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RECORD OF A MEETING BETWEEN THE PRIME MINISTER AND THE PRESIDENT
OF THE EUROPEAN COMMISSION, MR. ROY JENKINS, AT 10 DOWNING STREET
AT 1130 ON MONDAY 22 OCTOBER

Present:

The Prime Minister	Mr. Roy Jenkins
Mr. M. Franklin	Mr. C.C.C. Tickell
Mr. Michael Alexander	

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Following a reference to the meeting of Community Foreign Ministers at Ashford Castle, the Prime Minister said that there were too many European meetings at Ministerial level. She hoped that the report of the Three Wise Men would recommend a reduction in the number of such meetings. She also hoped that the Three Wise Men would come down in favour of having one Commissioner per member country. Mr Jenkins said that he agreed on both counts. Two Commissioners per country would be ridiculous after enlargement had taken place. However, he thought that the French, who had previously favoured the single Commissioner approach, might be having second thoughts.

Mr. Jenkins congratulated the Prime Minister on the speech she had made in Luxembourg. He commented particularly on the parts which had not made the headlines. The Prime Minister said that no-one paid any attention to philosophy. Mr. Jenkins disagreed and said that he thought that a lot of influential people would read the speech with care.

Community Budget

The Prime Minister said that Britain was seeking an equitable solution to the problem of the Community Budget. She was assuming that Britain's partners would accept the justice of the claim. The obligation flowing from the 1970 language that she had quoted in the Luxembourg speech was clear. There was no question at this stage of our threatening anything: the expectation was that our partners would meet their obligations. HMG intended to conduct the negotiation according to the Queensberry Rules. However, if others

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declined to abide by the rules, Britain would not either.

Mr. Jenkins said that he was glad to hear that the Prime Minister intended to remain within the rules. It was important not to talk about withholding Britain's contribution. Both the present British Government and the previous one had always succeeded in avoiding doing anything illegal. The French had been extremely provocative in their reaction to the European Court's judgement on sheep meat. He and Mr. Gundelach had been taking a very tough line with them. Britain should not follow the French example if we did not achieve a satisfactory result in Dublin. There was a whole range of retaliatory measures open to us which did not involve illegality.

Turning to the handling of the Dublin meeting, Mr. Jenkins said that he knew the Prime Minister needed to achieve a substantial result there. He supported her in this objective. But in his view it would be wrong to stake everything on the Dublin meeting. There would of course have to be a crisis there: the occasional crisis did the Community no harm. But it was important that the Prime Minister should not become a prisoner of her public position. If the Government were to achieve a reasonable result in Dublin it would be a remarkable success considering how short the Government's period in office would by then have been. The Prime Minister should avoid a situation where such a success might either be unacceptable to her or be presented by others as a failure. The Prime Minister said she was not prepared to be fobbed off with a compromise solution. If the Community were not prepared to endorse and pay for an equitable solution to the Budget problem, she would have to reconsider some of her attitudes to the Community. The House of Commons was about to reassemble and she expected to be under constant attack on the Budget question thereafter. It would be no good for the Community to offer her, say, five or six hundred million pounds as a full solution.

Mr. Jenkins said he took the point. But the other members of the Community were unlikely to regard it as right to put any country in a position where its net contribution was in balance regardless of the policies it pursued. This would mean that the country in

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question was not concerned by the way the Community's policies developed and would lead to an attitude of indifference about the consequences of membership. If, for instance, Britain were put in that position it would remove any pressure on her to reform the CAP. The Prime Minister said there was no danger of this in her case. Even if Britain's contribution was inbalance, she would not be prepared to see the total size of the Budget grow. She would not wish to see the amount of British money passing through the Community's hands increased. Nor would her interest in securing reform of the CAP diminish. The CAP had been catastrophic for Britain. Indeed there were few Community policies which had been advantageous for this country. Community policy on fish, on industrial matters, on energy and on trade (eg the Multi-Fibre Agreement) had all been unhelpful. The Community had failed to react with sufficient speed or vigour to the fact that US subsidies on oil were giving them an edge in all areas where oil, whether as a source of energy or as a base for synthetics, was a factor in price.

Mr. Jenkins took note of the last point and undertook to ensure that Vicomte Davignon followed it up soon. On the general point, he said that membership of the Nine gave Britain a stronger negotiating position than she would enjoy in isolation. He cited the Multi-lateral Trade Negotiations as a specific example. He added that Britain's position in 1976 would probably have been much more serious had she not been a member of the Community. (The Prime Minister agreed.) Even where agriculture was concerned, Britain had not done as badly as might at first appear. It was not inconceivable that a national policy based on deficiency payments might have cost more than the present contribution to the Budget. The Prime Minister disagreed with the last point. She said that the combination of high intervention prices and co-responsibility levies was absurd. Its only effect was to keep the Brussels bureaucracy in business.

Mr. Jenkins asked how the Prime Minister intended to play the energy card at Dublin. He was not asking that Britain should in any way surrender control of North Sea oil but merely that the matter should be handled less casually. He was aware that 50% of

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Britain's oil exports already went to Europe. This could be turned to advantage. Britain should operate like a garage dealing with local customers. One did not offer preferential prices: one offered preferential treatment. Herr Schmidt was particularly interested in security of supply. The Prime Minister said that HMG did not have sufficient control of the activities of the oil companies. Mr. Jenkins was in fact suggesting that all long-term contracts being negotiated through BNOG should be submitted to her. However the matter could be looked into further.

The Prime Minister said that at some stage she might have to remind the other members of Britain's contribution to the defence of Europe. Mr. Jenkins said that this was a card that had to be played with considerable caution. He had been involved in an earlier occasion (in 1968) when Mr. Wilson had tried this tactic with the Germans and it had backfired very badly. A move towards membership of the EMS exchange rate mechanism might be a more useful card. Was there any chance of HMG making such a move? The Prime Minister said that it was still too early. She wanted to see the results of a further relaxation of exchange controls. She recognised the political advantages but was not prepared at present to take the risk with the money supply that full membership would involve. Mr. Jenkins pointed out the risks of leaving membership too late. The fundamental problem with Britain's membership of the Community as a whole had been that we had joined too late and at the wrong time. There were great disadvantages in joining an organisation whose rules had been formulated in one's absence. Moreover, in remaining outside the exchange rate mechanism Britain was denying herself the interest rate subsidy. This would be worth some 200 m.u.a. and would be well worth having in its own right. The Prime Minister did not regard a figure of 200 m.u.a.s of any great significance.

Turning to the personalities involved, Mr. Jenkins said it was essential for the Prime Minister to retain Chancellor Schmidt's support. Without Herr Schmidt, the UK would be completely isolated and finding itself in a position where a rupture with the Community was a real possibility. It would be important to bring home to Herr Schmidt the need to push President Giscard into being reasonable:

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given the importance he attached to the Franco/German relationship this would not be easy. With Herr Schmidt's support, it should be possible to secure the backing of the Italian, Dutch, Belgian and Luxembourg Governments. The Danes and the Irish would be difficult. But with the backing of a reasonable cross-section of the Community the isolation of President Giscard ought to be attainable. It might well be a useful tactic for the Prime Minister to speak very toughly indeed to President Giscard in a plenary meeting of the European Council. The more allies Britain had the less likely a real split in the Community would be.

Reverting to the general question, the Prime Minister repeated that she was seeking an equitable adjustment. This meant something very close to a broad balance: £600 million would not be enough. She was not saying that she would not contribute to the Budget but she was not prepared to contribute on the present scale. If Britain's GNP were to rise then she would be prepared to see Britain's contribution rise. She was of course continuing to look at the courses of action open to her in the event that the outcome at Dublin was unsatisfactory. She was considering everything that she could do within the law: she was prepared to go within a hair's-breadth of what the law would permit.

Mr. Jenkins said that he recognised the need for a solution on a large scale. The Commission would produce a paper. It would not propose a single solution but would set out a number of approaches including one which would give Britain everything she asked and another which would produce two-thirds of her requirement. (The Prime Minister interjected that two-thirds would not be enough.) He did not think it would be possible to produce a complete solution that would operate within a few months. Moreover, there were conflicting claims on the Budget. Mr. Franklin pointed out that the members of the Community had all accepted the existence of a problem: having done so it was difficult to see why they were unwilling to accept the scale of the problem. Mr. Jenkins said that it was important to look at the problem through the eyes of other members. They were conscious that Britain, as a result of her energy resources, was moving into an ever stronger bargaining position and found it difficult to accept her claims to be poverty-stricken.

Mr. Jenkins added that a solution which tackled the receipts as well as the contribution side of the problem might run into difficulties if the 1% VAT ceiling were rigidly observed. The Prime Minister said that she intended to see the ceiling was observed. Mr. Jenkins said that it was inevitable that the 1% VAT ceiling should be breached at some stage. The Prime Minister said that she was determined to use the 1% ceiling to force a reform of the CAP. Mr. Franklin pointed out that HMG did not wish to spend their way out of the Budget problem. We wanted a cash payment within the current Budget.

Commissioner Gundelach

Mr. Jenkins said that Mr. Gundelach had incurred criticism in Denmark as a result of not pressing for interim measures on pout fishing. He had taken a very courageous stand on this issue. He was an influence for good within the Commission. It was not clear that he had spoken as had been reported on the question of the European Court's impending judgement on the UK's fish conservation measures.

Telematique

Mr. Jenkins said he attached great importance to the formulation of a Community approach to the development of micro-electronics technology. The EEC represented 30% of the market at present. There should be a common purchasing policy. The Prime Minister took note.

BBC External Services

Mr. Jenkins expressed concern about reports that the BBC French language services were likely to be curtailed. He was not worried about broadcasts to France as such but he thought the consequences of a reduction in services to Francophone Africa would be serious. In the absence of the BBC, the listeners in that region would have no programmes other than French national programmes to which to listen.

The meeting ended at 1320.

23 October 1979