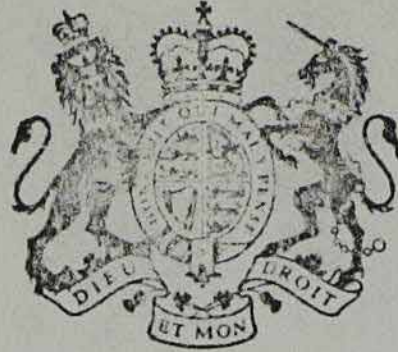


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10 DOWNING STREET

From the Principal Private Secretary

11 December, 1979.

Dear Robert,

EEC Budget: French Views Post Dublin

Although I went to see Wahl in Paris yesterday on another matter, I took the opportunity to ask him how he saw the problem of the Community Budget in the wake of the European Council Meeting in Dublin. He said that the French had gone to Dublin hoping that the Prime Minister would be ready to move off the British position of seeking broad balance, which they regarded as synonymous with *juste retour*. They had therefore been very concerned when it had seemed from the discussion in the European Council that there was no flexibility in the British position. What had saved the day was the Jenkins' initiative and the Prime Minister's readiness to seek a solution at a further meeting in a spirit of genuine compromise. But for this late development, the Community would have found itself in a crisis. There were, however, a number of points which he wished to make about any possible eventual outcome. First, as the French had made clear before Dublin, any solution must be within the rules of the Community. All the members of the EEC, including the UK, were members of the same club, and they should all follow the rules of the club. The French could have understood it if the UK had said at Dublin that they accepted the rules of the Community, but they wanted them to produce different figures. Instead, we had tried to embark on the far more radical course of changing the rules of the club. This had led to the UK being isolated.

Second, he thought that it would be possible to find only a small amount by way of additional Community expenditure in the UK to supplement the 520 million units of account which was available if the constraints on the Financial Mechanism were removed. The difficulty was that any device that helped the UK was also likely to apply to other members of the EEC. We should soon come up against the 1% VAT ceiling which the French, like the UK, did not want to see breached. Any figure on offer at the next Council Meeting was therefore likely to be well short of 1,500 million units of account.

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Third, it was inescapable that any solution to the Budget problem had to be reached at the same time as progress was made on the other major problems at present engaging the Community such as sheepmeat, fish, and even perhaps - because of the Germans - energy, though he was not saying that there had to be any kind of formal linkage. Finally, it was important that the next meeting of the Council should be well prepared beforehand.

He also wanted to draw attention to the fact that a number of commentators outside Government circles were now saying that, as a result of the course followed by the UK on the Budget, the question of possible British withdrawal from the Community had been re-opened, and the opponents of the Community strengthened.

I said that the Prime Minister had made it absolutely clear at Dublin and subsequently that there was no question of British withdrawal from the Community. For what the Prime Minister had described as wider political reasons - let alone any others - Britain would remain within the Community. But while we wanted to remain a member of the club, we could not accept a situation where the application of the rules meant that we were making our present massive net contribution to the Budget, while countries like Denmark (which was richer even than Germany in terms of GNP per head), Holland and Belgium, which were all better off than Britain, were substantial net beneficiaries. Britain had said time and again that she was not seeking *juste retour*. We should be very happy to settle for a position similar to that of France, which, as Wahl acknowledged, could well be described as one of "broad balance". We believed that a solution to our problem could be found by building on the three areas identified in the communique of the European Council meeting. It was not enough to look forward to an improvement in our budgetary position as a result of reform of the CAP. We of course wanted such reform, but it would take time. Britain had to have a sufficient improvement in her budgetary position in 1980/81, and we should be seeking that in the spirit of genuine compromise which the Prime Minister had referred to. We would be seeking ways of substantially increasing Community expenditure in the UK: it was the lack of such expenditure that was one of the prime causes of our present difficulty. We agreed entirely with his view that it was essential that the next meeting of the European Council should be adequately prepared. We thought that if the Council was to be a success, the solution to the Budget problem would need to be virtually agreed before the meeting began.

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Although Wahl made his remarks in a very friendly way - indeed, at one point in the conversation he said to me that, on his return from his visit to London last month, President Giscard had remarked that France was now closer than ever before to Britain on everything but EEC matters - , there was undoubtedly an underlying hardness and an unwillingness to admit of any but the most limited advance on what was on offer to us in Dublin in all that he had to say on this subject. I am afraid that if Wahl was reflecting President Giscard's views, as I think we must assume he was, it does not augur well for the work which will be going on over the next few weeks in preparation for the next meeting of the European Council.

I am sending copies of this letter to Michael Palliser and Ken Couzens.

Yours etc.,

Alan Whitehead.

Sir Robert Armstrong, K.C.B., C.V.O.,
Cabinet Office.

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