

PM if I refer specifically to the matters that concern us in Great Britain, particularly of course of which the main one is the Budget. I did make it perfectly clear at the beginning of the meeting that we do perhaps take a rather different attitude to Europe from that taken by our predecessors, but nevertheless we would of course concern to us, because we felt that if there were particular problems which affected any member of the Community, which the Community was not prepared to consider and satisfy, then that did affect the future and cohesiveness of the whole Community. And the one which we've had particular difficulty with until this Summit has been the Budget, and the size of the British contribution, compared with the proportion of her gross national product to that of other members in the Community. And naturally we did have to make an attempt to deal with this right at the beginning. I must make it quite clear that the European Council has in fact given us all we could possibly ask for at this stage. You will be aware that we did ask for the Commission to consider this problem, to make full findings on the consequences of the Budget next year and the year after. But not only that it should find the facts, that it should also pose possible solutions. That has been agreed. Those facts will go first to the Financial Council, then in the light of the discussions there, the Commission will formulate proposals which will come to the Council in good time to be discussed in Dublin. It might just help if I read out the precise wording, because the precise wording is very important. "The Commission will submit its study to the Council so as to enable the member States to give their opinions." May I just say that that particular Council - the Financial Council - the Commission will submit its study to the Financial Council so to enable the member

States to give their opinions and present their requests in concrete form. In the light of the debate, and any guidelines which may emerge from the Council, the Commission will present proposals sufficiently early to enable decisions to be taken at the next meeting of the European Council." I give you the precise wording so that there can be no doubt about it. It was as much as we could ask for this time, a consideration of the full facts, coupled with proposals for their solution, to go first to the Financial Council, and then to the next European Council in Dublin. So as far as we are concerned we have achieved everything we came here to achieve on the Budget. Might I just add one point. I think before the change of Government, although there was a good deal of discussion in Britain about the size of the Budget, and the particular burden of it, that was not in fact understood by all other members of the European Economic Community, and our first job was to try and convince them that we really have a good case. I believe that we have now succeeded in doing that, and that that case will be shown to its full extent in the studies the Commission will make of the effect of the Budget during the next 2 years. Now I think it will perhaps be better if I throw the conference now open for your questions, and I'll try to answer them as they come.

Economist

It has been suggested that the farm price deal which took place in Luxembourg yesterday in which Mr. Walker appeared to have agreed to a price rise rather higher than was expected, it might have been part of a deal in the terms of which the other Community partners might be more generous and more understanding on the Budget.

PM

No, it can't in fact physically be the case because I discussed the Budget yesterday, and the farm price deal was not agreed until last night.

Economist

With respect, the outlines of the deal were clear before and it did appear that Mr. Walker was prepared to accept the price rise.

PM

Well I'm sorry, but if you're trying to say that there was a linkage I can only tell you there isn't. That's all. There just isn't.

Observer

Can you tell us how much the farm price deal in Luxembourg will add to the UK's net budgetary policy?

PM

No, not precisely. I'm afraid it is inherent in the CAP at the moment, and the Budget, that these problems occur. That was why it was so absolutely vital to get some movement on the Budget, to get some movement towards a solution on the Budget. There is also, I agree, a problem with the CAP, but I must point out that for the first time since we joined the European Economic Community there is a price freeze on milk. Milk takes 45% of the Budget. For the first time, in spite of all of the theatre that we had under the last Government, for the first time Peter Walker has achieved a freeze on the price of milk. I think he would have also achieved a freeze on sugar which is another item in structural surplus, but for the fact that this year's sugar crop is already growing, and the time to have discussed that, from the viewpoint of structural surplus, was before it was planted, namely last autumn. So what he's done there is to make certain that when it comes to sugar, the matter will be discussed, but it depends on quotas,

/ of course.

of course, But the matter will be discussed this autumn in time to affect the result. So as far as the items in structural surplus are concerned, he has done an extremely good deal, a deal of the kind so good that has not been achieved before at any time. As far as the housewife is concerned, he's done a very good deal on butter, - you'll be familiar with it, I think a butter subsidy of 12 pence in the pound - and that of course does give - has quite an impact on the retail price index. And you know, we must not forget that the farm and food processing industry also are entitled to a good return for their activities. After all, the rest of us expect to get a good return for our work and our efforts. It isn't just the farming industry, important though that is, it is all those industries concerned with supplying the farming industry - your fertilisers, your tractors, a good deal of your transport, - they too depend in large measure on the prosperity of the farming industry. At the other end, it is all the food processing, and you know some of the problems in the food processing industry, particularly those on bacon and pork. Some of them are in danger of closing down, unless in fact we'd secured more movement on devaluation of the green pound.

Question

" This was your first Council, obviously. I wonder if you'd give your impressions. a good way of doing business, or would you like to see some change?

PM

Well, judge by results. We didn't do half badly. So that's alright. Of course we have to go to Dublin as far as the Budget is concerned, and I might say that that wasn't the acid test. I think everyone went out of their way to be friendly. The

hospitality

hospitality was wonderful, and certainly one was asked to contribute to the discussion if one came to an item where one was not contributing - one was positively asked to contribute to the discussion on many many occasions, and because of that I think I spoke more than I normally would. Certainly if I didn't come into a discussion, I was asked to contribute, and they went out of their way to be friendly, and judge by results - you can't do more than get 100% of what you want. So it was alright. They were very friendly. It was very hot.

Daily Telegraph

Prime Minister, could you say what commitments, if any, you gave on Britain's North Sea oil reserves, and could you give us your understanding of what commitments we are liable for vis-a-vis the rest of the Community.

PM

The answer is easy - none whatsoever. It didn't arise.

Sunday Times

Could I ask you to say something about the Energy debate. When we came here yesterday, it seemed that the French and the Germans were quite a long way apart on such questions as controls, transparency, detailed targets, and so on. What position have you taken in this debate? How far have you tried to influence it? Could you say something about the way it's gone.

PM

Have you seen the text? I think there are one or two paragraphs which might indicate the crucial nature of the decision. Can I just read out one paragraph. "The decisions adopted today bear witness to the fact that Europe is ready to shoulder its responsibilities. It urges the other industrialised consumer countries to make efforts on a similar scale, and to develop their

natural energy resources, failing which, the Community's contribution to the world energy balance cannot play its full part." The essence of the debate goes this way - however you walk around the problem, you come back ultimately to two factors; that the demand is too high for supply, and therefore there are only two points on which to operate. One is to try to depress the demand; the other is to hope that the supply factor will increase. Now you know, the supply is not really far short of what is needed today for normal uses, apart from replenishing stock. In fact, the shortage of supply is about 1.5 million barrels a day, which is actually less than 5%. So as these things always are, it's a marginal problem, and when you start to deal with any spot market, that's the symptom of the problem, it's not the cause. Now the spot market, as you know, is really three-fold. There's the product spot market, there's a very small crude spot market, and there are spot prices which don't go through the spot market at all, which are in fact prices which the producers sell at. And you know that one of the changes after the Iran problem was that whereas all of the rest of the oil of the other producers was sold in a particular relation to Saudi Arabian crude, which was the marker oil, after Iran it was that relationship which broke, and therefore some of your producers were selling not at the Government official prices, but at very much bigger prices, but not going to the spot market. Now therefore we have to try to do things on two backgrounds. First, to try to take every possible step to depress demand in our countries, and as you know, that was why we had the 5% reduction which I believe most of us were achieving. And to make it quite clear that we are determined to go on to do everything to keep demand down, this year, next year, and the year after. So that we are doing our bit to bring demand and supply into balance. Now

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there is an OPEC meeting next week - we're not only interested in price per barrel, but whether the former relationship between Saudi Arabian crude and others will once again hold. But I think it is fairly complicated that you cannot have - we have shied away from detailed import ceilings. First, they're practically impossible to work. They depend on whether you have a cold winter. They depend on whether in fact Germany did expand her economy as she did, in response to the requests of the European Council. So there are all kinds of problems. You know the extent to which you can pass on some of your oil demand by where your merchant ship bunker, by where your aircraft refuel. I'm only doing this because this is the complexity of the problem. And this is why the communique has said we will do all in our power to keep down the demand - and we know the former target of 5% - and we will try to keep the demand in about 85 to where it was in 1978, taking the Community as a whole. Though we then recognised - and that was the significance of the paragraph that I read out to you - that if we do all we can to depress demand, or to hold down demand, it will be, perhaps useles is a strong word, but it's a word of that order, unless the other big consuming countries also take similar action to keep their demand down. Because in the absence of that, one would merely be passing on the demand on the supply onto other countries, and that is the significance of the paragraph which I read out. So what we've done is to prepare a position for Tokyo. We also have a section in the communique which will go in for the longer term, that we really must look at alternative sources of energy. And most of us came to the conclusion - and I think it's in the communique - without the development of nuclear energy in the coming decades, no economic growth will be possible. Nuclear programmes themselves will be given strong fresh impetus.

Nuclear energy must be used under conditions guaranteeing the safety of the population. I think most of us realise that whatever other sources such as sun and tides you have, we shall not be able to keep up our advancing growth or standard of living unless we give nuclear impetus. France of course has already done it. Some of the rest of us haven't. I'm sorry - it's a long answer. As you know, energy is a complicated question, and we must not put in such detailed things that you know they can't possibly work because of the way in which the spot and other supply markets work.

Question

I understand that the passage on the Budget contains a mention of the corrective mechanism that was introduced in 1975 does that mean that your Government believes that perhaps adjustments to that system might provide a solution to the problem? And secondly, I gather that there was also mention, taking into account this year's agricultural price settlement analysis of the facts that go to make up the Budget. What exactly is meant by that?

PM

Two points you raise. The VAT, on the prices that have now been agreed. First, some of my colleagues/sorted out the Budget problem in/re negotiations, but as they told me, the then Prime Minister and Foreign Secretary trumpeted abroad in no uncertain way the success of the corrective mechanism which they'd managed to negotiate. In fact it is virtually useless because it operates on/^a balance of payments basis, and you know, you'd have to be a pretty awful country if, having oil, you didn't at least get your balance of payments right. So the corrective mechanism doesn't in fact work - we know that - but of course the point of putting it in here is that then it has to be demonstrated to our / colleagues.

colleagues. It was in fact almost there. A renegotiation doesn't help us at all in our present day budgetary problems. Now on prices agreed for the coming year, of course if you're doing a projection of budgets for next year and the year after, of course you have to take into account the prices that have been agreed. That is one of the purposes - to demonstrate on all known facts how in fact the Budget affects each member of the Community. And you will be very much aware of our case, as being one of the three poorest countries; and naturally, the Government which I represent hope to do something about that. But we being one of the three poorest countries, we have the highest, or second-highest, according to how you calculate, contribution to the Budget. And in fact the position seems to get worse as the years go on. Partly because of VAT and partly because of the Budget structure.

Question

..... corrective mechanism ...

Are there any discussions about the change in the regulations from which budgetary contributions are based, largely the import of food which does put Britain in? Regulations would be changed if in Dublin?

PM

No, I think there are two problems. In one way you can separate them, in another way I accept that they are inter-related. First, whatever the Budget, whatever the size of the Budget, there is the way you finance that Budget. And the results of that method on the Community countries. Now that is the particular aspect I've gone for at the moment. But whatever the method, if you look at the results, the results are inequitable, and the Community is not an inequitable body. Therefore it will seek to restore the inequity to an equitable position. That is the angle we've taken on the Budget. Now there is another factor

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which you will say to me, and is in the question that you've given to me, that is not their problem if the Budget were very small. And the size of it goes really to the size of the Common Agricultural Policy, and that goes straight to the policy itself. We would accept, and I think a number of other countries would accept that we do try and seek to reform the Common Agricultural Policy, and as you know, the ^cMTAs are gradually being phased out, and I think I would agree that the Common Agricultural Policy was never really intended to work under the variations in currency that we've had, and therefore the extent of the ^cMTAs, and they have been strained really almost beyond the utmost limit, and we would have fractured part of our job, is to try to reform the Common Agricultural Policy as well. Now none of that can be done overnight. But again I say to you the first step was achieved by Peter Walker by having a freeze on milk, and the support of milk, milk/forms 45% of the average household budget. and you're asking me ^{we}to renegotiate the Treaty. We really didn't discuss the Treaty, but the view I would take is that if you have provisions which work out inequitably as events happen, then you must adapt. This is the rule of nature, it's the rule of politics. You evolve and you advance if you are to survive. I wouldn't call it renegotiation, I would call it adaptation. everything we do - so does every political body. It adapts to reality. And if it doesn't, it doesn't survive. So of course it will adapt to reality.

Peter Jenkins

When you made your ~~case~~ about the Budget, you presumably took the opportunity to press upon your colleagues how Britain under the new Government Can you give us some idea of how you predict the future of Britain in Europe?

PM

One obviously first pointed out that we had an excellent home Budget. But it was a courageous one. But it was intended as an incentive Budget, really to give/^{our}small businesses a chance to grow, and to give people some incentive to work harder. And it is no part of my case to be the 7th out of the Nine as far as GDP is concerned, but in the meantime the fact that we in Britain have such a large contribution to the European Budget means that we can't do as much on tax relief as we would have wished. You've heard me say in Britain, I wish we had some more of/^{this}Budget, the contributions to the European Budget, for our Budget at home which would enable me to cut income tax rather more than we were able to this time. So there's a lot of linkage between our performance at home and our contribution to the Budget. Indeed, that is what is meant by this curious term convergence. A thoroughly misleading term this jargon although the effective heading convergence is really about the Budget, with the aim that the prosperity of the several members of the Community shall gradually come closer together. To some extent, that depends on the action we individually take, but we hope that that will not be frustrated by the height of our contribution to the EEC Budget, the net contribution, that is.

Guardian

Should we take from what you've said about the Budget and the Common Agricultural Policy that you wouldn't accept - indeed you didn't accept - what has/^{been}reported that Mr. Jenkins said yesterday - and I quote - that the effect of the farm price review was/^{absolutely}disastrous for the Community Budget.

PM

I'm sorry I heard no word to that effect at all. Obviously, if

the main component of your Budget comes from the CAP - and it does - then whatever agreement is come to, I'm afraid, kept up the amount of the Budget, and it was for that reason that it was absolutely vital that we got a freeze on milk, 45% of the Budget - absolutely vital. It's a very great pity that our predecessors didn't take action on sugar at the time when they could have done, when action on the quota which was the method which had been used for that commodity in structural surplus would have been effective. But it was late to take action on the quota when all the crops were growing, and that's why action on the sugar quota had to be delayed until next year. But our whole stance had been products in structural surplus should not have an increase in price. We've achieved that in so far as we've been able to this year, and achieved it for the first time. The only place where we haven't achieved it on sugar is where we weren't able to because the previous Agriculture Minister didn't take the steps in time.

Guardian?

May I just follow with a supplementary, Mrs. Thatcher? Have you calculated the increase in the net contribution that we will make?

PM

No, it would be impossible to get the figures yet. None of us have. Also, may I say that after all we do hope to have some revision ... that, after all is the - this meeting has been the first stage. But of course the way in which it is done. That would of course depend on what comes out of Dublin. And I'm very much aware that that is the other end of the action which has been started today.

Question

I gather Prime Minister that there were some discussions of monetary questions, and we have agreed to go into the funding of

the EMS. I wonder, are you concerned about the present stance of sterling?

PM

Concerned about it. I would rather have a strong exchange rate, bearing in mind that one is having increases in oil prices at the moment. It is I think important to have a strong exchange rate for the effect on inflation of your imports. that may have something to do with the 14% interest rate. As you know, it was important to put that on because the money supply was getting badly out of hand, and we really have a problem initially of trying to hold the money supply, and that's absolutely vital to tackle inflation. Absolutely vital. Now there's a secondary problem that arises. It is because this year, while on our Budget, our British Budget, introduced a few days ago, our British Budget, we had to have tax relief for the full year, the Value Added Tax 3 months after it's imposed. And that's in September. So it means that you've not got sufficient liquidity coming to our system which is manufacturers etc. But it does pose a money supply problem. So part of the strength of the exchange rate at the moment is the 14% interest. We'll have to hold that until the money supply problem is dealt with.

BBC Television

If I could just fire on inflation for a moment, Prime Minister. Would you agree that what happened in Luxembourg may bring the prospect of 20% domestic inflation rather closer?

PM

No, I understand happened in Luxembourg is that certainly the butter subsidy being supplied to help is positive on the retail price index, and that the total UK butter subsidy paid for by the Community is up to 12 pence from 5½ pence, and that is .5% off the

food index. And that the total change in retail price index is possibly a quarter of 1%.

Question

As a result of Luxembourg?

PM

Well, mainly as the result of the devaluation of the green pound.

Question

... Japan and the EEC... Do you think the EEC should take some action on these matters in the Tokyo Summit?

PM

It reflects the view which many of us have always taken, that we seek fair access to Japanese markets and to Third markets on the same basis as Japan has access to our markets. We seek fair competition and fair access. And we shall continue to seek it vigorously.

Question

..... firm decision on Britain joining the EMS in September. Would you give some indication

PM

Oh no. We can't possibly do that. All we have agreed to is to deposit the requisite amount with the European Fund, really as an earnest of our intentions to be more co-operative in Europe. And anything else is wholly still for consideration. As someone did point out, we have a high exchange rate, we can always consider - what we have to consider is the effect - what would be the effect on us of joining the EMS, and there are ways in which one can look at that as things develop over the next few weeks. But we have given no undertaking of any kind. We consider - we keep our minds open on whether or not we join the EMS, and we certainly consider in the light of day to day what would be the effect on the exchange rate if we were to be in the EMS which we are not. And also we

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nave to consider, if we were to go in, which tolerance we would have. The 6% or the narrower one.

Question

Mrs. Thatcher, the Commission are making known this morning, that in their view the date when the Community has to face the exhaustion of its own resources is likely to be brought forward by about a year as a result of the latest increases in the Agricultural Budget. They're suggesting that at Dublin in November they may have to start laying down guidelines as to how the Community adapts to the exhaustion of their own resources. Do you think the coincidence of that review and your demands on the reform of the Budget system, that you'll be strengthened by this coincidence, or that it has complications, seeking a fairer Budget equilibrium?

PM

This is the 1% Value Added Tax ceiling. The question is when is that reached. I doubt very much whether it will be reached that soon. But you're quite right in your premise that the fact that the 1% ceiling on VAT when that is reached, can in fact act as a catalyst, on reconsideration of the Common Agricultural Policy. Hitherto we have taken the view that that catalytic effect is too far away, and that we must certainly try to take action on the Budget. I doubt whether that far.

Question

The Commission/^{sources}themselves are saying that/^{instead}of 1982, when VAT is exhausted, that it's now likely to be reached in 1981.

Because of that may have to come forward with preliminary proposals as early as November of this year.

PM

and Well, /if they do. The 1% VAT is a ceiling which should in fact make them look and revise the CAP. And it's very good to have

/ that

that sort of deadline. (You've got a deadline too - you've got two more questions.)

Times

Has the exchange reserve swap in the context of the EMS any practical implications for Britain?

PM

This exchange of one kind of reserve for another is an earnest of cooperation towards Europe. If you ask me for the implications beyond that, no.

Question

Prime Minister, did you have any bilateral talks with any of your colleagues, and if so, can you say with whom and what about?

PM

We were bilateral talking the whole time. Over lunch, over dinner, it was all very pleasant. No, I never reveal the subject of private conversations. I think I had bilateral talks with pretty nearly most people there. If you mean, did you have a tete-a-tete with everyone, no, you don't, but you do have tete-a-tetes round the table. Do you mean, did I literally have a tete-a-tete with everyone? No. Only 24 hours in a day.

(Two more then. Probably the last two.)

Question

Is there any kind of decision or communique for this Conference on Vietnam refugees, and for ... ?

PM

Yes, there is a small communique on that. Do you want me to read it out? "Ministers for Foreign Affairs reported that they had a discussion about ... on the initiative which they'd taken proposing an international conference meet under the auspices of the United Nations to discuss the problem of refugees from Indo China,

/ stressing

stressing the dramatic nature of the problem and the urgent need to find an effective and humane solution. The European Council requested the Ministers to ensure the success of their initiative." I think a number of states are feeling that some of the aid they have given, or the Community have given to Vietnam in the form of aid for food could in fact be used as aid to treat some of the refugees. Apart from that, they welcomed the prospect of a conference on the refugees. They recognised that there are two aspects of this problem. One is help for the refugees themselves. The other is the policy which is being pursued by Vietnam. So there are two different aspects, but then you have to try and operate on both. (Last question:)

Question

In the budget you embarked on proposals for Exchange control relaxation. Since then the pound's gone up quite sharply. And is set to go up further. Has this in any way affected your consideration of that programme?

PM

No, the pound I think is up, for three reasons. First, we are a petro-currency. Second, the 14% interest because of the money supply problem. And third, curiously enough, when you relax exchange controls, it can be an even extra degree of confidence in the future of the currency. We took a first step in the relaxation of exchange control. I think it right on this matter to go cautiously.

Thank you very much indeed-