

SUMMARY RECORD OF A PLENARY MEETING BETWEEN THE PRIME MINISTER AND HERR SCHMIDT, CHANCELLOR OF THE FEDERAL REPUBLIC IN BONN ON WEDNESDAY, 31 OCTOBER 1979, AT 1700

Present:

The Prime Minister	Chancellor Schmidt
Foreign and Commonwealth Secretary	Herr Genscher
Chancellor of the Exchequer	Herr Matthofer
Secretary of State for Defence	Herr Lambsdorff
Minister of Agriculture	Herr Apel
and Officials	Herr Ertl
	and Officials

* * * * *

Community Budget

The Prime Minister took up the question of the Community Budget. She said that it represented a very great political and practical problem for HMG. Next year Britain's contribution would be larger than our entire aid programme. The following day the Government would be announcing reductions in planned expenditure on housing, welfare, education etc. at the same time as the contribution to the EEC Budget was going over £1,000 million per annum. She recognised the difficulty for Britain's partners in finding the money to ease Britain's problem. But if they found it difficult, how much more difficult was it for Britain! The Conservative Party had always espoused the EEC cause and always would. It was better for the free world and for Britain if Britain was a member of the EEC. But it was becoming increasingly difficult to convince the British people their country was getting a fair deal. Britain was seeking in Dublin understanding of the problem and cooperation in agreeing a solution.

The Prime Minister said she did not want the Budget problem to dominate the scene. Britain was playing a full role in other ways. In the context of Theatre Nuclear Force Modernisation, we had agreed to increase the number of GLCMs based in the United Kingdom. We were increasing our expenditure on defence: policies of détente would be meaningless without a credible defence effort.

/ We had

We had fulfilled the Tokyo remit in helping the Community to formulate a position on oil import targets even though this had been against our own interests. We had made it clear that we were anxious for an agreement on the Common Fisheries Policy. We had relaxed exchange controls and expected this to be helpful.

Chancellor Schmidt said that his discussions with the Prime Minister had deepened his personal understanding of the significance of the budgetary transfer problem. However, it could not be solved unilaterally. The Community as a whole would have to solve it. The problem was not insoluble but it was very difficult. It was not enough merely to ask for a solution. Decisions had to be taken about who would pay, how they would pay and on what time-scale. It was doubtful whether Heads of Government on their own could resolve the issue. It was too complicated and their meeting was too short.

The Commission's proposals would be very important. Thereafter Foreign Ministers and Finance Ministers would have to prepare the ground. The pros and cons of the various options would have to be clarified. Some elements of Community policy could not be questioned.

- a) Own resources;
- b) The principle that budgetary outlays were determined by Community policies; and
- c) The legal framework of the Community.

The Commission and the responsible Ministers should come up with tangible written options for a solution.

Chancellor Schmidt said that he did not like the use of the word convergence in the present context. Convergence meant more than a fair distribution of contributions and receipts. Ensuring that the poorer countries were net recipients was not the only way of bringing about convergence. Nor would a fair budget deal of itself bring about convergence.

/ Chancellor Schmidt

CONFIDENTIAL

- 3 -

Chancellor Schmidt repeated his intention to be as helpful as possible. Although the Federal Republic would not accept a role of mediator, they understood that if anyone's position needed alleviation, it was that of Britain. The Federal Republic would put up its share of the money. Britain had a legitimate case but in order to win it good lawyers would be needed. Moreover in this instance the judges were interested parties. The Prime Minister would have to be as frank with others as she had been with him. If anything was to be achieved in the European Council, it would in effect have to be achieved before Dublin.

[Reports on the discussions between Foreign Ministers and Finance Ministers were delivered before the above exchange, and on those between Defence Ministers and Agriculture Ministers after it]

At the end of the meeting, Chancellor Schmidt raised the question of the timing of the next Anglo/German Summit. He and the Prime Minister agreed that it should if possible be combined with the Konigswinter meeting in Cambridge on 28 March. They agreed, as a consequence, to press for the spring meeting of the European Council to take place on 31 March and 1 April.

The discussion ended at 1745.

Handwritten signature

6 November 1979

CONFIDENTIAL