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NOTE OF A DISCUSSION OVER LUNCH AT NO. 10 DOWNING STREET, ON WEDNESDAY 5 SEPTEMBER 1979

PRESENT

Prime Minister
Foreign and Commonwealth Secretary
Chancellor of the Exchequer
Secretary of State for Northern Ireland
Lord Privy Seal
Mr. M. D. M. Franklin
Mr. M. O'D. B. Alexander

The Taoiseach
Mr. G. Colley (Tanaiste, Minister for Finance and Minister for the Public Service)
Mr. M. O'Kennedy (Minister for Foreign Affairs)
Mr. A. O'Rourke (Secretary, Department of Foreign Affairs)
Mr. D. Nally (Deputy Secretary, Taoiseach's Office)

The Community Budget

The Prime Minister, introducing the discussion, said that the United Kingdom was at present grossly over-contributing to the Budget. Although the third poorest member of the Community in GDP terms, the United Kingdom was the largest net contributor, considerably ahead of France and the Federal Republic. This situation had to be corrected. HMG accepted that Ireland should be a net gainer from the Budget. But a British contribution on the present scale made no sense. HMG attached considerable importance to the maintenance of the timetable established by the European Council at its last meeting. The Presidency should ensure that this timetable was adhered to.

The Foreign and Commonwealth Secretary stressed the political dimension. HMG still had a problem with public opinion in this country. Since coming to power in May, they had demonstrated their European credentials, e.g. by lifting a number of outstanding reservations. (Mr. Colley acknowledged HMG's helpfulness in this regard). If the UK received no satisfaction on the Budgetary issue, the political situation would become markedly more difficult.

Mr. Colley said that he wished to keep to the European Council's timetable but pointed out that any member country of the Community had the ability to impose delay. The Irish Government accepted the existence of the imbalance described by the Prime Minister but, like other members of the Community, did not see the situation solely in Budgetary terms. The question was

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not simply one of contributions to and receipts from the Budget. There was the question of convergence. What value should one place on the provisions of the Rome Treaty for free trade in industrial products? The Prime Minister pointed out that the present arrangements meant that access was easier for the industrial products of other EEC members coming into the UK than for British agricultural products moving in the other direction. Mr. O'Kennedy repeated that it was wrong to look at the Community simply in terms of the Budget and to ignore the other benefits that it had brought. Its impact in the social and economic spheres had to be taken into account.

Mr. Colley said that there was a further problem. The Budget was approaching the ceiling imposed by the 1 per cent VAT limitation. It was important to take into account how the difficulties to which this would give rise would be faced. The problem could not be ignored in considering adjustments to the Budget of the kind sought by HMG. The Chancellor of the Exchequer said that the own resources problem was a real but separate issue. It needed to be looked at. The UK position was that the 1 per cent ceiling should not be raised. But for the moment it was important to concentrate on reform of the Budget. With 16 per cent of the GDP of the Community, the UK was paying 20 per cent of the contributions to the Budget and only receiving 10 per cent of the receipts.

Mr. O'Kennedy said that the Irish Government had inherited with the Presidency a set of themes and priorities. They wished to stick to those priorities and to take decisions wherever possible. They did not know the views of all their partners but so far things were going according to plan. Mr. Colley repeated that any one member country could prevent progress but that it was his intention to do everything possible to get the Budgetary issue to the Summit in a shape where decisions would be possible. Mr. Lynch, concluding this part of the discussion, said that the Irish Government recognised the problem and wished to adhere to the European Council's timetable.

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The EMS

Mr. Lynch asked whether HMG had a timetable in mind for full adherence to the European Monetary System. The present situation was psychologically damaging in Ireland. People tended to think that the punt was doing badly. The Prime Minister said that she was not optimistic about the chances of an early decision on entry by HMG. The situation was at present unpredictable. Despite the easing of exchange controls, the value of the pound remained surprisingly high. Money had not flowed out of the country in the way that some had expected.

The Chancellor of the Exchequer said that the international currency world was markedly less stable than 12 months ago. Owing to the current problems of the dollar, to the OPEC price rise, and to sterling's petro-currency status, this would be a particularly difficult time for the UK to enter the EMS. HMG were not in any sense hostile to the EMS but were very conscious of the complexities of the present situation.

Mr. Colley said that it was clear that the sort of problem described by the Chancellor was likely to continue for some years. Would it prevent HMG joining the EMS throughout that time? Would HMG insist on a stable pound before taking a decision? The Prime Minister said that much would depend on our energy policy. If the UK became less oil dependent, it would be easier to control fluctuations in the currency. But this would be a long process. In general it was reasonable to say that a more stable pound would make it easier to join the EMS. The Chancellor of the Exchequer said that this was not simply a British interest. All the other members of the EMS had an equal interest in stability. To offer to join on the assumption that stability had been achieved and then to find that the assumption was false would be the worst outcome.

The lunch broke up at 1440 hours.

5 September 1979