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European Policy



Foreign and Commonwealth Office

London SW1A 2AH

20 June 1979

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UKREP
BRUSSELS

Dear Brian,

P. C. Petrie
27/6

HEADS OF MISSION CONFERENCE: 8 JUNE 1979

1. The Heads of Mission from Community and candidate posts met in London on 8 June. The Secretary of State was in the chair. Discussion covered the broad objectives of the new Government; tactics for handling their negotiating objectives within the Community; and the response to be expected from others on the major questions in the run-up to the European Council.

/ 2. I attach the record of the meeting.

Yours ever
Peter

P C Petrie
European Integration Department
(Internal)

copy to:

Heads of Chancery

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Mr Franklin, Cabinet Office
Mr Elliott, Cabinet Office
- Mr Cartledge, 10 Downing Street
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CONFERENCE OF HEADS OF MISSION IN COMMUNITY AND
CANDIDATE COUNTRIES, 8 JUNE 1979

1. Opening the meeting, the Secretary of State said he hoped it was now quite clear that Europe was the Government's topmost priority in foreign policy. The first objective had been to change the atmosphere and demonstrate a willingness to co-operate in making a success of the Community. The Schmidt and Giscard bilaterals and the Cahors meeting had all been useful. The next step was to put flesh on the skeleton, which would be harder. Ministers had now decided to remove some of the obstacles: for example, by lifting reserves on the Bonn and Barcelona Conventions and the directive on aircraft noise. The major outstanding problems were the disproportionate net UK contributions to the Community budget; the CAP; and the CFP.
2. Lord Carrington said that in preparing our strategy over the next few months it would be useful to hear views on a number of questions. For example, should we go for a global settlement? Is our presentation of the nature of the UK budget problem convincing? How useful would joining EMS be presentationally? Were other Governments ready to reach a compromise on fisheries? How should we approach the European Council on 21 June? If others were interested in energy, would arrangements such as long-term commercial contracts (at market prices) for North Sea oil make them more helpful over our main Community problems?

Atmosphere and strategy

3. Mr Franklin gave a brief account of the current state of official preparations for the Strasbourg European Council.
4. All Ambassadors agreed that the negotiating atmosphere had been improved by the Government's post-election statements. Most Member States were now looking for the first substantive signs that HMG's new approach would be put into practice in Community policies. Sir D Maitland and Sir O Wright argued that the next step was to remove the "minor irritants" as soon as possible. The Secretary of State questioned whether to do so might not leave us without guarantees that others would meet our more important objectives. Sir D Maitland considered that removing reserves on e.g. Bonn/Barcelona Conventions did no more than complete the establishment of this Government's European credentials. Most of these minor irritants were of a kind that others considered ought not to have been allowed to arise anyway. They had no value as negotiating levers on major questions such as the budget. Mr Sutherland and other Ambassadors suggested that extensive publicity should continue to be given to the Government's new approach. The European Parliament might be one forum. Mr Hurd suggested that the low turnout in the UK direct elections would reduce the authority of UK MEPs. Others thought that once elected all MEPs would be equal, whatever their proportion of the electorate. Mr Haydon said the Irish still considered us reluctant Europeans (in contrast to themselves). Their 55% turnout in the European election would enable them to continue this belief. He and Mr Wright considered that HMG should work on domestic public opinion as well, and be seen to do so in the Community.

5. As regards a global approach in negotiation, Mr Hurd considered that we should seek out allies and friends on individual issues as they arose. If this failed we would be forced back to presenting the Community with a "British problem" which became a sort of re-negotiation. Several Ambassadors agreed that there was a danger of appearing to seek a re-negotiation, against which Chancellor Schmidt had explicitly warned the Prime Minister. Sir M Palliser pointed out that the first re-negotiation had been seen by all as essentially a political manoeuvre, and this further complicated the task of convincing the Community that there was a real problem, e.g. on budget contributions. Mr Franklin pointed out that some of our Community problems might disappear as a result of entirely separate domestic policies pursued by HMG; e.g. if there were a reduction in state aids to industry. The Danes would particularly welcome this.

Budget and Net Contributions

6. Mr Butler described the size and nature of the net UK budgetary contributions. Ministers had not set a specific target, such as that our net contributions should be zero. But major correction needed to be made to a deficit that would be up to £1200 million by 1980. This could not be done simply by resisting any increase in own resources; nor by increases in Community expenditure which benefited the UK, such as RDF and Social Fund. A variety of complementary solutions on both the revenue and expenditure sides of the Budget were necessary. Some improvement, or perhaps revision, of the financial mechanism might produce up to £400 million p.a. without changing the fundamental principles of the existing mechanism; the agricultural budget could be reduced, perhaps through countries with structural surpluses meeting the costs of disposing of them. We were considering how the Prime Minister should handle this at the European Council in Strasbourg. It was planned that she would make a general, relatively unspecific, speech pointing to the problem; to our gross contribution; to the low level of our receipts; referring to the obligation to "reduce regional disparities" in the preamble to the Treaty of Rome; indicating that this was a Community not a national problem (e.g. Italy); and asking that the European Council instruct the Commission to prepare urgently specific proposals for rectifying the imbalance in net contributions.

7. Sir A Campbell considered that keeping close to the Italians on this was essential and doing so would give credibility to our argument that this was a Community problem. Lord Moran agreed that we should present this as a Community problem, i.e. that, in a common-sense Europe, it should be in the Community's interest to resolve it. Sir R Hibbert said the French would wish such an instruction to the Commission to be a great deal less precise than we were seeking. Mr Hervey suggested that the Dutch might ask HMG themselves to formulate precise proposals. Mr Butler replied that whether or not the Dutch advice was well-intentioned, it would be tactically wiser for us to insist that the Commission should take the lead, though we would need to feed them ideas. The Benelux countries would find it easier to agree solutions if the Commission had proposed them. Sir D Maitland warned against pitching our expectations too high but considered that in the long run we would get a very significant improvement in our net contributions. We would need persistent hammering to arrive there. There was an

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internal Commission struggle between Ortoli and Jenkins on what response to make to the UK budget problem. The Lord Privy Seal reported that his recent trip to Brussels-The Hague had revealed little disposition by officials to accept our budget presentation, although there were some indications of a recognition of the problem at political level.

CAP

8. Some indications were reported that others, including the French, were worried at the scale of CAP expenditure and were coming to share our views. For the Irish the CAP was sacrosanct, as it was for the Benelux. Dame Anne Warburton drew attention to recent indications that the Danes were becoming critical of the German position. Sir O Wright expressed interest in a possible change in French thinking on the CAP. The German defence was based on the political requirement of the Coalition (i.e. Ertl's strong position in the junior coalition partner, the FDP, and also as champion of the interests of the small southern farmers;) and on the alliance with France, where the two countries had together resisted changes in the structure of the CAP as it now operated; if the French position changed the Germans might be forced to rethink.

CFP

9. Sir D Maitland did not think there was much room for improvement on the package deal beginning to emerge. Dame Anne Warburton said the Danes were still much concerned by absence of a CFP covering internal waters, but would welcome any lifting of UK reserves on the external regime.

EMS

10. A number of Ambassadors reported that it was clear there would be very widespread welcome in the Community for a UK decision to join EMS. The Italians had participated in the EMS exchange rate mechanism for almost entirely political reasons, and were much disappointed at our absence. Chancellor Schmidt had a particular personal commitment to the EMS and would be much gratified if we joined. The Irish were politically proud to have joined without the UK, but it would be very convenient if we did join. Benelux and Denmark would regard UK participation in EMS as a major step demonstrating our Community credentials. Sir P Wakefield described the Belgians as very closely wedded to EMS. They would seek to remain in it with the Germans, even if the French withdrew. Sir D Maitland pointed out that it might be easier to board a bus that was slowing down. Sir M Palliser agreed but considered it important not to assume that because EMS was going through a difficult period it would eventually break down. Exchange rate adjustments might be necessary, but they had been foreseen in advance. Such a moment would be a good one for us to join.

/NON COMMUNITY ISSUES

NON-COMMUNITY ISSUES

11. Sir R Hibbert said that the deterioration in relations between UK and French Ministers could be dated to the visit which Dr Owen and Mr Callaghan paid to Washington after President Carter's inauguration. He considered that France and perhaps others would particularly value a change of UK orientation towards Europe, not just on specifically Community issues, but also on wider political matters. HMG's close identification with Washington over the last two years had not been well received. For example on MBFR we could move closer to the Germans. Small points like lifting reserves on the Bonn and Barcelona conventions or offering long-term commercial contracts for oil supply, would not take us far. They were the small change of Community business, part of a normal working relationship. We should make a studied attempt to pursue three elements: ensuring our foreign policy objectives were harmonious with France and FRG on key issues; adopting a less overtly pro-US line; taking a more forthcoming attitude in political co-operation. He recognised that the French did not make it easy for us.

Mr Bullard commented that improvements in the functioning and role of the political co-operation machinery might result either from the Three Wise Men study or from internal PoCo proposals. If the worst Presidency in the future were like the best in the past, this would be a significant improvement. However on key issues (e.g. Middle East) there would always be difficulties. He doubted there was scope for a trade-off between our position in PoCo and our other Community objectives: in most Member States, below the level of Foreign Minister, there was little internal co-ordination between political directors and those involved in Community business. This reduced opportunities for realistic trade-offs. But occasional well-timed bilateral initiatives on e.g. energy or high technology or defence procurement, might help with one or two particular partners.

12. Sir A Acland and others suggested that as part of a package which might emerge in the autumn on our main requirements, we should consider what incentives we could offer on energy. For example some Member States might welcome arrangements whereby UK firms entered into long-term supply contracts with them. Mr Butler warned against arousing expectations too high given that even between 1982 and 1986 we would only have a surplus on domestic requirements of about 15% (although more for export) and the total oil exportable could only meet about 10% of Community needs, always assuming the Government could control to whom it was sold. Sir D Maitland thought nevertheless that this was an important psychological point where we stood to gain in the Community. Others would not be asking for too much. Energy would be discussed at the European Council. Sir P Wakefield said the Belgians would welcome developments on energy; both economic (filling the energy gap and developing own resources) and political (co-operation on Middle Eastern matters etc). Sir O Wright suggested the Germans would welcome agreement by the UK to return plutonium after re-processing, or our participation in the fast breeder reactor programme. There would be balance of payments advantage in the former.

/CONCLUSION

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13. The Secretary of State reminded Ambassadors that there would be domestic constraints to be weighed against the constraints of the EEC negotiations themselves. There would be major public expenditure cuts at home and Ministers faced with losing cherished projects would look very hard at the drain on the national budget which membership of the Community would provide over the foreseeable future.