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RECORD OF CONVERSATION BETWEEN THE PRIME MINISTER AND THE PRESIDENT OF THE EUROPEAN COMMISSSION, MR ROY JENKINS, AT 10 DOWNING STREET ON MONDAY 3 NOVEMBER AT 1500 HOURS

Present:

Prime Minister	Mr Roy Jenkins
Mr M O'D B Alexander	Mr Tickell

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European Council

The Prime Minister said that she hoped Mr. Jenkins would make a full report to the European Council meeting in Luxembourg. She hoped that this would, inter alia, serve as a springboard for discussion about the future. Mr. Jenkins said that he was grateful for the Prime Minister's suggestion.

The Prime Minister asked whether, given that Mr. Rallis was going to be present as an observer, there was any reason why M. Thorn could not be present at the European Council. Mr. Jenkins said that so far as he was aware there was no objection in principle. However he wondered whether Mr. Rallis would be entitled to say anything. The Prime Minister said that regardless of whether or not either man would be entitled to say anything it would make sense for them to be present. However she realised that M. Thorn's presence depended on the view that President Giscard and Chancellor Schmidt would take.

As regards the agenda for the European Council, the Prime Minister did not think that it could be limited to

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political affairs, although these must of course be discussed. She thought that there should also be a discussion of the CAP, of budget restructuring and of the problems of international trade. These problems were acute just now and although President Giscard might be reluctant to see them discussed, they could not be ignored.

CAP

The Prime Minister said that President Giscard seemed likely to seek price increases that would be regarded in the United Kingdom as prohibitively high. Indeed, it was difficult to justify any price rises for products that were still in surplus. Mr. Jenkins said that the weakness of the UK negotiating position lay in the fact that we had positive MCAs. These meant that we had the highest agricultural prices in Europe and made it more difficult for us to argue that others should adopt a restrictive price policy. The Commission had not yet discussed the price rises it would be proposing in percentage terms. However he expected that they would propose moderate price rises, just in double figures, accompanied by co-responsibility levies. These would not be straight linear levies. They would be super levies which would apply only on production over a certain norm. They would be intended to penalise those who increased production and not necessarily the biggest producers. The Commission would of course also be looking for savings (the Prime Minister interjected that she hoped they would not touch the butter subsidy. Mr. Jenkins said that he thought it should be possible to save this). The aim would be to keep the increase in the FEOGA element in the overall budget to about 12 per cent.

The Prime Minister asked whether this would mean that the CAP would take up a larger share of the budget. Mr. Jenkins said that this would depend on what happened in the rest of the budget. He commented on the need to take account of the views of the European Parliament. Unless they were given something to

/assuage

their amour propre, they might be tempted to reject the budget again as they did last year. This would, inter alia, have the effect of delaying payments to the UK under the May agreement. It was arguable that the UK, having dealt effectively with France's rearguard action on the implementation of the May agreement, should now lean in the direction of the European Parliament. We should try to get the budget issue out of the way in December before returning to deal with the agricultural price increases which need not be agreed until March or a little later.

The Prime Minister took note but said that she could not understand why French housewives did not revolt against the rises in farm prices. Last year's price rises had been heavily criticised in this country. The shock waves could still be felt. Despite the difficulties which some farmers were, she understood, encountering, there was a widespread feeling that food prices in this country were too high. To put a further price rise on top of them would be unacceptable. One consequence of all this might be that the Green Pound would have to be revalued.

Community Budget

Mr. Jenkins said that a solution to the medium term problems of the Community budget required:-

a) Adherence to a rigid ceiling on agricultural expenditure. Beyond a defined point national aids should come into play; and

b) Once agreement had been reached on restructuring, a willingness on the part of Member States to go through the 1 per cent VAT ceiling.

Without a willingness to go through the 1 per cent ceiling the budget could not be balanced. Mere agreement to cut off the

/increase

increase in agricultural prices would not permit a solution to the budget problem unless it was accompanied by a willingness to increase expenditure in other sections of the budget. The Prime Minister said that she was not prepared to envisage going through the 1 per cent VAT ceiling at any stage. If the CAP could be put on a rational basis, the budget would balance itself once economic expansion got underway again. Mr Jenkins said that Community revenues were relatively inelastic. The reduction of agricultural expenditure would not on its own suffice. HMG's present position implied a permanently unbalanced budget and further extensions of the May agreement. In his view a better posture would be to remain firm on the CAP and the ceiling until restructuring had been agreed and then to go through the ceiling. He thought that this would turn out to be Chancellor Schmidt's position. There was a strong British interest in developing the regional fund. There seemed little point in having expensively administered programmes which merely served to direct money back into national budgets. The Prime Minister said that she was not prepared to envisage a situation in which the UK was invited to make bigger contributions to the Community budget on the eve of a General Election in which the Opposition would be campaigning on an anti-Europe platform. Nor did she believe that it would be popular in this country to give over more money to other people to determine how it should be spent. She preferred to concentrate on getting the costs of the CAP down and on eliminating surplusses.

/Sugar

Sugar

Mr. Jenkins gave it as his personal opinion that European farmers should be discouraged from producing beet sugar. It was against the international division of labour since it diminished the market for cane sugar; it was bad for the soil; it was in any case produced by rich farmers on good land; and it was, finally, an ugly crop (!). However, he acknowledged his views on this point were Utopian.

Fisheries

The Prime Minister asked whether Mr. Jenkins thought that a fisheries agreement could be achieved by the end of the year. Mr. Jenkins said that he thought that it should be possible. Everyone would, however, have to reduce their present demands. The Prime Minister said that we were at present not being offered enough on either access or quotas. The UK was for instance being offered less on quotas than we had been offered two years ago in Berlin. What particularly interested HMG were the figures on fish for human consumption.

Trade

The Prime Minister said that she hoped that there could be a discussion at the European Council meeting of current international trade problems. She had in mind particularly the problems of steel, cars and petrochemicals. The petrochemical industry in this country thought that they had been sacrificed by Viscount Davignon in order to get a better deal on steel and cars. The policy of the United States government in holding down oil and gas prices was extremely unfair. Mr. Jenkins said that the Community had had a very difficult time with the United States on steel. The US Administration had behaved very well since the Community were, in fact, dumping steel. This was an immensely more important issue than the problems of the textile industry. The annual value of the Community's trade in steel with the United States was some $2 billion while that in synthetic textiles was no more than $80 or $90 million. And the action taken on synthetic textiles had dissatisfied many in e.g. the carpet trade. The problem with protective measures was always the repercussion in other fields. The UK's difficulty with Indonesia was a notable current example. The Prime Minister

/said that she

said that she would prefer free trade but free trade at present was severely circumscribed. In certain areas we were suffering more than our European partners and were unable to take action. Mr. Jenkins wondered whether if we had freedom of action we would make use of it. The Prime Minister said that she would. She hoped that in any case the European Council could consider what the Community should do about Japanese imports and about the underpricing of American oil and gas. Mr. Jenkins agreed that discussion of both subjects could be useful. (The Prime Minister accepted that it would not be appropriate for Viscount Davignon to be present in Luxembourg.)

Energy

Mr. Jenkins asked for the Prime Minister's views on the harmonisation of energy prices within the Community. The Prime Minister said that she was extremely sceptical. She did not see how it would be possible to harmonise energy costs when the Community had been unable to harmonise wage and interest rates. Mr. Jenkins said that he had been toying with the related idea of an oil import tax. The Prime Minister said that she thought this would be very tough on industry and unwelcome to public opinion in this country. Mr. Jenkins said that while he was in any case inclined to favour making energy expensive, he was not convinced that an oil import tax would in the long run result in an increase in the price of oil. He thought that the price would after a period balance at a level reflecting supply and demand. Whether or not there was a levy, the oil producers would charge the price they could get consistent with the depletion rate they desired. The effect of an oil price levy would be to counteract the present trend towards an excessive redistribution of income internationally. It would mean that some of the benefit of increased oil prices would be retained by those who could spend it effectively (which the oil producers could not).

EMS

Mr. Jenkins asked whether there was any chance of the UK joining the EMS. The Prime Minister said that she did not think this was yet possible. Mr. Jenkins said that he regarded this as a great mistake. Britain's absence from the EMS increased the dangers that a two-speed Europe would develop. The French would love this but it would be quite contrary to British interests. The Prime Minister asked Mr. Jenkins how he would play the hand. Mr. Jenkins said that he would not try to join the EMS immediately. He would first try to bring down the rate of sterling somewhat and would then join at the 6 per cent margin. The Prime Minister said that she was indeed anxious to bring down the sterling exchange rate and asked Mr. Jenkins how he would effect this. Mr. Jenkins said that he would try to talk the rate down; to reduce interest rates; and to discourage capital inflows e.g. by the introduction of differential interest rates. The Prime Minister said that the reduction of the MLR from 17 per cent to 16 per cent had pushed sterling up and that the introduction of differential interest rates would mean renegotiating double taxation agreements all over the world. Mr. Jenkins agreed about the difficulty of achieving a controlled reduction in exchange rates but repeated that if the Government succeeded in achieving it they should join the EMS within the wider margin. The EMS was a small scale Bretton Woods and the Prime Minister would recall how much post-War prosperity had owed to Bretton Woods.

The European Commission

The Prime Minister said that she understood that it was now the intention of Messrs Ortoli and Cheysson to remain in the Commission and to try to retain their present portfolios. She thought this would be a pity. Mr. Richard was ideally qualified for the development portfolio. Mr. Jenkins said that there was no reason in principle why Commissioners who stayed on should retain their portfolios. But M. Cheysson would certainly wish to keep the development portfolio and it would be difficult to shift him. He had run his "empire" extremely effectively and the French Government would certainly wish him to continue. It would be up to the new President whether he tried to shift the present incumbents or limited himself to allocating the vacant portfolios. M. Thorn would not of course be able to ignore the wishes of Member Governments entirely. The Prime Minister took note and commented that she would wish Mr. Tugendhat to retain responsibility for the budget.

/The discussion

The discussion ended at 1630 hours.

4 November 1980