

RECORD OF A CONVERSATION BETWEEN THE PRIME MINISTER AND THE PRIME MINISTER OF ITALY, SIGNOR FRANCESCO COSSIGA, AT THE INTERCONTINENTAL HOTEL, BELGRADE, ON 7 MAY AT 1815 HOURS

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Present: Prime Minister Signor Cossiga  
Mr. Michael Alexander Signor Squillante  
Signor Berlinguer

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Signor Cossiga said that the negotiations on Britain's contribution to the Community budget had now entered their last phase. Despite some of the things which had been said after the Luxembourg meeting, he refused to take a catastrophic view of the situation. He had made this plain in two public speeches in Italy. The Prime Minister agreed that nothing disastrous had happened at Luxembourg. Under Signor Cossiga's excellent Chairmanship, the meeting had got very close to a solution of the budgetary problem. However, she was worried by some of the other papers that the Council had considered. Both the sheepmeat proposals and the agricultural price package seemed to be pushing the Community in the wrong direction. The proposed language on fish would be very difficult for British fishermen to accept. It had been clear in Luxembourg that these problems would have to be sorted out. It had been equally clear that this could not be done by Heads of Government.

Signor Cossiga said that he saw three major problems. The first was posed by President Giscard's and Chancellor Schmidt's declarations that they did not want the British budgetary problem to figure on the agenda of the next Summit. The Prime Minister interjected at this point that she hoped the problem could be solved before the Summit. Signor Cossiga, agreeing, said that as much as possible would have to be achieved at Ministerial level and he intended to push the Foreign Ministers to take action. They should be encouraged to stress the political aspect of the problem.

/ The second issue

The second issue related to the farm price package. It was now clear that the idea that the principle of majority voting could be applied to farm prices was dead. It was important, given the strength of the agricultural lobby in every Community country, to get this point across clearly. The Prime Minister agreed and said that it was essential to preserve the Luxembourg compromise. Signor Cossiga said that he had taken careful note of the message he had received earlier from the Prime Minister on this point.

Signor Cossiga said that the third issue was the question of how and at what point the negotiations should be resumed. He did not think it would be possible to start again from the positions reached in Luxembourg. Although it might be accepted that the substance of what had been achieved in Luxembourg would be preserved, a way must be found to present the positions differently.

As regards the procedure to be adopted in the next few weeks, Signor Cossiga said that the positions of Chancellor Schmidt and President Giscard were crucial. He anticipated support from M. Martens and Mr. van Agt. He would be receiving Chancellor Schmidt in Rome on 15 May for a bilateral visit. This would afford an excellent opportunity for an in-depth examination of the problem. If in the light of that discussion it seemed appropriate, Signor Cossiga would then travel to Paris and Brussels. He would also be ready to come on to London (the Prime Minister said that he would be welcome at any time). In his discussions he would again stress the political factors which required the Community to find a solution to the problem. Failing a solution, the Community's efforts to coordinate their political positions would not be credible and the authority of the Community, e.g. at the Economic Summit, would be much reduced. It was difficult to explain to public opinion why the Community was unable to reach agreement, given that a relatively small sum of money was now involved.

The Prime Minister said that agreement was proving difficult to find because the Community was unwilling to address itself to the  
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fundamental problem, viz the disproportionate share of the Community budget taken by the CAP. The problem was recognised by every member of the Community. Despite this, solutions were repeatedly produced to problems which made the fundamental problem more intractable. The agricultural price package increased the proportion of the budget being taken by the CAP. The proposed approach to the sheepmeat problem threatened to produce a lamb mountain. In the absence of a fundamental attack on these problems, the UK was bound to insist on a lasting solution to the budget issue.

Signor Cossiga agreed. He recalled that in Dublin he had said that in order to solve the British problem, and to avoid similar problems after enlargement, it would be necessary to change the structure of the budget. It would also be necessary to find ways of increasing trade between the United Kingdom and other members of the European Community and resolving once and for all the question of own resources. The Prime Minister agreed that these long term problems would have to be solved. But answers would have to be found to the short term issues first. She agreed with Signor Cossiga's proposals for the period immediately ahead. She accepted that a means might have to be found to present the figures discussed in Luxembourg differently, but stressed that she could not retreat on the substance. Foreign Ministers would certainly have a role in clarifying the position. Finance Ministers might also make a contribution and the Agricultural Ministers should continue their discussions, especially on sheepmeat. All should be encouraged to report before the end of May. There was no advantage in allowing the problem to drag on unresolved until Venice - although it might be in the end/only Heads of Government would have the authority to decide the final figures. It would be important for everyone to agree to look at long term changes in the way the Community operated.

Signor Cossiga said that there was now one month and five days left before Heads of Government assembled in Venice. He was confident that this would allow sufficient time to find a solution. The Prime Minister said that she shared his confidence.

The meeting ended at 1850.