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PRIME MINISTER

Community Budget

1. As you know the Naples meeting of Community Foreign Ministers last weekend made little or no progress towards a solution of the budget problem. The French and Germans continued to say that their Luxembourg offers are no longer available, the others had no constructive ideas to contribute and the Italian Presidency are noticeably flagging in their efforts to find a solution acceptable to all.
2. Next week there will be meetings of the Finance Council and the Agriculture Council. None of these meetings will be easy for us and none are likely to get us any closer to a solution. The Finance Council has not hitherto proved an effective negotiating forum on the budget and the presence of Matthoefer and Monory is hardly likely to be conducive to flexibility. The latest Commission figures the Finance Council will be considering, while they may help to reassure the Germans that there is room to solve our problem within the 1% ceiling in 1980 and 1981 will be less helpful for 1982; and they will show more clearly than before just how large a refund we need to bring our net contribution down to acceptable levels. In the Agriculture Council Peter Walker will have to maintain our reserve on the price package and to fight our corner on sheepmeat. On the latter his chances will to a large extent depend on whether there is a general feeling that a budget settlement is in the offing, in which case I think he has a reasonable chance of making progress.
3. Since Luxembourg the main factors at work are as follows. First the irritation of Schmidt and Giscard at the way things

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went there has poisoned the atmosphere and impeded progress at a lower level; but at the same time their own proclaimed refusal to negotiate further at Venice, and thus to be seen personally to be making concessions, is to be taken seriously and makes the prospects for a solution if left to that meeting dubious to put it mildly. Second the realisation of how big the concessions we extracted at Luxembourg were has been borne in on all governments and has caused trouble with hard-pressed Finance Ministers. This has bred a strong feeling that any further concession on duration will have to be balanced by smaller refunds to us in 1980 and above all that any further concessions at all to us can only be made in the context of a decisive negotiating meeting, so that we cannot again refuse them and then carry on negotiating from there. Thirdly the problem of the agricultural price settlement, taken in conjunction with impending elections in Germany and France, has become more and more of a preoccupation to our partners, with the French demonstrating a clear intention to take national measures and others likely to follow suit with the connivance, and probably the approval, of the Commission.

4. Does this mean that time is on our side? I do not believe so. We can of course stand pat on the budget position as we put it at Luxembourg, use the Luxembourg Compromise to block agricultural prices and the 1980 (and the 1981) budget, and consider again the pros and cons of withholding. With or without the last point, the Community will then find itself in a major crisis, with much bitterness and an increasingly firm 8:1 line-up against us. A negotiated solution will eventually have to be found; but in the confusion created and with the French presidential election not until March 1981 that could take a considerable time. If, at the end of it, we were to get a substantially better deal on the budget than we can get now, that might not matter too much. But in my view that is not the case. The closer we get to the 1% ceiling the more difficult it will be to get the

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special arrangements for the UK we have been fighting for. And the longer the crisis goes on the greater the number of extraneous issues others will link to the concessions we want on the budget. To take fish as only one example (New Zealand butter is another), linkage with the substantive issues of access and quotas would be far more difficult for us to handle than the present argument over a list of carefully drafted principles.

5. But can we get an acceptable deal now, before Venice? I think we can, although obviously I cannot be sure. For one thing I believe we can capitalise on Giscard and Schmidt's evident unwillingness to get personally involved again. They and our other partners know that, if the matter is not settled before Venice, they cannot evade either another attempt to settle or the prospect of a major Community crisis. And, although I am convinced that domestic politics will mean that national measures on agriculture will be taken and that Community politics mean that the Commission will not throw the rule-book at those who take them, I am also sure that there is no Member State which does not regard a settlement on the basis of the price increases proposed in Luxembourg as an infinitely preferable alternative.

6. If you agree, I would like therefore now to signal firmly to the Italian Presidency and to the other Member States that we are prepared to participate in a decisive negotiation in the Foreign Affairs Council either at the end of next week or early the following one. I do not think we have anything to lose from doing this. Even if it fails to produce a solution we shall have improved our position tactically. The Community will in any case face a financial crisis at some point during the next eighteen months or so. I believe our chances of exploiting that situation to our advantage would be strengthened if we had succeeded in getting a budget deal, albeit for a limited period; and conversely would be jeopardised if we had not.

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6. I am copying this minute to the Chancellor of the Exchequer, the Lord President of the Council, the Lord Privy Seal, the Minister of Agriculture and Sir R Armstrong in the Cabinet Office.

*C*  
(CARRINGTON)

Foreign and Commonwealth Office

21 May 1980

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