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MR ALEXANDER

COMMUNITY BUDGET: THE NEXT STEPS

1. The Prime Minister has called a meeting to discuss the Foreign and Commonwealth Secretary's minute of 1 May. Mr Walker's minute of 1 May to the Foreign and Commonwealth Secretary is also relevant. You may feel that the Prime Minister hardly needs a brief from me on something with which she is so closely familiar; but I submit this in case it may be useful.
2. The aftermath of Luxembourg carries both dangers and opportunities for us. As noted in the Cabinet this morning, there is a risk that President Giscard and Chancellor Schmidt will seek to draw back from the offers they made in Luxembourg on the budget. The smaller but richer member states are also going to be very reluctant to follow the Franco-German proposals if they are coupled with the idea of a future limit on the net benefits they gain from the budget. The opportunity lies in the considerable advance made in Luxembourg and the general wish to settle this matter given the international situation.
3. To minimise the risks and make the most of the opportunities, we need to give early indications of our readiness to help the Presidency take matters forward. But there is probably not much room for manoeuvre; and the more we seek to improve the offer on the budget, the more difficult it will be to secure an ideal settlement on fisheries and sheepmeat and vice versa. Those who have to carry the process forward will need to be clear as to our precise negotiating limits in all three areas.
4. The Foreign and Commonwealth Secretary's minute is convenient as the basis for discussion (referring to Mr Walker's minute as necessary). The Prime Minister may like to invite him to introduce it. Then take substance - budget, CAP prices, sheepmeat and fisheries; then procedure.

5. On the budget, the Foreign and Commonwealth Secretary suggests we should explore two options. Officials have tried to estimate the difference between our approach and the French for 1981. Mr Jenkins said it was about 150 meua. He was about right on the last published Commission figures. But it is clear that the outturn will be substantially higher and up to the 1 per cent ceiling. On this basis, our net contribution would be 680 meua if it rose in proportion to the Budget but about 1150 meua by the Giscard method. The difference would be even greater in 1982, for which it is impossible to produce realistic forecasts. It points to the advantage of sticking to a limit on the net contribution even if we had to concede a slightly higher figure, rather than switching to a flat rate-refund.
6. On CAP prices, Mr Walker suggests that at the Agriculture Council next week he should maintain his general reserve but take part in the discussion on all the questions which were left unresolved in the Luxembourg document. The Foreign Secretary concurs. Mr Walker also suggests that he should not block devaluations of the French franc and the Italian lire. If we take this line, it looks as though the French will not press at this stage for action by the Eight. The crucial date is 31 May when the present regulations expire. But it is clear that, if any attempt to vote were made, we should have to vote against, and if necessary to ~~invoke~~ invoke the Luxembourg compromise. If they nevertheless insisted, Mr Walker would have to report back.
7. On Sheepmeat (paragraph 5 III), the Minister of Agriculture might be invited to set out more fully our final fallback position in relation to its negotiability with the French. Could we in the last resort accept export refunds on condition that they were only introduced after prior consultation with the New Zealanders?
8. On fisheries, the Prime Minister will want to ask the views of the Minister of Agriculture. Up to the Luxembourg European Council we took the view that discussion on fisheries was premature. This will no longer be tenable after the discussion which took place there. The French and the Germans are now more likely to insist that we make some commitment. On the other hand, no one

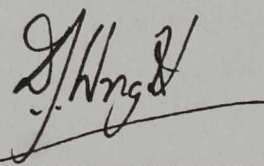
realistically expects a fisheries settlement until later in the year. The Commission has been slow in coming forward with revised proposals and the bilateral talks with the French (and the Danes) are still going on. Should we press for early Commission proposals and for a Fisheries Council before the end of May? Would it be possible to find an agreed set of guidelines for the future work which would not prejudice our position on access? To answer these procedural questions we really need a paper from Mr Walker on where he has got to in his own thinking, and in consultations with the industry and how the complex of quotas and access can best be handled. This is crucial. Questions like restructuring the fleet, third country agreements and enforcement, while important, are secondary.

9. On procedure, there is the question of a message to Signor Cossiga. Then, does the meeting agree to the series of bilateral meetings proposed in paragraphs 6-12? Paragraph 14, summarising the line to take in the Council meetings in the next few weeks, should pose no difficulty. The Finance Council on 12 May is likely to be cancelled.

10. In paragraph 15, the Foreign Secretary suggests a possible settlement at the 2/3 June Foreign Affairs Council. This may be too late in view of the 31 May deadline for agriculture prices. Mr Jenkins appears to have in mind an earlier date eg the informal meeting of Foreign Ministers scheduled for mid-May.

CONCLUSIONS

11. The Prime Minister may be able to conclude that the proposals in the Foreign and Commonwealth Secretary's minute of 1 May are agreed, subject to the discussion, and should form the basis for our negotiating posture in the weeks ahead. The Minister of Agriculture should circulate as soon as possible a paper on fisheries, suggesting how this issue should be handled, especially on quota and access, in the next few weeks.


ROBERT ARMSTRONG

1 May 1980

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SECRET

(approved by Sir R Armstrong
and signed on his behalf)