Subject on EuroPol: CONFIDENTIAL

Calls on the PM Dec
Roy Jenkins: May 1979.

(Copy for Euro Council - PolRep)

RECORD OF A DISCUSSION BETWEEN THE PRIME MINISTER AND THE PRESIDENT OF THE EUROPEAN COMMISSION, MR. ROY JENKINS, AT 10 DOWNING STREET, ON MONDAY 17 MARCH AT 1115 HOURS

Present:

Prime Minister	Mr. Roy Jenkins
Sir Robert Armstrong	Mr. C. C. C. Tickell
Mr. Michael Franklin	
Mr. Michael Alexander	

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The Prime Minister said that she was very pessimistic about the prospects for the European Council meeting in Brussels at the end of the month. She did not think that the preparatory discussions had yet got on to the right track. She was also concerned about the agenda. She feared that the preliminary discussions on the economic situation in the Community and on the European Monetary Fund would take up too much time. It would be important that the lunch on the first day should take up less time than it had in Dublin. Mr. Jenkins said that the arrangements in Brussels were such as to make it likely that substantive discussions would begin earlier than they had in Dublin. As regards the agenda, he did not think the European Monetary Fund discussion was a serious problem. For the rest he was against an agenda which contained only one item. (The Prime Minister agreed). There should be a balanced agenda with the budget taking up perhaps 40 per cent of the time. He envisaged a 2½ hour discussion on the Monday afternoon. If a solution seemed in sight, the discussion could be resumed on Tuesday. As regards the overall prospect, he thought that a solution was still some way off, but not perhaps such a distant prospect as the papers suggested. There was perhaps a 30 per cent chance of reaching agreement.

The Prime Minister said that she could see few signs of goodwill in the attitude of the French Government. Their attitude seemed to be limited to saying that we had accepted the terms at

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the time of our entry and were now stuck with them. If the French Government persisted with this argument, the Community would soon find itself in a very difficult situation. M. Barre seemed to have given a thoroughly negative briefing to the press after the Prime Minister's recent appearance on French television.

The French position on sheepmeat struck at the very roots of the Treaty of Rome: the free movement of goods was, in the Prime Minister's view, the basic principle on which the Community was founded. Mr. Jenkins agreed that France's behaviour on the sheepmeat issue had been deplorable. The Commission had now sought an injunction against the French Government. This was the most extreme step open to them. They had hesitated to take it because of the difficulty of enforcing a judgement against the French. The European Court might well announce its verdict on 28 March, i.e. on the eve of the European Council. As regards what the French Government had been saying in the previous week, Mr. Jenkins said that he was perhaps partly to blame. He had had a useful talk with M. Barre a fortnight ago. He had subsequently given an account of the discussion to the Germans, and the Germans had retailed his account back to the French. M. Barre had been upset. It was a "mini-Soames" incident. The Prime Minister asked about the position of Signor Cossiga. Mr. Jenkins said that he would almost certainly be defeated in a vote of confidence later this week. However, he would probably stay in office for the time being and preside at the European Council meeting. There was no reason why his authority should be affected but his mind would probably be on other matters. It would not be easy for him, for instance, to take any major initiative.

Mr. Jenkins said that the Commission would be putting before the Council the new figures for Britain's net contribution to the Community Budget. The contribution would certainly be larger than the previous figure of 1500 MEUA, but would be less than the figure

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of 1900 MEUA which he had heard attributed to HM Treasury. If the Commission's CAP proposals were accepted, it would be about 1750 MEUA. Mr. Jenkins did not demur when Mr. Franklin said that since the CAP proposals were unlikely to survive, the contribution would probably go over 1800 MEUA eventually.

As regards possible outcomes to the negotiations, Mr. Jenkins thought that, given the right framework, the French might be prepared to go as high as 1000 MEUA. The Prime Minister said that a solution which left Britain paying 800 MEUA, i.e., much more than the French, would not be acceptable. If the new net contribution figure was to be 1800 MEUA, then Britain would want 1500 MEUA back. Nor should the question of the duration of the solution be overlooked. A lasting answer to the problem was required which was why we had been talking in terms of our future net contribution rather than of the figure we wished to recover. Mr. Jenkins said that he saw no chance of securing a rebate of 1500 MEAU from the other members of the Community. This might be possible in the medium term, e.g., if some of the money could be spent on a major project such as the channel tunnel. (The Prime Minister pointed out that no public money would be going into the channel tunnel.) If the Commission had to put forward to the European Council a figure which they regarded as likely to constitute an appropriate compromise, they were likely to suggest 1000/1100 MEAU. The Prime Minister repeated that this would be insufficient.

The Prime Minister and Mr. Jenkins discussed the various elements which would, in Mr. Jenkins' view, go to make up the framework in which a solution to the Budget problem might be found. The Prime Minister said that she had no intention of giving anything away on fish. Mr. Jenkins said that there was no need to do so. It was the Danes who were isolated in this negotiation. Britain merely had to ensure by playing things gently that pressure on Denmark was maintained.

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On the CAP, the Prime Minister was critical of the Commission's latest package. Mr. Jenkins said that it did not constitute at all a bad deal for the United Kingdom. Any attempt to control the CAP would involve discomfort for all members of the Community. The Commission's proposal certainly bore harder on the Federal Republic, on Denmark and on the Netherlands than on the United Kingdom. The Commission's concern was that, thanks to the criticism of Britain and other members, the super co-responsibility levy would be lost, that the surpluses would rise and would have to be financed in some other way. The French were pressing hard for higher prices. In the absence of the super co-responsibility levy, the only way to contain the cost of the CAP would be through a negative price fixing. This would not be obtainable. There was a real possibility that the United Kingdom would be faced with the need to agree to a 5% price rise in return for agreement to a solution on the Budget. The Prime Minister said that she would not be prepared to accept a substantial price rise because of the effect it would have on the retail price index in this country. Mr. Jenkins said that the Prime Minister should seek to avoid a crunch in Brussels on CAP prices. The end of March was in any case too soon in the CAP price negotiations to try to bring matters to a head. The Prime Minister might, however, be asked to agree to, e.g., "a flexible approach" to the price fixing.

The Prime Minister commented on the fact that Chancellor Schmidt wanted the United Kingdom to take the lead on CAP reform. This was a "poisoned chalice". Mr. Jenkins said that Chancellor Schmidt seemed to be schizophrenic on this subject. He was inclined to argue:-

(a) that the United Kingdom should actively pursue CAP reform; but that

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(b) the United Kingdom should seek to create a conciliatory atmosphere in which the Budget negotiations might be pursued with France.

These two objectives were mutually contradictory.

Mr. Jenkins asked about the Government's attitude towards full entry into the EMS. The Prime Minister said that she would be reluctant to enter the EMS unless she could be sure that it would leave her freedom to manage the currency unimpaired. She was concerned lest the effort to hold a rising pound within EMS prescribed margins should affect the money supply in this country. Mr. Jenkins expressed some doubt as to whether the pound was likely to go on rising. He was less sure than the Prime Minister that the fact that Britain's exchange rate was determined by sterling's role as a petro-currency rather than by the country's industrial performance was relevant to the issue of entry into the EMS. Differential exchange rates were what counted. The problems of the DM were at least as difficult to cope with as those of the pound. The political fact which mattered was that Chancellor Schmidt was violently in favour of British membership of the EMS. A British decision in favour of full membership of the EMS would greatly improve the atmosphere in which the budgetary discussions would take place. Mr. Franklin pointed out that the French were unenthusiastic about British membership. Mr. Jenkins said that in so far as the tactical objective in the present negotiations was to isolate the French, French hostility to British membership of the EMS was a very good reason for joining. The Prime Minister said that the question of British membership of the EMS was being looked at again. The final decision would depend on a judgement as to how far our freedom to manage the currency would be limited. She did not wish to have to spend money holding the exchange rate down. Mr. Jenkins said it was arguable that membership of the EMS would in itself help to hold the exchange rate down.

/ Mr. Jenkins

Mr. Jenkins said that the other members of the Community were not expecting major concessions from Britain on energy. However, it was important that Britain should appear to be positive on the subject. An opportunity might be presented by the paper which the Commission had produced on the subject. Domestic fuel marketing arrangements in Europe were in an indescribable mess, both as between the various products and as between the various member countries. A clear, harmonised pricing policy was needed. It was nonsense to talk of a Community energy policy before the pricing issue was sorted out. Additional urgency was given to this by the fact that the American Administration now had a clearer policy. President Carter would certainly be in the lead on this issue in Venice, and Europe should be in a position to respond. The Prime Minister commented on the difficulties of achieving agreement on a European pricing policy when, for instance, labour costs varied so widely. Mr. Jenkins repeated that there was a muddle which needed sorting out. Moreover, ways needed to be found to increase investment in, e.g., conservation and renewable energy sources.

In a brief discussion of nuclear energy, the Prime Minister made the point that fusion seemed to offer the only solution in the long term. The protests of environmental lobbies against the disposal of the waste products of power plants using fission-based processes would get louder and louder. Mr. Jenkins said that the work of the JET laboratory at Culham held out the most promise for earl progress on fusion processes.

At the end of the discussion, Mr. Jenkins said that he was going to Copenhagen on 28 March with the object of trying to ensure that the Danish Prime Minister, Mr. Joergensen, went to the European Council in a reasonably productive frame of mind. He also raised

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two minor points. He had been informed that the French, for reasons of face, might try to argue in favour of retaining one of the "brakes" on the corrective mechanism. He did not think that this would make any difference to the operation of the mechanism. He hoped that the Prime Minister would take the line that what Britain wanted was the money. He also repeated the Commission's advice that we should not pursue any further the idea of an automatic receipts mechanism. The British Representative had been completely isolated when he had raised the matter at the previous week's meeting of COREPER.

The discussion ended at 1230.

17 March, 1980.