

part A

Begins: 21/5/81
Ends: 3/6/81



PO -CH /GH/0062



PART A

Chancellor's (Howe) Papers:

CHANCELLORS VISIT TO THE
HAGUE JUNE 1981

PO -CH /GH/0062

PART A

PART A

Disposal Directions: 25 Year

D. Appleton
25/7/9

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

29 May 1981

David Heyhoe, Esq.,
Private Secretary to the
Paymaster General

Dear David,

SPEECH BY CHANCELLOR OF THE EXCHEQUER IN THE HAGUE,
3 JUNE 1981

.....
I attach a draft of the speech which the Chancellor of the Exchequer is to deliver in the Hague on Wednesday, 3 June. It would be extremely helpful if comments could reach me by lunchtime on Monday, 1 June if at all possible, please.

I am copying this letter and the draft speech to the Private Secretaries to the Prime Minister, the Foreign Secretary, the Lord Privy Seal, the Minister of Agriculture, Fisheries and Food, and Sir Robert Armstrong.

Yours ever,

Richard Tolkien.

R.I. TOLKIEN

29/5/81.

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PS/CHANCELLOR

*most grateful for
the care & effort
with which this has
been prepared & handled.*

cc Sir D Wass
Sir K Couzens
Mr Hancock o/r
Mrs Gilmore
Mr Gulpin o/r
Mr Towers

*(London
non-committed)*

*I remain anxious at chance of any
reference to Rotterdam effect. In light of 1958
or hope it must surely be in mind of any
Dutch audience?*

HAGUE SPEECH, 3 JUNE

It was extremely helpful to receive the Chancellor's comments so quickly. I have revised the draft speech accordingly, and the new version is attached. Also attached is a draft Private Secretary letter with which to circulate the draft to the other Ministerial offices concerned. It is important that this material should be circulated before the weekend.

Points on draft

2. I have been able to build in almost all of the Chancellor's suggestions. There are, however, just a few points which I ought to mention:

- i. the Embassy in the Hague have advised us strongly not to mention either Mr van der Stee's personal electoral fortunes or his recent illness. The point about the former is that there are no constituencies in Holland.
- ii. Mr van Agt is a lawyer by training but not, the Embassy think, by profession. Hence the small change of wording in paragraph 6.
- iii. Paragraph 21: I tried to work in a sentence or two about tensions between groups in the Community other than member states; but it seemed to me to lengthen this bit of the speech unduly and I have therefore left it out. It is a point which we might return to on another occasion.

- iv. I have amended slightly two of the Chancellor's suggestions on the CAP reform passage. Preservation of living standards is currently a controversial matter with the farming community!
- v. In paragraph 37, the Foreign Office are concerned that we should avoid any impression of 'us and them'. I have therefore retained the original wording at one point in the paragraph.
- vi. In paragraph 38, it is better (I suggest) to stick with the phrase -'the lion's share of the budget' rather than give specific percentages. In the 1981 budget, FEOGA spending comes out at around 69 per cent of the total. The percentage has been reduced as a result of the UK budget refunds. FEOGA spending as a percentage of the total budget excluding own resources and budget refunds is more like 79 per cent.
- vii. In paragraph 46, I have not included the reference to Parliaments lest the point be countered with the known views of the European Parliament on the 1 per cent ceiling.
- viii. In paragraph 62, I have not included the suggested reference to 'justice' lest this be interpreted as a reversion to 'juste retour'. I have however worked into paragraph 56 the Chancellor's other point about 'juste retour'. It has, I think, improved this paragraph enormously.

Publicity

- 3. Taking the Chancellor's points in turn, we do indeed have it in mind to prepare a short cover release with a sentence or two about the background to the speech and then a summary of the message. We will submit this on Monday.

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4. We also have in mind the need to provide early texts for the British and foreign press. We are asking the other Ministers concerned to comment by lunchtime on Monday if possible so that we can prepare the final version and get some copies out under embargo early on Wednesday or even, possibly, on Tuesday evening.

5. The Embassy are quite clear that there is no need for a Dutch translation. They say that the Hague is virtually an anglophone city.

6. Other points from the Embassy are:

- i. Membership of the Institutes includes some journalists. The Embassy are therefore assuming that there will be no objection to journalists being present and that the proceedings will be on the record. It would be helpful to have confirmation that the Chancellor is content with this.
- ii. The idea of a TV interview has fallen through.
- iii. The Embassy hope to telephone through the pre-submitted questions Tuesday morning. This will leave us with some time to advise the Chancellor on how to deal with them.

Background material

7. We will let you have early next week background material on the two institutions which are organising the meeting and the personalities whom the Chancellor is likely to meet.

8. The Chancellor commented on the previous version of paragraph 59 (very fairly, if I may say so) that he would not be able to explain the technicalities if asked. We have now amended this paragraph in such a way that he is much less likely to be asked! If however the Chancellor feels he would like to have a little more background on the sort of arrangements

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envisaged in the speech, I suggest that he might glance through EQR(81)14 attached. This is a synthesis paper summarising work which we have done in the Treasury on this subject. Especially relevant are paragraphs 37 and 43-47. This is not, however, obligatory reading.

AJC
A J C EDWARDS
29 May 1981

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ii. The main losers from correcting for the Rotterdam effect under a "conscious decisions" approach would undoubtedly be the Dutch.

5. That said, the Rotterdam effect is undoubtedly a problem which would have to be resolved under any "conscious decisions" approach based on net contributions and receipts. Paragraph 58 of the paper which I sent you on Friday (EQR(81)14) suggests one possible way of dealing with it.

AJCE
A J C EDWARDS
1 June 1981

11/6/81 7

I shall read § 52 in plenary.

CHANCELLOR

cc Mr Hancock
Mr Culpin

Briefly on how to answer + give in

HAGUE SPEECH AND THE ROTTERDAM EFFECT

Wigan

Mr Wiggins tells me that you have raised again the question whether the speech ought not to mention the so-called "Rotterdam effect". I recall that you raised the same point on the first full draft of the speech, and I apologise for not commenting on it before.

2. The "Rotterdam effect" refers, as you will remember, to the fact that some member states, notably the Netherlands, import goods which are subsequently re-exported to other member states, notably Germany. The levies and duties paid on such imports are scored as Dutch contributions to the Community budget, even though it is ultimately the German importer who bears the burden of paying the levies and duties. Dutch levies and duties are thus overstated, and German levies and duties understated. By the same token, Dutch net receipts from the budget and German net contributions to the budget are both understated.

3. Under the Community's existing budgetary system, where the net contributions and receipts of individual member states simply fall out as a residual (except in the case of the UK post-30 May), the distortion is purely statistical. If the Community were to take conscious decisions on what the net contributions and receipts of individual member states should be, on the other hand, the distortion would become more than a matter of statistics. Unless corrected, it would mean that the Germans would receive less refunds than they deserved, while the Dutch would make less repayments than they ought to make.

Agreed

4. I should like if I may to advise strongly against mentioning this effect in the speech. There are two reasons for this:

- i. your speech is concerned to set out a broad approach. Technical detail could not only detract from the main point but also stimulate needless controversy. Hence it is, for the most part, deliberately eschewed.

For briefing folder. Pl get a better copy of Hague Tel 155. 8

CHANCELLOR

Shall begin in plane.

cc Mr Hancock
Mr Culpin

JW
2/C

Unfortunately the original is no better. Phil

HAGUE VISIT, 3 JUNE

INSTITUTIONS AND PERSONALITIES

I promised to let you have biographical notes on the people you are likely to meet in the Hague. You may also like a brief note on the two institutions under whose auspices your speech is being given.

2. I attach accordingly the notes prepared by the Embassy on those listed below. The righthand column indicates approximately how their names should be pronounced.

	<u>Approximate pronunciation</u>
1. The Institutes and Institute Chairmen	
Mr van Iersel	von Earsel
Mr Patijn	Patayne
2. Mr van der Stee	von der Stay
3. Dr Zijlstra	Zaylstra
4. Dr Duisenberg	Dowsenberch (ch as in Scottish 'loch')
5. Dr van der Mei	von der May
6. Dr Posthumus Meyjes	Postumus May-yes

Incidentally, Mr van Agt (the Prime Minister) is pronounced Mr von Acht (the ch, again, as in the Scottish 'loch').

3. Also attached are two telegrams from the Embassy, one describing the Dutch election process and the other commenting on the outcome of the recent election.

1 photo copy not being to name

AJCE

A J C EDWARDS
1 June 1981

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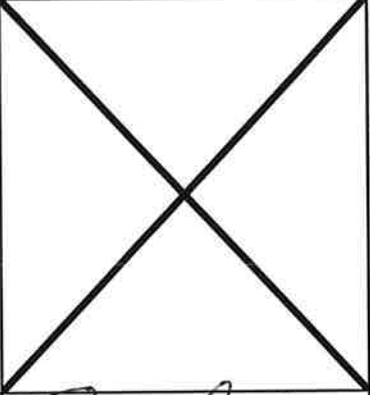
THE INSTITUTES AND INSTITUTE CHAIRMEN

The meeting will be hosted jointly by the European Movement (an independent organisation designed to promote interest in the Community) and the Foreign Affairs Institute (akin to Chatham House). Membership of both is drawn from Parliament and the political parties, banking/finance, the public service, the media and academics.

2. The Chairman of the European Movement is Mr van Iersel. Van Iersel was a (right-wing) Christian Democrat member of the Second Chamber but lost his seat in the general election on 26 May. His major interests are industrial relations and international economic relations. He claims to have been among the earliest supporters of the establishment of the EMS and remains a keen advocate of its merits. He is a supporter of TNP stationing.

3. The Chairman of the Foreign Affairs Institute is Mr Patijn. Patijn is a former member of the Ministry of Foreign Affairs where he worked in the European Integration Department. Since 1973 he has been a PVDA (Labour) member of the Second Chamber where he has taken a particular interest in Community affairs, as well as defence and foreign affairs questions.

A The National Archives

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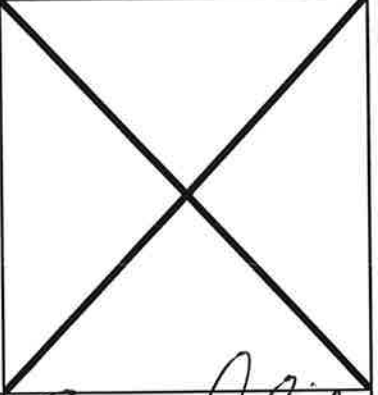
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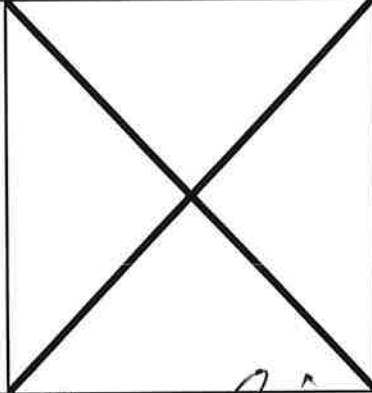

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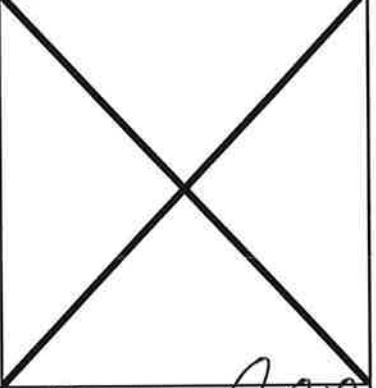
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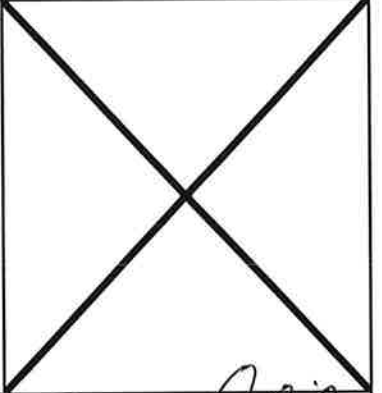
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FM THE HAGUE 271505Z MAY 81
TO PRIORITY F C O
TELEGRAM NUMBER 162 OF 27 MAY
INFO SAVING EC POSTS AND NATO POSTS

MY TEL NO 155: NETHERLANDS GENERAL ELECTION

1. THE FINAL RESULTS WERE ANNOUNCED EARLY THIS MORNING AFTER AN 85% TURN OUT AT THE POLLS. AS FORESHADOWED IN MY TUR, THE THREE LARGEST PARTIES HAVE LOST SEATS TO D'66 (CENTRE-LEFT SOCIAL DEMOCRAT), WHICH HAS MORE THAN DOUBLED IN STRENGTH, AS WELL AS TO THE FRINGE PARTIES OF BOTH LEFT AND RIGHT. THE CHRISTIAN DEMOCRAT (CDA)/LIBERAL (VVD) COALITION LED BY VAN AGT HAS LOST ITS SLENDER MAJORITY IN THE SECOND CHAMBER, THOUGH IT WILL CONTINUE IN A CARETAKER CAPACITY UNTIL A NEW ADMINISTRATION IS FORMED.

2. SEATS HELD IN THE NEW SECOND CHAMBER ARE (PREVIOUS TOTALS IN BRACKETS):

CHRISTIAN DEMOCRATS (CDA)	46	(49)
LABOUR PARTY (PVDA)	44	(53)
LIBERALS (VVD)	26	(22)
DEMOCRATS '66 (D'66)	17	(6)
CALVINISTS (SGP)	3	(3)
RADICALS (PPR)	3	(3)
COMMUNISTS (CPN)	3	(2)
PACIFIC SOCIALISTS (PSP)	3	(1)
REFORMED POLITICAL FEDERATION (RPF)	2	(-)
CALVINIST POLITICAL UNION (CPV)	1	(1)

3. IN LOSING NO MORE THAN THREE SEATS THE CDA/VVD COALITION DID BETTER WELL AFTER FOUR ARDUOUS YEARS IN OFFICE. THE CDA HAS LOST ONLY ONE SEAT AND IS NOW THE LARGEST PARTY IN PARLIAMENT. THIS IS MAINLY DUE TO VAN AGT'S PERSONAL STANDING.

4. THE PVDA DID SOMEWHAT LESS WELL THAN EXPECTED, WITH D'66 AND THE LEFT-WING FRINGE PARTIES BENEFITTING AT THEIR EXPENSE. EVEN SO, THE LOSS OF NINE SEATS HAS MERELY BROUGHT THEM BACK TO NEAR THEIR POSITION PRE-1977 WHEN THEY GAINED AN UNPRECEDENTED TEN SEATS. THE SMALL EXTREME PARTIES HAVE INCREASED THEIR SHARE OF THE VOTE. HOWEVER, THOSE ON THE RIGHT (SGP, RPF AND CPV) ARE PROBABLY TOO DISPARATE IN THEIR INTERESTS TO PLAY A SIGNIFICANT ROLE IN THE FORMATION OF A NEW GOVERNMENT. VAN AGT HAS ALREADY ANNOUNCED THAT HE WILL NOT RELY ON THEIR SUPPORT.

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/ s.

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5. THE SUCCESS OF THE VVD IN HOLDING ON TO 26 SEATS WILL MAKE IT MORE DIFFICULT FOR D'66, WHOSE PREFERENCE IS FOR A LEFT OF CENTRE GOVERNMENT, TO JOIN THE EXISTING COALITION, PARTICULARLY SINCE THEY AGAIN STATED PUBLICLY ON THE DAY BEFORE THE ELECTION THAT THEY WOULD NOT JOIN A COALITION INCLUDING VVD. AS REGARDS THE PVDA, DEN UYL MUST BE AWARE THAT THIS WILL ALMOST CERTAINLY BE HIS LAST CHANCE TO LEAD THE PARTY INTO A NEW COALITION. HE IS THEREFORE LIKELY TO BE MORE INCLINED PERSONALLY TO BE FLEXIBLE DURING THE NEGOTIATIONS - BUT HIS PARTY WILL NOT EASILY LET HIM. IT SEEMS IMPROBABLE THAT IN THEIR PRESENT MOOD THE PVDA WOULD AGREE TO ANY RELAXATION OF THEIR OPPOSITION TO THE STATIONING AND NUCLEAR ENERGY. MOREOVER THE EMERGENCE OF THE CDA AS THE LARGEST PARTY WILL MAKE IT VIRTUALLY IMPOSSIBLE FOR VAN AGT TO SERVE UNDER DEN UYL. IF THE PVDA ARE AGAIN EXCLUDED, THE LIKELIHOOD IS THAT DEN UYL WILL NOT LONG CONTINUE AS LEADER.

6. THE CDA ARE MEETING THIS AFTERNOON TO PREPARE THEIR ADVICE TO QUEEN BEATRIX. THEY WILL PROBABLY PROPOSE THE APPOINTMENT OF VAN AGT AS 'INFORMATEUR', I.E. THE MAN REQUIRED TO TAKE SOUNDINGS AND REPORT ON THE POSSIBILITIES OF PUTTING A NEW COALITION TOGETHER (FORMATION OF A CABINET IS A SECOND STEP IN THE PROCESS). THE PARTY LEADERS WILL BE RECEIVED BY THE QUEEN ON 29 MAY AND SHE IS EXPECTED TO ANNOUNCE THE APPOINTMENT OF THE 'INFORMATEUR' AFTER THE WHITSUN HOLIDAY.

7. A CDA/PVDA COALITION WILL PROBABLY BE TRIED FIRST, BUT THE CHANCE OF SUCCESS HAVE BEEN REDUCED BY THE CDA'S ELECTORAL ACHIEVEMENT. IF THIS FAILS, A CDA/VVD/D'66 COMBINATION NOW SEEMS MORE DIFFICULT IN VIEW OF D'66'S FURTHER STATEMENT (PARA 5 ABOVE). TERLOUW, THE LEADER OF D'66 WILL EXPLOIT TO THE FULL THE PARTY'S BARGAINING POWERS, BUT IT IS HARD TO SEE HOW D'66 CAN TAKE PART IN THE NEXT COALITION WITHOUT EATING THEIR WORDS ABOUT THE VVD. THEIR ADDITION TO A CDA/PVDA COALITION WOULD NOT MAKE IT EASIER TO ACHIEVE.

8. ON THE QUESTION OF THE MODERNISATION, THE ELECTION RESULT IS UNHELPFUL. IT IS VERY DIFFICULT TO SEE HOW A NEW DUTCH GOVERNMENT CAN NOW BE FORMED WHICH WILL BE ABLE TO DECIDE IN DECEMBER TO ACCEPT ANY CRUISE MISSILES ON DUTCH SOIL.

FCO PLEASE PASS TO SAVING ADDRESSEES.

MANSFIELD

(REPEATED AS REQUESTED)

THIS TELEGRAM
WAS NOT
ADVANCED

FCO WHITENALL

WED

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FM THE HAGUE 211745Z MAY 81
TO ROUTINE FCO
TELEGRAM NUMBER 155 OF 21 MAY
INFO SAVING EC POSTS, NATO POSTS.

NETHERLANDS GENERAL ELECTION

1. THE FOUR YEAR TERM OF THE PRESENT GOVERNMENT COMPRISING THE CHRISTIAN DEMOCRATS (CDA) AND THE LIBERALS (VVD) COMES FORMALLY TO AN END WITH THE GENERAL ELECTION ON 26 MAY. THE GOVERNMENT WILL HOWEVER CONTINUE IN A CARETAKER CAPACITY UNTIL THE LENGTHY PROCESS OF FORMING A SUCCESSOR IS COMPLETE.

2. NEW ADMINISTRATIONS IN THIS COUNTRY DO NOT NORMALLY PRODUCE FAR-REACHING CHANGES IN ATTITUDES AND POLICIES. UNDER THE COMPLEX DUTCH SYSTEM OF PROPORTIONAL REPRESENTATION NO ONE PARTY CAN HOPE TO SECURE AN ABSOLUTE MAJORITY. CABINET FORMATION TRADITIONALLY INVOLVES DETAILED NEGOTIATION AND ADJUSTMENT BETWEEN THE PRINCIPALS OF SEVERAL PARTIES. COMPROMISE CANNOT BE AVOIDED BY ANY PARTY WANTING A SHARE IN GOVERNMENT. THUS THE SOCIALISTS (PVDA) EMERGED AS THE LARGEST PARTY AFTER THE 1977 GENERAL ELECTIONS. BUT THEY WENT INTO OPPOSITION, BECAUSE THEY WERE NOT PREPARED TO SHOW SUFFICIENT FLEXIBILITY IN THE GOVERNMENT FORMATION TALKS.

3. THE PRESENT STRENGTHS OF THE FOUR MAIN PARTIES IN THE SECOND CHAMBER (150 SEATS) ARE : PVDA (53), CDA (49), VVD (RIGHT WING LIBERALS) (28) AND D'66 (CENTRAL-LEFT) (8). THE CONSENSUS OF INFORMED OPINION IS THAT THE THREE LARGEST PARTIES WILL LOSE A FEW SEATS (THE CDA LESS THAN THE OTHERS), WHILE D'66 MAY AT LEAST DOUBLE THEIR REPRESENTATION. THE PVDA ARE EXPECTED TO LOSE VOTES NOT ONLY TO D'66 , BUT ALSO TO THE COMMUNISTS AND THE FAR LEFT FRINGE PARTIES.

4. THE CDA WILL ALMOST CERTAINLY BE IN THE NEXT COALITION SINCE THEY AND THEIR PRESENT VVD PARTNERS SEEM UNLIKELY STILL TO COMMAND A MAJORITY, AND SINCE THERE IS IN ANY CASE A WIDESPREAD FEELING THAT A MORE BROADLY BASED COALITION IS NOW DESIRABLE, THERE IS MUCH SPECULATION ABOUT POSSIBLE COMBINATIONS. THE THREE MOST TALKED ABOUT ARE:

- (A) CDA/VVD/D'66
- (B) CDA/PVDA/D'66
- (C) CDA/PVDA

5. OF THESE (A) SEEMS AT THIS STAGE MARGINALLY THE MOST PROBABLE. ANY ONE OF THEM - BUT PARTICULARLY (B) OR (C) - WOULD INVOLVE A SHIFT TO THE LEFT, THOUGH THIS SHOULD NOT BE PRONOUNCED , IF THE PVDA IS NOT INCLUDED. IT HAS ALREADY MADE CLEAR THAT IT WILL NOT COMPROMISE ON TWO POINTS: NO TNF STATIONING AND THE REJECTION OF FOUR OR FIVE OF THE NETHERLANDS CURRENT NUCLEAR TASKS; AND THE DISCONTINUATION OF THE NUCLEAR ENERGY PROGRAMME (THIS WOULD

ALSO MEAN THE PHASING OUT OF URENCO). SUCH STARK CONDITIONS WOULD NOT BE ACCEPTABLE TO THE CDA - OR INDEED IN THIS FORM TO D'66. THE PVDA PROGRAMME ALSO CALLS FOR THE CREATION ON 300,000 NEW JOBS IN 1981-5 AND AN INCOMES POLICY MAINTAINING THE PURCHASING POWER OF MINIMUM WAGE EARNERS. BOTH ARE UTOPIAN IN PRESENT CIRCUMSTANCES. GIVEN THESE FACTORS, THE CHANCES ARE THAT EVEN IF THEY AGAIN EMERGE AFTER THE ELECTIONS AS THE LARGEST PARTY (WHICH IS BY NO MEANS CERTAIN), THE PVDA MAY WELL FIND THEMSELVES ONCE MORE IN OPPOSITION AS A RESULT OF THEIR INABILITY TO COMPROMISE. THERE IS HOWEVER A FEELING THAT INCLUSION OF THE PVDA WOULD MAKE IT EASIER FOR THE UNIONS TO ACCEPT THE IMPORTANT ECONOMIC DECISIONS ANY NEW DUTCH GOVERNMENT WILL HAVE TO TAKE BEFORE THE YEAR IS OUT.

6. D'66 HAVE STATED THAT THEY WILL NOT TAKE PART IN COALITION WITH THE CDA AND THE VVD. BUT IT IS WIDELY BELIEVED THAT IF THE PARTY DOES WELL ON 26 MAY THE PROSPECT OF OFFICE MIGHT BRING ABOUT A CHANGE OF MIND. THE INCLUSION OF D'66 IN A CDA-LED COALITION WOULD MEAN A SMALLER SHIFT IN DUTCH POLICIES, BUT WOULD STILL RAISE A NUMBER OF AWKWARD QUESTION MARKS ON NUCLEAR MATTERS. D'66 IS OPPOSED TO TNF STATIONING 'IN PRESENT CIRCUMSTANCES' (IT HAS BEEN CAREFUL NOT TO SPECIFY HOW THESE WOULD HAVE TO CHANGE BEFORE STATIONING WOULD BE ACCEPTABLE); AND IT IS SERIOUSLY CONCERNED ABOUT NUCLEAR ENERGY TO THE POINT OF WISHING TO CLOSE THE TWO DUTCH NUCLEAR POWER STATIONS. THE POSSIBILITY OF COOPERATION WITH THE CDA ^{where} (THE PARTY HIERARCHY BELIEVES THAT A DECISION ON TNF STATIONING - THOUGH THERE IS A VOCAL MINORITY WHICH IS STRONGLY OPPOSED TO STATIONING - MUST BE TAKEN IN DECEMBER BUT NOT BEFORE AND THAT IT SHOULD NOT FEATURE AS ONE OF THE POINTS IN THE PROCESS OF CABINET FORMATION) COULD LEAD TO STRONG DISSENSION, IF NOT A FORMAL SPLIT WITHIN THE PARTY.

7. THE OUTLOOK IS THUS MORE UNCERTAIN THAN USUAL. HOWEVER LONG THE GOVERNMENT FORMING PROCESS TAKES IN 1981 (AND IT TOOK 7 MONTHS IN 1979), TWO POINTS SEEM CLEAR. AS THE CHANCERY HAVE REPORTED TO THE DEPARTMENT, THE ODDS HAVE SHORTENED IN FAVOUR OF THE NETHERLANDS AT BEST POSTPONING FOR AT LEAST 2 YEARS AND POSSIBLY LONGER THE DECISION ON TNF STATIONING, THOUGH IT IS HARD TO SEE HOW THEY WILL RECONCILE THIS DECISION WITH THEIR FIRM COMMITMENT TO NATO AND THE WESTERN ALLIANCE.

^{SECOND,}
8. APART FROM NUCLEAR MATTERS THE RESULTS OF THE ELECTION ARE NOT LIKELY TO RESULT IN CHANGES WHICH WILL ADVERSELY AFFECT OUR INTERESTS. SUPPORT FOR THE EEC REMAINS AN ARTICLE OF FAITH FOR ALL POLITICAL PARTIES OF CONSEQUENCE. AND UNDERSTANDING OF AND INDEED SOME SYMPATHY FOR BRITISH POLICIES IN GENERAL REMAINS WIDESPREAD.

FCO PLEASE PASS TO SAVING ADDRESSEES.

MANSFIELD

[REPEATED AS REQUESTED]

FCO/WHITEHALL
WED

THIS TELEGRAM
WAS NOT
ADVANCED



cc: Sir Douglas Wass
Sir Kenneth Couzens
Mr. Hancock
Mrs. Gilmore
Mr. Culpin
Mr. Towers
Mr. Fitchew

MR. A.J.C. EDWARDS

1/6/81

HAGUE SPEECH, 3 JUNE

The Chancellor was very grateful for the revised draft attached to your note of 29 May. He has commented that he is most grateful for the care and efficiency with which the speech text has been prepared and handled.

2. The Chancellor accepts all the points on the draft in paragraph 2 of your minute. He agrees that there should be a short covering press release, and is content for the proceedings to be on the record, and in the presence of journalists.

3. I mentioned to you the Chancellor's suggestion that the absence of any reference to the "Rotterdam effect" might occasion some surprise. You were going to explain why you thought this inappropriate.

4. I have been given a few comments by FCO, MAFF, and the Cabinet Office:-

- (i) Paragraph 27 : MAFF would prefer the first sentence to read: "First, the long-term solution to the problems of the CAP must lie, at any rate in part, in reducing
- (ii) Paragraph 28: MAFF would like to insert after "market forces" in line 2, "operate directly on surplus production".
- (iii) Mr. Franklin suggests that in the fourth line of paragraph 39 the reference should be to "a gap of



14 to 15 percentage points".

(iv) FCO would like to leave out from "impact of the budget" in line 7 to the end of paragraph 59. (They explain that this would be tactically helpful to Mr. Tugendhat.)

(v) Mr. Franklin suggests that the second sentence of paragraph 64 should read "a new and more equitable budgetary arrangement will help the Community to concentrate on enhancing its activities and developing further along the lines"

JW

A.J. WIGGINS

1 June 1981

1/6/81.

21

CHANCELLOR

cc Sir K Couzens
Mr Hancock
Mr Culpin*Stat*POSTSCRIPT ON HAGUE SPEECH

In the heat of battle on Friday evening, I fear I omitted to comment on the important query which you raised about the reference to the 1 per cent VAT ceiling in the last sentence of paragraph 46, which reads:

"To say that raising the ceiling is necessary to solve the Community budget problem would therefore, in my view, be putting the cart before the horse."

2. As you imply, there is a hint here that, if the budgetary imbalances problem were solved, it might then be reasonable to look again at the 1 per cent ceiling. The paragraph as a whole hints at this. The last sentence makes it more explicit. The three succeeding paragraphs (47-49) then specifically reserve our position by pointing out that there are other obstacles as well to raising the ceiling.

3. The case for including the general thought, and the particular sentence, is that -

- (a) It could help significantly to commend our general case to the Community-minded, who want to see the Community make progress;
- (b) it demonstrates that our opposition to raising the ceiling is not mindless obscurantism, as many suppose it to be; and
- (c) the sentence turns strikingly on its head the familiar argument that solving the budgetary imbalances problem is impossible without raising the VAT ceiling.

4. The case against is that we might be interpreted as conceding that only solution of the budgetary imbalances problem stands in the way of raising the ceiling. But I believe that paragraphs 47-9 effectively give the lie to that.

5. On balance, I recommend leaving the sentence in. But if your Ministerial colleagues object to the sentence, its loss would by no means be a disaster.

AJCE
A J C EDWARDS
1 June 1981

CHANCELLOR

cc Sir K Couzens
Mr Hancock
Mrs Gilmore
Mr Culpin
Mr Towers

Mr Hannay - FCO

*No questions
Comments on text
from other mins, etc?*

HAGUE SPEECH

COVER RELEASE AND QUESTIONS

✓ As promised in my note of 29 May, I submit herewith a draft cover release for the Hague speech. It would be most helpful to know as soon as possible tomorrow whether you are content with this. For IDT have it in mind to begin providing early texts under embargo for suitable journalists tomorrow evening.

✓ 2. On the issue of questions after the speech, there has been one development over the weekend. The Institutes have told our Embassy in the Hague that they do not think, after all, that presubmitted questions will be practicable. It is not really possible, they point out, to frame pertinent questions until the content of the Chancellor's speech is known. What the Institutes suggest is that Mr Patijn, the senior Chairman, should control the questions carefully: only distinguished members of the audience, such as Duisenberg and the former Dutch Commissioner Lardinois, will catch the Chairman's eye. Mr Patijn is confident that the questions will be of a general, statesman-like nature and will contain nothing embarrassing. The Embassy hope very much that you will agree to this.

✓ 3. If you agree, we will aim to submit some notes for supplementaries tomorrow. The key point, I suggest, will be to avoid being drawn into discussion on technical details in the rather unlikely event that any of the questioners attempted to draw you in that direction.

4. The Institutes are expecting that between 150 and 200 people will be present for the speech, including a large number of leading Dutch luminaries. Dr Zijlstra is expected to be

present as well as Mr van der Stee and Mr Duisenberg. I am amending paragraph 1 of the speech accordingly. The Embassy are arranging to check at the time who is actually there so as to save you, if necessary, from claiming to see in the audience people who are not actually there.

AJCE

A J C EDWARDS
1 June 1981



"THE EUROPEAN COMMUNITY : AN OPPORTUNITY FOR PROGRESS"

SPEECH BY CHANCELLOR OF THE EXCHEQUER AT JOINT MEETING IN THE
HAGUE OF THE EUROPEAN MOVEMENT AND THE FOREIGN AFFAIRS INSTITUTE

The Chancellor of the Exchequer is speaking in the Hague tonight about the British Government's broad approach to reforming the European Community budget and the common agricultural policy. A copy of the speech is annexed.

2. The Community committed itself on 30 May last year, as part of the UK budget refunds agreement, to find a longer term solution to the problem of budgetary imbalances, or "unacceptable situations" for any member state, by means of structural changes. The Commission was mandated to produce a report by the end of June 1981. The Community will be discussing the subject intensively in the remainder of this year, under first the Dutch and then the British Presidency. The Chancellor of the Exchequer's speech is intended as a contribution to that discussion.

3. Main points from the speech are:

- The problems of budgetary imbalances and the CAP are preventing the Community from making progress. They are also tending to undermine popular support for the Community. Solutions are needed urgently.
- Guidelines for CAP reform should include reducing the levels of effective support in real terms for products in surplus; giving greater play to market forces; and making agricultural support spending subject to the same sort of financial discipline as is applied to other public spending programmes.
- The problem of budgetary imbalances is a problem not just for Britain but also for Germany and hence for the Community as a whole. Enlargement will exacerbate the problem.

- The problem arises because the impact of the budget on individual member states falls out fortuitously, from unco-ordinated policy decisions by the Community's specialist councils.
- The solution cannot lie in raising the 1 per cent VAT ceiling. Under existing arrangements, that would open the way for a further uncontrolled increase in CAP expenditure, which in turn would increase further the net contributions of the net contributor countries.
- The solution must lie rather in adding one new principle to the Community's budgetary arrangements. The Chancellor suggests that the Community will need in future to take conscious decisions on how the budget should affect individual member states. The decisions ought to be based on objective criteria, notably relative prosperity.
- The means of implementing these decisions should include a redirection of expenditure from agriculture to other areas. But the Community is likely to need special arrangements as well for correcting the total impact of of the budget on individual member states.
- In addition to solving the problem of "unacceptable situations", this approach should make the budgetary aspects of enlargement manageable and open the way for the Community to make progress. It would involve applying in the Community, to some extent at least, a principle universally recognised in nation states - that resources should flow from more to less prosperous regions, and not vice versa.

DRAFT LETTER FROM CHANCELLOR'S PRIVATE SECRETARY TO
THE PRIVATE SECRETARY TO THE PAYMASTER GENERAL

David Hughes Esq
etc

SPEECH BY CHANCELLOR OF THE EXCHEQUER IN THE HAGUE, 3 JUNE

I attach a draft of the speech which the Chancellor of the Exchequer is to deliver in the Hague on Wednesday 3 June. It would be extremely helpful if comments could reach me by lunchtime on Monday 1 June if at all possible, please.

2. I am copying this letter and the draft speech to the Private Secretaries to the Prime Minister, the Foreign Secretary, the Lord Privy Seal, the Minister of Agriculture, Fisheries and Food and Sir Robert Armstrong.

R.I.

CHANCELLOR

cc Sir K Couzens
Mr Hancock
Mr Fitchew
Mr Culpin

HAGUE SPEECH

NOTES FOR SUPPLEMENTARIES

I attach as promised some notes for possible use in answering questions after your Hague speech. These are grouped under four headings:

- i. General
- ii. Subjects not covered in speech (including fish and EMS)
- iii. CAP reform
- iv. Budgetary imbalances.

As suggested in my note of yesterday, you will want above all to avoid being drawn into discussion of technicalities. The first supplementary answer deals with this point.

AJCE
A J C EDWARDS
2 June 1981

1. Purpose of speech

Speech is intended as constructive contribution to debate in Community on CAP and budgetary reform - before we enter negotiating phase. Concerned only with broad approach. Wrong to go into technical details ahead of Commission report. No wish to pre-empt that report.

2. Handling of mandate

Discussion at June European Council will necessarily be preliminary. Our firm aim must be to reach solution at November European Council, in accordance with timetable agreed on 30 May last year.

3. What if no agreement in November?

Community is committed to rolling forward special arrangements for UK for a third year.

SUBJECTS NOT COVERED IN SPEECH

4. Fish

Contrary to many press reports, the UK has made sincere and continuing efforts to reach agreement on a common fisheries policy. We have made substantial concessions. Some further delay now inevitable following change of government in France. But UK will work hard for the early solution which the Community so badly needs.

5. EMS

The UK is a member of the European monetary system. We remain ready to join the exchange rate arrangements when this can be done without damaging the UK's domestic monetary policies or upsetting the arrangements themselves.

6. Other subjects

There are many other subjects which are important and on which we need to make progress. I have concentrated on the budget and the CAP only because I think these are currently most important issues of all.

CAP REFORM

- 7. Are we suggesting that the real incomes of farmers must be further reduced?

Farmers cannot be completely insulated from the economic pressures to which others are subject. I am afraid they are by no means the only group for whom adjustments may be painful.

- 8. UK attitude to income aids for small farmers

It is right to consider whether they have a role to play in easing the adjustment process. But they need to be coordinated at Community level, to make sure that they do not undo the effects of price restraint.

- 9. What is meant by giving greater play to market forces?

Community cannot ignore the balance of supply and demand in the market or world price levels for agricultural products. Nor can Community prices be set without reference to the interests of consumers and of European taxpayers.

- 10. Support prices and expenditure on support cannot be fixed simultaneously

This is a difficult subject. But as I have said, we have to do all we can to keep the growth of agricultural spending below the growth of own resources. I do not see how we can afford completely open-ended commitments, either at home or in the Community.

- 11. Linear co-responsibility levies

These do not provide a satisfactory solution to the problem of surplus production and the economic and financial burden which this imposes on the Community. "Super-levies" designed to discourage over-production seem to offer a much better solution.

BUDGETARY IMBALANCES

12. Anathema to talk about net contributions and receipts of individual member states at all?

With respect, cannot possibly accept that. Community recognised last May that UK net budget contribution was a genuine problem and that similar problems could arise for other member states. Cannot solve these problems by pretending they are not there. Must recognise them and find lasting solutions before they damage Community beyond repair.

13. 'Juste retour'?

Not advocating 'juste retour', in sense that everyone should get back exactly what he puts in. Suggestion is rather that Community should adopt a principle universally recognised in national states - that resources should flow from more to less prosperous regions, and not vice versa.

14. How solve budgetary imbalances problem without raising 1 per cent VAT ceiling?

Can contribute to solution by redeploying expenditure away from agriculture into other areas within the 1 per cent ceiling. Realistically, however, special corrective arrangements will be needed too. Unwelcome to some. But better than making complete nonsense of Community policies. Special arrangements should be financed in ways which do not conflict with VAT ceiling.

15. Form of special corrective arrangements?

Wrong for me to pontificate on technical details ahead of Commission report. Suffice to say that the work we have done suggests wide range of ~~technical~~ possibilities.

16. Corrective mechanism would remove member states' interest in Community policies?

Cannot accept that. As I said earlier, argument virtually amounts to saying that member states will only conduct policies at Community level if they see prospect of obtaining direct national financial advantage at expense of other member states.

Fact is that lack of any corrective mechanism is making it impossible for Community to agree on development of its policies: net contributor countries cannot afford to risk further increases in their net contributions.

Making distributional impact of budget a matter of conscious decision should improve Community decision making by removing financial in-fighting between member states. *in other fields*

17. Corrective mechanism would destroy own resources system?

Aim would be to preserve existing budgetary arrangements, not to dismantle. Own resources would be paid over in exactly same way as now. All I suggest is that we need to complete Community's budgetary arrangements by adding one further principle.

18. Why not another special arrangement for UK?

Because not just a UK problem. German problem as well, and hence a Community problem. Enlargement will make problem worse. Must find lasting solution which will solve the problem of unacceptable situations for any member state, as agreed on 30 May last year.

19. UK keeps trying to renegotiate entry terms

Assure you we take no pleasure in that at all. We all hoped that the budget problem which some foresaw would not in fact materialize. But it has materialised, and it has not been solved. We have to face it and tackle it

/once and for all.

once and for all. We must get a permanent solution, so that we don't have to keep arguing from first principles year after year.

20. UK brings problem on itself by importing so much from outside Community

No. Our payments of "own resources" are a relatively small part of the problem. The larger difficulty is that we get such a small share of Community receipts.

In point of fact, the pattern of our trade has shifted substantially towards the Community. But like the Dutch, we have a long history of wide trading - and the government directs neither traders nor consumers.

2/6/81 34

THE EUROPEAN COMMUNITY : AN OPPORTUNITY FOR PROGRESS

BY OF THE CHANCELLER
DRAFT OF A SPEECH FOR THE CHANCELLOR TO DELIVER IN
THE HAGUE ON WEDNESDAY 3 JUNE 1981

Introduction

Mr Patijn, Mr van Iersel, Ladies and Gentlemen.

1. I am delighted to be in the Netherlands this evening and to have the opportunity to address such a ~~well-informed~~ distinguished audience. It is particularly good of you to come here at a time when - following your General Election - many of you are extremely busy. If I may single out individuals, may I say how much I value the presence, despite their many other pre-occupations, of my colleague Mr van der Stee and of ~~Dr Duisenberg, the next~~ Dr Zijlstra and present and future Presidents of the Netherlands Bank.

2. I also owe a particular debt of thanks to your two distinguished Chairmen this evening - Mr Patijn ~~[Vice Chairman of the Foreign Affairs Institute]~~ and Mr van Iersel ~~[Vice Chairman of the European Movement]~~ - and ~~of course~~ to the organisations they represent for so generously making the arrangements for this occasion.

Anglo-Dutch friendship

3. May I say first what a great pleasure it is for people from Britain to talk with Dutch colleagues about major issues of the day. There is a long tradition of almost unbroken friendship and collaboration between our two countries.

4. It was with Dutch help that we drained the Fens of East Anglia. We even shared a monarch for a time, when the Orange and the Rose came together in the person of William III.

5. The influence of the Netherlands on England in the following period of our history was extensive. Our Central Bank, the Bank of England, was modelled on Dutch experience. English domestic and urban architecture took on a distinctly Dutch appearance. Near the Treasury in London there is a street of Queen Anne houses called "Queen Anne's Gate" which has to our good fortune been preserved. Those of you who have seen it will know what I mean when I say that I felt very much at home when I visited our Ambassador's delightful residence in the Westeinde earlier this afternoon.

6. Further back in history Hugo Grotius, esteemed by jurists as the founder of international law, served for a time as Dutch ambassador to England before writing his great treatise "De jure Belli et Pacis". I am a lawyer myself - a professional training which I am proud to share with Mr van der Stee as well as with Mr van Agt - and it seems to me that the bookcase in which Grotius escaped from prison to write this treatise must be the most important bookcase, the most productive even, in legal history.

7. Further back still, the intimate friendship between two great scholars, one Dutch, one English, prepared the way for the flowering of the Renaissance in Northern Europe. I refer to Erasmus and Sir Thomas More. It was at More's suggestion that Erasmus wrote his celebrated satire, "In praise of folly" or "Encomium Moriae": the word "Moriae" was itself a play on More's name. And it was in the Low Countries that More sketched his "Utopia", published under Erasmus's supervision in 1516.

The subject

8. My subject tonight - "The European Community: an opportunity for progress" - is perhaps less rarefied, but certainly more urgent, than those addressed by More and Erasmus. I venture to hope that our two countries can, in our different ways and from our different

perspectives, collaborate as effectively in tackling the problems of today as did those two great 16th century scholars. My main concern is for the future of the Community. But first a word about the past and present.

The Community's achievements

9. The Community can, I suggest, take credit for a number of profound and historic achievements. I mention three in particular.

10. First, the Community has helped to create a zone of peace and stability in Western Europe. How easy it is to take this for granted today. But no more than a glance is needed at the pages of history to confirm the magnitude of the achievement. There have even been occasions when our own two countries have fought each other. In the 17th century, our navies obtained a considerable amount of useful combat experience at each other's expense! More seriously, every city in which the Community transacts its business today has suffered grievously in some past European war. We are having to contend today with new and ugly forms of violence - with the terrorists who attack civilised society in all our countries, be it in Rome or London or the Hague. But the possibility of war between the nations of Western Europe has never been more remote. The scars of earlier conflicts have helped to cement our present unity.

11. It may be argued that the recognition of a common enemy and the formidable advance of military technologies would have sufficed by themselves to keep Western Europe at peace. But the Community has brought a new sense of cohesion among member countries. It has planted firmly in European soil the precious habits of cooperation and negotiation. It has strengthened liberal democracy in Europe and Europe's voice in the world.

12. Second, the Community has surely made Western Europe significantly more prosperous than it could otherwise have been. The vast expansion of trade brought about by the elimination of tariffs between Community countries, and the dismantling of many non-tariff barriers, must have contributed powerfully to the enhancement of living standards in all Community countries. It is hard to measure such effects in statistical terms. But that in no way detracts from their importance, an importance which I believe is being increasingly recognised in my own country - and not before time.

13. Third, the common policy for agriculture, for all its faults, has raised food output in Western Europe to a remarkable extent at a time of continuing reductions in the agricultural population. The policy has also helped to protect the economic and social structure of the countryside, in face of the pressures which increasingly threaten it.

UK's commitment to Europe

14. The British Government are deeply conscious of all that has been achieved. We are anxious to see Europe progress still further. We want to play a full part in that progress. We are proud to be in Europe and of Europe.

15. In times past, Britain has contributed much to European civilisation. We have more to contribute now and in the future - not least to the defence of Europe through NATO and to its development through the Community. The Community is where we belong. Without Britain, the Community would be incomplete. Without the Community, Britain would be incomplete.

16. And I want to say at this point how sincerely and profoundly grateful the British Government are to successive Dutch governments for the great understanding which they have always shown towards the UK, both when we

were negotiating to join the Community and subsequently. We are now approaching the end of the Dutch Presidency and the beginning of our own. It is especially appropriate, therefore, that we should be talking together this evening. I only hope that in our Presidency we shall be able to preserve the high standards which you have set under yours.

Problems facing the Community

17. I have been talking mainly so far about the Community's achievements. We all recognise, however, that the Community faces severe problems as well.

18. One problem is that there has been a worrying reduction in popular support for the Community in some member states - by no means only in the United Kingdom. This I regard as a matter of great concern. For the survival of the Community, like any other system of government based on democratic principles, must ultimately depend on the support of the people. In developing the Community we must be concerned above all to strengthen the conviction and support of people in all member states.

19. Why is it that popular support for the Community is so patchy and, in some countries, less than secure?

20. There are, I believe, a number of causes. There are many who feel, for example, that the Community has in some way been responsible for the economic dislocation and setbacks which followed the two oil price shocks of the 1970s - or is at least responsible for their not having been overcome more painlessly. In fact I believe the very reverse is true. We should all have been worse off if we had had to face these tribulations alone.

21. Another powerful cause of the fluctuations in popular support, I suggest, is that there seem to be so many quarrels in the Community. Partly because of the system, partly because of the way in which Community affairs are

reported, the processes of adjustment, reconciliation and allocation are perceived as battles, or clashes; and strong passions are aroused among politically conscious people in all our countries. In any international, national or federal organisation, some lively exchanges about the allocation of resources are to be expected. An absence of such exchanges would be unnatural. But people feel that our organisation is keeping the countries of Western Europe perpetually at loggerheads with each other. Too often, we seem to be locked in adversary bargaining, like social partners engaged in a permanent spring offensive. Grotius would not have approved.

22. If one of the main perceived causes of the problem is that we are seen to quarrel too much, what are the underlying causes? I believe there are two which must concern us principally. First, there is a complex of problems connected with agriculture. Second, there is the problem of budgetary imbalances between member states.

CAP reform

23. To begin with agriculture, the CAP has, as I suggested earlier, been notably successful in raising food production in Western Europe and in helping to preserve the character of our countryside.

24. The main problem with the policy is that it has been too successful in stimulating the production of food. The result is that we have increasing surpluses in a number of products, and the cost of financing these surpluses has risen to intolerable levels. Especially in the milk and cereals sectors, governments and consumers are paying out large sums which increase production to no good purpose. We give our farmers incentives to produce products which no-one wants - or at least not at or anywhere near the prices for which they produce them. Then we incur the heavy costs of storage and disposal.

25. We all want a healthy, productive farming sector. But there is a real danger that the policy will collapse under the weight of its own excesses. And that is something which none of us wants to see.

26. I do not pretend that there are easy or painless answers. But there are three guidelines for reform which I would wish to put forward.

27. First, the solution to the problems of the CAP ^{must} ~~can~~ only lie in reducing the levels of effective support in real terms for products in excessive surplus. There is, I believe, a wide measure of agreement on this. But action has lingered far behind analysis. There is no consensus on the means whereby the levels of effective support should be restrained. And there are recurring political inhibitions which have persuaded us at each year's price fixing to postpone decisive action for another year.

28. Second, I suggest that we must seek solutions which give greater play to market forces and are consistent with the Community's commitment to an open and competitive economic system both within Europe and internationally. Within the Community we must avoid any prescriptions for reform which involve discrimination against particular types of efficient producer. On the external side, we must maintain the principle of Community preference. But we must not seek to solve the problems of the Community's farm sector by increased protectionism.

29. Last, but not least, I believe that agricultural support spending must be subject to the same sort of financial discipline as we apply to other public spending programmes. This is more essential than ever in a period of relatively low economic growth, when all our governments are having to wrestle to keep public expenditure under control.

30. Highly relevant to this is the position adopted by the British, Dutch and German Governments after this year's price fixing, when we recorded our joint determination that the future growth of spending on price support should be markedly lower than the rate of growth of own resources. Difficult though it will be, we must now put this policy into practice. Time is running out. We must meet the imperative of change in advance if the Common Agricultural Policy is to survive and prosper as we wish it to do.

Budgetary imbalances

31. The other major source of the Community's troubles is, I suggest, its budgetary arrangements. These arrangements are incomplete in one important respect.

32. Contributions are made to the budget under the own resources system. In itself, that need raise no problems.

33. Expenditure takes place from the budget in accordance with Community policies. In itself, again, that need raise no problems.

34. The problems arise because the Community's arrangements make no provision for the relationship between the contributions and receipts of individual member states. There is no provision to ensure that the net balance of contributions and receipts for each individual member state is defensible. Within nation states, it is an established and overriding principle that resources should tend to flow from more to less prosperous regions, and not vice versa. But there is no comparable principle governing resource flows between member states of the Community.

The net effect of the budget on individual member states is largely fortuitous. It emerges accidentally from a multitude of separate, unco-ordinated decisions by the Commission and the Community's specialist councils.

35. In the original Community of 6, this incompleteness in the Community's financial arrangements did not pose a serious practical problem. Each member state derived advantages from membership which were real and visible. Germany was by far the largest net contributor - but not on a scale which the German people found intolerable; the environment was one of sustained economic growth and Germany did not demur.

36. Since those days, things have changed. We now have a Community of 10. And for the Community, as for the rest of the world, there is no longer the same assurance of sustained economic growth. Of the countries which acceded in 1972, Denmark and Ireland have obtained the benefit of large net receipts from the Community, both within the budget and outside. But the passage of time has brought major problems, arising from the operation of the budget, for two Community countries - the UK and Germany.

37. At the time of the accession negotiations in 1970, the British Government expressed concern that the combination of the own resources system and the predominance of agricultural expenditure in the budget would place an impossible burden on the UK, which could not be solved by transitional arrangements. That was not, however, the conventional wisdom of the time. The pattern of sustained economic growth had not then been interrupted by massive oil price rises. And there were great ambitions for economic union in the Community. It was easy to imagine that the Community budget could expand, that agricultural support would lose its predominance in the budget, and that new programmes could be introduced which would bring compensating benefits to the UK. Even then, however, the Community recognised that, if things turned out differently, an 'unacceptable situation' could arise and would have to be remedied. The Commission paper of October 1970 stated that:

"... should unacceptable situations arise within the present Community or an enlarged Community, the very survival of the Community would demand that the Institutions find equitable solutions."

The Council of Ministers formally endorsed this proposition on 4 November 1970.

38. Sadly, many of the hopes and aspirations of the early 1970s have been disappointed. The European economies, like the rest of the world, have been gripped by recession, and CAP expenditure has continued to consume the lion's share of the budget, thus hampering the development of other important policies. As a result, unacceptable situations have indeed arisen - first for the UK and then for Germany, and so for the Community as a whole.

39. In the UK, the end of the transitional period in 1979 left us in 1980 financing around 21 per cent of CAP expenditure and receiving only about 6-7 per cent of it; a gap of 14-15 ~~per cent~~. Our net contribution to the budget was thus forecast to reach between 1½ and 2 billion ecus in 1980. And this despite the fact that we were one of the less prosperous member states in a Community with a declared objective of economic convergence. No-one would have dreamed of deliberately planning such an outcome.

percentage points.

40. So it was that, in the 30 May agreement last year, the Community recognised that things had indeed gone wrong - that the increasing imbalance of the budget was a problem which had to be tackled. The Dutch government were among the first to recognise that. The agreement provided for the UK a respite which was timely and welcome. But it was only temporary. That is why, even more importantly, the agreement provided that, for the future, the Community should solve the underlying problem by means of structural changes.

41. An important problem with the 30 May agreement is the difficulties which it has created for another member state. For Germany is now bearing a burden similar in magnitude

to that which the UK would have borne but for the agreement. Germany is a much richer country than the UK. But the Federal German Chancellor has now stated that enough is enough - that there will need to be a limit on Germany's net contribution as well as the UK's. What better proof could there be that the problem is not just a British one? It is a problem for the Community as a whole - a shared problem which we must solve as a matter of conscious, collective decision.

Difficulties caused by budgetary problems

42. We all know that the Community is concerned with much more than money and arithmetic. But the problems on agricultural expenditure and budgetary imbalances which I have been describing are damaging the fabric of the Community. There is a real danger that public support for the Community will be eroded, and the progress of the Community halted, if we do not find solutions to these problems.

43. The dangers over public support arise partly from the fact that the uncorrected impact of the budget is manifestly unfair, and partly from the absence of any established method of correction short of sustained punch-ups every two years or so. Member states are repeatedly flung into the ring against each other with as little dignity as the contestants in "Jeux sans frontieres". There is a real danger that, in the face of all the unfairnesses and the confrontations, support for the Community will fade away in the net contributor countries. If that should happen in Germany as well as the UK, then truly the Community would be in trouble.

44. We have to recognise, moreover, that the Community's budgetary problems will become more acute as a result of enlargement. Like other member states, we in Britain were delighted to welcome Greece into the Community at the beginning of this year. We look forward to the early accession of Spain and Portugal. But under existing

arrangements for the CAP and the budget the financial consequences of enlargement for existing member states are highly uncertain and could be substantial. The sooner we can sort out our budgetary problems, the more rapidly we shall be able to welcome Spain and Portugal, too, into the Community.

The 1 per cent VAT ceiling

45. It is often suggested that the main obstacle to progress in the Community is the 1 per cent VAT ceiling. This ceiling was set by the original Six in 1970. It can only be changed by unanimous agreement of the member states and after ratification by their Parliaments. There are many who argue that the ceiling should be raised so that the Community can develop existing programmes and undertake new ones.

46. The fact is, however, that the present own resources ceiling is the one thing which imposes on the Community budget the sort of financial discipline which we all take for granted at home. If the ceiling was to be raised as soon as it was reached, then under existing arrangements the way would be open for a further uncontrolled increase in CAP expenditure; and that in turn would increase further the net contributions of the existing net contributor countries. There are no "automatic stabilisers" under the CAP - nothing to shield the net contributor countries, in particular, from the consequences of our collective extravagances. On the contrary, the more the expenditure rises, the greater the budgetary imbalances become. Under present arrangements, the net contributor countries have no practical choice but to insist on maintaining the ceiling. To say that raising the ceiling is necessary to solve the Community budget problem would therefore, in my view, be putting the cart before the horse.

47. I am not suggesting that these are the only obstacles to raising the 1 per cent VAT ceiling. The Community budget cannot do without a financial discipline

any more than our domestic budgets can. And it is surely an illusion to regard the two as entirely separate. There are no untapped resources in any of our countries, waiting to be allocated to Community spending. The hard fact is that an increase in Community public expenditure bears on the same over-stretched resources as does an increase in national public expenditure.

48. In some areas, it may well make sense to conduct policies on a Community rather than a national basis. We certainly support the case for allocating some of the funds saved from the CAP to non-agricultural policies which could give the budget a better balance. As my colleague Lord Carrington said in Hamburg last November, the British Government has a close interest in the further development of the Regional and Social Funds and Community policies for transport infrastructure, urban development and energy, in particular coal.

49. But we must be realistic about the scale of such developments. This is not the year, indeed probably not the decade, for launching major new spending programmes. The Finance Ministers of the Community cannot combine a policy of severe restraint in domestic programmes with approval for massive increases in Community programmes. If they attempted to do so, they simply would not be understood.

Need for conscious decisions on impact of budget

50. I have been arguing that the problems of the CAP and budgetary imbalances lie at the root of the Community's present troubles. The Community will, I suggest, have to solve these problems, if it is to make progress. I said something earlier about solving the problem of CAP expenditure. I should like to share with you now some thoughts about how the Community might tackle the problem of budgetary imbalances.

51. As I said a few moments ago, this problem arises because the impact of the budget on individual member states falls out fortuitously, or accidentally, from a multitude of separate policy decisions by the individual specialist councils

52. Our present arrangements can be compared with a computer programme which is admirable in every way except that one vital constraint is missing. We ask the computer how fast the traffic should drive through a road tunnel so as to minimise congestion. The answer comes back: 1000 kilometres an hour! We forgot to tell the computer that there is a limit to the speed at which traffic can move.

53. In the Community's standard budgetary arrangements there is likewise, I suggest, one crucial element, or constraint, which is missing. The arrangements take no account of the total net effect which the budget will have on individual member states. Yet the budget, as it emerges, can all too easily place on some member states burdens which are manifestly unreasonable. With the indirect exception of the 1 per cent VAT ceiling, there is nothing in the standard arrangements to limit the liabilities of the net contributor countries. There is likewise no principle comparable to that which underlies the fiscal arrangements between the component regions of national states - that resources should tend to flow from the more prosperous to the less prosperous regions. This principle certainly operates within the component parts of the United Kingdom. It clearly underlies the fiscal arrangements between the Federal Government of Germany and the Lander. It even finds some expression in the preamble to the Treaty of Rome, which stresses the need to reduce economic differences between various regions. I believe that we must devise ways of applying the principle, at least to some extent, within the Community.

54. I do not suggest that we have to aim, in the foreseeable future, at a major redistributive system within the Community comparable to that of a unitary national or a federal state. But we ought at least to get the direction right. We suffer at present from a system whose distributive impact is, in many cases, perverse.

55. The conclusion which seems to me to emerge is that the Community will need in future to take conscious decisions on how the budget should affect individual member states. We cannot allow the budget to go on producing, as it does at present, redistributive effects which are entirely perverse - and which individual member states could not be expected to bear. We must ensure that the broad pattern of net contributions and receipts for individual member states is tolerable, and not indefensible. Our basic budgetary arrangements should, I suggest, remain as now. But this new element needs to be added.

56. The approach which I have outlined would represent an important step in the evolution of the Community. I emphasise that I am not advocating 'juste retour' of a kind that would be thought quite inappropriate inside a nation state. On the contrary, what I am suggesting is that the Community should introduce into its affairs a principle which is accepted doctrine in the budgets of national states, both federal and unitary.

57. The Community's decisions on the distributional effects of the budget would need to be based on objective criteria - criteria which could be defended to the peoples of individual member states as being just and fair. It would obviously be for consideration what exactly these criteria should be. But it would seem right, as I have implied already, that they should include relative prosperity as well as population size. It could also be appropriate to take some account of trading gains and losses outside the budget. I believe, for example, that Italy's net receipts from the budget are broadly offset by adverse resource transfers outside the budget on trade in agriculture. In other cases, the effects are cumulative, not offsetting.

58. One way in which we could seek to apply the principles I have outlined to the Community budget would be to use the headroom created by restraint in agricultural spending

to expand non-agricultural programmes in ways which would achieve the desired distributional effects from the budget as a whole. But such programmes do need to be desirable in their own right. Development of such programmes is bound to take time, and their distributional impact will often be uncertain. To put on them the whole burden of correcting the distributional impact of the CAP could involve a considerable distortion of the Community's non-agricultural spending policies. We have also, as I have said, failed so far to bring the rising costs of the common agricultural policy under firm control.

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59. What these considerations suggest is that something more will be needed if the Community's agreed objective of removing unacceptable situations for any member state is to be achieved. We are likely to find that, in addition to the development of non-agricultural programmes, the Community will need ^{special} arrangements for correcting the total impact of the budget, ~~by means of a special budgetary mechanism.~~ Transfers under such a mechanism need not, I would have thought, count as either revenue or expenditure. They could simply be ~~corrective transfers within or outside the budget.~~

Advantages of the suggested approach

60. It seems to me that completing the Community's budgetary arrangements in the way I have suggested - through conscious decisions on the broad distributional impact of the budget - would bring a number of powerful advantages. I emphasise the word 'completing'. The aim would be, not to dismantle, but rather to preserve existing arrangements, with the addition of one further element.

61. In the first place, this approach should, I believe be capable of solving, on a continuing basis, the problems of budgetary imbalances and unacceptable situations - both the problems of the existing Community and the potentially more serious problems of the enlarged Community. By removing a built-in source of conflict between member states, it should make for a Community which was more harmonious and less quarrelsome. It should enable the existing Community to absorb Spain and Portugal without incurring an intolerable budgetary burden.

62. Second, it should improve the quality of the Community's decision making. Of course there would continue to be some arguments about the distribution of burdens and benefits between member states. But the financial in-fighting between member states that now distorts so much of our decision making on Community policies would be much reduced. Member states would no longer be so obsessed by the effects on their net contributions or receipts of developing existing policies or introducing new ones. They would be able to concentrate, instead, on the inherent value of individual policies to the Community as a whole - and on the distribution of resources between policies rather than between member states. That too should promote a more harmonious Community.

63. It is sometimes argued that the contrary is the case - that if the distributional outcome of the budget were the subject of conscious decisions, there would be no further incentive to take decisions at a Community level at all. But the question is - does our present, haphazard budgetary approach in fact encourage the development of Community policies? I do not think it does. In any case, the argument virtually amounts to saying that the only thing which gives member states an interest in conducting policies at the Community level is the hope of obtaining direct national financial advantage at the expense of other member states. I hope and pray that is not true!

64. Finally, a further advantage of the approach I have outlined is that it should prepare the way for the Community to make progress. ~~Unless the position of the net contributor countries is effectively protected, I see little prospect that the Community will be able to reach agreement~~ on enhancing its activities ~~and~~ ^{and} developing ^{further} along the lines envisaged by its founding fathers.

A new and more equitable budgetary arrangement would help the Community to concentrate

Conclusion

65. We shall soon be discussing these matters more formally in the Community, with a report by the Commission to help us on our way. It is my hope that, in the remainder of the Dutch and then the British Presidencies, we shall be able to bring to these discussions something of the vision, wisdom and moderation of our illustrious forbears, Erasmus and Sir Thomas More. I should like to think that the outcome will be as harmonious and as lasting as the Queen Anne style of architecture which, as I remarked earlier, was an English response to a Dutch inspiration.

66. We must get on. There is no time to lose. As Grotius said in 1614, we must "plant trees for the benefit of those who come after us." We must find solutions which will preserve the Community's existing achievements, not destroy them; which will bring harmony in place of discord; and which will strengthen the Community in the esteem of all our peoples. Above all, we must find solutions which will open the way for progress.

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Q You speak of a harmonious outcome as a result of Anglo/Dutch cooperation. Are you aware that the interests of the United Kingdom and Dutch Governments are likely to be in sharp conflict in this affair?

A The interests of the Dutch and United Kingdom Governments in the past have ~~often~~ ^{often} differed. I have referred to our naval quarrels in the North Sea in the 17th Century, for example. But despite these differences of interest we do seem to be able to manage to cooperate in producing worthwhile results. I attribute this to our common desire to find practical solutions to practical problems. We also share a deep concern for the future welfare of the Community. Perhaps I might return the question by asking whether you dissent from my thesis that, unless a permanent solution is found to our budgetary problems, the Community will be unable to fulfil its true potential?

STABILITY, POLITICAL

ROMAN

IN ZONE OF ECONOMIC STABILITY, MARKET

Q You have referred to the need for some form of special arrangements for correcting the total impact of the Budget. Would you not agree that any such form of special arrangement will need to be temporary if it is not to undermine the foundations of the Treaty?

A No. I believe that a safeguard against arbitrary distributive results arising in future as a permanent feature of the Community Budget arrangements would be a major strengthening of the Community. The more that the desired distributive effect can be achieved by the development of the right sort of Community policies the better obviously. But a permanent safety net would release the Community from the anxieties which have frustrated its decision-making. It would also help us to cope with the financial problems posed by the further enlargement of the Community.

Q Could you explain more precisely what you mean when you say that the special arrangement will help with the financial problems of enlargement?

A Spain and Portugal are poor by comparison with most of the present member states. Germany is already saying that the burden of its net contribution to the Community Budget is too large. We have got to face up to the fact that the Community will not be acceptable to the electorates of Spain and Portugal after they have joined unless resources are transferred from the richer member states to Spain and Portugal, as well as to Italy, Ireland and Greece. And the scale of the transfer has got to be acceptable to the richer member states.

This gives me an opportunity to stress a point of the greatest importance. The Community must learn to recognise and face up to problems in advance. Our usual practice of drifting into a foreseeable difficulty and then haggling about its solution for so long that a major crisis cannot be avoided is extremely damaging to the functioning and reputation of the Community. We can all see very clearly the problem that will be posed by the further enlargement of the Community; let us make sure that we introduce arrangements, in agreement with Spain and Portugal, that will enable the Community to adapt to their accession. And let us make these arrangements in good time.

Q What is the difference between what you are suggesting and the principle of the juste retour?

A It is ridiculous to insist on a juste retour from every individual Community policy. For example, it makes a nonsense of the Community if we cannot have a research policy without a research establishment in every single member state. But that does not mean that it is right to ignore the total distributive effect of the Budget as a whole. The total distributive effect must be acceptable to the citizens of all the member states. This is why I am suggesting that it should be a matter of conscious decision.

Furthermore, I am not suggesting a juste retour for the Budget as a whole. I am suggesting that the distributive flow of resources should be from the rich to the poor and not in the opposite direction. Furthermore the degree of contribution or the degree of benefit should be related in some way to the relative wealth or poverty of each member country and to the size of population.

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V. NEGATIVE IMPACT

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THE EUROPEAN COMMUNITY: AN OPPORTUNITY FOR PROGRESS
SPEECH BY THE CHANCELLOR OF THE EXCHEQUER IN THE
HAGUE ON WEDNESDAY 3 JUNE 1981

Introduction

Mr Patijn, Mr van Iersel, Ladies and Gentlemen.

PATIJN VON IERSEL

I am delighted to be in the Netherlands this evening and to have the opportunity to address such a distinguished audience. It is particularly good of you to come here at a time when - following your General Election - many of you are extremely busy. If I may single out individuals, may I say how much I value the presence, despite their many other pre-occupations, of my colleague Mr van der Stee [and of Dr Zijlstra] and Dr Duisenberg, the present and future Presidents of the Netherlands Bank.

I also owe a particular debt of thanks to your two distinguished Chairmen this evening - Mr Patijn and Mr van Iersel - and to the organisations they represent - for so generously making the arrangements for this occasion.

/Anglo-Dutch friendshi

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Anglo-Dutch friendship

May I say first what a great pleasure it is for people from Britain to talk with Dutch colleagues about major issues of the day. There is a long tradition of almost unbroken friendship and collaboration between our two countries.

It was with Dutch help that we drained the Fens of East Anglia. We even shared a monarch for a time, when the Orange and the Rose came together in the person of William III.

The influence of the Netherlands on England in the following period of our history was extensive. Our Central Bank, the Bank of England, was modelled on Dutch experience. English domestic and urban architecture took on a distinctly Dutch appearance. Near the Treasury in London there is a street of Queen Anne houses called "Queen Anne's Gate" which has to our good fortune been preserved. Those of you who have seen it will know what I mean when I say that I felt very much at home when I visited our Ambassador's delightful residence in the

/Westeinde earlier

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Westeinde earlier this afternoon.

Further back in history Hugo Grotius, esteemed by jurists as the founder of international law, served for a time as Dutch ambassador to England before writing his great treatise "De jure Belli et Pacis". I am a lawyer myself - a professional training which I am proud to share with Mr van der Stee as well as with Mr van Agt - and it seems to me that the bookcase in which Grotius escaped from prison to write this treatise must be the most important bookcase, the most productive even, in legal history.

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Further back still, the intimate friendship between two great scholars, one Dutch, one English, prepared the way for the flowering of the Renaissance in Northern Europe. I refer to Erasmus and Sir Thomas More. It was at More's suggestion that Erasmus wrote his celebrated satire, "In praise of folly" or "Encomium Moriae": the word "Moriae" was itself a play on More's name. And it was in the Low Countries that More sketched his "Utopia", published under Erasmus's supervision in 1516.

The subject

My subject tonight - "The European Community: an opportunity for progress" - is perhaps less rarefied, but certainly more urgent, than those addressed by More and Erasmus. I venture to hope that our two countries can, in our different ways and from our different perspectives, collaborate as effectively in tackling the problems of today as did those two great 16th century scholars. My main concern is for the future of the Community. But first a word about the past and present.

The Community's achievements

The Community can, I suggest, take credit for a number of profound and historic achievements. I mention three in particular.

First, the Community has helped to create a zone of peace and stability in Western Europe. How easy it is to take this for granted today. But no more than a glance is needed at the pages of history to confirm the magnitude of the achievement. There have even been occasions when our own two /countries have

countries have fought each other. In the 17th century, our navies obtained a considerable amount of useful combat experience at each other's expense! More seriously, every city in which the Community transacts its business today has suffered grievously in some past European war. We are having to contend today with new and ugly forms of violence - with the terrorists who attack civilised society in all our countries, be it in Rome or Brussels, London or the Hague. But the possibility of war between the nations of Western Europe has never been more remote. The scars of earlier conflicts have helped to cement our present unity.

DOUBLE UP

It may be argued that the recognition of a common enemy and the formidable advance of military technologies would have sufficed by themselves to keep Western Europe at peace. But the Community has brought a new sense of cohesion among member countries. It has planted firmly in European soil the precious habits of cooperation and negotiation. It has strengthened liberal democracy in Europe and Europe's voice in the world.

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Second, the Community has surely made Western Europe significantly more prosperous than it could otherwise have been. The vast expansion of trade brought about by the elimination of tariffs between Community countries, and the dismantling of many non-tariff barriers, must have contributed powerfully to the enhancement of living standards in all Community countries. It is hard to measure such effects in statistical terms. But that in no way detracts from their importance, an importance which I believe is being increasingly recognised in my own country - and not before time.

Third, the common policy for agriculture, for all its faults, has raised food output in Western Europe to a remarkable extent at a time of continuing reductions in the agricultural population. The policy has also helped to protect the economic and social structure of the countryside, in face of the pressure which increasingly threaten it.

UK's commitment to Europe

The British Government are deeply conscious of
/all that

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all that has been achieved. We are anxious to see Europe progress still further. We want to play a full part in that progress. We are proud to be in Europe and of Europe.

In times past, Britain has contributed much to European civilisation. We have more to contribute now and in the future - not least to the defence of Europe through NATO and to its development through the Community. The Community is where we belong. Without Britain, the Community would be incomplete. Without the Community, Britain would be incomplete.

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And I want to say at this point how sincerely and profoundly grateful the British Government are to successive Dutch governments for the great understanding which they have always shown towards the UK, both when we were negotiating to join the Community and subsequently. We are now approaching the end of the Dutch Presidency and the beginning of our own. It is especially appropriate, therefore, that we should be talking together this evening. I only hope that in our Presidency we shall be able to preserve the high standards which you have set in yours.

/Problems facing
the Community

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Problems facing the Community

I have been talking mainly so far about the Community's achievements. We all recognise, however, that the Community faces severe problems as well.

One problem is that there has been a worrying reduction in popular support for the Community in some member states - by no means only in the United Kingdom. This I regard as a matter of great concern. For the survival of the Community, like any other system of government based on democratic principles, must ultimately depend on the support of the people. In developing the Community we must be concerned above all to strengthen the conviction and support of people in all member states.

Why it is that popular support for the Community is so patchy and, in some countries, less than secure?

There are, I believe, a number of causes. There are many who feel, for example, that the Community has in some way been responsible for the

economic dislocation and setbacks which followed the two oil price shocks of the 1970s - or is at least responsible for their not having been overcome more painlessly. In fact I believe the very reverse is true. We should all have been worse off if we had had to face these tribulations alone.

Another powerful cause of the fluctuations in popular support, I suggest, is that there seem to be so many quarrels in the Community. Partly because of the system, partly because of the way in which Community affairs are reported, the processes of adjustment, reconciliation and allocation are perceived as battles, or clashes; and strong passions are aroused among politically conscious people in all our countries. In any international, national or federal organisation, some lively exchanges about the allocation of resources are to be expected. An absence of such exchanges would be unnatural. But people feel that our organisation is keeping the countries of Western Europe perpetually at loggerheads with each other. Too often, we seem to be locked in adversary bargaining, like social partners engaged

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in a permanent spring offensive. Grotius would not have approved.

If one of the main perceived causes of the problem is that we are seen to quarrel too much, what are the under-lying causes? I believe there are two which must concern us principally. First, there is a complex of problems connected with agriculture. Second, there is the problem of budgetary imbalances between member states.

CAP reform

To begin with agriculture, the CAP has, as I suggested earlier, been notably successful in raising food production in Western Europe and in helping to preserve the character of our countryside.

The main problem with the policy is that it has been too successful in stimulating the production of food. The result is that we have increasing surpluses in a number of products, and the cost of financing these surpluses has risen to intolerable levels. Especially in the milk and cereals sectors,

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governments and consumers are paying out large sums which increase production to no good purpose. We give our farmers incentives to produce products which no-one wants - or at least not at or anywhere near the prices for which they produce them. Then we incur the heavy costs of storage and disposal.

We all want a healthy, productive farming sector. But there is a real danger that the policy will collapse under the weight of its own excesses. And that is something which none of us wants to see.

I do not pretend that there are easy or painless answers. But there are three guidelines for reform which I would wish to put forward.

First, the solution to the problems of the CAP must lie, in part at least, in reducing the level of effective support in real terms for products in excessive surplus. There is, I believe, a wide measure of agreement on this. But action has lingered far behind analysis. There is no consensus on the

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means whereby the levels of effective support should be restrained. And there are recurring political inhibitions which have persuaded us at each year's price fixing to postpone decisive action for another year.

Second, I suggest that we must seek solutions which give greater play to market forces, while operating directly on surplus production, and are consistent with the Community's commitment to an open and competitive economic system both within Europe and internationally. Within the Community we must avoid any prescriptions for reform which involve discrimination against particular types of efficient producer. On the external side, we must maintain the principle of Community preference. But we must not seek to solve the problems of the Community's farm sector by increased protectionism.

Last, but not least, I believe that agricultural support spending must be subject to the same sort of financial discipline as we apply to other public

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programmes.

spending programmes. This is more essential than ever in a period of relatively low economic growth, when all our governments are having to wrestle to keep public expenditure under control.

Highly relevant to this is the position adopted by the British, Dutch and German Governments after this year's price fixing, when we recorded our joint determination that the future growth of spending on price support should be markedly lower than the rate of growth of own resources. Difficult though it will be, we must now put this policy into practice. Time is running out. We must meet the imperative of change in advance if the Common Agricultural Policy is to survive and prosper as we wish it to do.

Budgetary imbalances

The other major source of the Community's troubles is, I suggest, its budgetary arrangements. These arrangements are incomplete in one important respect.

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Contributions are made to the budget under the own resources system. In itself, that need raise no problems.

Expenditure takes place from the budget in accordance with Community policies. In itself, again that need raise no problems.

The problems arise because the Community's arrangements made no provision for the relationship between the contributions and receipts of individual member states. There is no provision to ensure that the net balance of contributions and receipts for each individual member state is defensible. Within nation states, it is an established and overriding principle that resources should tend to flow from more to less prosperous regions, and not vice versa. But there is no comparable principle governing resource flows between member states of the Community. The net effect of the budget on individual member states is largely fortuitous. It emerges accidentally

/from a

from a multitude of separate, unco-ordinated decisions by the Commission and the Community's specialist councils.

In the original Community of 6, this incompleteness in the Community's financial arrangements did not pose a serious practical problem. Each member state derived advantages from membership which were real and visible. Germany was by far the largest net contributor - but not on a scale which the German people found intolerable; the environment was one of sustained economic growth and Germany did not demur.

Since those days, things have changed. We now have a Community of 10. And for the Community, as for the rest of the world, there is no longer the same assurance of sustained economic growth. Of the countries which acceded in 1972, Denmark and Ireland have obtained the benefit of large net receipts from the Community, both within the budget and outside. But the passage of time has brought major problems, arising from the operation of the budget, for two Community countries - the UK and Germany.

/At the

At the time of the accession negotiations in 1970, the British Government expressed concern that the combination of the own resources system and the predominance of agricultural expenditure in the budget would place an impossible burden on the UK, which could not be solved by transitional arrangements. That was not, however, the conventional wisdom of the time. The pattern of sustained economic growth had not then been interrupted by massive oil price rises. And there were great ambitions for economic union in the Community. It was easy to imagine that the Community budget could expand, that agricultural support would lose its predominance in the budget, and that new programmes could be introduced which would bring compensating benefits to the UK. Even then, however, the Community recognised that, if things turned out differently, an 'unacceptable situation' could arise and would have to be remedied. The Commission paper of October 1970 stated that:

/" should

"... should unacceptable situations arise within the present Community or an enlarged Community, the very survival of the Community would demand that the Institutions find equitable solutions."

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Sadly, many of the hopes and aspirations of the early 1970s have been disappointed. The European economies, like the rest of the world, have been gripped by recession, and CAP expenditure has continued to consume the lion's share of the budget, thus hampering the development of other important policies. As a result, unacceptable situations have indeed arisen - first for the UK and then for Germany, and so for the Community as a whole.

In the UK, the end of the transitional period in 1979 left us, in 1980, financing around 21 per

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cent of CAP expenditure and receiving only about 6-7 per cent of it: a gap of 14-15 percentage points. Our net contribution to the budget was thus forecast to reach between 1½ and 2 billion ecus in 1980. And this despite the fact that we were one of the less prosperous member states in a Community with a declared objective of economic convergence. No-one would have dreamed of deliberately planning such an outcome.

So it was that, in the 30 May agreement last year, the Community recognised that things had indeed gone wrong - that the increasing imbalance of the budget was a problem which had to be tackled. The Dutch government were among the first to recognise that. The agreement provided for the UK a respite which was timely and welcome. But it was only temporary. That is why, even more importantly, the agreement provided that, for the future, the Community should solve the underlying problem by means of structural changes.

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An important problem with the 30 May agreement is the difficulties which it has created for another member state. For Germany is now bearing a burden similar in magnitude to that which the UK would have borne but for the agreement. Germany is a much richer country than the UK. But the Federal German Chancellor has now stated that enough is enough - that there will need to be a limit on Germany's net contribution as well as the UK's. What better proof could there be that the problem is not just a British one? It is a problem for the Community as a whole - a shared problem which we must solve as a matter of conscious, collective decision.

Difficulties caused by budgetary problems

We all know that the Community is concerned with much more than money and arithmetic. But the problems on agricultural expenditure and budgetary imbalances which I have been describing are damaging the fabric of the Community. There

is a real danger that public support for the Community will be eroded, and the progress of the Community halted, if we do not find solutions to these problems.

The dangers over public support arise partly from the fact that the uncorrected impact of the budget is manifestly unfair, and partly from the absence of any established method of correction short of sustained punch-ups every two years or so. Member states are repeatedly flung into the ring against each other with as little dignity as the contestants in "Jeux sans frontières". There is a real danger that, in the face of all the unfairnesses and the confrontations, support for the Community will fade away in the net contributor countries. If that should happen in Germany as well as the UK, then truly the Community would be in trouble.

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We have to recognise, moreover, that the Community's budgetary problems will become more

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The 1 per cent VAT ceiling

It is often suggested that the main obstacle to progress in the Community is the 1 per cent VAT ceiling. This ceiling was set by the original Six in 1970. It can only be changed by unanimous agreement of the member states and after ratification by their Parliaments. There are many who argue that the ceiling should be raised so that the Community can develop existing programmes and undertake new ones.

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That fact is, however, that the present own resources ceiling is the one thing which imposes on the Community budget the sort of financial discipline which we all take for granted at home. If the ceiling was to be raised as soon as it was reached, then under existing arrangements the way would be open for a further uncontrolled increase in CAP expenditure; and that in turn would increase further the net contributions of the existing net contributor countries. There are no "automatic stabilisers" under the CAP - nothing to shield the net contributor countries, in particular, from the consequences of our collective extravagances. On the contrary, the more the expenditure rises, the greater the budgetary imbalances become. Under present arrangements, the net contributor countries have no practical choice but to insist on maintaining the ceiling. To say that raising the ceiling is necessary to solve the Community budget problem would therefore, in my view, be putting the cart before the horse.

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But we must be realistic about the scale of such developments. This is not the year, indeed probably not the decade, for launching major new spending programmes. The Finance Ministers of the Community cannot combine a policy of severe restraint in domestic programmes with approval for massive increases in Community programmes. If they attempted to do so, they simply would not be understood.

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Need for conscious decisions on impact of budget

I have been arguing that the problems of the CAP and budgetary imbalances lie at the root of the Community's present troubles. The Community will, I suggest, have to solve these problems, if it is to make progress. I said something earlier about solving the problem of CAP expenditure I should like to share with you now some thoughts about how the Community might tackle the problem of budgetary imbalances.

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As I said a few moments ago, this problem arises because the impact of the budget on individual member states falls out fortuitously, or accidentally, from a multitude of separate policy decisions by the individual specialist councils.

Our present arrangements can be compared with a computer programme which is admirable in every way except that one vital constraint is missing. We ask the computer how fast the traffic should drive through a road tunnel so as to minimise congestion. The answer comes back: 1000 kilometres an hour! We forget to tell the computer that there is a limit to the speed at which traffic can move.

In the Community's standard budgetary arrangements there is likewise, I suggest, one crucial element, or constraint, which is missing. The arrangements take no account of the total net effect which the budget will have on

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individual member states. Yet the budget, as it emerges, can all too easily place on some member states burdens which are manifestly unreasonable. With the indirect exception of the 1 per cent VAT ceiling, there is nothing in the standard arrangements to limit the liabilities of the net contributor countries. There is likewise no principle comparable to that which underlies the fiscal arrangements between the component regions of national states - that resources should tend to flow from the more prosperous to the less prosperous regions. This principle certainly operates within the component parts of the United Kingdom. It clearly underlies the fiscal arrangements between the Federal Government of Germany and the Lander. It even finds some expression in the preamble to the Treaty of Rome, which stresses the need to reduce economic differences between various regions. I believe that we must devise ways of applying the principle, at least to some extent, within the Community.

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I do not suggest that we have to aim, in the foreseeable future, at a major redistributive system within the Community comparable to that of a unitary national or a federal state. But we ought at least to get the direction right. We suffer at present from a system whose distributive impact is, in many cases, perverse.

The conclusion which seems to me to emerge is that the Community will need in future to take conscious decisions on how the budget should affect individual member states. We cannot allow the budget to go on producing, as it does at present, redistributive effects which are entirely perverse - and which individual member states could not be expected to bear. We must ensure that the broad pattern of net contributions and receipts for individual member states is tolerable, and not indefensible. Our basic budgetary arrangements should, I suggest, remain as now. But this new element needs to be added.

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The approach which I have outlined would represent an important step in the evolution of the Community. I emphasise that I am not advocating 'juste retour' of a kind that would be thought quite inappropriate inside a nation state. On the contrary, what I am suggesting is that the Community should introduce into its affairs a principle which is accepted doctrine in the budgets of national states, both federal and unitary.

The Community's decisions on the distributional effects of the budget would need to be based on objective criteria - criteria which could be defended to the peoples of individual member states as being just and fair. It would obviously be for consideration what exactly these criteria should be. But it would seem right, as I have implied already, that they should include relative prosperity as well as population size. It could also be appropriate to take some account of trading gains and losses outside the Budget. I

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believe, for example, that Italy's net receipts from the budget are broadly offset by adverse resource transfers outside the budget on trade in agriculture. In other cases, the effects are cumulative, not offsetting.

One way in which we could seek to apply the principles I have outlined to the Community budget would be to use the headroom created by restraint in agricultural spending to expand non-agricultural programmes in ways which would achieve the desired distributional effects from the budget as a whole. But such programmes do need to be desirable in their own right. Development of such programmes is bound to take time, and their distributional impact will often be uncertain. To put on them the whole burden of correcting the distributional impact of the CAP could involve a considerable distortion of the Community's non-agricultural spending policies. We have also, as I have said, failed so far to bring the rising costs of the common agricultural policy under firm control.

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What these considerations suggest is that something more will be needed if the Community's agreed objective of removing unacceptable situations for any member state is to be achieved. We are likely to find that, in addition to the development of non-agricultural programmes, the Community will need special arrangements for correcting the total impact of the budget.

Advantages of the suggested approach

It seems to me that completing the Community's budgetary arrangements in the way I have suggested - through conscious decisions on the broad distributional impact of the budget - would bring a number of powerful advantages. I emphasise the world 'completing'. The aim would be, not to dismantle, but rather to preserve existing arrangements, with the addition of one further element.

In the first place, this approach should, I believe, be capable of solving, on a continuing

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basis, the problems of budgetary imbalances and unacceptable situations - both the problems of the existing Community and the potentially more serious problems of the enlarged Community. By removing a built-in source of conflict between member states, it should make for a Community which was more harmonious and less quarrelsome. It should enable the existing Community to absorb Spain and Portugal without incurring an intolerable budgetary burden.

Second, it should improve the quality of the Community's decision making. Of course there would continue to be some arguments about the distribution of burdens and benefits between member states. But the financial in-fighting between member states that now distorts so much of our decision making on Community policies would be much reduced. Member states would no longer be so obsessed by the effects on their net contributions or receipts of developing existing policies or introducing new ones. They would be able to concentrate, instead, on the inherent

value of individual policies to the Community as a whole - and on the distribution of resources between policies rather than between member states. That too should promote a more harmonious Community.

It is sometimes argued that the contrary is the case - that if the distributional outcome of the budget were the subject of conscious decisions, there would be no further incentive to take decisions at a Community level at all. But the question is - does our present, haphazard budgetary approach in fact encourage the development of Community policies? I do not think it does. In any case, the argument virtually amounts to saying that the only thing which gives member states an interest in conducting policies at the Community level is the hope of obtaining direct national financial advantage at the expense of other member states. I hope and pray that is not true!

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Finally, a further advantage of the approach I have outlined is that it should prepare the way for the Community to make progress. A new and more equitable budgetary arrangement would help the Community to concentrate on enhancing its activities and developing further along the lines envisaged by its founding fathers.

Conclusion

We shall soon be discussing these matters more formally in the Community, with a report by the Commission to help us on our way. It is my hope that, in the remainder of the Dutch and then the British Presidencies, we shall be able to bring to these discussions something of the vision, wisdom and moderation of our illustrious forbears, Erasmus and Sir Thomas More. I should like to think that the outcome will be as harmonious and as lasting as the Queen Anne style of architecture which, as I remarked earlier, was an English response to a Dutch inspiration.



We must get on. There is no time to lose. As Grotius said in 1614, we must "plant trees for the benefit of those who come after us". We must find solutions which will preserve the Community's existing achievements, not destroy them; which will bring harmony in place of discord; and which will strengthen the Community in the esteem of all our peoples. Above all, we must find solutions which will open the way for progress.

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THE EUROPEAN COMMUNITY: AN OPPORTUNITY FOR PROGRESS
SPEECH BY THE CHANCELLOR OF THE EXCHEQUER IN THE
HAGUE ON WEDNESDAY 3 JUNE 1981

Introduction

Mr Patijn, Mr van Iersel, Ladies and Gentlemen.

I am delighted to be in the Netherlands this evening and to have the opportunity to address such a distinguished audience. It is particularly good of you to come here at a time when - following your General Election - many of you are extremely busy. If I may single out individuals, may I say how much I value the presence, despite their many other pre-occupations, of my colleague Mr van der Stee and of Dr Zijlstra and Dr Duisenberg, the present and future Presidents of the Netherlands Bank.

I also owe a particular debt of thanks to your two distinguished Chairmen this evening - Mr Patijn and Mr van Iersel - and to the organisations they represent - for so generously making the arrangements for this occasion.

/Anglo-Dutch friendship

Anglo-Dutch friendship

May I say first what a great pleasure it is for people from Britain to talk with Dutch colleagues about major issues of the day. There is a long tradition of almost unbroken friendship and collaboration between our two countries.

It was with Dutch help that we drained the Fens of East Anglia. We even shared a monarch for a time, when the Orange and the Rose came together in the person of William III.

The influence of the Netherlands on England in the following period of our history was extensive. Our Central Bank, the Bank of England, was modelled on Dutch experience. English domestic and urban architecture took on a distinctly Dutch appearance. Near the Treasury in London there is a street of Queen Anne houses called "Queen Anne's Gate" which has to our good fortune been preserved. Those of you who have seen it will know what I mean when I say that I felt very much at home when I visited our Ambassador's delightful residence in the

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Westeinde earlier this afternoon.

Further back in history Hugo Grotius, esteemed by jurists as the founder of international law, served for a time as Dutch ambassador to England before writing his great treatise "De jure Belli et Pacis". I am a lawyer myself - a professional training which I am proud to share with Mr van der Stee as well as with Mr van Agt - and it seems to me that the bookcase in which Grotius escaped from prison to write this treatise must be the most important bookcase, the most productive even, in legal history.

Further back still, the intimate friendship between two great scholars, one Dutch, one English, prepared the way for the flowering of the Renaissance in Northern Europe. I refer to Erasmus and Sir Thomas More. It was at More's suggestion that Erasmus wrote his celebrated satire, "In praise of folly" or "Encomium Moriae": the word "Moriae" was itself a play on More's name. And it was in the Low Countries that More sketched his "Utopia", published under Erasmus's supervision in 1516.

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The subject

My subject tonight - "The European Community: an opportunity for progress" - is perhaps less rarefied, but certainly more urgent, than those addressed by More and Erasmus. I venture to hope that our two countries can, in our different ways and from our different perspectives, collaborate as effectively in tackling the problems of today as did those two great 16th century scholars. My main concern is for the future of the Community. But first a word about the past and present.

The Community's achievements

The Community can, I suggest, take credit for a number of profound and historic achievements. I mention three in particular.

First, the Community has helped to create a zone of peace and stability in Western Europe. How easy it is to take this for granted today. But no more than a glance is needed at the pages of history to confirm the magnitude of the achievement.

There have even been occasions when our own two

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countries have fought each other. In the 17th century, our navies obtained a considerable amount of useful combat experience at each other's expense! More seriously, every city in which the Community transacts its business today has suffered grievously in some past European war. We are having to contend today with new and ugly forms of violence - with the terrorists who attack civilised society in all our countries, be it in Rome or London or the Hague. But the possibility of war between the nations of Western Europe has never been more remote. The scars of earlier conflicts have helped to cement our present unity.

It may be argued that the recognition of a common enemy and the formidable advance of military technologies would have sufficed by themselves to keep Western Europe at peace. But the Community has brought a new sense of cohesion among member countries. It has planted firmly in European soil the precious habits of cooperation and negotiation. It has strengthened liberal democracy in Europe and Europe's voice in the world.

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Second, the Community has surely made Western Europe significantly more prosperous than it could otherwise have been. The vast expansion of trade brought about by the elimination of tariffs between Community countries, and the dismantling of many non-tariff barriers, must have contributed powerfully to the enhancement of living standards in all Community countries. It is hard to measure such effects in statistical terms. But that in no way detracts from their importance, an importance which I believe is being increasingly recognised in my own country - and not before time.

Third, the common policy for agriculture, for all its faults, has raised food output in Western Europe to a remarkable extent at a time of continuing reductions in the agricultural population. The policy has also helped to protect the economic and social structure of the countryside, in face of the pressures which increasingly threaten it.

UK's commitment to Europe

The British Government are deeply conscious of
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all that has been achieved. We are anxious to see Europe progress still further. We want to play a full part in that progress. We are proud to be in Europe and of Europe.

In times past, Britain has contributed much to European civilisation. We have more to contribute now and in the future - not least to the defence of Europe through NATO and to its development through the Community. The Community is where we belong. Without the Community, Britain would be incomplete.

And I want to say at this point how sincerely and profoundly grateful the British Government are to successive Dutch governments for the great understanding which they have always shown towards the UK, both when we were negotiating to join the Community and subsequently. We are now approaching the end of the Dutch Presidency and the beginning of our own. It is especially appropriate, therefore, that we should be talking together this evening. I only hope that in our Presidency we shall be able to preserve the high standards which you have set in yours.

/Problems facing
the Community

Problems facing the Community

I have been talking mainly so far about the Community's achievements. We all recognise, however, that the Community faces severe problems as well.

One problem is that there has been a worrying reduction in popular support for the Community in some member states - by no means only in the United Kingdom. This I regard as a matter of great concern. For the survival of the Community, like any other system of government based on democratic principles, must ultimately depend on the support of the people. In developing the Community we must be concerned above all to strengthen the conviction and support of people in all member states.

Why it is that popular support for the Community is so patchy and, in some countries, less than secure?

There are, I believe, a number of causes. There are many who feel, for example, that the Community has in some way been responsible for the

economic dislocation and setbacks which followed the two oil price shocks of the 1970s - or is at least responsible for their not having been overcome more painlessly. In fact I believe the very reverse is true. We should all have been worse off if we had had to face these tribulations alone.

Another powerful cause of the fluctuations in popular support, I suggest, is that there seem to be so many quarrels in the Community. Partly because of the system, partly because of the way in which Community affairs are reported, the processes of adjustment, reconciliation and allocation are perceived as battles, or clashes, and strong passions are aroused among politically conscious people in all our countries. In any international, national or federal organisation, some lively exchanges about the allocation of resources are to be expected. An absence of such exchanges would be unnatural. But people feel that our organisation is keeping the countries of Western Europe perpetually at loggerheads with each other. Too often, we seem to be locked in adversary bargaining, like social partners engaged /in a permanent

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in a permanent spring offensive. Grotius would not have approved.

If one of the main perceived causes of the problem is that we are seen to quarrel too much, what are the under-lying causes? I believe there are two which must concern us principally. First, there is a complex of problems connected with agriculture. Second, there is the problem of budgetary imbalances between member states.

CAP reform

To begin with agriculture, the CAP has, as I suggested earlier, been notably successful in raising food production in Western Europe and in helping to preserve the character of our countryside.

The main problem with the policy is that it has been too successful in stimulating the production of food. The result is that we have increasing surpluses in a number of products, and the cost of financing these surpluses has risen to intolerable levels. Especially in the milk and cereals sectors,

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governments and consumers are paying out large sums which increase production to no good purpose. We give our farmers incentives to produce products which no-one wants - or at least not at or anywhere near the prices for which they produce them. Then we incur the heavy costs of storage and disposal.

We all want a healthy, productive farming sector. But there is a real danger that the policy will collapse under the weight of its own excesses. And that is something which none of us wants to see.

I do not pretend that there are easy or painless answers. But there are three guidelines for reform which I would wish to put forward.

Frist, the solution to the problems of the CAP must lie, in part at least, in reducing the levels of effective support in real terms for products in excessive surplus. There is, I believe, a wide measure of agreement on this. But action has lingered far behind analysis. There is no consensus on the

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means whereby the levels of effective support should be restrained. And there are recurring political inhibitions which have persuaded us at each year's price fixing to postpone decisive action for another year.

Second, I suggest that we must seek solutions which give greater play to market forces, while operating directly on surplus production, and are consistent with the Community's commitment to an open and competitive economic system both within Europe and internationally. Within the Community we must avoid any prescriptions for reform which involve discrimination against particular types of efficient producer. On the external side, we must maintain the principle of Community preference. But we must not seek to solve the problems of the Community's farm sector by increased protectionism.

Last, but not least, I believe that agricultural support spending must be subject to the same sort of financial discipline as we apply to other public

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spending programmes. This is more essential than ever in a period of relatively low economic growth, when all our governments are having to wrestle to keep public expenditure under control.

Highly relevant to this is the position adopted by the British, Dutch and German Governments after this year's price fixing, when we recorded our joint determination that the future growth of spending on price support should be markedly lower than the rate of growth of own resources. Difficult though it will be, we must now put this policy into practice. Time is running out. We must meet the imperative of change in advance if the Common Agricultural Policy is to survive and prosper as we wish it to do.

Budgetary imbalances

The other major source of the Community's troubles is, I suggest, its budgetary arrangements. These arrangements are incomplete in one important respect.

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Contributions are made to the budget under the own resources system. In itself, that need raise no problems.

Expenditure takes place from the budget in accordance with Community policies. In itself, again, that need raise no problems.

The problems arise because the Community's arrangements made no provision for the relationship between the contributions and receipts of individual member states. There is no provision to ensure that the net balance of contributions and receipts of individual member states. There is no provision to ensure that the net balance of contributions and receipts for each individual member state is defensible. Within nation states, it is an established and overriding principle that resources should tend to flow from more to less prosperous regions, and not vice versa. But there is no comparable principle governing resource flows between member states of the Community.

The net effect of the budget on individual member states is largely fortuitous. It emerges accidentally /from a

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from a multitude of separate, unco-ordinated decisions by the Commission and the Community's specialist councils.

In the original Community of 6, this incompleteness in the Community's financial arrangements did not pose a serious practical problem. Each member state derived advantages from membership which were real and visible. Germany was by far the largest net contributor - but not on a scale which the German people found intolerable; the environment was one of sustained economic growth and Germany did not demur.

Since those days, things have changed. We now have a Community of 10. And for the Community, as for the rest of the world, there is no longer the same assurance of sustained economic growth. Of the countries which acceded in 1972, Denmark and Ireland have obtained the benefit of large net receipts from the Community, both within the budget and outside. But the passage of time has brought major problems, arising from the operation of the budget, for two Community countries - the UK and Germany.

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At the time of the accession negotiations in 1970, the British Government expressed concern that the combination of the own resources system and the predominance of agricultural expenditure in the budget would place an impossible burden on the UK, which could not be solved by transitional arrangements. That was not, however, the conventional wisdom of the time. The pattern of sustained economic growth had not then been interrupted by massive oil price rises. And there were great ambitions for economic union in the Community. It was easy to imagine that the Community budget could expand, that agricultural support would lose its predominance in the budget, and that new programmes could be introduced which would bring compensating benefits to the UK. Even then, however, the Community recognised that, if things turned out differently, an 'unacceptable situation' could arise and would have to be remedied. The Commission paper of October 1970 stated that:

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"... should unacceptable situations arise within the present Community or an enlarged Community, the very survival of the Community would demand that the Institutions find equitable solutions."

The Council of Ministers formally endorsed this proposition on 4 November 1970.

Sadly, many of the hopes and aspirations of the early 1970s have been disappointed. The European economies, like the rest of the world, have been gripped by recession, and CAP expenditure has continued to consume the lion's share of the budget, thus hampering the development of other important policies. As a result, unacceptable situations have indeed arisen - first for the UK and then for Germany; and so for the Community as a whole.

In the UK, the end of the transitional period in 1979 left us in 1980 financing around 21 per

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cent of CAP expenditure and receiving only about 6-7 per cent of it: a gap of 14-15 percentage points. Our net contribution to the budget was thus forecast to reach between 1½ and 2 billion ecus in 1980. And this despite the fact that we were one of the less prosperous member states in a Community with a declared objective of economic convergence. No-one would have dreamed of deliberately planning such an outcome.

So it was that, in the 30 May agreement last year, the Community recognised that things had indeed gone wrong - that the increasing imbalance of the budget was a problem which had to be tackled. The Dutch government were among the first to recognise that. The agreement provided for the UK a respite which was timely and welcome. But it was only temporary. That is why, even more importantly, the agreement provided that, for the future, the Community should solve the underlying problem by means of structural changes.

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An important problem with the 30 May agreement is the difficulties which it has created for another member state. For Germany is now bearing a burden similar in magnitude to that which the UK would have borne but for the agreement. Germany is a much richer country than the UK. But the Federal German Chancellor has now stated that enough is enough - that there will need to be a limit on Germany's net contribution as well as the UK's. What better proof could there be that the problem is not just a British one? It is a problem for the Community as a whole - a shared problem which we must solve as a matter of conscious, collective decision.

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The dangers over public support arise partly from the fact that the uncorrected impact of the budget is manifestly unfair, and partly from the absence of any established method of correction short of sustained punch-ups every two years or so. Member states are repeatedly flung into the ring against each other with as little dignity as the contestants in "Jeux sans frontières". There is a real danger that, in the face of all the unfairnesses and the confrontations, support for the Community will fade away in the net contributor countries. If that should happen in Germany as well as the UK, then truly the Community would be in trouble.

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It is often suggested that the main obstacle to progress in the Community is the 1 per cent VAT ceiling. This ceiling was set by the original Six in 1970. It can only be changed by unanimous agreement of the member states and after ratification by their Parliaments. There are many who argue that the ceiling should be raised so that the Community can develop existing programmes and undertake new ones.

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That fact is, however, that the present own resources ceiling is the one thing which imposes on the Community budget the sort of financial discipline which we all take for granted at home. If the ceiling was to be raised as soon as it was reached, then under existing arrangements the way would be open for a further uncontrolled increase in CAP expenditure; and that in turn would increase further the net contributions of the existing net contributor countries. There are no "automatic stabilisers" under the CAP - nothing to shield the net contributor countries, in particular, from the consequences of our collective extravagances. On the contrary, the more the expenditure rises, the greater the budgetary imbalances become. Under present arrangements, the net contributor countries have no practical choice but to insist on maintaining the ceiling. To say that raising the ceiling is necessary to solve the Community budget problem would therefore, in my view, be putting the cart before the horse.

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I am not suggesting that these are the only obstacles to raising the 1 per cent VAT ceiling. The Community budget cannot do without a financial discipline any more than our domestic budgets can. And it is surely an illusion to regard the two as entirely separate. There are no untapped resources in any of our countries, waiting to be allocated to Community spending. The hard fact is that an increase in Community public expenditure bears on the same over-stretched resources as does an increase in national public expenditure.

In some areas, it may well make sense to conduct policies on a Community rather than a national basis. We certainly support the case for allocating some of the funds saved from the CAP to non-agricultural policies which could give the budget a better balance. As my colleague Lord Carrington said in Hamburg last November, the British Government has a close interest in the further development of the Regional and Social Funds and Community policies for transport

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But we must be realistic about the scale of such developments. This is not the year, indeed probably not the decade, for launching major new spending programmes. The Finance Ministers of the Community cannot combine a policy of severe restraint in domestic programmes with approval for massive increases in Community programmes. If they attempted to do so, they simply would not be understood.

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individual member states. Yet the budget, as it emerges, can all too easily place on some member states burdens which are manifestly unreasonable. With the indirect exception of the 1 per cent VAT ceiling, there is nothing in the standard arrangements to limit the liabilities of the net contributor countries. There is likewise no principle comparable to that which underlies the fiscal arrangements between the component regions of national states - that resources should tend to flow from the more prosperous to the less prosperous regions. This principle certainly operates within the component parts of the United Kingdom. It clearly underlies the fiscal arrangements between the Federal Government of Germany and the Lander. It even finds some expression in the preamble to the Treaty of Rome, which stresses the need to reduce economic differences between various regions. I believe that we must devise ways of applying the principle, at least to some extent, within the Community.

/I do not

I do not suggest that we have to aim, in the foreseeable future, at a major redistributive system within the Community comparable to that of a unitary national or a federal state. But we ought at least to get the direction right. We suffer at present from a system whose distributive impact is, in many cases, perverse.

The conclusion which seems to me to emerge is that the Community will need in future to take conscious decisions on how the budget should affect individual member states. We cannot allow the budget to go on producing, as it does at present, redistributive effects which are entirely perverse - and which individual member states could not be expected to bear. We must ensure that the broad pattern of net contributions and receipts for individual member states is tolerable, and not indefensible. Our basic budgetary arrangements should, I suggest, remain as now. But this new element needs to be added.

/The approach

The approach which I have outlined would represent an important step in the evolution of the Community. I emphasise that I am not advocating 'juste retour' of a kind that would be thought quite inappropriate inside a nation state. On the contrary, what I am suggesting is that the Community should introduce into its affairs a principle which is accepted doctrine in the budgets of national states, both federal and unitary.

The Community's decisions on the distributional effects of the budget would need to be based on objective criteria - criteria which could be defended to the peoples of individual member states as being just and fair. It would obviously be for consideration what exactly these criteria should be. But it would seem right, as I have implied already, that they should include relative prosperity as well as population size. It could also be appropriate to take some account of trading gains and losses outside the Budget. I

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believe, for example, that Italy's net receipts from the budget are broadly offset by adverse resource transfers outside the budget on trade in agriculture. In other cases, the effects are cumulative, not offsetting.

One way in which we could seek to apply the principles I have outlined to the Community budget would be to use the headroom created by restraint in agricultural spending to expand non-agricultural programmes in ways which would achieve the desired distributional effects from the budget as a whole. But such programmes do need to be desirable in their own right. Development of such programmes is bound to take time, and their distributional impact will often be uncertain. To put on them the whole burden of correcting the distributional impact of the CAP could involve a considerable distortion of the Community's non-agricultural spending policies. We have also, as I have said, failed so far to bring the rising costs of the common agricultural policy under firm control.

/What these

What these considerations suggest is that something more will be needed if the Community's agreed objective of removing unacceptable situations for any member state is to be achieved. We are likely to find that, in addition to the development of non-agricultural programmes, the Community will need special arrangements for correcting the total impact of the budget.

Advantages of the suggested approach

It seems to me that completing the Community's budgetary arrangements in the way I have suggested - through conscious decisions on the broad distributional impact of the budget - would bring a number of powerful advantages. I emphasise the word 'completing'. The aim would be, not to dismantle, but rather to preserve existing arrangements, with the addition of one further element.

In the first place, this approach should, I believe, be capable of solving, on a continuing

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basis, the problems of budgetary imbalances and unacceptable situations - both the problems of the existing Community and the potentially more serious problems of the enlarged Community. By removing a built-in source of conflict between member states, it should make for a Community which was more harmonious and less quarrelsome. It should enable the existing Community to absorb Spain and Portugal without incurring an intolerable budgetary burden.

Second, it should improve the quality of the Community's decision making. Of course there would continue to be some arguments about the distribution of burdens and benefits between member states. But the financial in-fighting between member states that now distorts so much of our decision making on Community policies would be much reduced. Member states would no longer be so obsessed by the effects on their net contributions or receipts of developing existing policies or introducing new ones. They would be able to concentrate, instead, on the inherent

value of individual policies to the Community as a whole - and on the distribution of resources between policies rather than between member states. That too should promote a more harmonious Community.

It is sometimes argued that the contrary is the case - that if the distributional outcome of the budget were the subject of conscious decisions, there would be no further incentive to take decisions at a Community level at all. But the question is - does our present, haphazard budgetary approach in fact encourage the development of Community policies? I do not think it does. In any case, the argument virtually amounts to saying that the only thing which gives member states an interest in conducting policies at the Community level is the hope of obtaining direct national financial advantage at the expense of other member states. I hope and pray that is not true!

/Finally,

Finally, a further advantage of the approach I have outlined is that it should prepare the way for the Community to make progress. A new and more equitable budgetary arrangement would help the Community to concentrate on enhancing its activities and developing further along the lines envisaged by its founding fathers.

Conclusion

We shall soon be discussing these matters more formally in the Community, with a report by the Commission to help us on our way. It is my hope that, in the remainder of the Dutch and then the British Presidencies, we shall be able to bring to these discussions something of the vision, wisdom and moderation of our illustrious forbears, Erasmus and Sir Thomas More. I should like to think that the outcome will be as harmonious and as lasting as the Queen Anne style of architecture which, as I remarked earlier, was an English response to a Dutch inspiration.

/We must

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We must get on. There is no time to lose. As Grotius said in 1614, we must "plant trees for the benefit of those who come after us". We must find solutions which will preserve the Community's existing achievements, not destroy them; which will bring harmony in place of discord; and which will strengthen the Community in the esteem of all our peoples. Above all, we must find solutions which will open the way for progress.

