



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

Prime Minister has vis.

*You may like to see this
further minute from the
Chancellor, and
that below from
Mr. Walker,
before your talks
with Signor
Andreotti.*

14 June, 1979

*P.A.
18/6*

*SW
14/6*

PRIME MINISTER

You will have seen Peter Carrington's letter to me of June 12th, enclosing the text of a formulation on this subject for the European Council.

2. I understand that this text was approved by you subject to my comments. I have agreed that, since time is so short before Sr. Andreotti's visit, the text should be put to the Italians for their reactions as it stands, though with the caveat that it might still be amended.

3. Indeed, I think that the text goes a long way towards meeting the points raised in my letter of 8th June. It contains a number of pointers which, if adopted by the Council, could be very useful in the difficult task of follow-up: notably, recognition by the Council that the Budget is creating difficulties for the UK and Italy; the notions that the Budget should be equitable and should not continue to hinder the economic performance of member states with below-average G.D.P per head; and a clear invitation to the Commission to propose solutions in good time for decisions at the next European Council in Dublin. ||

4. However, I still have some doubts, both on substance and on tactics, which are not entirely resolved by the arguments in Peter Carrington's reply to me. My doubts



are reinforced by President Jenkins' remarks at the Foreign Affairs Council on 12th June, reported in Luxembourg telegram no.97.

5. First on the substance of the text. Though I understand the tactical intention, I dislike the suggestion that "in time, our difficulties should become less serious" by reduction of agricultural surpluses: our case is surely that our Budgetary situation in the Community is serious, inequitable and worsening, and that CAP adjustments are only part of any satisfactory solution. Also, the present draft still seems too likely to encourage those who will try to buy us off on the expenditure side of the Budget, which may suit the Italians, but won't suit us. I am doubtful about the impact of the statement of the objective as "a fair balance of costs and benefits for all member states", and would prefer to see some specific reference to the inequity of our net contribution, and to the need to look for solutions on both sides of the Budget.

so am I

6. Second, on tactics. As I have said, it would be good to secure Finance Council recognition of our problem, in specific terms, and a clear directive to the Commission to produce proposals accordingly. However, if those terms prove too contentious, the reluctant or hostile elements at Strasbourg may be encouraged to blur them or water them down in discussion or drafting, and this may, despite the most determined effort, be difficult to prevent without the full support of the Presidency and a very clear directive to the official drafting groups. You may consider, therefore, that it would be wise to have available at Strasbourg a shorter fall-back text (not to be revealed beforehand to

/any other member

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any other member state) which would preserve the essential minimum of the original text. This essential minimum, I would judge, would be the three sentences annexed.

7. I shall have the opportunity to comment more fully on Peter Carrington's letter at OD(E) on Friday.

8. I am sending copies of this minute to Peter Carrington and other colleagues on OD(E) and to Sir John Hunt.

Mc HM

(G.H.)

[Approved by the Chancellor and
signed on his behalf]

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COMMUNITY BUDGET

The European Council recognised that at present the financial consequences of the Community budget create difficulties for two of the three member States with below-average GDP per head. Solutions are urgently required to ensure that the Community budget does not continue to hinder member states with below-average GDP per head in their efforts to improve their economic performance. The European Council invited the Commission to make proposals before the end of September to deal with this problem in order to permit decisions to be taken at the next European Council in Dublin.

*This goes right down
for the inequality argument -*