

CONFIDENTIAL



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Rennie Ainslie
This seems to me a good minute.
Agree to include in brief?

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Paul

Yes
mt.

PRIME MINISTER

ANGLO-GERMAN MEETING: 11-12 MAY

At your briefing meeting yesterday, you called attention to the special difficulty of negotiating with Schmidt - namely that what he says to you in private bears little relationship to the policy decisions that he takes in Bonn. I suggest therefore that your main objective on Monday and Tuesday should be to secure his committed support in a more durable form and notably by conveying a sense of unity of purpose on a number of major points when you both speak to the press afterwards.

2. We should not aim too high, for example by endeavouring to agree with him a precise list of commitments on methods of achieving CAP reform. But we should aim to define as clearly as possible the propositions on which the two sides are agreed.

3. In the light of what we know of Schmidt's attitude, it would be realistic to aim to secure his agreement to the following propositions:-

- (i) As the German Government made clear following last year's agreement on the UK net contribution, the Common Agricultural Policy must be reformed so as to reduce surpluses and contain the cost. Germany and the UK will continue to stay in close touch

/over possible means



over possible means of achieving this end. CAP reform is an essential element in Budget restructuring.

- (ii) The rate of growth of Guarantee Section expenditure should in future be markedly less than the rate of growth of own resources. (Both Governments have already recorded that view in the minutes of the Agricultural Council.)
- (iii) Budget restructuring must be carried out within the 1 per cent VAT ceiling.
- (iv) In future the distributive effects of the Community Budget cannot be allowed to result haphazardly from unrelated policy decisions as in the past, but must be decided consciously in such a way as to make the result fair and defensible to the electorates of all the member states. (Schulmann came very close to saying this at the informal meeting of Finance Ministers at Breda; it seems well worthwhile trying to get Schmidt to endorse this proposition now.)
- (v) The restructuring negotiations must be conducted speedily so as to avoid the need for an extension of the 30 May agreement to a third year. It weakens the Community to have these problems hanging around unresolved. Their solution is necessary to provide the basis for further advance.
- (vi) The Community must now make a really determined effort, without further delay, to agree on a common fisheries policy.

/In my discussions



4. In my discussions with Schulmann before the Plenary Session at Chequers, I will seek to persuade him of our common interest in all the above points.

5. One reason why we need to come to an understanding with Schmidt over CAP reform is that German cooperation is likely to be crucial to a successful outcome of the restructuring negotiations. As I said at your meeting, the German Government is split on CAP reform. We should do all we can to encourage the SDP's increasing concern about the cost of agricultural support programmes whether financed from the Community Budget or directly from the domestic German budget. It is not true, as at one point seemed to be suggested at your meeting, that the Germans have no financial incentive to check the creation of agricultural surpluses. The Germans are the largest net contributor to the Community Budget. They pay a higher share of the cost of Feoga than any other member state. Their ambivalent behaviour, to which you and the Minister of Agriculture referred, is a result of a conflict of interest between German taxpayers and consumers on the one hand and German farmers on the other. It is in our interest to encourage the former against the latter, and this is why your talk with Schmidt will be so important. I acknowledge that German taxpayers and consumers pay a smaller proportion of the yield of linear coresponsibility levies than of the VAT tranche of the Community Budget. The moral is clear: we must on future occasions avoid agreeing to an increase in the linear levy - which directly undermines our policy of strict adherence to the 1 per cent ceiling.

6. I am sending copies of this minute to the Lord Privy Seal, the Minister of Agriculture and Sir Robert Armstrong.

Amgins

(for G.H.)

7 May 1981

(Approved by the Chancellor & signed
in his absence)