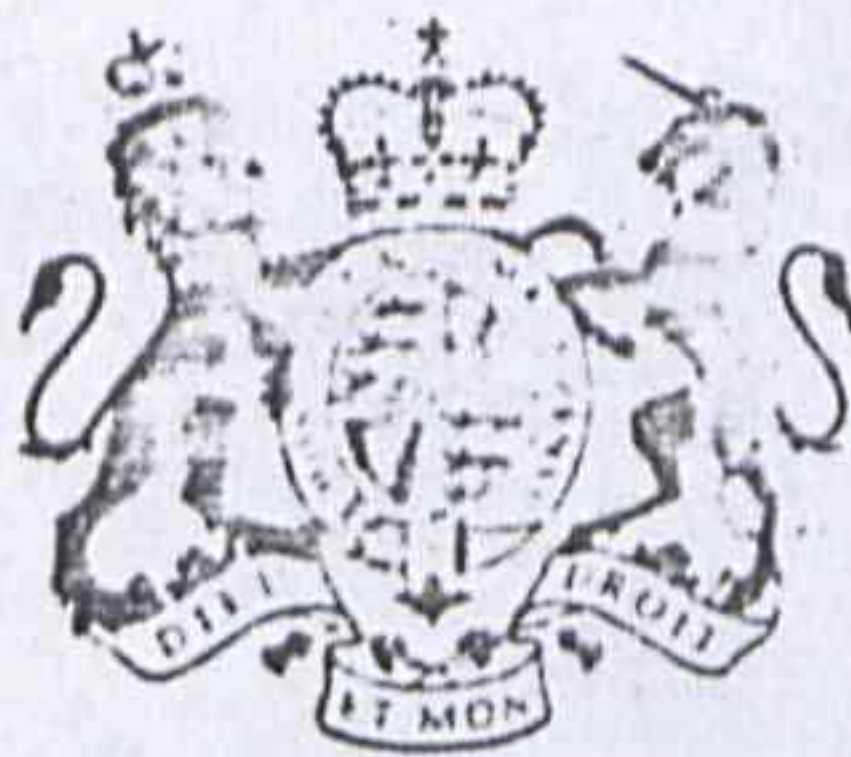


SUBJECT
C.C. Market

10 DOWNING STREET

From the Private Secretary

10 November, 1981.

Dear Francis,

Lunch for Signor Spadolini

As you know, the Prime Minister entertained Signor Spadolini at a working lunch here on 9 November. Signor Spadolini was accompanied by Signor Colombo, the Italian Ambassador, Signor Bottai, Signor Bucci, and Signor Berlinguer. On the British side, the Foreign and Commonwealth Secretary, Sir Ronald Arculus, Mr. Bullard and Lord Bridges participated.

The conversation ranged widely. It was somewhat disjointed, and, on occasion, inaudible. I do not intend therefore to attempt to do a complete record. This letter summarises some of the points of interest. It may be that Mr. Bullard and Lord Bridges will have points to add.

The Middle East

Discussion of the Middle East and the problems of the Sinai MFO covered well-trodden ground. The Foreign and Commonwealth Secretary explained the situation as it was at the time. There was some comment on the inconvenience arising from the fact that the Arab Summit at Fez and the European Council in London would be taking place at the same time. It would clearly be necessary to bear the coincidence in mind, and ensure that as much information as possible was available to the Council about developments in Fez.

European Council

There was a brief discussion about the length of the draft conclusions for the European Council Meeting at present under discussion in Brussels. The Prime Minister repeated her well-known aversion to lengthy communiques. Signor Berlinguer said that Chancellor Schmidt would undoubtedly agree with the Prime Minister.

The Prime Minister agreed with Signor Colombo, as she had earlier agreed with Signor Spadolini, that she saw no reason why Member States of the European Community should pay for each others agricultural surpluses. She also pointed out, as she

had pointed out during the tete-a-tete, that she saw no prospect of the French agreeing to this approach. It was suggested that the Italian position on surpluses might not be altogether easy to reconcile with the support they were demanding from the Community for their Mediterranean products. Signor Colombo said that the Italian concept was that the price guaranteed to the producers for surpluses should be lower than the market price. It was pointed out that it had proved difficult to adapt this clearly sensible approach to the problems of the dairy sector.

There was general agreement, with Signor Colombo speaking particularly forcefully, that the preparations for the European Council's discussion of the 30 May Mandate were far from complete. The Foreign and Commonwealth Secretary said that there would be a need to follow the example set by Signor Colombo in the run-up to the May 1980 Meeting. Unfortunately, the present situation was a good deal more complex. Signor Colombo and Signor Spadolini both stressed the need to avoid a Council Meeting which sanctioned disagreement. The difficulties would have to be taken one by one, and a reasonable outcome secured. The Prime Minister enquired why the Committee of Permanent Representatives found it so difficult to make progress. Signor Colombo observed that they were not in a position to negotiate with each other: they merely stated positions. If the Members of the Community continued to do this, if there was no real change in positions, the Community would be threatened with suffocation. The Foreign and Commonwealth Secretary took the view that there would be little purpose in arranging ad hoc meetings, e.g., of Finance Ministers and Foreign Affairs Ministers, in an attempt to break the log jam. The problems were only likely to be solved when the Community was up against a real time limit such as that set by the need to fix agricultural prices. The Prime Minister said that if this was the case, the Spring Meeting of the European Council would be a crisis meeting.

Signor Colombo said that Members of the Community would have to make a choice between two approaches. Either to continue with the situation as present, dressing it up in the language of reform; or to go for genuine solutions. (The Prime Minister made clear she was only interested in the latter approach.) As regards the propositions at present on the table, Signor Colombo said that a Declaration of Intent on Chapter I would not be enough for the Italian Government. They were looking for a decision which fell somewhere between short term improvisation and long term generalisation. They wanted to see a "programme of commitments". Nor were the Italian Government satisfied with the Commission's proposals for reform of the CAP. They thought these proposals would create a Community in which the present inequities were formalised and legalised.

In 1980 the Community had succeeded in agreeing on certain broad principles and on the 30 May Mandate. This year it had to move on. It could not repeat the same operation. It would

not be enough to consider principles and methods again. (The Prime Minister indicated that she would be unhappy to agree a further set of principles without clear evidence of the effect they would have, separately and collectively, on the UK.) Hence the need for a programme. This would have to embrace the various policies, e.g., regional, energy, industry, under Chapter I; the rationalisation of agricultural policy; and the restructuring of the budget. There would have to be progress on all three. The Foreign and Commonwealth Secretary observed that this seemed to be what the Presidency had been trying to do all along.

German Attitudes

At the end of lunch, there was some discussion of the attitudes of the German Government. It was suggested that the German Government would not necessarily resist very strongly the continued payment of a very large contribution to the budget. The Prime Minister commented that the German Government would ignore at its peril popular resentment in the country against the Community. It would be in no one's interest to allow that resentment to grow. The Foreign and Commonwealth Secretary said that Herr Genscher was worried about disillusionment with the Community in the Federal Republic.

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

Yours ever

Michael Alexander

Francis Richards, Esq.,
Foreign and Commonwealth Office.