



Prime Minister

I am reporting to Cabinet today on the completion of my tour of the capitals of our Community partners to discuss the United Kingdom's net contribution to the Community budget. I thought it would be useful to let you and colleagues have a somewhat more detailed account of my impressions.

In general I think the tour served a useful, if limited, purpose. We have re-focussed our partners' minds on our budget problem at a time when they might have been inclined to give priority to other issues; we have achieved some kind of consensus in very general terms that efforts must now be concentrated on finding practical means to increase Community expenditure in the United Kingdom; and we have demonstrated our determination to get this matter settled in the next month or two.

The most welcome of the reactions I found almost everywhere was a matching wish to settle the matter at the next European Council, a stated political will except in Paris to go beyond what was on offer at Dublin and a clear recognition that it was in the Community's overall interest to find a satisfactory solution rapidly so that we could together face up to the other problems about us. I think the crises over Iran/Afghanistan are helping our cause in this way. Against this it is clear that none of our partners is yet thinking of figures which we would find reasonable, that there remain many doctrinal hang-ups about agreeing to the substantial and lasting solution we need and that the French, while they may not be playing a wrecking game, are certainly not going to make life easy for us or our

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other partners. But only the French dispute that the contribution side of the problem was effectively settled at Dublin.

The main points covered, with my own conclusions, are:

- (i) Amount. Because I was not ready to say in round terms what we would settle for, nor were our partners; although I was questioned on this point, the matter was not pressed. But I think we need to recognise that, while a 'genuine spirit of compromise' and 'small room for manoeuvre' have served us well this far, we now need to give at least some indication that, for example, we are ready to see ourselves as modest net contributors. I have minuted you separately about the line I think you might take with Cossiga when he comes here next week.
- (ii) Duration. This is going to be one of the most difficult issues. While I found a general recognition that it was in everyone's interest to solve our budget problem once and for all, I equally found an unwillingness to face up to the need for machinery which would bring about this desirable end. There is much talk of a fixed period of two, three or four years with a review towards the end of it of whatever arrangements we agree. This is closely linked with the next point.
- (iii) A receipts mechanism. There is now a better understanding of our thinking on this point but there is not much support for it. There remain strong, doctrinal reservations in most capitals and also a short-sighted financial view that it could prove more expensive than an alternative approach. We must expect the French to play on these fears. I certainly do not think we should weaken in our advocacy of the idea as the best way of achieving a lasting solution. We may well gain ground as others see more clearly the shortcomings of other methods. But I think we need to continue to make it clear that we do not see it as the

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only solution; and thus avoid getting into a deadlocked issue of principle which will delay negotiation of the substance.

(iv) Increased Community Expenditure in the United Kingdom.

Thanks to Dublin this is now the focus of our partners thinking and that of the Commission. The problems of achieving the objective by across-the-board increases in existing policies or new Community-wide expenditure programmes are well understood. So special programmes to boost expenditure in the United Kingdom are to the fore and will be even more so when the Commission proposals come forward at the end of this month, if, as we expect, they firmly endorse this approach. Some of the ideas we have given the Commission and the Member States (investment in coal, Northern Ireland) seem to be falling on reasonably fertile ground. If the idea of a mechanism were after all to prove possibly acceptable, it might help presentationally to link it with expenditure of this kind in the United Kingdom.

(v) Additionality. Not an issue which was much raised with me and certainly not one I raised. I think we can hope that this will remain a non-issue so long as we do not make too much of it in our own public statements at home.

(vi) Re-structuring the Budget. There is widespread support for this by most of our partners and I made clear that we were in favour. It seems now to be understood that re-structuring will not bring early or substantial benefits to the United Kingdom and that it does not therefore have a key role to play in solving our immediate problem. So I think we have nothing to fear from giving all-out support for the general objective and a good deal to gain, given the importance attached to it by some of our partners and the long-term interest we have in it ourselves.

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(vii) Agricultural Prices and the Economy Proposals.

I made clear that we saw no justification for price increases for products in surplus, particularly milk. Many of our partners will find it hard to follow so rigorous a line, and they are all keeping their powder dry until the Commission makes its proposals next month. The French, at least, will then try to link a solution to our budget problem to certain assurances on the price package, if, as seems likely, that package cannot be agreed before the next European Council. On Gundelach's economy proposals I found some misunderstanding of our position and a tendency to interpret our problems over individual items as a negative attitude to CAP reform in general. I attempted to put this straight. It is very damaging to us in a number of important capitals (Bonn, Rome and The Hague in particular) if we are believed not to favour reform.

I think we have to make it clear, as we did in Bonn, that economy proposals from the Commission have to be looked at together with decisions on CAP prices, especially for products in surplus; and that the form of any agricultural economy package must not be such as to inflict differential damage on the United Kingdom. In our budget situation that would be clearly unacceptable and would impair, if not destroy, the principle that re-structuring of the budget should in the long term make a contribution to easing our budget problem.

(viii) The Linkage Items (Fish, Energy, Sheepmeat). Very few people owned up to being in favour of specific linkages themselves but all, without exception, were convinced that someone else (usually the French) would insist on them. The French fully bore this out by adding to the usual three, the rejected 1980 budget, agricultural prices and economy proposals. I stuck to our line about willingness to make progress on all subjects but need to treat issues on their merits.

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- (a) Fish. Here I think there is a reasonably wide understanding that it might not be tactically in anyone's interest for a link to be made. So long as some progress continues to be registered in the Fish Council, then I think this one might fade away as a linkage candidate, although the French spoke of it in those terms.
- (b) Energy. Mentioned by almost everyone as a necessary and desirable element in any settlement of our problem. Ideas are not very specific and there is less tendency than there was to peddle half-baked suggestions such as the United Kingdom selling oil cheap to our Community partners. Many see this as the crucial political element enabling them to say to their Parliaments and public opinion that there was a reasonable balance in any settlement with us. I am becoming more and more convinced that a unilateral statement by us on a number of ways in which we intended to take account of our partners' interests in operating our oil policies, could be of quite disproportionate political benefit at the European Council without involving any major commitments. Meanwhile our present line is a good way of up-valuing the card should we eventually decide to play it.
- (c) Sheepmeat. This is the French and they alone. They seem now to be quite categorical as to linkage. I think we will eventually have to accept that and make the most of it in tactical terms.

So much for the issues of substance. I found little enthusiasm for an early, special meeting of the European Council, partly because no-one believed a solution would be in sight before the end of March but partly also because of a reluctance to go to a meeting devoted solely to our problem. We will have to talk this over with

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Cossiga next week but my feeling is that, while we should go on pressing for a settlement as early as possible, we should not make an issue of an early meeting.

On future procedure the picture is much less clear. Bilateral contacts are obviously going to continue to play a crucial, probably the crucial, role in the search for a solution. Others are now going to be more active - Cossiga plans to see Schmidt and Giscard, and we should encourage this, the latter two are meeting in early February, Jenkins is seeing Schmidt soon and will obviously be doing his usual pre-European Council rounds. We need now to reflect carefully how best to orchestrate our own bilateral contacts. Peter Carrington will be seeing François-Poncet the weekend after next. But beyond that we have not got very much planned. Certain multilateral procedures will no doubt grind into gear as soon as the Commission proposals are on the table but I doubt whether either the Foreign Affairs or the ECO/FIN Councils will contribute much to narrowing the gap. We will first need in any case to discuss future procedure with Cossiga and hear what he has in mind.

I have considered a suggestion that we might float with Cossiga the idea of an informal meeting of Heads of Government in February to prepare a definitive solution but, on balance, my conclusion is that the risks outweigh the possible advantages of such a course of action. The French in any case would not go along with it and we do not want to court a rebuff.

I am sending copies of this minute to Members of OD, to the Minister of Agriculture, Fisheries and Food, the Secretary of State for Energy, the Attorney General, and to Sir R Armstrong and Sir M Butler.

L.H.G.

24 January 1980

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