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Italy (Jan 80) 'Visit of Cossiga'

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Extract from Conversation PM/Signor Cossiga 29.1.80 at 1700 hrs

@ No. 10.

The Community Budget

The Prime Minister said that until the budget problem was solved, it would be difficult for the Community to address itself to the other pressing problems facing the world. She therefore suggested that it should be the first item on their agenda. She thanked Signor Cossiga for the help which he had given her in Dublin at the previous meeting of the European Council. He had played a most helpful role in preventing a breakdown. He now had the task of deciding whether an early Council should be held. It was essential that the position should be "almost sorted out" before the Council assembled. It would be fatal for Europe to have another meeting like that which had taken place in Dublin.

The Prime Minister said that she was very anxious to resolve the problem. She had great economic problems at home. Inflation was running at 18 per cent. Expenditure had to be reduced. There had already been one round of expenditure cuts on next year's budget: there would have to be a second round. This meant that she had very little room for manoeuvre in seeking a solution to the budgetary difficulty. The meeting in Dublin had shown the way the problem should be tackled. The contributions could be dealt with through the removal of the existing constraints on the established financial mechanism. Action would be necessary on the receipts side of the budget since the UK's receipts were only a fraction of the Community average. The UK had proposed supplementary measures which would lead to greater expenditure in the UK. (Signor Cossiga interjected at this point that Italy vigorously supported the UK on this problem. Italy had been in the black in 1978, in the pink in 1979 and would be in the red in 1980. Something was not working properly.) The Prime Minister said that, thirdly, there would have to be a long term restructuring of the budget so that the CAP did not take up anything like its present proportion of the budget as a whole. This would take time but the attempt had to be put in hand. It would be three or four years before the proportionate expenditure on the CAP could be reduced to a reasonable level.

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Signor Cossiga asked whether this meant that the Prime Minister would be content with a solution that covered the next three years. The Prime Minister said that she would want a solution that would deal with the problem until Britain's per capita GNP had come up to the Community's average. She regretted that the British figure was at present so low: if Britain had more money, she would be prepared to pay more. Even so, she accepted that it was right that Britain should be a small net contributor. However that contribution ought to be below that of the member with the next highest GNP figure per head. The gap between the British contribution and that of the member immediately above it in the GNP ranking should be proportionate to the difference in GNP levels. This would mean a British net contribution of between 200 and 250 mua. This was not a large sum but it would be fair given Britain's economic position.

The Prime Minister said that she thought the message about Britain's budgetary problem was slowly getting through to the other members but it was a slow business. Britain's representatives were conducting the negotiations in a spirit of genuine compromise but they had little room for manoeuvre. Unless a solution could be found that was "somewhere near" the figure she had proposed or "in that range" there would be no point in an early meeting of the Council. She did not want the Community to tear itself apart in the present world situation. Signor Cossiga should be under no illusion about the gravity of the problem and about the reaction in this country to its continuance. Public opinion was conscious not only that Britain was contributing too much to the Community budget but that this was being done at a time when we were bearing a very full share of NATO costs and were keeping a large number of troops stationed in the Federal Republic.

The Prime Minister asked Signor Cossiga how he thought the situation was developing. Signor Cossiga said that such progress as had been made at Dublin had only been possible because of the strong line taken by the Prime Minister. He and his Foreign Minister, Signor Ruffini, had come to London determined to do what they could to help. They had three reasons for this:

- (a) their country's friendship with the UK. This was a constant in Italian policy;
- (b) the interests of the Community itself. Italy had fought to secure Britain's entry and would also fight to make her feel at home in the Community;
- (c) the seriousness of the world situation as a whole. This demanded that the Community should show itself able to overcome its internal problems.

The Italians were better placed than many members of the Community to understand the British difficulty because they had for long suffered from a similar problem themselves. They knew about the difficulty of justifying to domestic public opinion how money contributed to the Community was being spent.

Signor Cossiga said that he had a mandate from the Dublin Council meeting to ascertain whether the conditions existed for an early meeting. He did not regard the process of ascertaining opinion as a question of taking notes. He and Signor Ruffini intended to try to play a positive role. He had already seen the President of the Commission and, against the rules, the two Italian Commissioners. The Commission was producing a paper on 6 February. He intended, as he was entitled to do, to see Mr. Jenkins again before then. If in his judgement the Commission document did not constitute a possible basis for agreement, he would try to secure modifications in it - even if this involved his breaking the rules once more. So far as he knew, the document was more concerned with methods and figures. It seemed to him that if agreement could be found about methods this would be an important step in the right direction. Once the Commission document was available, he and Signor Ruffini would be prepared to travel throughout the Community to discuss it.

Signor Cossiga said that he thought the Community's budgetary policy was objectively mistaken: the greatest problem was the CAP. The difficulty about the CAP was that its application meant the member states were divided into winners and losers. It was the sort of policy which should not be conducted between states anywhere, and still less within the Community. Of course it was inevitable that countries should lose or gain in some aspect of their relationships with other countries. What was not acceptable

was to allow a situation to arise where one country was a permanent loser and on every front. The final solution to the present difficulties lay in a permanent restructuring of Community policies. The difficulties derived from the distortion of those policies.

Signor Cossiga said that he recognised Britain's short-term problem but he did not think that it could be solved in a single year. At the same time, he recognised that the Prime Minister could not wait three or four years for a solution. It would be necessary therefore to work on two lines:

- (a) a medium and long-term solution which would involve a modification of the budget. (The Prime Minister interjected that by 1985/6 the CAP should be reduced to 55 per cent of the budget); and
- (b) a short-term solution which would tide Britain over the interim.

On the short-term issue, Signor Cossiga said that the first thing to look at would be the adaptation of the existing corrective mechanism. He recalled that he and Mr. Lynch had put down reserves on this in Dublin because they wished to be absolved from bearing their share of the cost. The Italian Government now intended to lift that reserve. This would cost them 70 m.u.a., ie 50 per cent of what they had received on entering the European Monetary System. They had taken this step because of the importance they attached to resolving the British problem and in order to make a point to Chancellor Schmidt and President Giscard. If Italy could make a sacrifice, so could they.

Turning to the receipts side of the problem, Signor Cossiga said that action here would mark a beginning in the task of transforming the Community. There were areas where he thought Britain and Italy had common interests. They were both concerned to know more about how the money in areas of the budget other than the CAP was spent. However, the Prime Minister would be familiar with the resistance offered by the Commission to detailed examination of expenditure and receipts under this heading. But it would have to be accepted that money should be spent on things other than milk.

Signor Cossiga said that an important weapon in his armoury would be the general political situation. Things were not the same as at the time of Dublin. The question of solving the British problem had taken on a new dimension. It was now a question of the Community's credibility.

Signor Cossiga asked the Prime Minister for her comments on what he had been saying. The Prime Minister said that she did not, of course, know what was in the Commission paper. But it was essential that it should attempt to solve the problem permanently, not merely for two or three years. It would be in the interests neither of Britain nor of Europe for the British Government to accept anything other than a full and proper settlement. This meant that a lot would have to be done in the immediate future. But it was worth recalling that the problem had been first raised by Mr. Callaghan and that by May she herself would have been in office for a year. Signor Cossiga acknowledged the point.

Turning to the longer-term, the Prime Minister said that the CAP had to be dealt with. If it was not tackled, it would break the Community. It made no sense to use the budget to create surpluses which were subsequently sold off cheaply. This was the Community's underlying fault. Signor Cossiga described the situation as ridiculous. The Prime Minister said that nonetheless some other members of the Community would fight very hard to retain the CAP in its present form. It would take a long time to sort out. It would be essential for Heads of Government to give a directive setting a timescale for the reform of the CAP: Signor Cossiga had spoken in Rome of allowing three years. Unless reform was achieved, the problem now afflicting Britain would affect someone else.

The Prime Minister said that she doubted whether the problem would be resolved in three years. She had noted that Mr. Jenkins had thought in terms of the corrective mechanism being perhaps extended for one year beyond its due date in 1982. This would not be enough. The corrective mechanism would have to be extended for three further years, ie for six years from now. At the end of that time it should be reviewed again. There were thus two things that needed to be done to the corrective mechanism: the existing

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restraints had to be removed and it had to be extended for three years beyond 1982.

This, however, could only be one part of the solution. Receipts had to be increased. Britain was asking that the Commission should identify ways in which more money could be produced. It was difficult to put a figure on how much would be required because the figures changed from year to year. The best ways to express the British requirement might be to say that receipts should be increased in such a way that in the end Britain was a net contributor of about 200/250 mua. If Britain's GNP increased, Britain would be prepared to contribute more. However, ^{the} calculations was not, of course, based exclusively on the GNP criterion. If it had been, Britain would be entitled to be a net beneficiary. The Prime Minister said that she did not want anyone to be under the illusion that she would be prepared to settle for a comparatively small sum in the coming year. She could not do so. She had to deal not only with Britain's domestic economic problems but also with popular resentment of the scale of the British contribution. She would not be prepared to settle for "a bit more than 520 mua". But she was prepared to agree that Britain should be a net contributor.

Signor Cossiga said that it would be essential for Britain and Italy to establish that their position was consistent with Community philosophy. After all, that philosophy did not envisage widening differences in the economies of member states. The great danger was that the British request would be seen as implying a lack of commitment to the development of the Community. Another problem would flow from the vested interests which had grown up around the present policies. A campaign to reduce the weight of the CAP and reduce surpluses would have to be fought in the name of the development of other areas of the budget. It would not be enough simply to criticise the CAP. New ideas would have to be advanced in order that others could see the prospect of sharing in the benefits. The attitudes of the European Parliament were relevant in this connection. The European Parliament might be an important ally. The arguments about preserving the rights of the existing Community institutions "smelt of milk". Signor Cossiga said that he thought that it was very important that he should be

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able to say in his discussions in Europe that the UK did not consider its difficulties as internal but as an aspect of the development of the Community. If, for instance, he could make this point it would ensure that Britain was not isolated in the European Parliament; indeed it would encourage the Parliament to make an effort on Britain's behalf.

The Prime Minister said that Britain's search for a solution to the budgetary problem displayed no lack of commitment. Indeed, it could be argued that the lack of commitment was being shown by the wealthy members who were refusing to pay their share of the budget. Britain, although among the less wealthy, was prepared to contribute. Britain believed in the Community. The Community had a great role to play in the world if the members could stick together. It was in this belief that Britain had tried to give a lead in tackling the present crisis in South West Asia. Her instructions after the European Council meeting in Dublin had been that work should continue as normal in all organs of the Community. Discussions on fish and energy had continued as before. It was regrettable that the sheepmeat issue had not been resolved but Britain had not been obstructive. British representatives had pursued the effort to find a common approach. The Prime Minister said that Signor Cossiga's reference to the European Parliament raised a difficult question. The Parliament wanted more powers. It was doubtful whether it should have them. But it was important to listen to the Parliament. Shortly before the European Council in Dublin, the United Kingdom had voted with the Council of Ministers against the Parliament and British MEPs had been extremely angry. The Prime Minister felt that she had let the MEPs down without improving her case in Dublin. She regretted the incident.

Signor Cossiga said that it would be very important psychologically to be able to show that progress had been made in dealing with energy, fish and sheepmeat. What was achieved in these areas would be weighed against what was achieved on the budget. It would be very helpful if Britain could be seen to be taking a positive attitude. The Prime Minister repeated that Britain had not been negative on sheepmeat or on the other problems. On the contrary, British representatives had been co-operative.

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She had incurred a good deal of criticism as a result. Signor Cossiga commented that it was essential to stop a tendency which was developing for Heads of Government to fill that role only within their own countries. No-one knew, for instance, what Ministers for Agriculture had got up to at their meetings. He sometimes thought they were the only ones with real power in the Community at present. Decisions of Heads of Government had to be respected. It was not enough that they should only be valid if endorsed by other Ministers. The Prime Minister agreed.

Signor Cossiga asked for further details of British thinking on ways in which action could be taken in those parts of the budget dealing with structural policy in order to increase Britain's receipts. The Prime Minister undertook to let him have the details the following day.

The discussion ended at 1940.

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