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Euro Pol = Budget Pt 8.

10 DOWNING STREET

From the Private Secretary

2 May 1980

~~BF 9/5/80~~

Dear Gurge,

Community Budget: the Next Steps

As you know, the Foreign and Commonwealth Secretary discussed with the Prime Minister this afternoon his minute to her of 1 May on this subject. It was agreed that an attempt to reach a suitable agreement with the other members of the Community on the problems covered in Lord Carrington's minute should continue. It was also agreed that it would be desirable that an agreement should be finalised as soon as possible i.e. preferably before but certainly at the Venice meeting of the European Council. However, the Prime Minister stressed that improvements would have to be secured in the overall package which was on offer in Luxembourg.

As regards the period immediately ahead, it was agreed that it would be wrong for United Kingdom representatives to appear over eager in the search for a settlement. No bilateral activity was to be initiated by us in the next few days.

Foreign Affairs Council

The Lord Privy Seal should encourage Signor Colombo to pursue a settlement and should be prepared to discuss with him procedural proposals. However, it would be too early to get into questions of substance in relation to the budget.

The Lord Privy Seal will however wish to be aware of the Prime Minister's view that the figure of 538 meuproposed in Luxembourg for the United Kingdom's new contribution for 1980 is acceptable; that it provides a suitable base line for our contribution in subsequent years; and that any agreement will have to be for a period of at least three years "subject to review" at the end of that time.

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Agricultural Council

It was agreed that at next week's Agricultural Council the Minister of Agriculture should not attempt to re-open the terms of the farm price package agreed in Luxembourg. However he should, of course, make it clear that the United Kingdom maintained its reserve on the package. Mr Walker should be prepared to pursue the detailed points summarised in paragraph 2 of his letter of 1 May to the Foreign and Commonwealth Secretary. He should continue to seek improvements in the text on mutton and lamb and to make it clear that the present text is unacceptable. If an attempt is made to force through the farm price package, Mr Walker should make it plain that we are ready to invoke the Luxembourg compromise and that "very serious consequences" would follow any attempt to frustrate our invocation of the compromise.

Mr Walker need not oppose adjustments in the Green Rate for the franc and the lira.

The Prime Minister wishes to have new papers prepared on the handling of the negotiations on fish and on sheepmeat. These should be available by Friday, 9 May. I should be grateful if Garth Waters (MAFF), to whom I am sending a copy of this letter, would put this work in hand and ensure that the other interested Departments are consulted. The Prime Minister would also be grateful for a paper discussing whether or not the impact of the farm price package on the housewife could not be moderated by an adjustment in the Green Rate of the pound.

I am also sending copies of this letter to Michael Richardson (FCO), John Wiggins (HM Treasury) and David Wright (Cabinet Office).

Yours ever

Michael Alexander

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Foreign and Commonwealth Office