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CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on

THURSDAY 29 MARCH 1980

at 10.30 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon William Whitelaw MP
Secretary of State for the Home Department

The Rt Hon Lord Hailsham
Lord Chancellor

The Rt Hon Lord Carrington
Secretary of State for Foreign and
Commonwealth Affairs

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

The Rt Hon Sir Keith Joseph MP
Secretary of State for Industry

The Rt Hon Francis Pym MP
Secretary of State for Defence

The Rt Hon James Prior MP
Secretary of State for Employment

The Rt Hon Sir Ian Gilmour MP
Lord Privy Seal

The Rt Hon Peter Walker MP
Secretary of State for Agriculture, Fisheries and Food

The Rt Hon Michael Heseltine MP
Secretary of State for the Environment

The Rt Hon George Younger MP
Secretary of State for Scotland

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales

The Rt Hon Humphrey Atkins MP
Secretary of State for Northern Ireland

The Rt Hon Patrick Jenkin MP
Secretary of State for Social Services

The Rt Hon Norman St John-Stevas MP
Chancellor of the Duchy of Lancaster

The Rt Hon John Nott MP
Secretary of State for Trade

The Rt Hon David Howell MP
Secretary of State for Energy

The Rt Hon Mark Carlisle QC MP
Secretary of State for Education and Science

SECRET

The Rt Hon John Biffen MP
Secretary, Treasury

The Rt Hon Angus Maude MP
Paymaster General

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Norman Fowler MP
Minister of Transport

The Rt Hon Michael Jopling MP
Parliamentary Secretary, Treasury

Earl Ferrers
Minister of State, Ministry of Agriculture,
Fisheries and Food

SECRETARIAT

Sir Robert Armstrong
Mr M D M Franklin (Items 2-5)
Mr P J Harrop (Item 1)
Mr R L Wade-Gery (Items 2-4)
Mr D M Elliott (Item 5)
Mr W N Hyde (Item 1)

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LEMENTARY 1. The Cabinet were informed of the business to be taken in the House of Commons before the Easter Recess.

THE CHANCELLOR OF THE DUCHY OF LANCASTER said that, following representations from the Select Committee on European Legislation etc and from the Opposition, it had been agreed through the usual channels that there should be a separate debate on the European Commission's paper on the United Kingdom's contribution to the Community budget. It would start at about 10.00 pm on Monday 24 March and last three hours.

The Cabinet -

1. Took note.

THE CHANCELLOR OF THE EXCHEQUER said that he would refer to proposed changes in social security benefits in his Budget Speech on Wednesday 26 March. It would be for the Secretary of State for Social Services, on the basis of past practice, to make a more detailed statement on the subject before the resumption of the Budget debate the following day. Such an arrangement this year would of course, mean that a weekend would intervene between the statement by the Secretary of State for Social Services and the third day of the Budget debate, which was customarily devoted to the social aspects of the Budget.

THE PRIME MINISTER, summing up a brief discussion, said that some of the Government's proposals for social security benefits would be generally welcomed. The proposed arrangements would, however, provide two opportunities for the Opposition to gain publicity for criticism of controversial proposals. The alternative would be for the Secretary of State for Social Services to announce details of the Government's social security plans at the outset of the third day's debate. The Ministers concerned should consider, in the light of the precedents for earlier Budget debates, which arrangements to adopt.

The Cabinet -

2. Invited the Chancellor of the Exchequer, in consultation with the Secretary of State for Social Services and the Chancellor of the Duchy of Lancaster, to take account of the points made in discussion in considering arrangements for the Government's handling of the Budget debate.

2. THE FOREIGN AND COMMONWEALTH SECRETARY said that the United Nations Commission had come near to solving the problem of the American hostages in Tehran, and it was clear that President Bani-Sadr also wanted a solution; but both had been frustrated by the attitude of Ayatollah Khomeini. President Carter now faced strong domestic pressures. He had written to the Prime Minister asking that Britain should maintain the voluntary measures against Iran which had been instituted in January. This would cause no immediate problem. The internal situation in Iran remained confused, and the elections had been accompanied by much violence and intimidation.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the autonomy negotiations between Israel and Egypt were going badly. President Sadat of Egypt seemed now to be searching for an alternative way forward and might look for a European initiative in that context. The member countries of the European Community were considering the possibility of promoting a new Security Council resolution, but it would not be right to do this before the autonomy talks had been concluded, unless the United States Government were positively to encourage an earlier initiative. Meanwhile President Carter had invited the Prime Minister of Israel, Mr Begin, and President Sadat to visit him separately in Washington.

THE FOREIGN AND COMMONWEALTH SECRETARY said that despite some difficulty with the French, Britain and her European partners were continuing to seek support for the proposed neutrality of Afghanistan, particularly among countries of the Third World. Some progress was being made, but no early results were to be expected.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the House of Commons vote on 17 March had been satisfactory but perhaps not decisive enough to cause the British Olympic Association to agree to boycott the Moscow Games. The United States National Olympic Committee would take a formal decision on 12 April. They were expected by the United States Government to accept a boycott, although Press reports suggested that their attitude remained uncertain. Council of Europe Ministers of Sport were meeting at Strasbourg on 20-21 March; French insistence that any discussion of the Olympics there should be technical rather than political had caused general irritation and might not in practice affect the tenor of the discussion.

THE FOREIGN AND COMMONWEALTH SECRETARY said that his recent visit to Romania had, significantly, taken place at the insistence of the Romanians. He had found them, despite heavy lobbying by the Soviet Foreign Minister, Mr Gromyko, very critical in private of the Russian invasion of Afghanistan and of the Vietnamese invasion of Kampuchea; and they also agreed that the Palestine Liberation Organisation had to be brought to acknowledge Israel's right to exist. But they had of course been less forthcoming in public; and President Ceaucescu's independent international stance did not prevent him maintaining a particularly unattractive regime of internal repression.

THE FOREIGN AND COMMONWEALTH SECRETARY said that events surrounding the fall of the Italian Government were following a familiar pattern. The Prime Minister and Foreign Minister would remain in office on a caretaker basis; and the Prime Minister, Signor Cossiga, was expected to manage to form a new coalition with the Socialist Party, who were anxious to be in Government even though there was little harmony between their views and those of Signor Cossiga's Christian Democrat supporters.

The Cabinet -

Took note.

3. THE FOREIGN AND COMMONWEALTH SECRETARY said that the Council of Ministers (Foreign Affairs) had decided that the Presidency and the Commission should explain to the Turks that there would be considerable difficulties if they were to make an early application for membership of the European Community (EC). The Turkish Prime Minister had told him in January that they would not apply for membership until the Turkish economy was on a sounder footing. The Turkish economy was in no fit state to support the obligations of Community membership. On the other hand the EC had to show its support for Turkey. The Council of Ministers hoped to deter them from applying to join by offering them more generous terms under the Association Agreement between Turkey and the EC.

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said he had heard from Commissioner Gundelach that most other member states were now pressing for higher increases in agricultural prices for 1980-81 even than those prepared by the Commission. The French and the Germans appeared to want increases of 4-5 per cent; there was much agitation among Danish farmers for higher prices; and the new Dutch Minister of Agriculture had said that he intended to do better for farmers than his predecessor. The British Government remained opposed to increases for products in surplus and, in the House of Commons debate later that day, it would be impossible for the Government to withhold support for an Opposition amendment urging the Government not to agree to a price settlement which did not include provisions for the steady reductions of surpluses.

4. THE SECRETARY OF STATE FOR NORTHERN IRELAND said that there was now general agreement that the Belfast Conference on the future government of Northern Ireland should be adjourned before Easter. As foreseen, it had not reached agreement; but the Press were wrong to write it off as a failure. There had been useful indications of what each of the parties might in practice be willing to accept, though not to advocate. There would now be a pause for reflection, during which he would hold bilateral discussions with each of the parties and with the Official Unionists. The Conference might reconvene some time in May. Meanwhile he proposed to bring before his colleagues, initially in the Ministerial Group under the Home Secretary's chairmanship, his ideas for the British proposals which might at that stage be put forward. The position of the Official Unionists, who had not so far taken part in the Conference, was complicated by the ineffectual leadership of Mr James Molyneux and by his differences with Mr Enoch Powell, who held the unconvincing view that there should be no more devolution in Northern Ireland than in England.

THE PRIME MINISTER, summing up a short discussion, said that the somewhat unhelpful public attitude of the Prime Minister of the Republic of Ireland, Mr Haughey, particularly during his recent visit to Paris, underlined the need to maintain Ministerial contact with the Dublin Government. But a meeting between the Secretary of State for Northern Ireland and the Irish Foreign Minister, Mr Lenihan, as earlier envisaged, would be open to misinterpretation given the present stage of the Belfast Conference. It might therefore be more appropriate for the Foreign and Commonwealth Secretary to talk to Mr Lenihan in the margin of the forthcoming meeting of the European Council in Brussels.

The Cabinet -

Took note.

5. The Cabinet considered a memorandum by the Secretary of State for Foreign and Commonwealth Affairs and the Chancellor of the Exchequer (C(80) 23), proposing how the Prime Minister and the Foreign and Commonwealth Secretary should deal with the issue of the United Kingdom contribution to the budget of the European Community at the meeting of the European Council to be held in Brussels on 31 March and 1 April 1980.

The Cabinet's discussion and conclusions are recorded separately.

Cabinet Office

20 March 1980

CABINET

LIMITED CIRCULATION ANNEX

CC(80) 12th Conclusions, Minute 5

Thursday 20 March 1980 at 10.30 am

The Cabinet considered a memorandum by the Secretary of State for Foreign and Commonwealth Affairs and the Chancellor of the Exchequer (C(80) 23) recommending the lines on which a solution to the problem of the United Kingdom's excessive net contribution to the Community Budget should be sought at the meeting of the European Council on 31 March and 1 April 1980. Also relevant was a minute on the same subject dated 7 March from the Secretary of State for Trade to the Prime Minister, circulated under cover of a letter of 19 March from the Private Secretary to the Secretary of State for Trade to the Private Secretary to the Secretary of State for Employment.

THE FOREIGN AND COMMONWEALTH SECRETARY said that since the Dublin European Council, at which it was virtually agreed that an amended Financial Mechanism could contribute some 520 MEUA to the relief of the problem, the Commission had proposed that the other part of the solution should be a regulation based on Article 235 of the Treaty providing for extra spending in the United Kingdom for purposes consistent with Community policies. Meanwhile revised estimates of the net United Kingdom contribution for 1980 suggested that it might now be about 1750 MEUA, instead of the 1552 MEUA on which the Dublin discussions had been based. Informal discussions with other member countries over the last few weeks suggested that the total refund on offer at the next European Council was inching up, but the highest figure which had been mentioned was 1000 to 1100 MEUA. In addition to securing a satisfactory figure, it would be necessary to deal with the problem of duration and the problem of "dynamism": the protection of the net contribution from unacceptable increases in future years because of inflation or changes in the structure and size of the Community budget. The United Kingdom had therefore suggested a formula - namely agreement that in each subsequent year after 1980 British receipts per head from the Community budget should bear the same relationship to average Community receipts per head as in 1980, though it would be difficult to get this accepted. For the medium and longer term we should look to a restructuring of the budget aimed at reducing the proportion of Community expenditure spent on the Common Agricultural Policy (CAP). This would not be easy to implement because of vested agricultural interests, but some measure of restructuring was likely

to be forced on the Community by the imminent approach of the 1 per cent Value Added Tax ceiling on own resources. If it was not possible to settle the problem at the next Council, the objective must be to secure the maximum possible degree of progress towards essential British requirements on the amount of the total refund, the duration of the Financial Mechanism and the Article 235 Regulation, an element of dynamism to ensure that the net contribution did not rise again to an unacceptable level in future years, and some commitment on restructuring the budget.

Although we had resisted any link between our budget problem and other current issues, it was clear that the other member states would not be able to justify a substantial concession on the British contribution to the budget unless they were able to take something home themselves. In addition, the French had publicly linked the budget question to CAP prices, sheepmeat, fish and energy. In the case of fish any linkage beyond a general undertaking to make progress would be unhelpful to an eventual settlement on the Common Fisheries Policy (CFP) and we should seek to avoid it. On agricultural prices, the French attitude had put a useful card in our hand, by stating that a settlement of the British contribution to the budget would be dependent upon a satisfactory settlement on agricultural prices. We should therefore maintain our basic opposition to price increases for surplus products at the 26-27 March Agriculture Council, but should be ready to make some limited concession at the European Council if it were necessary to secure a solution to our budget problem. Similarly on sheepmeat, we might, if necessary, concede limited intervention and a Community financed premium to satisfy the French on the interim regime, so long as the permanent regime gave the United Kingdom a net resource benefit. And, if it would help to secure a settlement, the Prime Minister could make a purely presentational statement about our energy policies, as a gesture of reassurance to our partners involving no substantive concessions. The response to Chancellor Schmidt's recent references to the desirability of our participating in the exchange rate mechanism of the European Monetary System (EMS) was being considered separately.

The outcome of the Brussels European Council might be totally inadequate, but it was more probable that, without getting all we wanted, it would show some advance with the prospect of a final solution at the June European Council. Our reaction would have to be modulated to the degree of progress made and the need to keep the pressure up. In his judgment, only those present at the Council could decide precisely what the situation required. He therefore invited the Cabinet to give the Prime Minister and himself the discretion to act as they thought right, subject to the objectives set out in the joint paper and any supplementary guidelines the Cabinet wished to lay down.

THE CHANCELLOR OF THE EXCHEQUER, agreeing with the Foreign and Commonwealth Secretary, said that the question of dynamism was important. This lay behind our attempt to shift the basis of the discussion away from the concept of a refund for the United Kingdom

and towards the idea of an acceptable net contribution. He agreed that only the Prime Minister and the Foreign and Commonwealth Secretary would be in a position to make an on the spot judgment of what was needed. They should therefore be armed by the Cabinet with the fullest authority, including the discretion to threaten to withhold our contributions if a solution were not found by the June Council.

In discussion of the budget issue there was general support for the objectives and recommendations proposed in the memorandum by the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer. The objective should be to obtain a solution which would last as long as the problem persisted.

As to the tactics to be followed if it was not possible to resolve the problem at the March Council, there was general agreement that, if there was no solution of the problem of the British budget contribution, we should have to see to it that no progress was made on agricultural prices - on which other member countries were keen to secure early and significant increases, larger than those proposed by the Commission - or on other issues which other member countries were seeking to link with the problem of our budget contribution.

The fact that the size of our net contribution to the budget made us by far the largest single paymaster of the Community also gave us a negotiating strength which we should be ready to exploit. To withhold our contribution would be contrary to Community law and our Treaty obligations; it would be presented as incompatible with the Government's declared commitment to the Community, as calling in question our continuing membership of the Community, and as therefore inconsistent with our national interest in seeking satisfactory terms for continuing membership. Actually to withhold the contribution would be a weapon of last resort, and a decision to that effect should not be taken without further consideration by the Cabinet and the fullest discussion of its implications. Nonetheless, even if no likely outcome of the March Council was expected to justify an immediate announcement of withholding action, it would be important to bring fully home, both to our partners and to public opinion at home, the seriousness of the issue and the determination of the Government to obtain a satisfactory settlement. There was general agreement that at the meeting of the European Council in Brussels the Prime Minister and the Foreign and Commonwealth Secretary should be armed with the authority of the Cabinet to make it clear, if they felt it necessary to do so, that the Government would have to consider withholding if a satisfactory settlement was not reached by the meeting of the European Council in June. Nor should there be any question but that they would have the unanimous support of the Cabinet in doing so. No doubt they would continue to say that the Government would proceed to such action only reluctantly, more in sorrow than in anger, and in full awareness of the significance of such a step. Equally, if the threat was to be credible and effective, it must be clear that it was one which, in the last resort, the Government would not shrink from putting into effect.

In discussion of related issues the following points were made -

a. Fish

It was essential that the interests of our fishing industry should not be sacrificed as part of the budget settlement. Even a commitment to make progress on quotas before June would carry risks, given that the Commission were likely to revive their earlier proposals on which the United Kingdom had been isolated. The wording of any statement would therefore need careful consideration. We could make play with the fact that the progress so far registered towards a CFP settlement owed much to close Anglo-French co-operation.

b. Agricultural Prices

Some concession would probably be necessary in the process of securing a budget settlement, but, if we had to concede any increase on milk and sugar, the main products in surplus, it should be as small as possible. The effect of increases in CAP prices on food prices in the shops should not be exaggerated: many of the increases proposed would be in intervention prices which would not be reflected in market prices. The current Commission proposals for an average price increase of 2.4 per cent would, for example, raise the food index by only 0.3 per cent and the retail price index by only about 0.15 per cent.

c. Sheepmeat

Despite our basic preference for a light sheepmeat regime, we could if necessary to secure a satisfactory budget settlement concede some limited intervention and Community financing for a transitional period, provided that the permanent regime yielded a net resource benefit for the United Kingdom.

d. Energy

It was suggested that any statement on North Sea oil might raise false hopes. Nothing must be said which implied a transfer of competence to the Community. On the other hand, many of our partners had made it clear that they would welcome and be content with a cosmetic statement which gave nothing substantive away, and it was politically important for us to be ready to say something positive in the context of an eventual budget settlement. A text along the lines prepared by the Defence and Overseas Policy Committee's Sub-Committee on European Questions should thus be available for the use of the Prime Minister at her discretion; but care should be taken about any reference to long-term contracts. It was also suggested that an indication that we were

ready to consider extending the Seventh Licensing Round beyond the 70 blocks now proposed might be helpful in the budget context, though it was noted that the substantive issue had yet to be considered in the Ministerial Committee on Economic Strategy.

e. EMS

Commissioner Tugendhat had suggested that we were underestimating the value of the EMS card in the budget negotiations, given especially the importance attached to our participation by Chancellor Schmidt. Against this it was suggested that Chancellor Schmidt's desire to see us join was not shared by the majority of Community Finance Ministers. They understood that sterling was still exposed to the volatility inseparable from its status as a petro-currency and that, if we joined now, the consequent need to qualify the absolute priority of keeping within our money supply objectives by reference to exchange rate considerations would call into question our determination to reduce the rate of inflation. This argument might well weigh less heavily in the balance, once the effectiveness of the Government's monetary strategy in reducing the rate of inflation was securely established, and it did not therefore rule out an indication of our willingness to participate in the exchange rate mechanism at the right time and on the right conditions.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet endorsed the recommendations of the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer in C(80) 23. She and the Foreign and Commonwealth Secretary would go to the meeting of the European Council on 31 March and 1 April with the objective of securing a satisfactory settlement of the problem of the net United Kingdom contribution of the Community budget. They had the authority of the Cabinet to decide, in the light of this discussion, whether what was on offer constituted a satisfactory settlement. Given the course of events so far, and the insistence of other countries in linking to that problem other issues which would not be ripe for settlement so soon, it seemed very unlikely that the problem would be settled at that meeting. In that event the objective would be to make as much progress as possible towards a settlement to be achieved at the meeting of the European Council in June. The Cabinet agreed that, unless and until the budget problem was satisfactorily settled, there was no question of agreeing to increases in CAP prices, or indeed of resolving other issues that were being linked to our budget problem, such as sheepmeat. If a settlement of the budget problem was not reached at the meeting in Brussels, she and the Foreign and Commonwealth Secretary would have the authority of the Cabinet to use their discretion, depending on the degree of progress towards a settlement, and taking account of the views expressed in the discussion at this meeting of the Cabinet, to decide whether and in what terms to make it clear that the Government would be

obliged to consider withholding some part of our net contribution, if a satisfactory settlement was not reached at the European Council in June. They would also make it clear that the Government was and would remain fully committed to membership of the European Community and had no intention whatever of coming out of it.

The Cabinet -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.
2. Agreed that the Prime Minister and the Secretary of State for Foreign and Commonwealth Affairs should be guided accordingly at the meeting of the European Council on 31 March and 1 April.

Cabinet Office

24 March 1980



From the Secretary of State

COVERING SECRET

Richard Dykes Esq
Private Secretary to the
Secretary of State for Employment
Caxton House
Tothill Street
SW1

19 March 1980

Dear Richard

EUROPEAN COMMUNITY BUDGET

My Secretary of State has asked me to circulate in advance of the Cabinet discussion tomorrow a minute which he sent to the Prime Minister when the Community Budget was discussed in OD. This is attached. Because of the extreme sensitivity of the forthcoming negotiations I must ask that the document is given a restricted circulation.

I am sending copies of this letter and attachment to the Private Secretaries of other members of the Cabinet who were not present at the OD discussion.

Yours sincerely,

Stuart Hampson

S HAMPSON
Private Secretary

THE MINISTER

THE COMMUNITY BUDGET

issues of greater political importance or with wider international implications can have confronted us since taking office than our approach to the Community Budget. I had hoped to be able to comment in some detail on this subject, but the short notice of the meeting and my commitment to a visit to the North West today allows the circulation of only a short summary of my views.

The considerations which I believe are important are:-

- (a) whether we should have placed ourselves out on a limb with regard to the net budgetary contribution is now a discussion for historians. The fact is that we have emphasised our determination to achieve a fair settlement, and each time we defer the use of a firm sanction we contribute further still to what I regard as our principal national trait - a lack of national self-confidence. Only the British could see the role of paymaster as one of weakness. It is inconceivable that the French would fail to exploit the position of strength in which we find ourselves;
- (b) in economic terms I believe that we badly need a £1,000m for the next financial year. I do not know of the Chancellor's Budgetary plans, but if we are to arrive at a borrowing requirement which is financeable on non-inflationary terms I cannot see any room for a significant reduction in direct taxation, particularly at the lower end. The combination of a pending recession coupled with a Budget which will be painted as being highly regressive, not least because of the reforms in capital taxation, will in my view be damaging to the Government - and not just in the long term. The availability

of an additional £1,000m enabling a 2p reduction in income tax or comparable broadly based benefits would make an enormous psychological difference to the country's mood;

(c) the British public have a figure of £1,000m fixed in their minds. It is around that figure that you personally will be regarded as having achieved a victory or suffered a defeat;

(d) so far as the future of Europe is concerned, the combination of enlargement with the prospect of yet more subsidy for backward agricultural economies, the runaway costs of the CAP in providing dear food for the EC and surpluses to be dumped outside, the intransigent French pursuit of short-term self interests, the forthcoming collision between Community expenditure and the VAT ceiling, have set the stage for Britain to take a positive role. These problems are for the Community and not for Britain alone.

I therefore draw two conclusions. First, it would seem to me out of the question that we could accept any linkage with the Budget question. To allow the Budgetary problem to influence our thinking on EMS would be folly; the EMS decision must rest solely on its merits. To allow the French to buy us off on sheepmeat or to purchase our fishing rights or energy supplies with our own money would be depicted as a defeat, and seen as such in the country.

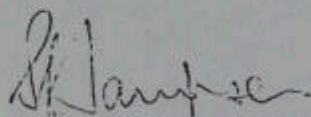
Secondly, my inclination is that if we cannot accept whatever settlement is offered at the March summit we should announce plans for withholding on our return. The proposals set out in paragraph 6 of Annex A to OD(80)18 seem to me to be well presented and thought through. Obviously the risks are very great but having nailed our colours to the mast at Dublin we cannot afford to haul them down again now. We should not under-estimate the strength of our position.

SECRET

in the Community or in the political field at home. The Community is dependent upon us both to provide a £1,000m subsidy and a protective market for its overpriced agricultural produce. The Community is on the verge of admitting Portugal, Spain and Greece; the notion that it might expel us to admit new net cash beneficiaries is ridiculous. Criticism of a determined attempt to protect our national interest even at the expense of breaking the club rules would be regarded by the public, and in the Conservative Party, as unpatriotic. Our critics would be portrayed as fighting under the French flag.

We would of course be highly unpopular in provoking a major summit to consider the future of the Community, but I do believe that there is now a clear advantage in forcing a more positive approach rather than tagging along in what the electors see to be a shambles.

I am copying this minute to all members of OD and Sir Robert Armstrong.



Department of Trade
1 Victoria Street
London, SW1

JH
(Dictated by the Secretary of
State and signed in his absence)

7 March 1980

SECRET