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10 DOWNING STREET

From the Private Secretary

3 July 1980

Dear Paul,

Meeting with the European Democratic Group

The Prime Minister met the British members of the European Democratic Group yesterday afternoon. The Foreign and Commonwealth Secretary, the Chief Whip and Mr. Buchanan-Smith were also present.

The Prime Minister thanked the European Democratic Group for the robust way in which they had supported the Government's negotiations on the budget. The settlement had bought time to get the underlying structure right. We could begin to pursue the Community's loftier aims. But we had a major battle ahead on fish. We also had to ensure that New Zealand got a reasonable deal. The Community could not be expected to tackle restructuring seriously until after the French and German elections in 1981. Britain would have to provide impetus.

Sir Henry Plumb (Chairman of the Parliament's Agriculture Committee) thought the prospects for some CAP reform reasonably encouraging. We should not talk about radical reform but restructuring in areas where change was needed. The Prime Minister said what was needed was cheaper food and less support for inefficient farmers.

On fisheries, Mr. Battersby said he had been talking to Mr. Gundelach the previous day; prospects for the CFP negotiations seemed reasonably encouraging. We should be able to secure a settlement on 12 miles and historic rights. On cash for restructuring, the Commission were thinking in terms of a package of some £200 million over 5 years. The British industry was hoarding old distant water boats to qualify for grants. The Government should ensure that grants were paid in relation to the life of the boats. Mr. Buchanan-Smith agreed the atmosphere on the CFP was better although it was not proving easing to regain the momentum in negotiations that had existed before the budget negotiations. He hoped that the European Parliament would stimulate pressure on fisheries ministers.

The Prime Minister said she was concerned about trade problems. Tremendous pressure was building up for import controls, for example on cars. Though the Government did not stress this in public, the fact was that the UK had few powers over trade, now essentially a Community responsibility. But often the Community failed to act rapidly enough on real problems. The demand for import controls had to be resisted but we would also have to act quickly where there was genuine need. At present the UK was being hit harder than other Member States because of the strength of the pound, the weakness of our own industry and the large share of our GNP taken by foreign trade. The Community would have to do better for us than it had so

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far, for example, on carpets. Sir John Stewart-Clark (member of the Parliament's External Economic Relations Committee) said his Committee was looking not only at what could be done about imports from Japan but also at the scope for greater penetration of the Japanese market. He thought the Community was giving newly industrialised countries like Hong Kong and Brazil too much trade preference. On the other hand, the Community should be more open-hearted on aid to the really poor. Mr. Michael Welsh said the U.K. bureaucracy's approach was often at fault; for example in the case of Christmas card imports from Russia, the Department of Trade (which he said had a staff of 80 on dumping compared with the Commission dumping staff of 16 although the Department of Trade had less competence than the Commission) had advised British industry not to take their case up in the EC. The Commission could in fact have acted effectively and would have been willing to do so. (I should be grateful if Stuart Hampson could let me have an account of what happened on this occasion.) Lord Harman-Nicholls agreed that the British Government could be more energetic.

Discussion followed on aid. The Prime Minister said we were not getting enough credit for our multilateral aid, nor a large enough share of the export orders involved. We gave more aid to really poor countries than many of our partners. Sir Fred Warner said that MEPs were making a real effort to involve British firms in EDF business. We were already doing relatively well on supplies of equipment. But our manufacturers could do more to advance their case for a larger share of ACP money. He urged that HMG should not be too nationalistic when food aid was concerned.

On energy there was a discussion on follow-up to the Economic Summit. The Prime Minister said we were doing what we could to control the continuing OPEC price increases; we should get out of oil as much as possible and go very much more nuclear.

Mr. John Taylor asked about the Prime Minister's position on the 1% VAT ceiling. There was a risk agricultural costs would swallow up all the money within the ceiling, leaving little for regional and other policies. The Prime Minister said she held absolutely to the 1% VAT ceiling. It was the only way we could force CAP change. That was our position and would be for quite a time. The Parliament should ensure that the money available did not all go on the CAP.

Mrs Elaine Kellet-Bowman said it was politically essential that people in the constituencies should see that Community money was being spent there. Supplementary expenditure under the budget settlement should be publicised. The Prime Minister said that she did not want the settlement to lead to extra money being spent on new projects in Britain. All receipts from the Community under the settlement should be in substitution for actual or planned UK Government expenditure. MEPs said it would be politically damaging if nothing new was seen as a result of the settlement. Sir Fred Catherwood said MEPs understood the Government's problem but the MEPs had a problem too. They had had a difficult year and must demonstrate that something had been achieved for the regions and counties. He suggested that individual projects already planned, eg the A1/M1 link, could be given a European label. Alternatively, counties or other local authorities might decide to forego a project in their area in return for progress on a Community supported project. The Prime Minister agreed that there could be attractions in earmarking specific projects, eg.

a road or a coalfield or remedial action for the textile industry problem as European. This would be better than giving some kind of special status for European purposes to geographical areas. But it should be stressed that there would be no additional expenditure.

Mr. William Hopper urged the Government to take a stronger line in the Community on creating a more genuine Common Market. On capital movements, for example, German banks had an unwritten instruction not to issue to non residents paper denominated in deutschmarks which matured in less than two years. This made a nonsense of free movement of capital and acted against UK interests. The Prime Minister was interested and asked for more detail. (I should be grateful if John Wiggins could let me have a note on this.)

Mr. Tom Spencer said the Government should make more effort to get money from the Social Fund. It was really a retraining fund. Britain had a greater need for retraining than most countries but was doing less about it. Retraining represented a positive approach to unemployment; better than work-sharing. The Prime Minister agreed. We had to make more structural changes than other countries. We needed the Social Fund and could use more of it. The Parliament must not let the CAP squeeze it out.

Sir Peter Vanneck asked whether the Government would support Community defence Ministers' meetings. The Prime Minister was discouraging; the vital thing was to preserve NATO and keep the Americans in Europe. In any case Ministers already went to far too many meetings abroad. Mr. Stanley Johnson asked if the Government would support a single seat for the European Parliament. Lord Carrington told the Prime Minister he had been cautious in reply to the same question earlier in the day. The Prime Minister said she had nothing to add.

Mr. James Moorhouse urged the Government to take a strong line on European air fares; competition from Soviet shipping, which was damaging UK shipping interests; and the increasing share of trade taken by the Russians through the trans-Siberian land bridge. The Prime Minister agreed that European air fares were disgracefully high. This should be pursued with Mr. Nott. She was interested to hear of the other points. They should be followed up with Mr. Fowler.

I am sending copies of this letter to the Private Secretaries to the Members of OD(E), the Secretaries of State for Employment, Environment and Scotland, the Minister for Transport, and the Paymaster General and to David Wright (Cabinet Office).

*Yours ever*

*Michael Alexander*