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Visit of Cossiga, Jan 80

PARTIAL RECORD OF A DISCUSSION BETWEEN THE PRIME MINISTER AND THE PRIME MINISTER OF ITALY, SIGNOR FRANCESCO COSSIGA, AT NO. 10 DOWNING STREET AT 1500 ON FRIDAY 25 APRIL 1980

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Present:

Prime Minister

Signor Cossiga

Foreign and Commonwealth Secretary

Signor Ruggiero

Mr. M. Franklin

Signor Berlinguer

Mr. Michael Alexander

European Council: Budget

Signor Cossiga regretted that his illness had prevented him making the trip earlier. As a result he would not be able to visit all the Community capitals. He had spent 2 hours with President Giscard, M. Barre and M. Francois-Poncet that morning. The meeting had been very useful. His interlocutors had been courteous but also very precise. The French had one particular interest: to secure agreement on an agricultural package. Their objectives were both to get the prices fixed and to control the overall expenditure on the CAP. In Signor Cossiga's view there should be no insurmountable difficulty in agreeing a farm price package. But there was a political problem in associating a solution of the agricultural price problem with a solution of the Budget problem. The trick was to so manage affairs that each set of problems were resolved simultaneously. If they were agreed simultaneously, the question of the inter-relationship between the two would become purely theoretical.

On agricultural prices, the French were seeking a settlement based on an increase of between 5 and 6%. A settlement in this range would have the effect of reducing German MCAs by 1 to 1.5%. The French also envisaged a co-responsibility levy of 1.5% with exceptions being made for small farmers. Finally, they wanted a super levy on milk. Signor Ruggiero interjected that this should be progressive and designed to penalise those farmers who put milk into intervention on a very large scale. Signor Cossiga thought that a super levy on the lines envisaged by the French would primarily

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affect the ~~the~~ Federal Republic and Benelux. (Mr. Franklin commented that it would also affect the UK.) He added that the French recognised that to increase farm prices above certain limits made the British budgetary problem worse because of the consequences of such price rises on the total size of the Budget.

Signor Cossiga said that the French wish to deal with farm prices before the Budget was a problem. Another problem was their wish to have a discussion about the principles underlying the Community. They had circulated a paper on this at the last Foreign Ministers' meeting. Signor Cossiga said that he had told the French that he recognised the principles to which they referred were drawn from Community documents. But there were other principles to which they did not refer notably Article 2 in the Treaty of Rome, which referred to the harmonious development of economic activities, and the other Articles referring to the need for the Community to be dynamic not static, for it to promote convergence, and for it to help members in difficulties. He had told them that he feared the attempt to draw up lists of principles would cause difficulties. He would not wish the discussion of the Community's principles to become an obstacle to progress on the Budget.

He had then discussed the problems of convergence and the Budget. Whether the British net contribution was 1400 or 1800 meu, the sum was enormous. The Council's point of departure was that a solution to the British problem must be found. The method was clear: on the one hand there was the corrective mechanism, on the other hand the need to increase Community expenditure in the United Kingdom. The Community's principles need not be in danger if, for instance, it was agreed that a revised corrective mechanism would run until a certain date; the fact that the date had been set would preserve the Community's principles. The Community had to recognise the fact that the British figure was excessively high and should not get mesmerised by arguments about own resources. He had told the French that it was difficult to contemplate failure when one considered the damage this would do to the image of the Community. How could the Community take decisions on major foreign policy issues if it was unable to solve its own problems? The Prime Minister said that if the present problem could not be resolved, the Community would break

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down. She would not agree to the fixing of new farm prices unless the Budget problem was solved simultaneously. France's position appeared to be the mirror image of hers. The difficulty was that farm prices could not be negotiated at the Summit: a procedure for resolving the two issues simultaneously was required. Signor Cossiga said that President Giscard agreed that the European Council could not discuss farm prices. Agreements on the Budget and on farm prices would have to be reached in parallel discussions.

Turning to the Budget itself, Signor Cossiga said that in response to his efforts to try to establish a band within which discussion of figures for budgetary solutions could take place, the French proposed a new approach. They had suggested guaranteeing for a certain period that the British imbalance would not increase above a certain point. They had suggested taking a figure, say that for Britain's net contribution in 1979, comparing it with the net cost at the end of 1980 (including the new farm prices) and setting up a mechanism so that the latter figure should be no higher than the former; i.e. the annual increase would be restored through the financial mechanism and Community investment. There would be a provision for reviewing the mechanism. This would render the British problem independent of farm price increases, would leave the Community's principles untouched and would give a guarantee to HMG that, however the Community evolved, HMG's net contribution would be unaffected. The French proposal would give Britain security. Moreover, the Community was already engaged in a process which would give increasing emphasis to the structural element in budgetary expenditure at the expense of the agricultural price element. This process would benefit the UK and would produce a permanent solution to the British problem in due course.

When the Prime Minister, summarising what Signor Cossiga had said, described the French position as being that Britain would pay no increase above the 1979 contribution, Signor Ruggiero said that the French proposal was more nuancé. The difference between the 1979 and the 1980 figure would be covered in whole or in part. The proportion had not been clearly defined. But Signor Ruggiero said his own impression had been that President Giscard had in mind a rebate amounting to the full amount of the difference. Mr. Franklin

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pointed out that this meant deferring a decision of the full benefit that Britain would receive until it was clear what the difference between the 1979 and the 1980 contribution would be. The Prime Minister said that the value of the French approach would depend on finding the right starting point.

Signor Ruggiero thought that President Giscard had had a number of reasons for putting forward his new proposal. The Prime Minister had said in Strasbourg that Britain's budgetary contribution in 1980 would be intolerable. This might be said to imply that the 1979 contribution had been tolerable! The new approach should be attractive to Britain because it would give flexibility and security: if the total size of the Budget increased, and hence if Britain's contribution increased, the rebate would increase. Moreover, the fixing of a ceiling would mean that if Britain's eventual contribution for the year was greater than the present estimate of 1683 meua - as might well be the case - Britain's rebate might easily be more than 1000 meua. It seemed clear that the French were trying to be helpful. The Foreign and Commonwealth Secretary said that there was nothing wrong with the French idea except that the base figure they had chosen was too high and their present position on duration was unacceptable. The Prime Minister said that the French still envisaged far too large a British contribution. It would be essential to find some way of lowering the base line. Mr. Franklin suggested proposing that the base figure should be the average of the last 3 years rather than the last year alone. The Foreign and Commonwealth Secretary, agreeing with Mr. Franklin, said that we should accept the French approach but go for a base line calculated as an average of a number of previous years.

Signor Ruggiero said that all his contacts in recent weeks, including those with the Germans, had left him with the impression that the breaking point for the other members of the Community would be a rebate to Britain in the region of 900 to 950 meua. The Prime Minister said that this was not enough. Signor Ruggiero pointed out that such a result would amount to a rebate of 60% of Britain's net contribution. Such a result would have been unthinkable in November and no previous British Government would have had the slightest chance of achieving it. The Prime Minister observed that

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nonetheless Britain would remain the second highest contributor. It was no good saying that the Government would have done well. It was still not good enough. Signor Ruggiero wondered whether there was any possibility of achieving movement by describing figures in gross rather than net terms. Mr. Franklin observed that eventually one always came back to the net figures.

Signor Cossiga said that the French had introduced a new element into the situation. There would be a datum line unaffected by the evolution of the Community policies. The figure for Britain's contribution would be fixed even if there was provision for revision. The fact that Britain's contribution could get no worse would relieve a great deal of uncertainty. The Prime Minister said that duration remained very important. She could not afford to have a major row again in three years time. Mr. Franklin said that it must be clear that the new mechanism would continue if the restructuring of the budget had not taken place. The criteria should be that the mechanism should be prolonged if this was necessary to avoid the re-emergence of an unacceptable solution but <sup>that it</sup> could be revised to take account of restructuring. The Prime Minister commented that President Giscard was clearly trying to be helpful. Nonetheless the base line proposed was too high.

The Prime Minister said that it was necessary to decide how the negotiations should be carried out. The Foreign and Commonwealth Secretary said that President Giscard wished to get ahead with the discussion on a farm price package. Therefore Agricultural Ministers would have to meet within the next day or so. This would not be possible for the United Kingdom unless there were parallel financial discussions. Signor Cossiga said that the Presidency could of course propose ways of closing the gap. But this would risk involving the Heads of Government in bandying figures at the European Council. There was also the problem that the European Council had no competence to fix farm prices. Therefore the Agricultural Council must meet separately. He did not think it would be possible to give guidelines to Agriculture Ministers to fix prices after the European Council. Therefore the

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Agricultural Council would have to meet and continue discussions while the European Council was meeting and report on progress so that the Presidency could formulate proposals against that background. The Presidency would put forward a final proposal when all other issues had been resolved. In that way there would be no surprises on one side or the other.

Signor Cossiga said that he understood the British Government's need for parallelism in <sup>the</sup> between discussions on farm prices and on the budget. But it would be too dramatic to have Ministers of Foreign Affairs meeting on the following day in parallel with Agriculture Ministers. The Foreign and Commonwealth Secretary suggested that Signor Ruggiero's group should meet in parallel with a group of senior agriculture officials. Ministers could be brought into the negotiations at a later stage. There would then be two meetings of officials rather than one of officials and one of Ministers. Signor Cossiga said that where agricultural questions were concerned the only level at which useful discussions could be held was among Ministers. The Prime Minister stressed that whether it was Ministers or officials, everything that might be agreed on farm prices would be provisional until the results of the discussions on the budget were available. Signor Cossiga said that he understood that the Prime Minister wanted parallelism in regard to the level as well as the timing of the discussions. The Prime Minister agreeing, said that she must be able to see progress in both fora. She had learned never to give anything away in Community discussions. Signor Cossiga said that he had never thought of allowing the Agriculture Ministers to reach agreement without a parallel agreement on budgetary matters. He wanted to get them working, under his overall direction, partly because he did not want the European Council to get into figures and partly because he did not trust the Ministers to follow guidelines.

Signor Ruggiero said that he hoped the preparatory working parties could identify the positions of the minority and of the majority on both farm prices and on the budget. Their reports could then go to the European Council to agree on a compromise position. After some further discussion, the Prime Minister

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said that the meeting had reached a provisional decision that two groups of permanent officials should meet in parallel in Luxembourg the following day to discuss farm prices and, under Signor Ruggiero's chairmanship, the budget problem. Assuming they made progress, Agriculture Ministers would aim to arrive early on Sunday morning. Signor Cossiga suggested that the Agriculture Ministers might arrive in time to dine together on the Saturday evening. The Prime Minister said she would have no objection to this provided it was understood that they could do nothing then. In the end no final decision was taken about the precise timing of the Agriculture Ministers' first meeting.

The discussion ended at 1710.

*AmB*

25 April 1980

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