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Euro P.B. 25

PRIME MINISTER

*Mufaxed to Chequers at approx.
2030 on 18/4/80*

SIR DONALD MAITLAND

I attach the record of Sir Donald Maitland's talks in Rome, Paris and Bonn. You may like to have a word with the Foreign and Commonwealth Secretary about them at the airport tomorrow morning.

Despite the evident coolness of his reception in Paris, Sir Donald Maitland thought that his mission had been well worthwhile. The timing of his talk in Rome was particularly apposite since Signor Cossiga intends to spend the weekend preparing for his trip round Europe on Monday, Tuesday and Wednesday of next week. As you will see, Signor Berlinguer was much encouraged by what Sir Donald had to say.

Sir Donald's reception in Bonn was also both friendly and positive. All his German interlocutors stressed that they were determined to get the problem out of the way. Despite their problems with Germany's domestic budget, they all gave the impression that Germany would wish to be forthcoming.

The discussion in Paris was difficult. The French made no attempt whatever to be helpful. However, Sir Donald had the strong impression that the French were alarmed by the evidence of your willingness to negotiate and realise that as the result of the link created between the budget and the CAP price fixing their tactical position has been greatly weakened. Sir Donald believes that the French are becoming concerned about the possibility of a situation developing in which it is they, and not the UK, who are isolated.

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18 April 1980

SECRET

NOTE FOR THE RECORD

E C BUDGET CONTRIBUTION - ROME

1. When I called this afternoon on Signor Berlinguer, the Diplomatic Adviser to the Italian Prime Minister, at the Palazzo Chigi, I said that the Prime Minister had asked me to explore ways in which progress might be made and to explain her latest thinking. I said that the Prime Minister had recently made clear on a number of occasions that she was ready to see progress on outstanding Community issues such as CAP prices, fisheries and sheepmeat. What she might be prepared to agree to at the European Council on these subjects would bear a close relation to the prospects for an equitable solution of the budget problem. I stressed that, as she had said after Dublin, the Prime Minister was seeking a compromise.
2. I then spoke in detail on the revised financial mechanism, supplementary expenditure in the UK (including duration and dynamism), and structural reform.
3. I also outlined in general terms our attitude on sheepmeat, CAP prices, fisheries, and energy. I did not mention EMS, nor did Signor Berlinguer.
4. In answer to my questions, Signor Berlinguer said he could not anticipate Signor Cossiga's reaction. He would of course report fully all that I had said. Signor Berlinguer went on to say that Signor Cossiga had already noted Mrs Thatcher's spirit of compromise. All that I had said, including my ad referendum remarks, "would contribute very much to Cossiga's personal efforts to find a solution" at Luxembourg. The UK's line was reasonable and it took account of the political context in which a solution had to be found. Of course the UK had an interest in a solution, but it was right to adopt this community approach. Difficulties remained and goodwill would be needed to overcome them. If a

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solution could not be found at Luxembourg at least an important step forward will have been taken.

5. Signor Berlinguer stressed more than once that Cossiga was personally committed to achieving a successful outcome. The speed with which he has resolved the governmental crisis and was presenting his programme to the two Chambers indicated his intention to leave himself free after tomorrow to contemplate on preparing the European Council.

Donald Maitland

16 April 1980

Donald Maitland

NOTE FOR THE RECORD

EC BUDGET CONTRIBUTION - BONN

1. In Bonn this morning I called in turn on Herr Lahnstein (State Secretary, Finance Ministry), Herr Lautenschlager (State Secretary, Foreign Ministry) and Herr von Staden (Diplomatic Adviser to the Chancellor); the latter was accompanied by the Chancellor's Deputy Economic Adviser, Dr Thiele.
2. With each I began by explaining the importance the Prime Minister attached to careful preparation of the European Council, linking my visit to the suggestion the Chancellor himself had made about contact among personal representatives of the Heads of Government. I also stressed the importance of settling divisive issues in the Community at a time of grave international uncertainty.
3. As regards the forthcoming European Council, I said that Mrs Thatcher had already made clear her wish to see progress on outstanding issues. The contribution she could make to these would of course depend on the prospects for progress on the budget problem. I went on to deal in detail with the revision of the Financial Mechanism; expenditure in the UK under an Article 235 Regulation (including amount, duration and dynamism); and with structural reform.
4. Reactions were as follow.
5. Lahnstein agreed that we must now solve the budget problem. He had been saddened by the puny contribution the UK representative had been obliged to make at the meeting a few days earlier on help for Turkey.

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6. His attitude to settling the problem through a combination of three elements was positive. Structural reform and sticking to the 1% VAT limit was the only way "to tame the CAP". He calculated that a reasonable agricultural prices settlement, a settlement of the UK budget problem and allowance for contingencies over the coming year would still keep the budget below 0.9% VAT contribution.
7. He noted my ad referendum remark about our net contribution. Germany was ready to go beyond Dublin. There would be room for discussion as to how far member states could go to make up the deficit between the 500 meua from the Financial Regulation plus our voluntary net contribution on the one hand and our total net contribution on the other.
8. Lahnstein hoped good projects could be found for the Article 235 expenditure. Administrative expenses would have to be included.
9. He saw no need to do any more for Italy and Ireland. The EMS interest rate subsidies had taken care of them.
10. He had never liked the idea of linkage. This led each member state to concentrate on its particular interest. Germany was interested only in settling the budget problem and achieving savings on the CAP through structural reform.
11. It was unrealistic of the French to think that agricultural prices could be settled before the European Council. I agreed.
12. He thought there were two ways of handling duration: either a long period with built-in flexibility, or a short period with provision for prolonging it. He understood our point about avoiding coincidence with the next UK election.

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13. Lautenschlager began by complaining that the French had complicated preparation for the European Council with their flood of new ideas.

14. He agreed that the international situation obliged us to settle now.

15. He accepted that there was a consensus as to the elements in a solution of the budget problem. On amount he doubted whether what I had said would bridge the gap. A difficult problem would remain.

16. On duration all our partners appreciated the political argument. But there was a strong feeling, articulated in particular by the French but echoed by Benelux, that an arrangement which lasted too long could undermine Community principles and open up the prospect of re-negotiating the Treaty of Rome. Germany therefore favoured a short period with provision for review and prolongation.

17. Lautenschlager was personally sceptical about the chances for structural reform. Was it reasonable to expect substantial changes in the CAP within the 1% VAT limit? He was not sure; nor were any members of the Ruggiero Group.

18. On related issues he said Germany attached special importance to Fisheries. There should be a time-limit for progress and the Luxembourg conclusions should agree on principles which had to start from what was in the Treaties. Otherwise it could be thought that the Treaties were no longer valid on this subject.

19. On Energy the Luxembourg conclusions should be as concrete as possible, setting out the intentions as regards further work in the Energy Council and repeating what the UK had already said on help in a crisis.



20. Unlike Lahnstein, Lautenschlager thought Italy and Ireland would need to get something out of Luxembourg. He was thinking of a bigger window in the Regional Fund.

21. In his view structural reform should not lead to another costly Mediterranean package. I strongly endorsed this.

22. Lautenschlager saw no prospect of any deal on the budget problem without an agricultural prices settlement, and vice versa. One possibility was for Agriculture Ministers to come to an ad referendum decision. One way or another we would be stuck with the French difficulty. But it was unthinkable that Heads of Government should get involved in the detail of agricultural prices. He hoped that, apart from what would be said by the European Council on prices, there would be a strong reference to economies on the lines of the ECOFIN conclusions. I agreed.

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23. Von Staden began by stressing the constraints on the German budget which at present preoccupied the Chancellor.

24. He agreed that the present was the most inappropriate moment for a crisis in the Community.

25. The Chancellor's approach to the European Council would be influenced by his appreciation of existing political conditions and the need above all to keep close to the UK and France. The French situation objectively was not easy for any of her partners.

26. On duration he thought six years too long. In the Community one never solved problems for good and all. Many were an extension of domestic problems.



27. It was German policy to avoid irreparable damage to the Community. Germany had been forthcoming (over the budget) in the past and would continue to play this role. He noted with interest that my remarks showed we were now in a "phase of flexibility". Previously the Chancellor had been concerned about the lack of flexibility.

28. On linkage he felt each question should be settled on its merits. I agreed strongly. But, he added, everyone had to have something to take home. The duration for the solution of one problem should not necessarily be the same for others.

Donald Maitland

18 April 1980

Donald Maitland



NOTE FOR THE RECORD

E C BUDGET CONTRIBUTION - PARIS

1. When I breakfasted at the Quai d'Orsay today with M. Bernard Reymond and M. Wahl, I began by saying that the Prime Minister had asked me to make certain points, for the information of President Giscard, about her approach to the Luxembourg European Council.
2. First, as she had made clear on a number of occasions, she was ready to see progress on outstanding issues such as CAP prices, fisheries and sheepmeat. The extent to which she would be able to contribute to progress on these issues would of course depend on the possibilities for finding a solution to the problem of the Community budget. On this issue, as she had said after Dublin, she was seeking a compromise and was approaching Luxembourg in this spirit.
3. I then dealt in turn with the removal of the constraints from the 1975 Dublin Financial Mechanism and the duration of a revised financial mechanism; expenditure in the UK under an Article 235 Regulation, and the questions of the amount, duration and dynamism; and structural reform.
4. M. Bernard Reymond said that it was clear that the gap between our positions was wide. Doubts remained about the readiness of the UK to accept the principles and disciplines of the Community, doubts stimulated by our frequent demands for special financial arrangements and what seemed to be efforts to undermine the own resources system and the principles of the CAP. There was a risk that UK attitudes would "colour" the character of the Community. Our demand for long term arrangements was evidence of this. (I said that we were seeking effective solutions. We would all suffer if the same or a worse situation arose in a year or two.) At the end of the conversation, after Wahl had left, Bernard Reymond repeated this argument.



5. Bernard Reymond then said that the budget issue could not be treated in isolation from other questions, and he cited CAP prices, fisheries and sheepmeat. French public opinion had to be told of the benefits France would gain if it agreed to help the UK over the budget. The Luxembourg conclusions had to show an advance on sheepmeat for example, and he referred specifically to premia for public storage and self-limitation. (At this point I said that I understood from Mr Walker that British and French experts were now to study points arising from his talk with M. Mehaignerie.) There should also be something on energy. Bernard Reymond hoped Mrs Thatcher would be able to repeat at Luxembourg her recent public reference to the UK's willingness to help her partners in time of crisis. I said this was being examined.

6. On the budget, Bernard Reymond referred to the requests de Nanteuil had recently put to the Commission for additional information about their figuring, eg 1979 credits, administrative expenses and agricultural expenditure in the UK. He also referred to the aide-memoire handed over in London. I said we were studying these various points but I had to say we were not impressed. On a more general point, Bernard Reymond said that the larger the budget problem became the greater the danger of a solution tending towards a juste retour.

7. On the financial mechanism, Bernard Reymond said the French were examining the three "brakes" mentioned at Dublin. They were inclined to favour an arrangement which would place a ceiling on our gross contributions. On duration, the firm French position was 3 years; this was true also for expenditure in the UK.

8. Expenditure in the UK would have to be under an Article 235 Regulation and of Community interest. I agreed on both points. He seemed to suggest that individual items would have to be decided by the Council.



9. As for structural reform, the French were opposed to an arrangement which constrained the development of the budget.

10. Invited to comment, Wahl said that in President Giscard's view the European Council was not the place for detailed decisions to be taken. This was the function of the Council of Ministers in its various formations. It was essential that rapid progress be made in the various Councils. I agreed that precise decisions on detailed matters had to be taken in the Council; but the European Council had played an essential rôle in laying down guide-lines. I did not comment on the sequence in which decisions might be taken next week. At this point Bernard Reymond said that the French regarded Coreper as the proper place to prepare the European Council and to follow up its conclusions, clearly implying opposition to the Ruggiero Group. I confined myself to saying that I had learned in Rome that the Ruggiero Group meeting scheduled for Saturday had been postponed.

11. Invited to react to his remarks, I told Bernard Reymond that the attitude of the present British Government towards the Community was positive. We were not attacking the Own Resources system or the principles of the CAP. The working of the CAP produced absurdities which everyone acknowledged; seeking to deal with these should not be construed as an attack on the Policy. But he must understand that the inequitable budget situation dominated British Ministers' thinking about the Community. If this problem could be definitively solved, the UK would willingly work with its partners to make the Community a success.

12. At the end of the meeting, at Bernard Reymond's request, I repeated the formula I had used at the beginning, namely that Mrs Thatcher wanted to see progress on other issues but the extent to which she would feel able to contribute to this would depend on the possibilities for progress on the budget issue. I finally got him to admit that what I had said on amount constituted an improvement "in the vocabulary".



13. It was striking, but consistent with their aim to have the matter settled at the beginning of next week (cf Wahl's remark about quick action by the Council), that the French volunteered no comment on CAP prices. In the context of the amount of our net contribution I said that every 1% on CAP prices would add significantly to the Community budget, and to our net contribution and to the size of the problem. Bernard Raymond acknowledged this. He said the Commission proposal (2.4%) was too low and talk in some quarters of 9% too high. He would not be drawn further.

Donald Maitland

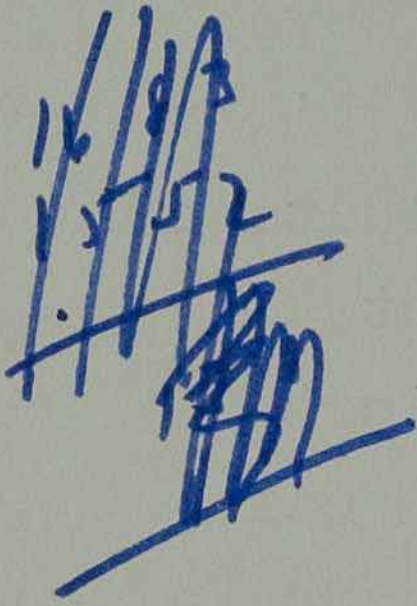
Donald Maitland

17 April 1980

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