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Copy to: Master Sec.
Euro Pol: Doherty (P.D.W.)
Euro Pol (Budget) Pt 3.

RECORD OF A MEETING BETWEEN THE PRIME MINISTER AND THE PRESIDENT OF THE EUROPEAN COMMISSION, MR. ROY JENKINS, AT 10 DOWNING STREET ON MONDAY 26 NOVEMBER 1979 AT 1015

Euro Pol.

Present

The Prime Minister

Mr. Roy Jenkins

Mr. M. O'D. B. Alexander

Mr. C.C.C. Tickell

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European Council Agenda

The Prime Minister said that she hoped the discussion in Dublin would get on to the problems of the Budget at an early stage in the proceedings. The first item on the agenda was to be the economic and social situation. She hoped that no-one would try to extend the discussion unduly. It was essential that there should be a serious discussion of the Budget problem followed by the issuing of clear instructions to officials so that they could draft overnight. If there were to be a discussion at dinner, there would have to be an official note-taker present. But her own preference would be to continue the pre-dinner discussion until 8 or 9 p.m. and to have a later dinner. Mr. Jenkins said that he agreed about the need for an early and substantive discussion of the Budget but that he thought a short preliminary discussion on a non-controversial subject would be useful. The only draw-back might be that some members of the Council might prefer a pause for thought in the discussion on the Budget before formulating instructions to officials.

The Budget

The Prime Minister said that she hoped other members of the Council would come to Dublin prepared to move from their present positions. She was not prepared to change her own demands. She was looking for a refund lying somewhere between the present net contribution on an importer pays basis (1552 meua) and that

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on an exporter pays basis (1814 meau). She wanted all restrictions removed from the financial mechanism and she wanted a solution which would last as long as the problem. She did not want to have to go through the present argument again in three or four years' time. Mr. Jenkins observed that to seek to have the 85 per cent of GDP qualification removed from the financial mechanism would instantly precipitate an argument about the duration of the solution being sought by the UK. He added that there was no chance of securing in Dublin a settlement on the figures indicated by the Prime Minister. The Prime Minister replied that she considered she had a good chance of getting a settlement on the basis she wanted before she had finished with the problem. In any case she could not settle for less. Failure to produce an equitable solution would lead to intensified demands in the UK for our departure from the Community. The Government would then find itself in the unenviable position of having to defend British membership of an organisation to which our contribution was demonstrably inequitable. Nonetheless she had no intention of leaving the Community and intended to make this plain in Dublin. She was not seeking a renegotiation on 1975 lines. The question of British membership was not at issue. But Britain had too strong a case to settle for less than broad balance. Indeed Britain ought to be a beneficiary from the Budget. She had perhaps been unwise in giving up this card at such an early stage in the discussion: as it was she did not intend to surrender a penny more. There would be a very genuine crisis unless and until Britain got what it was fully justified in demanding.

Mr. Jenkins said that he was glad that the Prime Minister had no intention of leaving. He agreed that there was no mechanism for expelling a member. Britain's departure from the Community would be a disaster for everyone. A number of members of the Community clearly wished to be helpful. The Benelux countries and the Federal Republic would make no difficulties about agreeing on an unrestricted financial mechanism

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and on something on the receipts side. Ireland would try to provide fair Chairmanship and to help to a limited degree though their position was not so very far from that of France. Italy was "all over the place" and had recently changed their position on the CAP in an unhelpful, and probably unwise, manner. The French and the Danes were likely to be most difficult. President Giscard in particular was likely to deploy a series of casuistical arguments against the British claim. He had^{claimed} in discussion with Mr. Jenkins in Paris on the previous Friday, that Britain had no reason to complain about the CAP because in terms of receipts per head of the farming population she was doing well. Mr. Jenkins said that he had never seen President Giscard as unimpressive as he had been during the course of this discussion.

Mr. Jenkins asked the Prime Minister what she would do if half way through the Dublin meeting it was clear that she could get agreement on a drive against the distortions in the CAP; on an unqualified financial mechanism; and on the opening of a window on the receipts side of the Budget. This would be regarded by many as a triumph. The Prime Minister said that she would reply that it was not enough. Agreement on the reform of the CAP would, of course, be important. But it would also be very difficult to implement and would not produce any money in the short term. She wanted a solution on the financial side in 1980/81. Mr. Jenkins said that in these circumstances there could be no solution in Dublin. The various parties were not within hailing distance of each other. What would happen then? The Prime Minister said that she would be prepared to extend the meeting over the weekend. Mr. Jenkins expressed the scepticism and mentioned the possibility of a further meeting later. The Prime Minister said that the Community had already had a long time to think about Britain's problem. She was not clear why a resumed meeting some weeks later would produce better results than those on offer in Dublin.

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Mr. Jenkins said that if there were no solution and if, as the Prime Minister had already said, Britain remained a member, he assumed that the Government intended not to behave illegally. The Prime Minister said that the French had shown the way on this. But, leaving on one side the question of what would or would not be legal, there would be no movement within the Community until Britain got satisfaction.

She did not want Mr. Jenkins to pass this message on because she did not wish other members to think that they were being threatened. Mr. Jenkins said that he would not tell anyone else what the Prime Minister had said. He wondered whether Britain could afford to block all movement. This would, for instance, mean that there would be no agricultural price settlement and no special measures for milk. Last year's prices would obtain. How long could Britain's farmers tolerate this position in a year when inflation was expected to run at 16 or 17 per cent? The Prime Minister repeated that there would be no movement in the Community until Britain received satisfaction.

Mr. Jenkins said that the Prime Minister's position on other issues might be important in Dublin. In making the point, he did not have in mind direct linkage so much as the need to create a good atmosphere. Chancellor Schmidt thought he had a grievance about oil prices. He believed that Britain was taking the lead in pushing up oil prices. The Prime Minister denied this and pointed out that we followed the Libyans, Algerians and Nigerians in charging the OPEC prices for quality crude. Mr. Jenkins asked about the prospects for a fisheries agreement. He said that the discussions were not going too badly. The Prime Minister was non-committal but stressed the need for adequate conservation provisions in any agreement. Mr. Jenkins asked about membership of EMS. The Belgians and the Germans would very much like to see Britain join. The Prime Minister

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said that in the end she would like to join the mechanism but that it was difficult to do so now. Exchange controls had just been relaxed. If there were a collapse in Iran, sterling might go up very rapidly by 4 cents or more against the dollar. Finally, membership of the EMS might make it more difficult to control the money supply. Mr. Jenkins commented that if the Arabs were to switch out of dollars into deutschmarks, the Federal Republic would be equally vulnerable. A statement that Britain contemplated early membership of the EMS would have an excellent effect in Dublin. Membership of the EMS would also, of course, make some additional money available. Mr. Jenkins repeated that in making these suggestions, he did not have in mind bargaining but the need to create the impression that the new British Government was more communautaire than its predecessor.

The Prime Minister expressed impatience with the wish of the other members of the Community to have more evidence that the Government was Community minded. The Government had helped rescue the Europeans after the Tokyo Summit by offering to produce 5 million tonnes of oil more than our own national depletion policy would have indicated. We were providing major agricultural and industrial markets for our European partners. The effect of the CAP had been to raise prices here and to force us to take agricultural products we did not need. In asking for more, the other members of the Community were seeking to elevate expediency into a principle. It would be more helpful if they were to recognise what the new Government was trying to do in the UK to increase the GNP and to acknowledge that removal of Britain's budgetary burden would make this, and hence convergence, significantly easier. Britain's Budget contribution cost every British taxpayer 2p on the income tax. It was more than our entire aid budget. It made no sense at all.

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Mr. Jenkins said that he saw some danger of building up a head of steam in the UK on the budgetary question that could not be controlled. The Prime Minister said that there was already an uncontrollable head of steam. Mr. Jenkins said that there would have to be bargaining at some stage. The Prime Minister had taken up a very rigid position. Even Chancellor Schmidt was at present inclined to think the Prime Minister was being unreasonable. President Giscard was likely to take the line that whatever the Budget settlement, he would not agree to it until a solution had been found to the sheepmeat problem. The Prime Minister said that if, as a result of the difficulties, members of the Community began to say that they would prefer Britain to leave, they would in effect have lost the argument since they would be admitting that they could find the money themselves. Mr. Jenkins said that some might say they would prefer to find the money than to continue an apparently endless argument about Britain's contribution. The Prime Minister repeated that she wanted to achieve broad balance in 1980/81. She wanted a clear net gain of £1000 million give or take £50 million on either side. She recognised the difficulties of achieving this but considered it might be easier than the renegotiation of the CAP. Mr. Jenkins said that a restructuring of the CAP would have to be achieved in the next two years and before the 1 per cent VAT ceiling was breached since otherwise the Community would begin to collapse. The CAP lay at the root of Britain's problem. If it could be resolved, Britain's budgetary difficulties would be seen to be only temporary. Many of the other members of the Community were prepared to pay more to help overcome this temporary difficulty. Nonetheless, it would not be easy to find a solution. Other members had difficult budgetary situations. Adjustment of their budgets, even if the sums involved were not great, would be hard for them to make. The Prime Minister repeated that whatever the justification, the present situation was wrong and inequitable. She intended to stick to her demands. She had no intention of leaving the Community. She had no intention of boycotting meetings. Mr. Jenkins commented that the Dublin Council promised to be an interesting one.

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At the end of the discussion, Mr. Tickell said that it would be useful to the Commission to know how the British Government would use any money that became available through the receipts window. He recalled that the Commission paper mentioned coal, transport and agricultural improvement as areas that might be explored. The Prime Minister undertook to have the necessary study done but stressed that any money that was forthcoming under this head would have to be used as a substitute for existing expenditure.

The meeting ended at 1115.

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