

Prime Minister

Ref: A05699

MR ALEXANDER

I should prefer to talk to the F.S. & Ch. Decker first. This is a very worrying news. I will have a meeting with the House. We must go on preparing for the summit. We must be ready.

1. See A (overleaf): Agree that the Foreign Secretary should put a paper to FD on budget restructuring after the Anglo German summit, in early November?

2. See B (last page): Your diary is so crowded that I do not think a meeting of this kind can be fitted in before the Fisheries Council. Agree that Lord Carrington and Mr Walker should hold a meeting and inform you on the outcome?

The Prime Minister may like to have some account of how the discussions on budget restructuring are going.

*WR
12/10*

2. The Mandate Group of officials is meeting each week, and will make an interim report to the Foreign Affairs Council on 26/27 October. Finance and Agriculture Ministers will have had separate discussions in their respective Councils on 19 October. Once these Ministerial discussions have taken place, the intention is to use the Mandate Group to prepare draft conclusions for the European Council. It will be up to us as the Presidency to prepare drafts which reflect the different positions; but we shall clearly aim for as much common ground as possible consistently with our own objectives. The draft conclusions will cover: reform of the CAP, the development of other Community policies, and how to deal with unacceptable budgetary situations.

3. No one seriously contends that there will have to be a continued corrective for the United Kingdom, although the French and the Danes argue vigorously that it can only be temporary and degressive. But there is no support for our more radical approach for a budgetary policy which would regulate the net contributions and net benefits of all member states. There is strong opposition from the Benelux countries and Denmark to doing anything for the Germans. This is also the declared French position, although there is no evidence that the new French Government has seriously applied itself to the issue. We may know more after this week's meeting between the Federal Chancellor and the President. Most French energies have gone into preparing a memorandum (promised shortly) on how they would like to see the Community develop. The Italians are not being unhelpful, and will probably concentrate on protecting the interests of their Mediterranean producers. So far, the Commission

are maintaining a robust line on the need to get decisions at the European Council at the end of November and, although they are unlikely to drop their own scheme for dealing with our budget problem, are working closely with the British Presidency on other matters, including guidelines for the reform of the CAP.

4. The real enigma is with the Germans. They have not resolved their internal differences. Herr Genscher and the German Foreign Ministry want to play down the German budget problem (and to argue that it only arises because of British mendacity). The Chancellor and the German Finance Ministry would like a ceiling on the German net contribution and are tempted by our approach, while remaining sceptical of its negotiability. We are doing all we can to keep the Germans in our camp, and the Prime Minister's forthcoming meeting with the Federal Chancellor (October 29/30) will be important in this respect. The Treasury is currently considering whether there is some way of modifying our position to increase our chances of securing German support. If the Chancellor and the Prime Minister agree, this could be discreetly tried out on the Germans in advance of her meeting with the Federal Chancellor.

5. Only after that meeting will it be possible to make an assessment of what it would be realistic to attempt to achieve at the European Council itself. Should we aim to set up a negotiation on figures, with the risk of failure? Or should we aim this time round to get some agreement on principles and the kind of long term solution we want, without putting figures on the table until we are out of the chair? If the real crunch is postponed until the Spring, would we then want to make another link with CAP prices? Should we go for guidelines for the reform of the CAP even if nothing is agreed on the budget? A | The Prime Minister may think that the Foreign Secretary should be invited to put a paper to OD on these issues during the first half of November.

6. The discussions about Community policies on employment, energy, research, the Regional and Social Funds etc do not seem likely to present us with any insuperable difficulties and we may hope to get from the European Council a



useful impetus on issues like insurance (if it is not settled beforehand) and air fares. The only real danger lies in the French making a link with fisheries. This still seems a very likely tactic for them. On the other hand, the successful negotiation of a 'mini-package' at the last Fisheries Council has created some momentum to go for an overall settlement, and it may be possible to manoeuvre the French into a position where it would be difficult for them to stand out alone in blocking progress on the remaining issues on quotas and access. At the least, if we have got the French into that position, it will be more difficult for them to use the fisheries issue to force us to concede a less satisfactory budget deal. The Prime Minister might wish to discuss the prospects on fish with Mr Walker, and the Foreign Secretary and the Chancellor, before the next Fisheries Council at the end of October.

B

ROBERT ARMSTRONG

9 October 1981