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MR. ALEXANDER

Anglo-German Summit Meeting

In the light of the Prime Minister's briefing meeting this morning, I would like to suggest some additional thoughts for the Prime Minister's talk with Chancellor Schmidt on the Budget issue.

2. I think there would be advantage in giving Schmidt a table showing how the net contributions and benefits would look if we achieved what we told Signor Cossiga, i. e. a lower net contribution than France in proportion to relative GNP. The Treasury will be producing the figures. In handing it over, the point to make would be that, while for simplicity, we have taken the lower Commission figures; in practice the outturn will be even higher, if the agricultural price settlement is higher than that proposed by the Commission.

3. We agreed that the Prime Minister should try to convince Chancellor Schmidt that a flat rate settlement for only three years was not only unacceptable to us but not in the best interests of the Community. It would land the whole issue back on to the Community's agenda and into the political arena here during the lifetime of the present Parliament. This would be bound to make it into an anti-EEC electoral issue. To be sure of avoiding that, we need at least five years, given that the issue will have to be revived towards the end of the period. We have proposed six years - the same period as was fixed for the original Financial Mechanism in 1975. We have also produced a coherent strategy: a target for restructuring the Community Budget (not more than 55 per cent on the CAP) by 1986 with special arrangements for the United Kingdom running for the same period. If the restructuring has succeeded, then there may be no need for continued special arrangements for the United Kingdom. But if as they have told us the Germans (and the French) refuse to have any quantitative targets for restructuring, then we can have no certainty that our problem will be resolved through the development of the right Community policies.

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4. The point Sir Michael Butler suggested should be put to Chancellor Schmidt was that an inadequate settlement now would leave the United Kingdom no alternative but to continue fighting for further ways of improving our Budget situation on every occasion. This would be bound to have a disruptive effect on the Community. What we looked for was a durable solution which would allow the United Kingdom to approach the further development of the Community with the same objectivity as other member states.

5. On fisheries the Prime Minister will want to discourage Chancellor Schmidt from having an ill-prepared discussion at the next European Council. Any suggestion of linkage with the Budget issue would make the political task of finding an acceptable common fisheries policy more difficult, if not impossible. The Prime Minister could say that the Commission is working on the problem; there is absolutely no wish on our part to delay matters; and, if it would be helpful, might suggest to Chancellor Schmidt that there should be an early bilateral between the two Fisheries Ministers (Mr. Walker mentioned that he had not had a discussion with Herr Ertl on fisheries for six months). On energy, the presentational statement which the Prime Minister has now approved contains a reference to a situation of "sub-crisis" but not to our existing IEA and EEC commitments in the event of a serious oil shortage. Drawing on what the Prime Minister said in her interview in Die Welt, she could confirm to Chancellor Schmidt that, if the situation were to trigger off action under the IEA and EEC emergency arrangements, we should, of course, be giving preference to our partners. When the time comes, the same thought could be added as a final sentence to paragraph 8 of the statement (Annex A to Brief RMV(80) 2(vi)) as follows: "Of course, if the situation deteriorated and the Community and IEA arrangements were triggered off, we should be giving preference to our partners." I attach some additional notes from the Department of Energy on how the FRG has benefitted from North Sea oil.

6. On CAP prices, I attach a note from MAFF on the effects on the Community Budget (and on food prices) of different levels of price settlement. If the Germans had their way on prices, and there was no super-levy on milk, then the whole of the savings from Gundelach's economy package would be

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swallowed up. We want economies but on a non-discriminatory basis that does not penalise the more efficient. The most effective economy of all is a price freeze. Judging by the figures we can argue the budgetary cost point with the Germans to greater purpose than the argument about food prices, since the effect there is very small.

*J. Wright*

(Robert Armstrong)

*(approved by Sr. Robert Armstrong  
and signed in his absence).*

26th March 1980

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