

L.S. *Phunt* 5/3

Mr Spreckley, ECD(I)

Community Budget: Conversation Between the Foreign and Commonwealth
Secretary and Mr Jenkins

Lord Carrington had dinner on 18 February with Mr Jenkins at the Residence of HM Ambassador Rome. Mr Jenkins had earlier in the day called on the Italian Prime Minister. Signor Cossiga had seemed fully committed to trying to achieve a solution to the Community Budget problem and was prepared himself to undertake a series of bilateral visits in the period immediately preceding the European Council in Brussels at the end of March. The Italian Foreign Minister would, before then, visit Community capitals himself for preliminary discussions. Mr Jenkins implied that he did not think anything new would emerge from Signor Ruffini's expeditions. Mr Jenkins added that the Commission's paper offered, in his view, a satisfactory framework in which a solution might be found. He was not himself too pessimistic about the prospects. He thought there was at least a 30% chance of achieving by the end of March a solution acceptable to the British Government. Everyone in the Community wanted the problem out of the way. Even the French were not as antagonistic to the idea of a solution along the lines which the Commission had proposed as they were sometimes represented. Nonetheless, it would be a hard slog and the British Government would need to consider carefully its tactical approach. His own advice was as follows:-

(a) The idea of a receipts mechanism should be dropped. Nobody in the Community regarded it as a serious demand and nobody was prepared to hand out a blank cheque in this way. Continued insistence on it would merely complicate the discussions. It was idle to think that some substantive price could be exacted for its eventual withdrawal.

(b) The British Government should now be more specific about the projects on which Community money could be spent in Britain. Mr Jenkins knew that a British team was due to go to Brussels the following week to discuss this. He hoped they would have some imaginative ideas. He referred in passing to the Channel Tunnel but did not press the point.

(c) It would be counter-productive to labour the additionality point too much. Provided that the British Government showed a reasonably degree of flexibility it ought to be possible to fudge the issue in practice. But too much public emphasis on it would irritate other Community countries unnecessarily.

(d) The prospect of



(d) The prospect of British accession to the EMS Exchange Rate Mechanism would be a powerful incentive to Herr Schmidt who attached an underlying psychological importance to Britain joining. Mr Jenkins' personal view was although there might not be any very great economic benefit to Britain in joining, the British Government would lose nothing by doing so and that if a satisfactory budget settlement could thereby be secured, the price was well worth it. It would be a mistake however simply to throw this in at the last moment in the hope of clinching a deal. The right tactical way to play it would be for the Prime Minister to indicate at the outset of the final phase of negotiations, i.e. at about the beginning of March, that the British Government was interested in joining.

(e) Linkage was in practice inescapable. All the other Heads of Government would need to show that they had achieved something positive in return for the financial sacrifice which would be involved in meeting the British budgetary demands. But the cost of such linkage ought not to be difficult for Britain. The French would need something on sheepmeat, where the money, as opposed to the principle, involved was insignificant, and perhaps something on agricultural prices; and the Germans would want something on energy. But there was no question of the other partners seeking a privileged price or unreasonably privileged access for North Sea Oil. All that was required was for Britain to show sympathy with the need for a Community approach to energy problems.

Mr Jenkins added that it might be necessary to engage in some special form of bilateral diplomacy with the French. Aside from President Giscard himself, the two most influential figures on the French side were M. Barre, the Prime Minister, and M. Wahl, the President's Principal Adviser. Mr Jenkins thought that a special approach to one or both of these by somebody who had Mrs Thatcher's personal confidence might be fruitful.

(P Lever)

20 February 1980

ccs:-

PS

PS/LPS

PS/PUS

Lord Bridges

Mr Hannay

Mr Franklin, Cabinet Office

PS/Chancellor of the Exchequer

Mr Alexander, No 10

Sir M Butler, UKREP Brussels

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