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Community Budget.

PRIME MINISTER

Community Budget and the CAP: Ad Hoc Meeting
15th April - 11.00 am

You have called this meeting to consider whether any shift in our tactics on CAP prices and sheepmeat is desirable to enhance the prospects of a successful outcome on our budget problem at the European Council now fixed for 27th-28th April. The meeting is taking place now so that the Minister of Agriculture can take its conclusions into account in his talks with his French opposite number, M. Mehaignerie, later in the day, and in the discussions at the 21st-22nd April Agriculture Council.

2. Before the European Council was postponed, the Cabinet concluded (CC(80) 12th Conclusions, Minute 5) that the budget problem was unlikely to be settled at the March Summit, that our objective should therefore be to make as much progress as possible in March towards a final settlement in June, and that "unless and until the budget problem was satisfactorily settled there was no question of agreeing to increases in CAP prices, or indeed of resolving any other issues that would be linked to our budget problem such as sheepmeat".

3. Since then:-

- (a) You said in Cabinet on 27th March that the postponement of the European Council made it even more important to come as close as possible to settling the budget problem at the April meeting.
- (b) The prospect that European Community issues will figure largely at the Labour Party Special Conference on 31st May - before the June meeting of the European Council - makes it even more desirable to get as near as possible to settling the budget problem at the April meeting.
- (c) Your discussions with Chancellor Schmidt on 28th March showed that he wanted the budget issue settled but thought other issues would have to be dealt with too. You expressed readiness to try to settle other issues like CAP prices and sheepmeat within the same timescale as the budget issue, provided that they too were dealt with on their merits.

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- (d) Other evidence, including the meeting of Personal Representatives in Paris on 3rd April, suggests that the French and others share the desire for at least an outline settlement on the budget at the 27th-28th April European Council, even if detailed implementation has to be left till later. But they all see agreement on CAP prices - and for the French a resolution of the sheepmeat problem - as essential ingredients in an overall budget settlement. There will accordingly be moves at the April Agriculture Council to make sufficient progress on the Commission's prices and economy package to enable it to be presented in some form to the European Council.
- (e) Signor Cossiga's new Government has been formed, but it now seems unlikely that he will be able to embark on a tour of Community capitals until the week before the European Council.
4. The main tactical questions for your meeting are therefore:-
- (i) Should we continue to block any price increase for surplus commodities until we get full satisfaction on the budget, or should we show some signs of conditional movement at the April Agriculture Council in order to pave the way for an acceptable budget solution at the European Council?
- (ii) If some movement is thought desirable, what form should it take:-
- (a) A price settlement ad referendum to the European Council, but with a United Kingdom reserve: this was the solution urged at the Personal Representatives meeting on 3rd April, but unless we know by 21st April that we are getting near to a satisfactory outcome in our budget contribution, this would probably give away too much in advance; OR
- (b) Acquiescence in the Presidency/Commission making a compromise proposal, subject to ratification after the European Council: OR
- (c) A situation report on the various components of the prices and economy package, leaving the European Council to hand down guidelines on which the Agriculture Council would

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subsequently act: this might not be workable, since the French (and perhaps others) might argue that the European Council should not get into the necessary degree of detail.

- (iii) Likewise on sheepmeat, should we stick to our present hard line until the budget discussions in Luxembourg, or should we bring into play now the limited concessions to the French that have already been approved by the Cabinet?
- (iv) If the latter, should Mr. Walker be authorised to make our signal to M. Mehaignerie on 15th April, or should we hold it back as a new tactical card for Signor Cossiga to play on our behalf in his second round of talks?

5. The meeting will have before it the Minister of Agriculture's minute to you of 10th April, and his paper OD(E)(80) 15. His minute suggests that at the Agriculture Council he should do no more than tell his colleagues informally that, if the European Council were to settle the budget issue, he would probably be able to accept something like the Commission's proposals (an average increase of 2.4 per cent). On sheepmeat he thinks an agreement with the French might be possible but is reluctant to go too far until we have made irreversible progress on the budget.

HANDLING

6. You may think it best to limit discussions at this meeting to CAP prices and sheepmeat; a further meeting to review tactics generally on the budget issue is provisionally scheduled for 23rd April.

7. You may wish to invite the Minister of Agriculture to introduce the discussion on the basis of his minute of 10th April.

8. Thereafter you may wish to take CAP prices and sheepmeat separately, exploring in each case the tactical questions set out in paragraph 4 above.

9. On CAP prices it will first be important to get Mr. Walker's assessment of what a final package would look like. On the average level of price increases most people are now talking about 4 to 5 per cent. Each 1 per cent added, on

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the Commission's figures, about 150 MEUA to the budget and, on MAFF calculations, 0.2 per cent to food prices. These figures are therefore less important than -

- (a) the different pattern of price changes for products in surplus, especially milk, as compared to others;
- (b) the net effect on the budget which depends largely on what is done about co-responsibility levies for milk; and
- (c) the effect on our own net contribution, which depends largely on the butter subsidy and whether the milk levies are discriminatory or not.

10. Most countries will no doubt agree that the milk price increase should be less than the average, and they seem anxious to preserve something of the Commission's original economy package. The Commission's proposals in their entirety would have left us making a small net saving, but there is no prospect of agreement on that basis. Would it be realistic to think that we could end up with a package which would leave our net budget contribution unchanged? If so, this might be a position to move to in due course, coupled with the lowest possible increase in prices of milk and sugar.

11. On tactics, you will want to hear the views of others, and especially the Foreign and Commonwealth Secretary. How do we give a signal that we might be prepared to move on CAP prices without prejudicing our ability to block any settlement if the budget issue is not satisfactorily resolved? Mr. Walker's proposed line with his colleagues at the Agriculture Council could be combined with the alternative in paragraph 4(ii) (b) above, i. e. allowing the Presidency or the Commission to put forward a compromise package at the end of the Agriculture Council to which no one was formally committed. But before deciding to go that far, it would be desirable for there to be further bilateral contacts, above all with the French, to discuss figures. We should make it clear that how far we were prepared to meet their requirements on CAP prices would depend on how much they were willing to meet us on the budget. I understand that you have already discussed possible approaches with the Foreign Secretary.

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12. Sheepmeat is more straightforward, because Cabinet has already agreed on the substance. On tactics, is it agreed that the Minister of Agriculture should use his meeting with M. Mehaignerie to explore the outlines of an agreement on premia and strictly limited form of intervention which we might be willing to concede provided that the budget issue is satisfactorily resolved?

CONCLUSIONS

13. You may be able to conclude that -

- (a) Mr. Walker should use his meeting with M. Mehaignerie to explore the basis for a possible agreement on sheepmeat provided that the French subscribe to an acceptable settlement on the budget, making it clear that no regulation could be adopted until after the European Council;
- (b) for the 21st-22nd Agriculture Council, Mr. Walker should not oppose any procedural measures designed to enable the prices and economy package to be put to the European Council in some form, though he should maintain a United Kingdom reserve on any price increase beyond the average of $2\frac{1}{2}$ per cent proposed by the Commission.

ROBERT ARMSTRONG

(Robert Armstrong)

14th April 1980