

87 h. Mr Alexander (ov)

CONFIDENTIAL

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PRIME MINISTER

Community Budget and Chancellor Schmidt

1. In his minute of 19 October Geoffrey Howe put forward a new scheme for dealing with the Community Budget problem and suggested that we might try to get the Germans to agree to support it. I welcome his suggestion that we should meet to discuss it after our return from Cancun. It may be useful, in preparation for our meeting, if I set out the points which concern me about this approach.

2. I entirely agree with him that we must do all we can to secure an agreement with the Germans on a joint approach to the Community budget problem. This will be the surest way to avoid reverting to a 9:1 confrontation such as we saw in 1980. I am not however very optimistic about the chances of securing their agreement to a detailed scheme of the kind proposed, as opposed to a more general statement of agreed guidelines. My worry is that Genscher and the officials who advise him will see a fully worked out scheme of this kind as merely another version of our radical approach to re-organising the Community's finances and that it will not meet their concern to depart from Community orthodoxy as little as possible. This said, it clearly would be a major step if we could get the Germans to agree to a scheme of this kind I have no objection to trying it out on them.

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3. If we are to put this to the Germans we shall need to be careful about how we present it. I am particularly concerned about the table which it is proposed to hand over to Schmidt's office which shows a very small reduction in the German net contribution compared with the very large reduction for ourselves. I think it is for consideration whether it would not be tactically wiser to show a rather lower contribution figure for the Germans, perhaps rather nearer to their "uncorrected" figure shown in column 1 of the table. I am also concerned about the zero position shown for the UK which plays straight into the hands of those who argue that our only concern is to obtain a "juste retour". In presenting the scheme I think we should adopt a rather more political approach than that suggested by the Treasury drafts, avoiding as far as possible the technical details. I think our aim should be to emphasise the modesty of the changes implied by the scheme rather than its generality. And we should make it absolutely clear that the figures shown in the table are illustrative only; by scaling down, a lower German net contribution (and, correspondingly, lower net benefits for the small rich countries) would be possible.

4. I am copying this minute to the Chancellor of the Exchequer and Sir Robert Armstrong.


(CARRINGTON)