

CONFIDENTIAL

Ref. A01862

PRIME MINISTER

Community Affairs

You will wish to inform the Cabinet of the main points emerging from your talks with Chancellor Schmidt on 28th March on our budget problem and the related issues.

2. The Foreign and Commonwealth Secretary might be invited to report on the latest position with regard to the dates for the postponed European Council. 27th-28th April looks the most likely, but the Italians do not want to go firm until Signor Cossiga has formed his new Government.

3. The Minister of Agriculture might be invited to report on the outcome of the 26th-27th March Agriculture Council. No real progress was made on the Commission's 1980-81 prices and economy package. On agro-monetary matters, the Council agreed a helpful statement that will preserve our freedom of action for any future devaluations of the green pound; but did not agree to our request to abolish the rule under which $1\frac{1}{2}$ percentage points have to be deducted from the true price gap before any positive United Kingdom MCA is calculated. Due to the strength of sterling, the gap is now over 3 per cent but the Commission have not yet applied any positive MCAs to the United Kingdom because of different legal interpretations of the Regulations. This puts our food exporters at a disadvantage and encourages imports, but holds down the cost of food.

RIA

(Robert Armstrong)

1st April, 1980

