

CONFIDENTIAL

Copied to:
Master set
Euro Pol: Budget + CAP
EMS
Energy Policy

RECORD OF A DISCUSSION BETWEEN THE PRIME MINISTER AND THE
PRESIDENT OF FRANCE, PRESIDENT GISCARD D'ESTAING, AT NO. 10
DOWNING STREET ON 19 NOVEMBER 1979 AT 1615.

Present:

Prime Minister	President Giscard d'Estaing
Foreign and Commonwealth Secretary	M. Francois-Poncet
Chancellor of the Exchequer	M. Monory
Mr. M.O'D.B. Alexander	M. Leclercq

* * * * *

Community Budget

The Prime Minister said that she wanted to deal first with the question of the Budget. It was a very worrying problem for the British Government. But she did not want it to dominate the day's discussions. She was concerned lest, in raising the Budget issue, she should sound as though she was complaining about Britain's membership of the Community. This was not the case. Britain was in the EEC because the British Government wanted to be in and intended to stay in. They were there because of the larger values that the Community represented.

Nonetheless the anomalous situation which had arisen in the Budget posed very great practical and political problems. Over the last six years Britain's contribution had gone up from 22 million units of account to 1550 million units of account (on the reckoning most favourable to the Community). This was an enormous burden. Britain had become a larger contributor than the Federal Republic even though the national income here was below the Community average. The present British Government intended to remedy Britain's poor economic performance. But until their measures took effect, the British Government wanted to achieve a position of broad balance in their net contribution to the Community. Failure to achieve

CONFIDENTIAL / a broad balance

CONFIDENTIAL

- 2 -

a broad balance would intensify the deep public resentment which already existed in this country. Britain's present net contribution was bigger than our entire aid programme; it cancelled out all our invisible earnings; it was being paid, to countries richer than us, at a time when cuts were being made in planned expenditure on education, housing and health.

The Prime Minister said that the President would be familiar with the papers, the calculations and the mechanisms. He would also be aware of the feeling in some member countries that Britain could be given some of what was being sought in Dublin and could wait for the rest. This would not be politically saleable here. The solution found in Dublin must be equitable, reasonable and fair. Britain's net contribution ought to be of the same order and magnitude as that of France, or perhaps a little less since France was a considerably richer country. It was essential that the President should not underestimate either the intensity of feeling in Britain or the resolve of the British Government to achieve a satisfactory result. The position of the whole Community would be problematical if such a solution was not found.

President Giscard said that he recognised the difficulty of the problem. But it was not a bilateral issue and he was anxious that it should not cloud the meeting as a whole. There were some factors that he wished to underline. There had been a renegotiation, initiated at British request, and culminating in an agreement signed and approved by all members of the Community. The negotiation had been a painful one. But the rules then evolved had been presented and ratified as dealing with the problem until 1982. The agreement might be subject to reconsideration in that year.

The President said that he did not dispute that the mechanism approved in Dublin had produced results that were unsatisfactory from a British viewpoint. But other analyses were possible. Most members of the Community had at one time or another been substantial net contributors. Britain's

/ gross contribution

CONFIDENTIAL

CONFIDENTIAL

- 3 -

gross contribution, as distinct from her net contribution, exceeded the share that would be indicated by her share of the Community's GNP by 700 million units of account. The other 850 million units of account reflected Britain's failure to get receipts on the appropriate scale. Of the excess 700 million units of account, 50 per cent were due to the fact that Britain's imports from non-members were proportionately higher than those of other members. In other words if the proportion were the same, the excess would be 350 million units of account. France understood that Britain needed time to adjust her trade pattern. But the French Government saw no moral need to compensate Britain for the fact that British consumers preferred Japanese cars to their European equivalents.

The President said that he did not dispute the fact that Britain did not get sufficient receipts from the Community Budget. But the Community could not agree to follow this logic. The Community was founded on the basis that there were common policies that members should implement rather than that everyone should get out of the Budget the same amount as they put in. France in any case was in a position of broad balance and could therefore excuse herself from the discussion of Britain's budgetary problem. The Irish, the Dutch, the Danes and the Italians were the major recipients. The question of transferring resources from those who were net beneficiaries to those who were net benefactors should be addressed to them. But this would of course be absolutely against the spirit of the Community. No other country had ever asked for "broad balance".

Summarising his position, President Giscard said that it was a fact that the UK paid more than her share and received less than her share. Some adjustment would have to be considered. But there could be no compensation for the particular pattern of British imports and there could be no discussion of the concept of broad balance. Moreover, this was a Community problem, not a bilateral one. Of the ideas put forward by the Commission, France could only consider the first two. In any discussion of an adjustment for Britain, every member would have to take its share of the burden.

CONFIDENTIAL / The Prime Minister

CONFIDENTIAL

- 4 -

The Prime Minister said that Britain had adjusted the pattern of her trade faster than any other country had ever done. We had provided an excellent market for both the agricultural and manufactured products of our partners. She did not complain about the increasing share of our market won by continental manufacturers: British manufacturers had been inefficient. She felt more strongly about the fact that although our agriculture was highly efficient, we had had to take the competing products of less efficient agricultural industries. The country did not in fact need German butter or Danish bacon. The present situation on the Budget was bitterly unfair and could not go on. She expected the other members to recognise that Britain was getting a raw deal and that there was no justification for the continuation of the present situation. She hoped that she had made her position clear. There would be no histrionics in Dublin. But she intended to stick to what she had said. Britain expected fair and reasonable treatment.

The Foreign and Commonwealth Secretary, speaking as someone who had been a committed European all his political life, said that the present British Government wished to be good members of the Community. But the budgetary problem was politically very inflammable in this country. The Prime Minister could not ignore the head of steam building up on the question. If she returned from Dublin with something derisory, she would not find it easy to prevent the undoing of everything that had so far been achieved. The latent "little Englandism" in the country could not be defended but it was a fact. The Chancellor of the Exchequer pointed out that it was generally accepted that the Community did not exist to provide for net transfers of resources between member states. But Britain was transferring resources and on a remorselessly upward trend.

President Giscard expressed concern about the political aspects of the Dublin meeting. Council meetings tended to have political consequences. He saw little chance of achieving

/ a solution

CONFIDENTIAL

a solution in Dublin of the type envisaged by the Prime Minister. The other eight countries could not agree to a sudden transfer of resources on the scale to which the Prime Minister had referred. The small countries were certain to oppose it. He had understood at Strasbourg that the Prime Minister sought a correction of the excess of injustice in the present position. Now she was seeking more. A failure in Dublin need not necessarily be a drama. But the chances of avoiding failure were limited. The Prime Minister said that she recognised that there would be enormous problems if Dublin failed to produce a fair result. But she would stand out for what was fair both at Dublin and thereafter. If the other member countries found it difficult to find their share of Britain's excess contribution, how much harder was it for Britain to find the whole sum?

Sheepmeat

The Prime Minister asked President Giscard whether he was going to sort out the lamb question. President Giscard said that the Community had been at peace on the lamb question until this year. Then it had been raised by Britain, or by the Commission on Britain's behalf, in the courts. For a number of reasons (climate, the inclusion of the wool value in the costing of the meat, the imports from New Zealand, etc.), British lamb was cheaper than French lamb. His Government would oppose the export of British lamb so long as Britain objected to a sensible organisation of the market in sheepmeat. The Commission had made proposals which should be studied. France would wish to see a regime which included a mechanism to stabilise prices; safeguards against disruption; and an agreement by external suppliers to exercise auto-limitation. As a result of the European Court's decision, Britain was legally in a good position. But morally she was in a weak position. At a time when Britain was calling for changes in the rules of the Budget, she was insisting on the rigid application of the rules governing the trade in sheepmeat. The Prime Minister asked whether, on the basis of the President's reasoning, she would be justified in excluding

cheap cars from the British market. Lamb was one case where the British product was better than others. Both the British Press and British sheep farmers were up in arms. President Giscard said that if the market were organised, British producers would not suffer. The income of France's sheep farmers was half the national average. They had to be protected. It was difficult for the French Government to defend the disruption of the previously existing arrangements by Britain at a time when Britain was seeking substantial adjustments in her favour in the Budget.

The Foreign and Commonwealth Secretary asked about the willingness of the French Government to reimburse their sheep farmers through national measures. President Giscard said that the French Government would be willing to pay but could not do so efficiently until there was an organised market. M. Francois-Poncet said that the free flow of agricultural goods within the Community had only begun following the establishment of a Community market. Since in the case of lamb no such market existed, it followed that there was no commitment to free trade in lamb. Britain wanted the free flow without an organised market. France wanted the organisation. If the British Government wanted to lay so much stress on the decision of the European court, they should be prepared to abide by other Community decisions, e.g., that agreed in Dublin on the budgetary mechanism. The Chancellor of the Exchequer said that the Court had ruled in favour of free movement. Their ruling had to be respected. The Prime Minister said that the sheepmeat problem ought to be soluble. But she stressed that New Zealand was in many respects an extension of the United Kingdom. New Zealand was a primary producer of butter and lamb. New Zealanders had little protection against such events as the recent oil price rise. Britain was bound to be concerned about New Zealand's position.

International Monetary Situation

In response to a question from the Prime Minister, President Giscard said that the European Monetary System

CONFIDENTIAL

- 7 -

presented no particular problem at present. He recognised that there was no desire on Britain's part to re-open the question of full adherence to the exchange rate mechanism, at present. The Prime Minister recalled what Chancellor Schmidt had said at Strasbourg about the desirability of the abandonment of exchange controls by Britain. The British Government had now taken this step. Partly as a result and partly for other reasons, there had been considerable fluctuation in the value of sterling. Ultimately the British Government would like to enter the mechanism, but there had to be greater stability first. President Giscard asked what the British Government expected to happen to the exchange rate of sterling vis-à-vis the other European currencies in the year ahead. The Chancellor of the Exchequer said that there were conflicting influences. The performance of the economy and the differential rate of inflation had tended to push the value down while sterling's petro-currency status tended to push it up. The broad assumption for the year ahead was that the rate would remain more or less stable though there might be fluctuations week by week. The Prime Minister said that the Government would take a much closer look at the question of joining the exchange rate mechanism if exchange rate stability persisted for some time.

/ Energy

CONFIDENTIAL

Energy

The Prime Minister said that the Community had for some time been seeking to develop a dialogue with the OPEC countries ~~which was possible~~ but seemed never to make any progress. President Giscard said that one reason for recent failures had been that the Arabs, and particularly Iraqis, tended to link the oil question with Arab/Israeli issues. The Community could not discuss both problems at once. Unless the Iraqis and others were prepared to break the link, dialogue was impossible.

The Prime Minister asked President Giscard about his Government's civil nuclear programme. President Giscard said that really significant results would begin to be achieved in 1982 and that by 1985 France's nuclear power programme would be saving the equivalent of 50 million tonnes of oil per year. The Prime Minister asked whether the problem about cracks in the nuclear reactors was a serious one. President Giscard said that it was soluble. The cracks had occurred because the third sheet in the lining of the pressure vessels was not adhering well to the second sheet.

The Foreign and Commonwealth Secretary said that he had often heard regret expressed at the absence of a Community energy policy. But he had never been altogether sure what a Community energy policy would involve. President Giscard said that he thought it would have two aspects:-

- a) The sharing of members' energy resources i.e. an intention on the part of some to 'grab a share' of North Sea oil; and

CONFIDENTIAL

-9-

- b) The formulation of joint attitudes on basic energy choices e.g. the scale and direction of nuclear reactor development.

The Foreign and Commonwealth Secretary said that the Danish Foreign Minister seemed to think that Britain ought to be supplying oil to the Community at preferential prices. The difficulty was that the British Government was not in a position to police what the oil companies did. The fact was, in any case, that 30% of Denmark's oil imports already came from Britain. President Giscard said that there was a vague feeling in the Community that the market could be better organised. The spot market in Rotterdam was destroying the market mechanism as it had previously existed. The profits of the oil companies had trebled. But the problems of energy policy had become too big to be handled by the oil companies. It was no longer possible to live by simple market rules. The oil consuming countries should establish a cartel. They were, after all, dealing with a product which was going to be scarce for another twenty years and on which any price could be set by the producers. Unfortunately no-one seemed able at present to propose anything. Paradoxically the countries which would suffer most were the new industrialised countries like Greece and Brazil rather than the highly industrialised countries like France. An oil crisis would hurt France less now than it would have done three years ago. The Prime Minister and President Giscard agreed that the energy problem was the most urgent now facing the world.

Institutional Problems

President Giscard said that he hoped that the Prime Minister would be able soon to define her position on various organisational problems facing the Community. There were three problems which preoccupied him:-

/a)

CONFIDENTIAL

B. R.

CONFIDENTIAL

-10-

- a) There were far too many Commissioners. In tackling this problem it would not be enough simply to suppress the second Commissioner slots held by the larger members of the Community;
- b) The rotation of the presidency was too rapid. The equivalence between, say, Luxembourg and the Federal Republic implied in the present system was ridiculous. It meant, in effect, the Community had no external representation on occasion. This was a key problem. Whatever solution was found, ^{it} should not hurt the smaller members; and
- c) The rules for voting in the European Parliament and in the European Council were arbitrary. The weighting in the Council of Ministers did not reflect the true importance of member countries. If progress was to be made in the direction of using majority voting regularly, adjustments would have to be made so that the majority in the Council reflected the majority in the Community as a whole.

The President raised the question of the recent votes in the European Parliament to amend the budget. He said that despite the advantage that votes in the European Parliament would sometimes give to one member or another, there should be stricter rules about the relationship between the Parliament and the Council of Ministers. France had therefore agreed with the Federal Republic to oppose the amendments recently voted through. Neither country was prepared to be out-manoeuvred by the combination of a majority in the Parliament and a minority on the Council of Ministers. If Britain also agreed, there would be no problem. The Prime Minister said that the British Government had not yet taken a position.

CONFIDENTIAL

/The Chancellor

CONFIDENTIAL

-11-

The Chancellor of the Exchequer said that it was not altogether simple to reject out of hand the proposals made by an elected Parliament. To do so aroused questions about why its Members had been elected in the first place.

M. Francois-Poncet said that if policies unanimously adopted in the Council of Ministers could be overturned by the European Parliament and a minority on the Council, the balance of the Community's institutions would be radically altered. In the present instance the French Government would welcome the co-responsibility levy on milk while the British Government would not. But the merits of the case were secondary compared with the institutional implications. President Giscard said that he hoped the Prime Minister would review the question, considering the matter not on the basis of the merits of the present proposals but on the basis that the member states did not want policies imposed on them. Once Spain and Portugal had joined the Community, the potential spending nations would have a majority in the European Parliament. The Prime Minister said that she had the impression that the Parliament had acquired its powers over the budget almost by accident. M. Francois-Poncet said that when the budgetary regulation had been adopted member states had not recognised its implications. What had happened in Strasbourg recently had not been foreseen. The French Government regarded it of great importance that member states should not get into an institutional position that would imply fundamental uncertainty on all the problems with which ^{they} dealt. At present member states were able to find compromises on controversial issues. The new arrangements would imply that they could never be sure that those compromises would be acceptable. The change would be radical.

/France's attitude to the CAP

CONFIDENTIAL

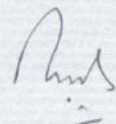
CONFIDENTIAL

-12-

France's attitude to the CAP

President Giscard said that he suspected the Prime Minister had the feeling that the French were high spending members of the Community and enjoyed having a Common Agricultural Policy that was costly. This might have been true 15 years ago, when France was trying to share out the costs of her farm policy, but it was no longer true. It was of course not easy to change attitudes but the fact was that France was no longer a net recipient under the CAP. She was contributing 21% to the CAP budget and receiving 16% back. France sought no additional expenditure from the CAP and was ready to take on a national share of the cost of structural changes, modernisation and the extra financing of surpluses. The Germans, who were creating surpluses in milk and wheat, and the Dutch were more likely to seek additional expenditure. France would be seeking a less costly functioning of the CAP. The Italian efforts to reorganise the CAP would be supported by France if the reorganisation was on the right lines. The French Government held the view that surpluses could be more effectively financed by the country which was creating them.

The discussion ended at 1740.



20 November 1979

CONFIDENTIAL