

European Council, Dublin

Mr Whitmore and I called on Mr Dermot Nally in the Taoiseach's office on Friday afternoon, 23 November. Mr Staples from the Embassy accompanied us. Mr Nally was supported by the team which called on Lord Bridges on 15 November - Mr Heaslip, Dr Clarke and Mr Horgan.

2. Mr Nally said their current thinking at official level on the handling of the agenda was as follows:-

(a) economic and social situation to be taken first together with the Commission report on 1990 (telematique) and worksharing (depending on the outcome of the Social Affairs Council);

(b) convergence/budget would be the second item to be taken on Thursday (the other items being scheduled for the second day). They would expect the Taoiseach to invite Mr Roy Jenkins to speak at the beginning and then the Prime Minister. In this way, there could be a good discussion in the Council and Heads of Government could, if necessary, continue at dinner;

(c) the Commission paper on the CAP would be taken either under Item 1 or Item 2;

(d) for the second morning, the items were energy, report of the Three Wise Men, European Union. Under the energy item, the idea of appointing an Energy Supremo within the Community might be mooted;

(e) under other business, the French would raise sheepmeat, relations with the European Parliament (if the Budget Council had not solved the issues on the 1980 Budget) and possibly make a statement on the seat of the European Parliament. In the Irish view, there would not be detailed discussions on sheepmeat: how the French would raise it depended upon how discussion of the Budget had gone.

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(f) the Belgians wanted a re-affirmation that the original timetable for the European Monetary Fund would be respected. Did we have a bombshell to deliver on EMS? (I assured them that we did not.)

3. The Presidency were circulating draft conclusions on all items except on budget/convergence. On this item, they had some ideas but would wait for the discussion.

4. On the substance of the budget issue, we made it clear that only a conclusion indicating the amount of the relief to be granted to the UK, the duration of any arrangement and the mechanism or mechanisms to be used would satisfy the UK. Mr Heaslip suggested that the European Council might only be able to agree on an "operative framework". We said that the Prime Minister would have to be able to say clearly what size of refund had been agreed. We did not preclude arriving at the result through a combination of two or more elements but fudging the figures would not do. (The Irish spoke with some feeling about the difficulties they had had in reconciling the outcome of the EMS discussions last December with their previous public statement about the amount of financial help they needed.)

5. Mr Nally said the other member states attached importance to four principles:-

(a) the integrity of "own resources": we said this should present no difficulty. The Financial Mechanism could not be considered incompatible;

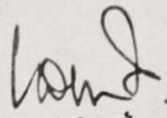
(b) the solution must be a Community one, meaning that it should not fall on national budgets: we took note and said we could consider any form of financing, although we were not going to be caught by the argument that what we wanted was incompatible with the 1 per cent ceiling;

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(c) there could be no juste retour : we said we were not asking for every member state to get back what it put in: that would not be fair for Ireland, nor reasonable for Germany. France was the only country currently enjoying a "juste retour";

(d) the solution should be temporary: for the French this meant one year (though renewable), but it could be construed as covering the period until the UK's trade pattern came into line with the rest of the Community etc. We said President Giscard had not spoken of 1 year to the Prime Minister; the Commission paper had mentioned 3-4 years; we wanted a solution to last as long as the problem lasted. No one could tell how long it would take for the UK's trade to approximate to the Community average.

6. In general, they took a gloomy view of the prospects for agreement, Mr Horgan in particular dwelling ghoulishly on the fact that some member states did not like the Commission's latest paper and that even the Commission did not make a forthright recommendation that all the restraints should come off the Financial Mechanism. We stressed that the Government must have a politically defensible solution but was ready to negotiate.



M D M FRANKLIN

26 November 1979

cc Mr Whitmore No 10
✓ Mr Alexander No 10
Sir R Armstrong
Lord Bridges FCO

Mr Fretwell FCO
Sir K Couzens Treasury
Mr M D Butler UKREP Brussels
HM Ambassador Dublin

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European Council, Dublin

Brief for meeting with Mr Dermot Nally, Friday, 23 November

Substance:

(1) HMG is ready to negotiate, but to be politically defensible the outcome must be a lasting solution reflecting "broad balance". The Government wants an agreement in Dublin.

(2) An approach based on removing the existing constraints on the Financial Mechanism (paragraph 12 of the latest Commission document) is acceptable to us but will not by itself be adequate. We do however have problems with the statement (paragraph 13 of the Commission paper) that the qualifying criteria should remain unchanged.

(3) Acceptable solution will have to deal with our low receipts as well as our excess contribution. The Commission recognise this. However the measures proposed in paragraph 15 are not quantified and in any case seem unlikely to have the immediate effect on our net contribution for 1980 that the size of our unfair burden demands. The European Council will have to agree on more concrete and substantial assistance on the receipts side. In our view, the quickly, simplest and best solution would be a receipts mechanism. However

(4) However we are ready to look at alternative methods, but they -

- (i) need to be durable
- (ii) should not involve increased public expenditure in the UK
- (iii) should be compatible with the 1 per cent ceiling
- (iv) be effective from 1980.

(5) Undertakings that the future pattern of Community expenditure will develop in a way favourable to the UK would be helpful but not as a substitute for immediate remedial action.

(6) The essential elements in a solution - amount of reduction in net contribution, duration of the arrangement, type of mechanism or mechanisms - need to be settled so that when detailed implementing regulations come to be drawn up, there is no room for doubt.

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(7) We can subscribe to the two basic principles set out in paragraph 9 of the latest Commission document but they are not an obstacle to a satisfactory solution. We have never sought a juste retour and do not do so now. The 1975 mechanism recognised the compatibility of adjustment with the own resources system.

(8) The Italian wishes ~~at~~ Dublin appear to be obscure. A commitment to reduce the share of the budget going to CAP would be helpful. But how does the Presidency envisage handling the discussion on convergence? (of interest to Ireland too).

Procedure

(1) How does the Presidency envisage handling the agenda? What draft conclusions will they produce and when? Welcome the warning by Mr O'Kennedy that meeting might have to continue into afternoon of the second day.

(2) PM has unhappy recollections of the procedural wrangle in Strasbourg and will want to be sure that Presidency will take a firm line on (a) attempts to filibuster (b) introduce irrelevancies (c) prevent officials getting from Council Secretariat a clear account of what their instructions are.

(3) The budget/convergence item should be tackled early e.g. after a short "warming-up" item. Prime Minister will be ready to give her views, but try to avoid too much philosophising and get down to discussion on the key issues

- (i) The scale of the action to be taken in relation to the UK problem;
- (ii) the length of time for which any arrangements should operate;
- (iii) the appropriate machinery to secure corrective action.

Once these are established, officials can work on putting them into Community language. Must allow enough time on the first day for clear instructions.

(4) What are Presidency aims for other agenda items?