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Subject



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10 DOWNING STREET

From the Private Secretary

17 February 1981

Sean Francis,

The European Community: Outstanding Issues

The Prime Minister held a meeting this morning with the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and the Minister of Agriculture to discuss our policy on a number of outstanding European issues. Sir Robert Armstrong and Mr. Franklin were also present.

The Foreign and Commonwealth Secretary said that he was concerned about the situation which seemed likely to arise in our relations with other members of the Community in the next six months or so. It seemed probable that we would be unable to reach agreement with the French on a Common Fisheries Policy before the French Election. It might well not be possible after the Election. The French had a tenable case both in law and in terms of their own self-interest. Nor did the French have any reason to settle on the question of New Zealand butter imports. As regards agricultural prices, they might well be prepared to adopt a rigid policy until the Election was out of the way and confront us thereafter. If none of these issues were settled before June, they would spill over into the UK Presidency and would have a very negative effect on the discussions about the restructuring of the Budget. We should almost certainly have incurred the hostility of the other nine members. A further effect would be to intensify anti-European feeling in this country with a consequent advantage to the Opposition.

There was therefore a good case for trying to find a solution to the whole complex of problems. There was not much prospect of success. But by making the effort we should at least have put ourselves in a position vis-a-vis the other members of the Community where we could be seen to have tried. A possible approach was summarised in the Foreign and Commonwealth Secretary's own minute to the Prime Minister of 16 February.

/ In his view

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In his view there was no prospect of settling the price fixing at a figure of less than 10 per cent. The only attraction to the French of a package involving settlement of the fish issue, New Zealand butter, and agricultural prices at this sort of level might be that of timing. We should try to discover whether they would be interested.

In the subsequent discussion the following points were made:-

a) A rise in agricultural prices of 10 per cent would have a very damaging psychological impact in this country. At a time when the Government were trying to get workers to accept wage increases in single figures, it would appear that an increase in double figures was being given to the farmers. It would also be seen as a retreat from the Government's declared policy of refusing price increases for products in surplus. Moreover, once a figure was mentioned to the French, it would inevitably become a floor from which we would be driven upwards in the course of negotiation;

b) The Commission were likely to propose a price increase of 8 or 9 per cent. On no past occasion had the final price fixing been lower than the Commission figure. All the precedents suggested that the final figure would be at least 10 per cent. If we were driven to this as the result of a prolonged argument, it would be seen as a British defeat. Moreover, refusal to agree to an increase of this order would have a most damaging effect on farm production in this country and would endanger the Government's rural support;

c) Great pressure was building up for a revaluation of the green pound. It was clear that sooner or later this would have to be conceded. Any price increase above 5 per cent would have to be accompanied by a measure of revaluation in order to diminish the consequences for prices here. To put the point differently, the possibility of revaluing the pound enabled the Government to accept a price fixing at a higher level than would otherwise have been the case. Revaluation of the green pound would have the additional benefit of reducing the level of our contribution to the Community Budget through levies. (It was also pointed out, in this connection, that revaluation would have serious consequences for the farming industry);

d) There was a tendency to over-estimate the negotiating abilities of the French. They were worried and bruised by the defeats with which they had met last year and had lost some of their previous self-confidence. There was just a chance that they would settle rather than risk a long, drawn out engagement. In any case, if our approach was properly handled, it would have the effect of making them put their cards on the table. If their demands were outrageous, we should know where we stood;

e) The negative effects on public opinion in this country of an impasse would be considerably greater than those of a 10 per cent increase in agricultural prices. We should be prepared to take some risks in order to avoid this.

/ Summing up,

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Summing up, the Prime Minister said that it was agreed that the rises in agricultural prices would not be less than the figure proposed by the Commission. A figure of, say, 8 per cent accompanied by a revaluation of the green pound would be tolerable. However in making an approach to the French, which it was agreed should be done at a meeting between Mr. Franklin and M. Achard, no figures were to be mentioned. The objective would be to establish, without commitment, whether the French were interested in looking at the problems of the Common Fisheries Policy, of New Zealand butter, and of the agricultural price fixing together and to see what kind of assurances might be obtained on fish and New Zealand butter. Having heard what M. Achard had to say, Mr. Franklin should report back.

I am sending copies of this letter to John Wiggins (HM Treasury), Kate Timms (Ministry of Agriculture, Fisheries and Food) and David Wright (Cabinet Office).

Yours ever

Richard Alexander

Francis Richards, Esq.,
Foreign and Commonwealth Office

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