

Ed/11
Ewen
m

270

Secretary of State

CONFIDENTIAL

PS/PUS

Copied to:

Mr Butler

ETD(I)

Private Secretary.
cc. PS/Two (in Seal.)

X / aeg

EUROPEAN COUNCIL

1. It now looks as if the key to success at the European Council will be how we handle the French. I submit the following notes in case the question arises at the Prime Minister's meeting this afternoon.

2. Giscard will in the end agree to a formula on the budget, if only because he told the Prime Minister that he would. The question is how far he will want to water it down and what price he will extract for his agreement. Judging by what happened at the last two European Councils in discussion of convergence, Giscard (and others) will want the formula to remain ambiguous, so that it leaves maximum room for manoeuvre and bargaining over the question of what problem is to be solved and who is responsible for action. A tough drafting session is in prospect, both at official level and, very probably, in the European Council itself.

3. The cards are fairly evenly stacked. We are the demandeur; and from the chair Giscard can easily mobilise opposition to us. The others have their own interests as well as their dogmas to defend. The papers going forward as the basis for discussion show a six to two line up against us, with the Irish leaning towards the six. If the UK establishes any sort of link with other Community questions Giscard and his press men will not hesitate to imply that the new Government is failing to prove its Community credentials. On the other hand there are three areas where he is looking for UK cooperation:

- (a) energy, where he has specific French ideas to promote and where he would like to be spokesman for an agreed Community position at Tokyo.
- (b) the Lomé renegotiation which he wants to conclude under French Presidency and where we have so far, almost fortuitously, blocked agreement on the Community's financial offer for the new EDF. We should be in a position to give him what he wants in the margin of the European Council.
- (c) support for the candidacy of Madame Veil as President of the European Assembly. He may well attach a lot of importance to this; and the 60 Conservative votes are significant.

4. What will Giscard aim to get in return for agreeing to a tolerable budget formula? Will he want more than (a) to (c) above?

CONFIDENTIAL

/The danger

CONFIDENTIAL

2.

The danger is that he will also want concessions over agricultural prices. This could be very difficult indeed. We cannot forecast the situation at the end of the current Agricultural Council and may have to brief on Thursday. But the chances of agreement by then are less than even; and Giscard will be tempted to apply additional pressure in Strasbourg.

5. If this happens it will confront us with a serious problem in both domestic political and Community negotiating terms. Assuming that Mr Walker has deployed our full negotiating margin and that the French still want substantially greater price increases, I think the Prime Minister will have to take a chance and call Giscard's bluff (if it is one). To accept over-all price increases greater than 2.1% (Mr Silkin's achievement last year) or to accept any increase at all in the dairy sector would be difficult to defend domestically. Within the Community such concessions would also be very damaging:

- (a) it would let down the Commission after they had at last steeled themselves to fight for a virtual freeze. They would not do so again.
- (b) more generally, if we cannot win a near-freeze in this year's circumstances we shall never do so.
- (c) significant increases would mean that the Community had acquiesced in the principle, in which only the French really believe, that agricultural prices must be raised progressively to the German level in order to eliminate positive German MCAs, regardless of the consequences for surpluses and costs.
- (d) the problem of surpluses would be further than ever from any hope of a solution.

6. My view is therefore that significant movement on agricultural prices would be unjustifiable even if it appeared to endanger the budget formula. We do not need to reach a final view today; and the problem may not arise if all goes well at the Agricultural Council. But I wanted to put down this marker in advance of the Prime Minister's briefing meeting in case the question comes up there.

John Fretwell

M J E Fretwell

19 June 1979

*I agree, as this is the Secretary of State's
as the Prime Minister has shown he is before today's
meeting with the Prime Minister.*

CONFIDENTIAL

Nicholas Brown
19/6