commitment to Community. Told him we would look at it again. No decision yet. Clearly difficulties of reconciling with monetary policy.

11. European Monetary Fund likely to be discussion on basis of Commission paper. We see no reason not to hold to original timetable (ie establishment in March 1981). This date may limit how ambitious the Fund can be at first.

CAP Prices/Economies

12. No justification for price increase for products in surplus. How does Jenkins advise we handle this in light of likely French demands?

13. Do Commission still intend to reduce their price proposals if Council fails to agree to adequate economies?

14. Some of the Commission's proposals, eg reduced Community financing for the UK butter subsidy and exemptions from the milk co-responsibility levy, would depress our already low level of receipts from CAP. Paradoxical, given acknowledged need to improve our receipts.

Sheepmeat

15. Regret that Commission's attempt at an agreement on transitional measures failed. Failure due to French intransigence.

16. Glad that Commission have now decided to pursue third case at European Court and seek interim injunction.

17. We want a solution but no question of a heavy intervention regime. How does Jenkins advise we handle this question?

Fish

18. How does Mr Jenkins advise we handle fish at the European Council, given need to keep it separate from Budget?

North Sea Oil Policy (Defensive)

19. Recognise our partners' interest in our North Sea oil policies. They will continue to make a constructive contribution to Community

/objectives

objectives (prices follow market; nearly one third of production exported to Community last year; production continues to rise; sales only to Community and IEA destinations).

20. [If Mr Jenkins raises help in sub crisis] We are producing as much as good management allows, which benefits Community. No shut-in production and therefore very little scope to increase in short term.

ENERGY

21. When will Commission's paper be ready? Assume this will be the main energy subject. Further study obviously needed before decisions can be taken. Will contribute constructively to discussion of new ideas.

THREE WISE MEN (if raised)

22. Detailed discussion should be left to June European Council to leave more time in Brussels for budget discussion.

23. Can accept bulk of Wise Men's proposals. Some reservations on European Council drawing up plan of priorities. Not yet decided on number of Commissioners.

NEW PRESIDENT OF COMMISSION (if raised)

24. No strong views. Can accept choice of a candidate from one of the smaller Member States. What are Mr Jenkins' own views?

OTHER CONTACTS

25. What contacts with other Heads of Government is Mr Jenkins planning before the European Council?

ESSENTIAL FACTS

BUDGET/CONVERGENCE

(Six Points at Annex A)

Meeting with Commission Officials : 3 March

1. Meeting was generally helpful. Largely taken up with the discussion of text of possible Article 235 Regulation and of possible programmes of expenditure in the UK.

2. Tables giving details of UK spending programmes in the areas mentioned in the Commission paper of 5 February were handed to the Commission covering transport infrastructure and urban renewal. We are providing a further breakdown to make clearer which fall in special development areas and which in other assisted areas. The Commission's aim is to provide a complete dossier for Mr Jenkins by 20 March. On the regulation itself the Commission were open to suggested amendments. Discussion concentrated on the regional limitation (The Commission text had suggested that eligibility be as per the RDF regulation) and the problem of additionality. M Noel, Secretary General of the Commission, said he would try to make the formulation more elastic. On additionality the Commission said that there would have to be some reference to it in order to avoid problems with eg. Germans. He suggested that the best way of dealing with this was to use the same terminology as for the existing regional development fund. We explained our difficulties with additionality. A wording was suggested for the text which left unclear whether the Community expenditure was additional to national expenditure. Noel agreed to consider this.

3. On 12 March the French Government stated publicly that if further Commission proposals were not submitted in time before the European Council to allow a detailed examination of the questions at issue, these proposals could not be taken into consideration any more than any proposals that might be presented at the Council itself. The French seem to be preparing an excuse to postpone agreement on a solution beyond this European Council. Their position has received no support from other Member States. Our interest is to let the Commission defend itself as it did on 13 March when it drew attention to the proposals it had already made on 5 February and said it reserved the right to bring forward further proposals before the European Council. Commission statement at B. Mr Jenkins may sound the Prime Minister out on the possibility of the Commission making a compromise proposal.

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4. Mr Jenkins has not supported the idea of a receipts formula (para 4 of Points to Make), probably because he doubts the Commission can be persuaded to espouse it. But there is no evidence the Commission have done any serious thinking on how to tackle the long/problem the formula is designed to solve. term

5. Latest Commission estimates on Member States' contributions are likely to be available around 20 March.

BUDGET RELATED ISSUES

1980/81 CAP Prices/Economies Proposals

6. Price proposals include increases for all products averaging 2.4%. Lower increases of 1.5% are proposed for milk, sugar beet and beef. The proposals also include related measures, the most significant of which are a new beef suckler cow premium (but confined to the first 15 cows in each herd, which would discriminate against the UK) and 75% financing for the UK butter subsidy instead of 100%.

7. Commission said they could reduce the proposed increases if the main proposals in the economy package were not accepted.

/8. Main

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8. Main proposals in the economy package are:-

- (i) An increase in the co-responsibility levy on milk from 0.5% to 1.5% but with certain exemptions which would discriminate against the UK; and a new supplementary levy of 18 ecu/100 kg (84%) on milk deliveries.
- (ii) A general cut of 1.3 million tonnes in sugar quotas, but discriminatory allocation between Member States.

9. Our position has been:

- (i) on prices: no increases for products in surplus, support for the suckler cow premium (but without the 15 cow limitation) and opposition to the reduced financing for the UK butter subsidy.
- (ii) on economies : general welcome for objectives; support for the increased co-responsibility levy provided it is not offset by a price increase and provided the exemptions are removed; reserved position on the supplementary levy pending further elucidation of its effects; support cut in sugar quotas, but not its allocation.

10. The economy package is designed to save 1040 mEUA on the budget in a full year. The price increases might add 323 mEUA, allowing for their effect on production. In the face of general opposition to the distribution of cuts in sugar quotas and to the supplementary levy on milk (two of the main measures), the Commission seem to be weakening and ready to produce compromise proposals.

Sheepmeat

11. The Commission proposed for discussion at the 3/4 March Council a package of interim measures to last till 15 July to enable the French to lift their import controls. The main features were:-

- (i) Opening of the French market;
- (ii) Permissible national measures;
- (iii) A transitional Community financed fund of 30 million EUA from which payments could be made to prevent reduction to farmers' incomes or mitigate insufficiency of returns and prevent disturbance of market.

At the Council, Mr Walker argued that we could only accept the proposal on three conditions : a firm promise by the French not to reimpose illegal controls; no Community finance for intervention and a fair distribution of the money available from the fund. The French refused to accept them and were finally isolated in insisting on Community-financed intervention.

Fish

12. France and others may insist on reference to fish in Presidency conclusions in European Council. We shall resist this. Not clear exactly what they want when they call for linkage.

13. So far, the UK fishing industry agree with HMG's policy of seeking an early CFP settlement on the right terms. But question is very sensitive. Industry and Parliament would react adversely

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if any specific concessions were made on fish in the context of the budget negotiations.

14. It is significant that the 29 January Fisheries Council recorded the first (small) progress on CFP internal regime for some years. The next Council, in late April or May, will probably start work on the key elements of a settlement (quotas and access). Outstanding difficulties on the conservation regime are still under discussion bilaterally. UK willing to consider elements of CFP separately, but formal agreement only possible in the context of an overall package.

15. Timing problem. Fish had seemed well damped down until after European Council. But Commission's Director General for Fisheries (Gallagher) now visiting London on 17 March to start consultations in capitals on Member States' precise negotiating requirements, so that Commission make revised proposals. On difficult questions of quotas and access preference, battle lines not yet drawn up. Indicating our requirements before. European Council may provoke row and destroy recently improved atmosphere. Not revealing our position may result in unsatisfactory preparation of next stage of negotiation, hindering early progress towards CFP settlement.

16. North Sea Oil Policy (Defensive)

We do not wish to raise this issue. But Mr Jenkins may do so in order to urge us to do more. Tactically the best response at this stage is to deny the legitimacy of any linkage and to continue to bring out the extent to which North Sea policy is playing a helpful role.

ENERGY

17. The Commission is expected to table a wide-ranging paper designed to stimulate more ambitious Community energy policies. It may include proposals for a levy or tax on oil imports or consumption, the implications of which will need careful study. But we can welcome the idea of a new look at where Community energy policies should be heading.

THREE WISE MEN

18. Not yet clear how much discussion there will be at European Council or whether non-controversial items only will be settled there and then. Our interest is to get any detailed discussion deferred until Venice in June. There is an informal Ministerial meeting taking place in Brussels on 17 March to prepare for the European Council on this topic.

19. The Lord Privy Seal is expected to write to the Prime Minister shortly with proposals on HMG's approach to Wise Men's Report.

NEW PRESIDENT OF COMMISSION

20. The Italian Presidency have said that they will want to raise this at the European Council. Mr Jenkins' term of office is up at the end of year and his successor should be named at the time of the June Council. There has been speculation on Mr Jenkins being asked to stay on. He has not ruled this out. But the main candidates are Gundelach (Danish - present agriculture Commissioner) and Thorn (Luxembourg Foreign Minister). We accept that the new President is likely to come from a small country and do not think

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that any candidates we have heard of are so good or bad as to demand that we take a position. Our interest is to say nothing, let others woo us, and spin the process out until June.

FOREIGN AND COMMONWEALTH OFFICE

14 March 1980

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THE SIX POINTS

ANNEX A

UNITED KINGDOM BUDGET PROBLEM

1. The communique of the Dublin European Council provided the framework for a possible solution. There are no issues of principle outstanding. A satisfactory settlement might contain the following elements.
2. First, the removal of the existing constraints on the operations of the Financial Mechanism. The Regulation embodying this Mechanism (1172/76) should be extended with the existing review clause replaced by a new one with a similar timescale i.e. a review not later than the end of the sixth year.
3. Second, there must be supplementary measures, as foreseen in the Dublin communique, leading to greater participation by the United Kingdom in Community expenditure. We can decide on the method or methods in the light of the Commission's proposals. They would be subject to review at the same time as the Financial Mechanism.
4. Thirdly, we are willing to accept that the United Kingdom should be a modest net contributor to the Community Budget. The combination of the Financial Mechanism and the improved receipts in the UK from Community expenditure should be devised in such a way that the UK would remain a modest net contributor not only for 1980 but in future years.

5. The United Kingdom believes that its net contribution should be below that of the Member State having the next highest GNP per head in the Community. The difference should be at least proportionate to the difference in levels of GNP per head.

6. For the medium term, the European Council should instruct the Commission to make proposals for achieving a better balance within the Community budget and ensuring that, by 1986, the proportion devoted to the Common Agricultural Policy (FEOGA Guarantee Section) would not exceed 55 per cent of the total. The Council should take account of the effect of implementing such proposals on the United Kingdom's net contribution at the time of the review of the Financial Mechanism and the supplementary measures.

7. I hope you can agree that this would represent a reasonable compromise and will be willing to consult our partners on this basis.

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FRAME ECONOMIC

FM UKREP BRUSSELS 131610Z MARCH 80

TO IMMEDIATE FCO

TELEGRAM NUMBER 1447 OF 13 MAR

INFO IMMEDIATE PARIS, PRIORITY BRUSSELS, COPENHAGEN, THE HAGUE,
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PARIS TELNO 287 TO FCO:

UK BUDGET PROBLEM.

1. THE COMMISSION SPOKESMAN MADE A STATEMENT TODAY ALONG THE
FOLLOWING LINES:

"THE COMMISSION HAS TAKEN NOTE OF THE STATEMENT BY THE
FRENCH COUNCIL OF MINISTERS YESTERDAY ABOUT THE FORTHCOMING EUROPEAN
COUNCIL.

IN THAT STATEMENT, REFERENCE WAS MADE TO THE RESPONSIBILITY
OF THE COMMISSION TO MAKE PROPOSALS UNDER THE MANDATE GIVEN TO IT
BY THE LAST EUROPEAN COUNCIL. THIS MANDATE WAS AS FOLLOWS:

(VERBATIM EXTRACT FROM THE PRESIDENCY CONCLUSIONS
OF THE DUBLIN SUMMIT)

IN FULFILMENT OF THIS RESPONSIBILITY, THE COMMISSION MADE
PROPOSALS TO THE COUNCIL ON 5 FEBRUARY 1980. THESE PROPOSALS HAVE
BEEN MADE PUBLIC. SINCE THEN, THE MATTER HAS BEEN BEFORE THE
COUNCIL. THE COMMISSION'S PROPOSALS WERE CONSIDERED BY THE FINANCE
COUNCIL ON 11 FEBRUARY AND ARE TO BE DISCUSSED BY COREPER TODAY.
IN THE MEANTIME, WORK TO CONSIDER POSSIBLE SUPPLEMENTARY MEASURES
WHICH MIGHT FIT INTO THE KIND OF FRAMEWORK OUTLINED IN THE
COMMISSION'S DOCUMENT OF 1 FEBRUARY HAS CONTINUED."

2. ASKED IF THE COMMISSION INTENDED TO MAKE FURTHER PROPOSALS,
THE SPOKESMAN REPLIED:

"THE COMMISSION NATURALLY RESERVES THE RIGHT TO BRING
FORWARD NEW IDEAS OR PROPOSALS BEFORE THE EUROPEAN COUNCIL. WHETHER
IT WOULD BE USEFUL TO PUT FORWARD FORMAL PROPOSALS IS NOT CLEAR.
THIS IS NOT THE USUAL PRACTICE. ONCE A DECISION OF PRINCIPLE HAS
BEEN TAKEN BY THE EUROPEAN COUNCIL, IT IS NOT TOO DIFFICULT TO
WORK OUT FORMAL PROPOSALS TO GIVE EFFECT TO IT".

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