

cc 720
CO
TS4
Maff

RECORD OF A DISCUSSION BETWEEN THE PRIME MINISTER AND THE PRESIDENT OF THE ITALIAN COUNCIL OF MINISTERS, SIGNOR COSSIGA, AT NO. 10 DOWNING STREET ON 30 JANUARY 1980 AT 1000 HOURS

Present

Prime Minister	Signor Cossiga
Foreign and Commonwealth Secretary	Signor Ruffini
Lord Privy Seal	Signor Ruggiero
Mr. M.O'D.B. Alexander	Signor Berlinguer

* * * * *

Signor Cossiga said that he had examined the paper which had been given to Signor Berlinguer the evening before describing ways in which Britain's receipts from the Community budget could be increased. He noted that the areas mentioned included transport, coal mines, Northern Ireland and depressed urban areas. The Italian delegation had done some sums. They calculated that there was now a difference of 400 mua between what the Prime Minister had said she was prepared to accept as Britain's net contribution and the figure which, in the judgement of the Italian delegation, other members of the Community might at present be prepared to envisage. The Prime Minister commented that 400 mua was not a very large sum when divided among the other members of the Community. Signor Ruffini referred to the difficulty which the Italian Government might encounter with Italian public opinion when it became known that they were prepared to finance their share of the revised corrective mechanism. The Prime Minister observed that whenever people said that it was difficult for the other members of the Community to find the necessary money, they should be reminded how difficult it was for Britain to find the very large sums she was at present expected to contribute. She repeated that, despite the country's relative poverty, Britain was prepared to be a net contributor to the extent of 200-250 mua. This figure had been arrived at by reference to the contribution of the next richest member of the Community in terms of per capita GNP, i.e. France. The difference which existed, according to the Italian delegation, between this figure and that to which the other members of the

/Community

CONFIDENTIAL

- 2 -

Community would agree, was very large from the British point of view. It would be quite unreasonable to expect Britain to pay so much. It was necessary to be very clear about this. There was still a long way to go.

Signor Cossiga said that he was not suggesting that it was for Britain to bridge the gap. Nor did he intend to say that the British Government was prepared to make a net contribution of 200-250 m.u.a. He would go no further than saying that he had the impression that HMG might be prepared to consider figures in this area but that he knew nothing for certain. The Prime Minister said that she would be content with this approach.

The Prime Minister asked how Signor Cossiga saw the tactics. She thought that Chancellor Schmidt held the key to the situation. It would be impossible to get a satisfactory solution without him. This was both because he would have to meet a substantial part of the cost of a solution and also because he would influence President Giscard. Signor Ruggiero said that France would be extremely interested in the cost to her of any solution. He recalled that President Giscard's support for the creation of a Regional Fund had only been secured by offering France a 21 per cent share in the Regional Fund. The key to the budgetary problem might lie in a settlement of the difficulties over a sheepmeat regime. Agreement on a sheepmeat regime would give France a useful sum of money. They might be prepared to regard this as an offset to the cost of a solution to the British problem. The French had always seen the Community as an organisation from which they should benefit. Increasingly they found themselves at a mid-point between the less wealthy and the more wealthy members. They calculated that, following enlargement, their position would be changed to that of a net contributor. For the moment they were seeking to preserve a position of balance in relation to the Community budget. A solution to the sheepmeat problem might make it possible to reconcile this objective with a French contribution to Britain's budgetary problem. The Prime Minister said that the sheepmeat issue could and should be solved. But a solution based on significantly increased intervention would

/not be

not be acceptable to Britain. Britain was the biggest producer of sheepmeat in the Community and should benefit from any regime. France was perfectly capable of solving her domestic problem herself. France was already in balance and was seeking to remain there: Britain was significantly poorer and was prepared to be a net contributor. She hoped that people in Europe understood the deep resentment in this country about the requirement laid on Britain to pay and pay for the Community budget. Signor Cossiga indicated that he understood. The Lord Privy Seal said that Britain recognised that a settlement of the sheepmeat problem on its merits would be very helpful to the budget negotiation as a whole. A heavy intervention regime would not be acceptable. But agreement could be found on a much lighter regime.

Signor Cossiga said that he wanted to speak clearly and frankly about Britain's membership of the Community. Not everyone had regarded Britain's entry favourably. Italy took the view that Britain's entry had made the Community a more balanced organisation. Italy had fought for Britain's entry because Europe's development without Britain was inconceivable. Italy was on very friendly terms with Germany and felt a great respect for France. But Europe was not comprised only of France and Germany. The Italian Government did not wish the present argument to develop involuntarily into a trap in which Britain would be pushed towards the edge of the Community. He did not wish to make any accusations or to judge the intentions of others. But in the search for a solution of the budgetary problem he intended to remind the other members of the political necessity of British membership. The idea of a special status for the United Kingdom was unacceptable to the Italian Government and they would reject it. Signor Cossiga said that, in pursuing a solution, he would not wish to appear as a partisan of the United Kingdom. He had to produce a solution acceptable to all the members. But he believed that the political argument was one which all the members would recognise. Europe could hardly claim a more powerful voice in world affairs while they were quarrelling amongst themselves.

/Signor Cossiga

Signor Cossiga said that on the economic side the principal problem facing the Community was the need to escape from the "infernal mechanism" which was turning the Community into a protected agricultural market. Britain's present position was the product of a distorted mechanism: Italy might well be the next victim. It was impossible to contemplate enlargement until the mechanism had been set right. The Community would have to have a general review of its functioning. The United Kingdom's difficulty was part of a general problem. Of course, a short-term cure for Britain's problem had to be found as well as a long-term cure. But it was as well to recognise that all the members of the Community were likely to fall sick. It was essential to prevent an epidemic. Looking at the problem in this way might make it easier to find the allies who would be essential if an answer acceptable to all was to be found.

As regards tactics, Signor Cossiga said that he intended to see the President of the Commission shortly. The Commission could not be allowed to prejudice the negotiations now in prospect. He did not intend to allow the Commission to interfere with the mandate he had received from the other Heads of Government in Dublin. Having seen Mr. Jenkins, he would go on to see Chancellor Schmidt and President Giscard. He would not, however, plan to meet with President Giscard until Chancellor Schmidt had had a chance to consult him. Signor Cossiga said that he would have a number of arguments to deploy in seeking Chancellor Schmidt's help. They had assisted each other in dealing with the Theatre Nuclear Force issue. They were the only two members of the Community to have a border with the Communist bloc. Italy's willingness to sacrifice 70 maa entitled them to ask for sacrifices from others.

Signor Cossiga said that in approaching Chancellor Schmidt he thought it essential that he should be in a position to say that the United Kingdom was not merely trying to solve its own problem but wished to put the Community in a position where it could act on the international stage and develop its own philosophy further. The Prime Minister said that the need for the Community

/to act

to act together politically was a predominant element in her thinking. The Community had to approach world problems in unison. There was no question of the UK considering leaving the Community. No-one, she hoped, wanted them to leave. Equally, no-one was going to be allowed to push the UK out of the Community. What she expected from the Community was what every member was entitled to expect - fair treatment. Until the unfairness was removed, the Community would not be able to act together in the way the Prime Minister would wish. She much regretted this and had been particularly disappointed by the Community's response to the present crisis (Signor Cossiga agreed). The need for greater unity was very real. The Prime Minister said she was happy to leave it to Signor Cossiga to decide, against this background, when the next meeting of the European Council should be held. It was important that he should bear in mind the need to avoid another Dublin. The Prime Minister intended to be very firm about Britain's requirement. She did not want, for everyone's sake, to go through a similar experience again.

The Foreign and Commonwealth Secretary said that it was essential that the proposal which had been floated by the French for some kind of associate status for the UK should not be pursued. It was absolutely unacceptable to the United Kingdom. The longer it remained in currency, the less likely was it that a satisfactory solution to the budgetary issue would be found. Signor Cossiga said that he was completely convinced on this point. The Lord Privy Seal said that he doubted whether the French Government meant the proposal seriously. Although it had appeared in the French press, it had not been mentioned by Monsieur Francois-Poncet during his recent visit to Paris. The French probably saw the idea as a means of making it easier for them to adopt a rigid position on the budget. The Foreign and Commonwealth Secretary said that this was all the more reason for getting rid of the proposal.

Signor Ruffini said that he thought that an important step forward had been taken in the course of the talks between the

two Prime Ministers. But he wondered if the discussion of figures could be carried a little further. Would it be acceptable for the Italians to indicate that there might be room for a two-stage approach? The first stage would involve the finding of 300 mua in ad hoc policies on the expenditure side of the budget, in addition to the 520 mua produced by the corrective mechanism. The second stage would produce an additional 400 mua in a well-defined period of time through further investment policies. Was it necessary for the problem to be solved all at once, or could a graduated approach be adopted? The Prime Minister said that she had to have an immediate solution. She needed a result during the British financial year ending on 5 April 1981. She did not disagree about the longer term problem. Indeed, if a way were not found to balance the budget more satisfactorily, the Community itself would not survive. But the immediate problem also had to be solved. It had been raised by Mr. Callaghan when he was Prime Minister. The situation had deteriorated steadily since. It was not fair to ask the United Kingdom to go on bearing such a burden.

The remaining members of the delegation joined the discussion at 1115.

Ph...

30 January 1980