

RECORD OF A CONVERSATION BETWEEN THE PRIME MINISTER AND THE PRIME
MINISTER OF ITALY AT 1115 HOURS ON FRIDAY 25 FEBRUARY AT NO. 10

Present:

Prime Minister	Mr. Fanfani
Foreign and Commonwealth Secretary	Mr. Colombo
Mr. Coles	Mr. Paolini
Interpreter	Mr. Cagiati
	Interpreter

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The Prime Minister gave a brief description of the tête-à-tête conversation which she had just had with Mr. Fanfani and then suggested that the discussion should turn to Community issues.

It was very satisfactory that the Community had at last achieved a Common Fisheries Policy. This had long eluded us and its adoption was a genuine step forward.

She wished to make a political point about the United Kingdom budget problem. We did not know when the next UK Election would take place. But it was absolutely vital that there should be an effective solution to the UK budget problem soon. If there was an Election in Britain this year, the absence of a long-term budget solution would have a devastating effect on the campaign. She could not over-emphasise the point.

Nothing effective was likely to happen on this matter during the second half of 1983 when Greece would have the EC Presidency. It followed that the agreement must be achieved under the German Presidency. She would therefore raise the question at the March Council and would not be able to leave the June Council without a settlement of the issue. This was a political imperative. Italy would find Britain very firm and very active on this matter.

Mr. Fanfani asked Mr. Colombo to comment. Mr. Colombo said that he believed that every effort must be made to find a

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solution this year. But a valid solution must take account of recent developments, in particular the new attitude of the European Parliament. The recent Green Paper produced by the European Commission provided an opportunity to discuss a whole complex of issues. It contained proposals which could result in balanced solutions both for the United Kingdom and for Germany. A determination to deal with the whole question of the Community's future would make it easier to obtain a solution to the UK budget problem for 1983.

The Prime Minister said that the root of the problem lay in the Common Agricultural Policy and in particular with the way that northern products were managed under that policy. Large surpluses of northern products were built up. Their storage and disposal to other countries were extremely expensive. The practice was bad and foolish. Mr. Colombo said that this was of course true but one had to be realistic. With regard to the CAP, the Community could not take a backwards step. A price increase of 6-7% for CAP products was being talked about this year. The Prime Minister said that such an increase was too great. Mr. Colombo said that it was too great for countries with low inflation rates, but too small for those with high inflation rates.

The Prime Minister said that she felt that the discussion was entering into too much detail. The details would have to be covered in the eventual negotiation. But the point she wanted to make was that the United Kingdom budget problem must be solved by June. She was opposed by a political party which would use every possible weapon against the European Community. If it were handed the weapon of an unfair budget arrangement, this could be very damaging. A satisfactory solution must be adopted by June.

Mr. Colombo said that Italy needed some progress on Mediterranean policy. Otherwise it would find it difficult to agree to enlargement of the Community. The Prime Minister said that she was anxious that Portugal, which had managed to free itself from Communism, should enter the Community. It needed a helping hand. Negotiations with Spain would take a long time because of the French attitude. However, she understood the difficulty of one country entering separately from the other.

Mr. Fanfani said that President Mitterrand had told him last week that he would no longer raise problems with regard to the entry of Spain. Indeed, he wished this to be speeded up and envisaged it taking place in 1985. Mitterrand thought that both Spain and Portugal must enter at once. He was aware of the problems - especially those relating to wine, fruit and vegetables - but had in mind what the Prime Minister had said in Copenhagen, namely that despite the sacrifices involved we must help these two countries. Questions of political strategy, democracy and defence were involved. The sacrifices must be faced. He had been surprised to hear that Mitterrand saw no real obstacles to enlargement, but this was apparently the case.

Mr. Colombo said that it was realistic to look at all these problems together - the British budget problem, the German problem, Mediterranean policy and enlargement. The Prime Minister observed that if we waited for solutions to everything we should get solutions to nothing. Mr. Colombo agreed that a solution for 1983 was necessary, but the Community also had to look at the whole future of its finances. The Prime Minister commented that it had been doing just that for the last 18 months. She recalled the three chapters of the Mandate. We had to have a satisfactory solution. As seen from London, the Community was financed by Germany and the United Kingdom. She simply could not go into an Election and say that this situation would continue in the future.

Mr. Colombo said that there appeared to be agreement between France and Germany that before the end of the German Presidency there should be a European Council of a new character, devoted to a re-launching of the European Community. Heads of State and Government would be invited to adopt definitive positions on three or four fundamental issues.

The Prime Minister commented that all this was excellent provided it was not used as a substitute for progress on the practical problems which confronted us. The moment to re-launch the Community was when the practical problems had been solved. She would be glad to envisage a re-launching in June because that would imply that the United Kingdom budget problem would be solved by then.

/ Mr. Colombo

Mr. Colombo said that he saw the re-launching process as a means of solving practical problems. But the problem of the UK's 1983 budget contribution should be settled separately and first. The Prime Minister said that a settlement for 1983 alone was not enough. We should simply renew the argument in December. It was ridiculous to have to keep returning to this matter. If our budget problem was settled, she would be delighted to agree to a process of re-launching the Community. Mr. Colombo said that in the Italian mind re-launching was essentially an economic matter, based on better and balanced financing of the Community. That would help to solve Britain's budget problem. The Prime Minister said that it was an illusion to imagine that the problem could be solved in that way. The fundamental difficulty was the way in which the Common Agricultural Policy was run.

The discussion ended at 1200 hours and was followed by a plenary session.

A.J.C.

25 February 1983