

SECRET

10A.

F.S.

R.H.S.

NOTE OF A DISCUSSION BETWEEN THE PRIME MINISTER AND THE FOREIGN AND COMMONWEALTH SECRETARY AT 10 DOWNING STREET AT 1700 HOURS ON WEDNESDAY 20 FEBRUARY 1980

---

In addition to the Prime Minister and Lord Carrington, Sir Robert Armstrong, Mr. Whitmore and Mr. Alexander were present.

Europe

The Foreign and Commonwealth Secretary said that not much progress had been made in our effort to solve the problem of Britain's contribution to the Community Budget since Dublin. There was now not much more than a month left before the next meeting of the European Council. At some time between now and 31 March it would be necessary to divulge to at least some of our partners the sort of figure that HMG was prepared to settle for. Moreover, no settlement would be possible unless it was a settlement across the board: it would have to deal not only with the Budget problem but also with farm prices, sheepmeat and energy. Of course there would be no need to finalise any agreement on the latter issues unless we had received satisfaction on the Budget.

The Prime Minister said that she was less interested in how we achieved a result than in the result itself. She was reluctant to go much beyond the figures she had given to Signor Cossiga. There was an impression that we had already conceded too much. As a result the Government was getting a very bad press. She had taken her stand on the concept of "broad balance" and would be criticised in the House of Commons for failing to achieve it. The Foreign and Commonwealth Secretary said that it would be necessary to go further than the contribution of 200/250 mua which had been mentioned to the Italian Prime Minister. Indeed, in his view, there was no prospect of settling on a contribution of as little as 300 mua.

It was therefore necessary to consider what the Government would do in the event of a failure to reach agreement on a figure close to 300 mua on 31 March. As he saw it, we had the option of withholding our contribution; of obstructing the work of the Community; or of blocking the new farm prices. The Prime Minister said that she regarded blocking farm prices as an element in a policy of obstruction. Absence of agreement on farm prices could cut both ways. On the one hand the absence of agreement might mean the

SECRET

/cessation

SECRET

- 2 -

cessation of the present butter subsidy and a consequent rise in the RPI. On the other hand this might be less than the increase in the RPI which would result from a general rise in farm prices. More generally, the Prime Minister said that she saw withholding as an option to be adopted in the second half of the year subsequent to a period of obstruction of Community decision-making.

On withholding, the Foreign and Commonwealth Secretary said that the Government could not withhold unless they had previously legislated. The act of legislating would, he was advised, involve a breach of the Treaty of Rome. This, in his view, might well set Britain irrevocably on a path which would lead to our departure from the Community. The Prime Minister said that she was not at all sure that she agreed that it would be necessary to legislate before withholding. She did not think the Commission would take HMG to court in this country. Moreover, she did not think that the other members of the Community would think it in their interests to drive Britain out. The Foreign and Commonwealth Secretary said that he was not at all sure on this last point. In any case before agreeing to a policy of withholding it would be necessary to look very carefully at the consequences of our ceasing to be members of the Community. He himself regarded the political and economic consequences as being of great gravity. The Prime Minister said that she herself did not wish the country to leave the Community.

However, she added that she did not think Departments were being tough enough or imaginative enough in arguing the British case. The French had struck at the roots of the Treaty in defending their point of view on sheepmeat. We should be prepared to pursue our interests with similar vigour. The sort of ideas we should be considering were the imposition of a levy on the imports of French (and German) cars; the sale of oil to Europe at spot prices or subject to a special tax; the reopening of the offset agreement. She repeated that she was less interested in the methods by which redress of the budgetary imbalance was achieved than by the fact that it was achieved.

/The Foreign

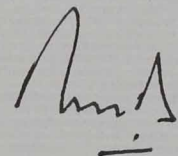
SECRET

SECRET

- 3 -

The Foreign and Commonwealth Secretary repeated his view that it would not be possible to negotiate a settlement which limited Britain's contribution to 300 m.u.a. per year. It might be possible to secure a settlement on a basis of our contributing one-third of what we might otherwise have contributed ie 5/600 m.u.a. This would of course be only part of the solution: the other part would be a commitment to the restructuring of the Budget as a whole. Britain had an important lever in this context in the shape of the 1% VAT ceiling. The Prime Minister said that she placed no faith in such a commitment and that she did not wish to have to resume the negotiation later this year or next. It was pointed out that whether as a result of a failure of the British negotiation or as a result of the need to restructure the Budget, the Community inevitably faced a period of 2 or 3 years of on-going crisis.

It was agreed that the whole complex of problems would have to be discussed in OD and in Cabinet before the next European Council meeting. Against that background it was agreed that Sir Robert Armstrong would produce a paper setting out the tactics which would have to be pursued in the next few weeks. The paper would look at the elements in a possible package solution to the budgetary problem; at the means open to HMG of exerting pressure on the other members of the Community; and at the way the hand might be played e.g. in bilateral meetings between now and 31 March. In this last context it was noted that there would have to be personal contacts with Chancellor Schmidt and President Giscard or with members of their staffs.



20 February 1980

SECRET