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FM BONN 29174JZ APR 80

TO IMMEDIATE FCO

TELEGRAM NUMBER 355 OF 29 APRIL

INFO IMMEDIATE UKREP BRUSSELS

INFO PRIORITY OTHER EC POSTS, WASHINGTON

EUROPEAN COUNCIL: LUXEMBOURG

1. INSPISSATED GLOOM HANGS OVER BONN LIKE A PALL AFTER THE LUXEMBOURG SUMMIT, GENERATED LARGELY BY THE CHANCELLOR'S CURRENT MOOD. THE FOLLOWING ARE AN AMALGAM OF IMPRESSIONS COLLECTED FROM VAN WELL, WHO LUNCHEDED WITH ME TODAY, VON STADEN, ON WHOM I CALLED THIS AFTERNOON AND LAUTENSCHLAGER, WHOM THE HEAD OF CHANCERY SAW BEFORE LUNCH.
2. THE CHANCELLOR HAS COME BACK FROM LUXEMBOURG DISAPPOINTED, DISCOURAGED AND UNABLE TO SEE HIS WAY FORWARD. HIS FINAL OFFER WENT 100 PER CENT FURTHER THAN THE AUTHORITY HE HAD RECEIVED FROM HIS CABINET, AND IF IT HAD BEEN ACCEPTED HE WOULD HAVE HAD TO HAVE RECKONED WITH THE RESIGNATION OF HIS MINISTER OF FINANCE, COMING AS IT WOULD HAVE DONE ON TOP OF OTHER DEMANDS ON THE GERMAN BUDGET SUCH AS AID TO TURKEY, ADDITIONAL DEFENCE EXPENDITURE, ETC. IN THESE CIRCUMSTANCES HE COULD ONLY HAVE HOPED TO GET EX PACT POST FACTO CABINET APPROVAL FOR ONE YEAR: EVEN WITH HIS OWN IMMENSE AUTHORITY HE COULD NOT HAVE EXPECTED TO GET AN OFFER TWICE AS GREAT AS THE AUTHORITY HE HAD RECEIVED FROM HIS CABINET FOR A THREE-YEAR PERIOD. THE GLOOM WAS THE GREATER SINCE, NOW THAT THE OFFER HAD BEEN PUT FORWARD AND REJECTED, HE WOULD ALMOST CERTAINLY NOT BE AUTHORISED TO PUT IT FORWARD AGAIN AND CERTAINLY NOT FOR A PERIOD OF YEARS. BOTH VAN WELL AND VON STADEN TOLD ME THAT THE CHANCELLOR EXPECTS A ROUGH RIDE IN CABINET TOMORROW.
3. AFTER DUBLIN, THE CHANCELLOR HAD BEEN ADAMENT THAT THERE COULD NOT BE A REPEAT PERFORMANCE OF FAILURE. NOW, IN HIS VIEW, THERE HAS BEEN A FAILURE AT LUXEMBOURG AND HE IS, ACCORDING TO HIS SENIOR STAFF, DETERMINED NOT TO GO THROUGH THAT EXPERIENCE AGAIN. IT IS FOR THIS REASON THAT HE WISHES THE SUBJECT OF THE UK BUDGET TO BE REMOVED FROM THE AGENDA OF THE EUROPEAN COUNCIL AND THE MATTER DEALT WITH AT LOWER MINISTERIAL LEVEL. HE IS NOT PREPARED TO RISK A THIRD FAILURE OF THE EUROPEAN COUNCIL. FOR THAT REASON, HE IS UNWILLING TO TAKE UP THE PROBLEM AGAIN AND EXPECTS THE FINANCE PROBLEM TO BE SOLVED BY THE FINANCE MINISTERS, PERHAPS IN

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ASSOCIATION WITH THE FOREIGN MINISTERS, AND THE AGRICULTURE PROBLEM TO BE SOLVED BY AGRICULTURE MINISTERS.

4. VAN WELL (ALTHOUGH NOT (REPEAT NOT) VON STADEN) WENT ON TO SAY THAT THE CHANCELLOR HAD FEARS OF THE BREAK-UP OF THE COMMUNITY AND THAT THE POINTS HAD BEEN SET FOR AN EVENTUAL BRITISH DEPARTURE. VAN WELL ALSO SAID THAT THE CHANCELLOR FEARED THAT THE FAILURE OF THE COMMUNITY TO SOLVE ITS INTERNAL PROBLEMS WOULD REDUCE ITS EFFECTIVENESS IN DEALING WITH THE MANIFOLD AND MORE IMPORTANT INTERNATIONAL PROBLEMS WITH WHICH WE WERE ALL FACED. I RESISTED BOTH TRAINS OF THOUGHT VIGOROUSLY. I SAID THAT THE CHANCELLOR WOULD HAVE HEARD NOT A WORD FROM THE GOVERNMENT IN LONDON ABOUT A BRITISH DEPARTURE FROM THE COMMUNITY. ON THE CONTRARY WE HAD REPEATEDLY MADE IT CLEAR THAT WE WERE IN THE COMMUNITY TO STAY AND THAT ONE OF THE REASONS THAT WE NEEDED A SOLUTION TO THE BUDGET PROBLEM WAS SO THAT THE BRITISH GOVERNMENT COULD COOPERATE IN ALL ASPECTS OF THE COMMUNITY WORK WITH THE FULL BACKING OF BRITISH PUBLIC OPINION. THE ONLY SUGGESTIONS THAT BRITAIN MIGHT LEAVE THE COMMUNITY WERE IN FACT EMANATING FROM PARIS. AS FAR AS WE WERE CONCERNED WE WOULD HAVE NO TRUCK WITH SUCH SUGGESTIONS. AS FOR THE COMMUNITY'S CAPACITY TO DEAL WITH INTERNATIONAL PROBLEMS, THE LUXEMBOURG SUMMIT ITSELF HAD DEMONSTRATED THAT THE EXISTENCE OF INTERNAL PROBLEMS WAS NO IMPEDIMENT TO THE PROPER CONDUCT OF THE COMMUNITY'S FOREIGN BUSINESS. THERE HAD BEEN AN EXCELLENT DISCUSSION OF THE IRANIAN PROBLEM AND THE COMMUNITY HAD ISSUED A STATEMENT ON IRAN WHICH WAS WHOLLY SATISFACTORY TO THE UNITED STATES.

5. I SAID THE REAL PROBLEM WAS THE FAILURE OF THE COMMUNITY AT ANY LEVEL TO TACKLE THE PROBLEM OF THE COMMON AGRICULTURE POLICY. I HAD FREQUENTLY HEARD CHANCELLOR SCHMIDT EXPRESS AS HIS PERSONAL OPINION THAT THERE SHOULD BE NO PRICE RISES FOR PRODUCTS IN SURPLUS. THE CHANCELLOR HAD ENCOURAGED THE PRIME MINISTER TO TAKE THE LEAD IN CAP REFORM. THE COMMISSION HAD PROPOSED ONLY MODEST PRICE RISES OF ABOUT 2 PER CENT AND YET GENSCHER AND ERTL HAD GONE TO PARIS AT THE END OF LAST WEEK AND AGREED A 5 PER CENT RISE WITH THE FRENCH INCLUDING RISES FOR PRODUCTS IN SURPLUS LIKE MILK AND SUGAR. THE NET RESULT WAS THAT THE COMMUNITY OF NINE WAS IN EFFECT FINANCED BY TWO MEMBERS, BRITAIN AND GERMANY. IF THINGS CONTINUED AS THEY WERE, TWO MEMBERS WOULD ALSO IN FUTURE FINANCE A COMMUNITY OF TEN, ELEVEN AND TWELVE. I WAS AT A LOSS AS TO HOW TO INTERPRET THIS IN SATISFACTORY TERMS TO LONDON. NEITHER VAN WELL NOR VON STADEN SEPARATELY WERE ABLE TO GIVE ME ANY USEFUL GUIDANCE ON THIS ASPECT OF THE PROBLEM.

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6. THE CHANCELLOR GAVE A PRESS CONFERENCE LAST NIGHT TO GERMAN CORRESPONDENTS. IF WHAT HE SAID IS ANYTHING LIKE WHAT HIS SENIOR STAFF TOLD ME, WE CAN EXPECT A VERY BAD PRESS TOMORROW.

7. COMMENT. I WILL SEND CONSIDERED COMMENT WHEN THE DUST HAS SETTLED. BUT THERE CAN BE NO DOUBT THAT THE CHANCELLOR'S INITIAL REACTION IS ONE OF VERY EXTREME DISCOURAGEMENT. THIS REFLECTS, OF COURSE, NOT ONLY THE COURSE OF EVENTS AT LUXEMBOURG, BUT THE CUMULATIVE EFFECTS OF THE FIASCO OF THE HOSTAGE RESCUE OPERATION IN IRAN, THE RESIGNATION OF VANCE AND THE GENERAL PROBLEM OF WHAT TO DO ABOUT HIS VISIT TO MOSCOW. IN ADDITION, HE HAS NOT BEEN IN THE BEST OF HEALTH LATELY AND IS STILL SUBJECTING HIMSELF TO THE MOST RIGOROUS WORK SCHEDULE. DISCOURAGEMENT WHEN NOT IN THE BEST OF HEALTH IS ALWAYS MORE DIFFICULT TO BEAR THAN WHEN ONE IS FIT. BUT SCHMIDT'S PRESENT FRAME OF MIND MUST, OF COURSE, HAVE A BEARING ON THE WAY IN WHICH YOU AND THE PRIME MINISTER REACT TO SIR M BUTLER'S RECOMMENDATIONS FROM BRUSSELS. IT MUST ALSO AFFECT THE ADVICE YOU HAVE TO GIVE HIM ON HIS VISIT TO MOSCOW. ON THIS PLEASE SEE MY IMMEDIATELY FOLLOWING TELEGRAM (NOT TO ALL).

WRIGHT

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