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Part A.

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**PART A**

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**PART A**

Chancellor's (Howe) Papers:

**ANGLO FRENCH SUMMIT**  
**NOVEMBER 1982**

*Disposal Directions: 25 Years*

*Philips*  
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# **The European Community budget: net contributions and receipts**

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**H M Treasury**

# The European Community budget: net contributions and receipts

In the Council agreements of 30 May 1980 and 25 May 1982 on budget refunds for the United Kingdom, the UK's 'net contribution' to the Community budget has been used, in effect, as a measure (or partial measure) of the costs which the UK incurs in subscribing to the Community's policies and financial arrangements. The Commission first provided estimates of 'net contributions' and 'net receipts' by individual member states in the summer of 1978. There are some critics, however, who question the validity of this measure and the concept which underlies it.

This article begins by recalling briefly how the Community budget is constructed, how net contributions and receipts are calculated, and why the pattern of these net contributions and receipts is what it is. It then assesses how satisfactory a measure of financial burden, or benefit, the concept provides.

## Community budget

The Community budget brings together most of the Community's expenditure on common policies. Some policies do not result in much expenditure: the customs union in manufactured goods is an obvious example. Others, including the Community's regional development, social and overseas aid policies, result in significant expenditure. The lion's share of expenditure, however, goes on the common agricultural policy (CAP). A very important objective of the policy in practice has been to protect the incomes of the Community's farmers, while preserving a free market in agricultural products within the Community. Under the system of price support which the Community has adopted for most temperate products, returns to producers depend on price levels in the market. There is no *a priori* reason why such a system should require large amounts of budgetary expenditure. But the Community's support prices have usually been above world prices and the operation of the policy has led in practice to the production of surpluses. The Community budget bears the cost of storing these surpluses and ultimately disposing of them through subsidies on world markets.

*Expenditure* from the Community budget goes mainly to recipients in individual member states – agricultural intervention boards, government departments, research establishments, private firms and so on. Most of this expenditure has come to be known as 'allocated' budget expenditure, and the 'allocated' budget accounts for over 90 per cent of the budget total excluding UK refunds. The rest of the Community's expenditure, known as the 'unallocated' budget, consists mainly of overseas aid, which goes to recipients outside the Community and cannot be assigned to individual member states.

Expenditure from the Community budget is *financed* by contributions collected in member states under the Community's 'own resources' system. The system provides for member states to pay over to the Community:

- customs duties on imports of goods subject to the common external tariff,
- agricultural import levies and sugar levies, and
- VAT as required up to 1 per cent of a standardised tax base.

These revenues belong to the Community.

## Net contributions and receipts defined

The net contributions and net receipts of individual member states are calculated as the difference between their gross contributions to, and gross receipts from, those parts of Community budget expenditure which the Commission are able to 'allocate' between member states – the 'allocated' budget already mentioned. A member state whose 'own resources' contributions to the allocated budget exceed the amounts of Community expenditure received by its residents is said to be a net contributor to the budget. A member state whose residents receive more from the Community budget than its 'own resources' contributions is said to be a net recipient. The note to the table opposite explains the calculation in more detail.

## Scale and pattern

Estimates of the net contributions and receipts of individual member states to the allocated budget for the years 1979 – 81, based on Commission figures, are shown in the table.

As the table illustrates, the pattern is a consistent one. Two member states are net contributors – Germany and the UK – while eight are net recipients (except that France made a small net contribution in 1979).

This pattern mainly reflects the budgetary impact of the CAP, which accounts for some three-quarters of 'allocated' budget expenditure. So far as temperate products are concerned, the larger a member state's surplus of production over consumption, the greater its receipts from the budget will tend to be. For most temperate products, surpluses can either be exported to other member states at prices above world levels or sold at Community support prices for disposal at Community expense. The latter benefit takes the form of a receipt from the Community budget, though not the former. Receipts from the Community budget will thus not match member states' shares of total Community agricultural surpluses exactly, but for producers of temperate products the relationship is likely to be quite close. The Mediterranean product regimes differ from those for temperate products. These regimes too, however, give substantial receipts to member states which are large producers.

Member states' contributions to financing the Community's expenditure, on the other hand, are likely broadly to reflect the

Net contributions to (-) and receipts from (+) the 'allocated' budget

	Million ecus*		
	1979	1980	1981
Denmark	380	327	285
Germany	-1430	-1526	-1750
France	-78	431	597
Netherlands	288	454	191
Belgium/Luxembourg	610	439	568
UK	-849	-1512	-1422
Italy	534	737	778
Ireland	545	650	586
Greece	—	—	167

Source: EC Commission

\*Average values of the European currency unit (ecu) in the three years were:  
 1979 1 ecu = £0.646 = 2.511 DM = 5.829 French francs = 1,138.498 lire  
 1980 1 ecu = £0.598 = 2.524 DM = 5.869 French francs = 1,189.205 lire  
 1981 1 ecu = £0.553 = 2.514 DM = 6.040 French francs = 1,263.180 lire

Note

The calculation of net contributions to and receipts from the allocated budget is made as follows.

First, the Commission attribute the bulk of the expenditure from the Community budget for a particular year between member states. Expenditure attributed to the UK, for example, includes payments to the Intervention Board for Agricultural Produce, payments to UK recipients from the Regional Development and Social Funds, reimbursement of own resources collection costs and expenditure on Community offices in the UK. The Commission attribute over 90 per cent of total Community expenditure (excluding UK budget refunds) between member states in this way. This expenditure is referred to as the 'allocated' budget. The remainder consists mainly of expenditure outside the Community on overseas aid. This is called the 'unallocated' budget.

Second, the Commission calculate the gross contributions of individual member states to the allocated budget as their share of total gross contributions (i.e., their share of levies, duties and VAT) multiplied by the total of allocated budget expenditure. In other words, the financing patterns of the allocated and unallocated budgets are assumed to be identical.

Finally, the net contributions of each member state to, or net receipts from, the allocated budget are calculated as the difference between their gross contributions to, and their gross receipts from, the allocated budget - as defined above. By definition, these net contributions and receipts sum to zero: the net receipt of one member state is the net contribution of another.

The UK's budget refunds, and member states' contributions to them, need to be excluded throughout the calculation. These refunds are regarded as lying outside the allocated budget. Their purpose is to 'correct' the financial impact of the allocated budget on the UK.

level of their gross domestic product (GDP). The relationship is far from exact. Gross contributions in the form of customs duties and agricultural levies are related to imports, while VAT contributions reflect levels of expenditure on goods and services included in the harmonised VAT base, and there is thus no direct link with GDP. Significant divergences are possible: the UK's share of own resources contributions, for example, tends significantly to exceed its share of Community GDP, while France's share tends to be significantly below its GDP share. But in most cases the relationship will be recognisable.

The result is that member states whose share of Community agricultural production or surpluses exceeds their share of Community GDP, or who are large producers of Mediterranean products, are likely to obtain net receipts from the budget; while member states like Germany and the UK, whose share of Community GDP exceeds their share of Community agricultural production or surpluses, are likely to make net contributions.

Other influences on the pattern of net budget contributions and receipts include the distribution of the Community's Regional Development and Social Funds, which takes some account of relative prosperity, and the concentration of administrative expenditure in a handful of member states. But agriculture is the dominant influence.

Significance of net budgetary contribution and receipt figures

Subject to some qualifications discussed later, net contribution and receipt figures measure the net transfer of resources through the budget from the taxpayers and consumers of the net contributor countries to the beneficiaries of Community policies in the net recipient countries. Thus:

- Gross contributions collected in a member state, in the form of import levies and duties and VAT, are in general a charge on the taxpayers and consumers of that member state. As explained earlier, they are 'own resources' belonging to the Community. But they are taxes none the less and use up taxable capacity in the member state, just like other taxes and charges.
- Gross receipts by a member state, mostly paid in the first instance to agricultural intervention agencies or government departments, represent real benefits to the farmers, traders, job trainees and other residents of that member state, just like public expenditure by national authorities.

The effect is that when a member state's gross contributions exceed its gross receipts, there is a real net transfer of resources from the consumers and taxpayers of that member state to the beneficiaries of Community policies in other member states. Similarly, when a member state's gross receipts exceed its gross contributions, there is a real net transfer of resources to that member state from consumers and taxpayers in the rest of the Community. Net contributions and receipts figures provide a measure of these net budgetary transfers - net costs in the case of net contributor countries, and net benefits in the case of net recipient countries.

It is sometimes suggested that these net transfers between member states are no more than a statistical artefact.\* They can certainly be expressed in statistics. But they are no mere artefact. They are reflected in actual flows of money from one member state to another. They represent a transfer of resources just like grants paid to the developing countries as development aid.

The mechanics are as follows. The Commission hold an account in each member state. Each member state collects own resources contributions from its taxpayers and pays them into this account. The Commission use the money in the account to make payments to recipients of Community funds in that member state. In the case of the two net contributor countries (the UK and Germany), the inflow of contributions into the account substantially exceeds payments to beneficiaries of Community policies in those countries. Hence surplus funds tend to accumulate in these accounts. In the case of the eight net recipient countries, payments out of the accounts to local beneficiaries exceed the own resources contributions into the account collected from local taxpayers. Hence the Commission's accounts tend to run into deficit. The Commission restore the balance by transferring the surpluses in their accounts in the net contributor countries across the exchanges to their accounts in the net recipient countries.

In any given period, these net transfers across the exchanges may diverge somewhat from the underlying net contributions or receipts, calculated on the basis explained earlier. The level of Commission balances, and their distribution between member states, may fluctuate. Over time, however, member states' net contributions to, or net receipts from, the allocated budget must be reflected in corresponding net balance of payments transfers between member states.

\*See, for example, *Member states and the Community Budget* by J. Ørstrøm Møller, Samfundsvideenskabeligt Forlag, 1982.

## How taxpayers in some member states finance community programmes in other member states

### Net contributor member states (United Kingdom and Germany)

Taxpayers (levies, duties, VAT)

Commission bank account

Beneficiaries of Community programmes  
(farmers, job trainees etc)

Transfers from net contributor  
to net recipient member states

### Net recipient member states (the rest of the Community)

Taxpayers (levies, duties, VAT)

Commission bank account

Beneficiaries of Community programmes  
(farmers, job trainees etc)

The flow of resources from net contributor countries through budget to net recipient countries, and the matching flows across the exchanges, are illustrated in the accompanying diagram. As can be seen, the eight net recipient member states have the satisfaction of knowing that all the money collected from their taxpayers and paid into the Commission's account will be used for the benefit of recipients of Community funds in their own countries – and more besides: the taxpayers of the net contributor countries will be contributing as well. The two net contributor countries, on the other hand, know that only part of the money collected from their taxpayers and paid into the Commission's account will be used for the benefit of recipients of Community funds in their own countries: a substantial proportion of it will be used for the benefit of recipients of Community funds in other member states.

#### Limitations of net contribution and receipt figures

In common with most economic and financial statistics, net contribution and receipt figures have certain limitations. These fall into two main categories – misallocation and incompleteness.

Within the former category, there are three main areas of possible difficulty:

- i *gross contributions* collected in a member state may not accurately reflect the burden on taxpayers of that state;
- ii similarly, *gross receipts* paid to residents of a member state may not accurately reflect the benefits to citizens of that state; and
- iii it is not immediately obvious how *monetary compensatory amounts* (MCAs) should be treated.

Probably a more serious limitation is incompleteness. Net budgetary transfers do not, by definition, take account of costs and benefits outside the budget and cannot therefore measure *total* costs and benefits.

The following paragraphs discuss these limitations, actual or potential, in turn.

#### Gross contributions (the 'Rotterdam/Antwerp effect')

Net contribution and receipt figures assume that the customs duties and agricultural levies collected in a member state are a charge on the taxpayers or consumers of that member state. In general, this is a reasonable assumption. But to the extent that a member state's imports enter the Community via the ports of other member states, the import levies and duties will be collected in the latter member state, and will be scored as part of that member state's gross contribution, even though the economic burden of the levies and duties will be borne by the taxpayers and consumers of the member state in which the imports are finally used or consumed. To that extent, the gross contributions attributed to all the member states concerned will not accurately capture the distribution of economic burdens.

In practice, this measurement problem is probably serious only in the case of Germany, the Netherlands and Belgium. A considerable proportion of imports into Germany comes through Rotterdam or Antwerp. Hence the gross contribution figures for the Netherlands and Belgium must be presumed to overstate the burden on Dutch and Belgian taxpayers, while the gross contribution figures for Germany must be presumed to understate the burden on German taxpayers. The net receipts of the Netherlands and Belgium, and likewise the net contribution of Germany, are all likely, therefore, to be understated. The UK's net contribution figures are unlikely to be affected to any significant extent by such distortions.

#### Gross receipts

Net contribution and receipt figures assume that payments by the Community to recipients in a particular member state benefit the citizens of that member state. This assumption too seems, in general, entirely reasonable. In some areas, however, the reality may be somewhat more complex. The two main such areas are storage and disposal costs under the CAP and expenditure on the Community's own institutions.

The greater part of CAP expenditure goes on refunds on exports to third countries, or subsidised disposal of surplus production within the Community, and on storage. The products in question are for the most part exported from, or stored or disposed of in, the member state where they are produced. The costs fall accordingly on the intervention agency in that member state and the relevant Community expenditure is correctly recorded among that member state's receipts. It can happen, however, that products are routed through another member state for export and the refund claimed there (the reverse of the 'Rotterdam/Antwerp effect' already discussed) or that producers or traders in one member state offer goods for intervention in another. In these cases the expenditure is shown as a receipt by the second member state even though the true beneficiaries are producers in the first member state. Such transactions are, however, unlikely to be on a scale seriously to distort the pattern of net contributions and receipts. To some extent they are likely to offset the 'Rotterdam/Antwerp effect' on gross contributions. Such distortions as there are would disappear if net budget contributions and receipts were considered alongside net gains and losses outside the budget on agricultural trade (see further discussion on page 6).

Expenditure on the Community's own institutions, such as the Commission and the European Parliament, brings undoubted benefits to the host country, including foreign exchange inflows. These benefits may be greater than the expenditure itself might suggest. For example, other business may well be attracted to a city because Community institutions are located there. On the other hand, part of the benefit will go to nationals of other member states working in the Community institutions, who may spend some of their income in their own countries rather than the host country; and the host member state has to supply to the Community institutions and those working in them goods and services which it would not otherwise have produced and which benefit the Community as a whole, not just the host member state. This issue arises mainly on the net receipts figures for Belgium and Luxembourg.

#### Monetary compensatory amounts (MCAs)

A further factor which can affect the net contribution and receipt figures is the 'green rate' system and MCAs.

The Community's common support prices for agricultural products are denominated in ecus. These common prices are converted into national currencies at fixed 'green' rates of exchange, which can at times differ significantly from the market rates of member states' currencies. To prevent the distortions in trade which would otherwise result from the different price levels between member states in terms of national currencies and market exchange rates, the differences between green and market rates are offset, for products subject to market price support, by a system of monetary compensatory amounts (MCAs) levied or paid on member states' agricultural imports and exports. MCAs are 'positive' for those member states whose market exchange rates lie *above* their green rates and 'negative' for those member states whose market rates lie *below* their green rates. The system makes it possible, without disruption to trade, for support prices in terms of local currencies to be higher in countries with positive MCAs and lower

in countries with negative MCAs than the levels which would result from converting common support prices at market exchange rates.

In budgetary terms, a positive MCA is in effect a tax on imports coupled with a subsidy on exports (*compare* a currency devaluation). The authorities of the member state concerned levy a tax, based on the difference between its 'green' and market rates, on the relevant agricultural imports, and pay a subsidy based on the same difference, to their exporters. The 'tax' on imports is paid over to the Community budget in the form of extra levies (in the case of imports from third countries) or deducted from a member state's receipts from the budget (in the case of imports from the rest of the Community) and thus raises the member state's net budget contribution. The 'subsidy' on exports is financed from the Community budget and reduces the member state's net contribution. If the member state is a net importer of products subject to MCAs, therefore, positive MCAs will tend to raise its net budget contribution, or reduce its net budget receipts, though there will also be consequences for other receipts from agricultural expenditure which may offset these effects, in whole or in part.

There is a potential complication regarding the budgetary attribution of the subsidies paid on the imports of a member state with negative MCAs. It is open to member states with negative MCAs to agree with other member states that the latter will pay the MCA subsidy on their exports to the former, subject to reimbursement from the Community budget. There was considerable discussion in 1979-80 as to how these negative MCAs should be scored in the calculation of the UK's net budget contribution. Most member states argued that they should be scored as receipts by the importing member state. The UK and Italy argued that they should be treated as receipts by the exporting member state. In practice, the rise in the exchange rate of sterling against the Community's unit of account removed the UK's negative MCA, and the treatment of negative MCAs has not therefore been an issue. The problem only arises, in any event, if attention is concentrated on net budgetary contributions and receipts, to the exclusion of gains and losses outside the budget on intra-Community trade in agriculture (see next section).

#### **Non-budgetary resource transfers on intra-Community trade in agriculture**

By definition, net contributions to, or receipts from, the budget take no account of resource transfers between member states outside the budget. They are therefore an incomplete measure of the distribution of total financial costs and benefits from the Community's activities.

The most important missing element is the gains and losses which member states sustain outside the budget on intra-Community trade in agricultural products whose Community support prices lie above world prices. Member states who are net exporters of such products to the rest of the Community gain from receiving Community support prices for these products rather than world prices, while member states who are net importers of such products from the rest of the Community make corresponding losses.

These net gains and losses are no less real than net gains and losses through the budget. To a considerable extent, indeed, they are interchangeable. Thus, if a member state exports wheat to another member state instead of a third country, its receipts from the budget will fall and net contributions rise but its non-budgetary trading gains will rise correspondingly, leaving its total net gains or losses unchanged. Similar effects arise from changes in sources of imports.

As this implies, a proper assessment of the financial effects

on member states arising from the Community's agricultural price support system needs to take account of the trading gains and losses incurred on intra-Community trade in agricultural products as well as net contributions to, and receipts from, the Community budget. These net trading gains and losses can be measured by multiplying the amounts of intra-Community trade in the relevant products by the differences between world and Community prices for those products. The latter differences, in turn, can be measured by the rates of the Community's import levies or export refunds.\*

This whole approach to measuring trading effects is sometimes criticised on the grounds that an alternative agricultural policy which provided no support for farmers, but left them receiving world prices for all products, would be unrealistic. In fact, it is not necessary to make any assumption about what an alternative agricultural support policy might be. The trading gains and losses arise purely from the fact that agricultural trade between member states takes place at supported levels. If member states maintained internally exactly the same levels of agricultural support as now, but trade between them took place at world prices, the gains and losses would not arise.

Another criticism sometimes heard is that, but for the Community's own price support regimes, Community production of agricultural products would be lower and world prices consequently higher. This criticism, too, seems wide of the mark. Even if surplus production by the Community does lead to lower world prices, the difference between Community and world prices remains a valid measure of the trading costs and benefits to individual member states. The criticism also makes the questionable assumption that, in the absence of the Community's agricultural support regimes, the European countries would provide significantly less support or take other measures to reduce their agricultural surpluses.

For some member states, these transfers outside the budget resulting from intra-Community trade in agricultural products are very substantial. France, Denmark, Ireland and the Netherlands, as major exporters of temperate products to the rest of the Community, make large trading gains in addition to their net budgetary receipts. Germany, too, has made trading gains in the last year or two; but they have been relatively small and have offset Germany's large net budget contribution to a minor extent only.

Italy, Greece and Belgium, as net importers of temperate products, make trading losses outside the budget - large in the case of Italy - to set against their net receipts from the budget. The UK is alone among member states in making trading losses outside the budget - averaging some 350 million ecus per year in 1980 and 1981 - as well as making a large net budget contribution.

#### **Other non-budgetary gains and losses**

Other Community policies, as well as the CAP, may generate economic costs and benefits as between member states which are not reflected in net contributions to or receipts from the budget. The most important of these is the customs union in industrial goods, where the common external tariff may tend to raise the prices of manufactured goods traded inside the Community. The customs union in industrial goods differs, however, from the CAP in not providing a system of price support backed up by budgetary subsidies for the disposal of surplus production. Where the common external tariff affords some protection, the differences between world and Community prices are generally small, so that there is little

\*See further J M C Rollo and K W Warwick, *The CAP and Resource Flows among EEC member states*, UK Government Economic Service Working Paper no 27, November 1979.

extra cost in buying from Community suppliers rather than the rest of the world. In addition to these static effects, moreover, all member states are likely to enjoy, in some measure, the dynamic benefits generally associated with a free market in industrial goods. Thus, although the costs and benefits of other Community policies for different member states are extremely difficult to quantify, there must be a presumption that the costs are small and the benefits widely spread. There is certainly no presumption that gains and losses by member states arising from Community preference in industrial trade will offset those on agriculture and the budget. Net importers of Community foods are not always net exporters of manufactures to the rest of the Community. The UK, for example, is a net importer of Community manufactures as well as of Community food.

#### Relevance and avoidability

It is sometimes argued that net budget contributions and receipts, and net trading gains and losses outside the budget, are *irrelevant* concepts which have no place in the Community. The Community, on this argument, has certain policies, in areas such as agriculture, trade, regional development and employment, and these policies transfer resources from Community consumers and taxpayers to Community producers and other beneficiaries. The fact that they also transfer resources from some member states to others is incidental, on this argument, and unimportant.

Such arguments do not carry conviction in a Community context any more than they would in a national state. As discussed earlier, net transfers represent flows of real money from the citizens of some countries to the citizens of others. The scale and even the direction of these transfers bears no direct relation to relative prosperity and is in many cases perverse. Yet the Community is committed to economic convergence between member states. It cannot be irrelevant that the effects of the Community's policies and financial system run counter to this goal. The British Government have suggested that the pattern of net transfers should bear some defensible relationship to relative prosperity or ability to pay.\*

A further argument sometimes made is that net budget contributions are an *avoidable* problem, for which the net contributor countries have only themselves to blame, and do not, therefore, provide a satisfactory basis for determining special corrective arrangements. If the countries concerned would import less from non-Community sources or increase their agricultural production, so the argument runs, their net budget contributions would rapidly disappear.

Such arguments are no more convincing. They ignore the Community's commitment, in Article 110 of the Treaty of Rome, to an open world trading system. It is true that the UK's net budget contribution, for example, would be lower if UK consumers decided to buy more wheat from the rest of the Community and less from the United States and Canada – a trend already well established. But the difference which this would make to the UK's net budget contribution is limited in scale: realistically, it could hardly exceed 50 million ecus. And such a shift would anyway have no overall effect on the UK's net financial position: any reductions in the net budget contribution would be broadly matched by offsetting increases in the UK's net trading losses outside the budget. Changes in the pattern of imports will not therefore solve the UK's problem.

The suggestion that net contributor countries, in particular

the UK, could solve their budget problems by increasing agricultural output is neither feasible nor economically sensible from a Community point of view. To eliminate the UK's budgetary and trading losses, for example, would require a step jump in agricultural production of about one-third, followed by annual increases in production in line with the Community average. Increases on such a scale are obviously out of the question. Even if they were possible they would not be in the Community's interests. The increased surpluses would have to be disposed of, and the unit cost of all surplus disposal would rise. The budgetary costs to other member states would be greater than the present UK net contribution itself.

#### Conclusion

This article has set out to consider whether the net budget contributions and receipts of individual member states provide a satisfactory measure of financial burden or benefit, as a basis for determining corrective payments or budget refunds. At the risk of some over-simplification, the answer which has emerged can be summarised as follows:

- Subject to some technical qualifications noted below, net budget contributions and receipts *do provide a valid measure of member states' net burdens and benefits from the budget*. They are reflected in outflows of real money from the taxpayers of the net contributor countries to beneficiaries in the net recipient countries.
- The main technical qualification is that import levies are likely to be allocated to the wrong country in cases where imports from outside the Community come via another Community country. A similar problem of *misallocation* may arise with receipts from the Community budget in respect of agricultural products exported from the Community via another Community country. These problems are likely to mean that the net contribution of Germany and the net receipts of the Netherlands and Belgium are all understated. The figures for the UK are unlikely to be much affected either by these problems or by the precise treatment of expenditure on Community institutions.
- Figures for the net budgetary positions of member states *do not, however, give a complete picture*. In particular, they take no account of net gains and losses outside the budget on intra-Community trade in agricultural products receiving Community price support (with which net budgetary contributions and receipts are in practice to some extent interchangeable). The total financial impact of the Community's policies on member states who are net importers of temperate products, including Italy and the UK, is less favourable than the net budget contribution figures imply; while the total impact on member states producing surpluses of these products is more favourable.

\*See further the Chancellor of the Exchequer's speech in the Hague on 3 June 1981, 'The European Community: an opportunity for progress'. Copies are available from the Information Division, HM Treasury.







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### "THE EUROPEAN COMMUNITY : AN OPPORTUNITY FOR PROGRESS"

Speech by Chancellor of the Exchequer at joint meeting in the  
Hague of the Foreign Affairs Institute and the European Movement

The Chancellor of the Exchequer is speaking in the Hague tonight, Wednesday 3 June, 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.

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.

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 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.

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#### NOTES TO EDITORS

The Foreign Affairs Institute is roughly the Dutch equivalent of Chatham House. Mr Patijn is its Vice-Chairman.

The European Movement is a Dutch organisation designed to promote interest in the European Community. Its Chairman is Mr van Iersel.

Membership of both organisations is drawn from the Dutch Parliament and the political parties, industry, banking and finance, the public service, the media and academics.



1.

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

/Westeinde earlier





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.

/The Subject



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/London or the Hague. Brussels, 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.

/Second, the



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  
/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.

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



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



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,

/governments





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 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



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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

/spending  
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.

/Contributions are



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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."

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.

/An important





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



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.

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

/acute as



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

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.

/The fact is,



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.

/I am not





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

/infrastructure



infrastructure, urban development and energy, in particular coal.

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

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.

/As I said



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

/individual



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

/believe, for example,



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

/basis,





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



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



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.





Le  
problème  
budgétaire

## **Résumé des points essentiels**

- **Le problème budgétaire avait été prévu lors des négociations d'adhésion de la Grande-Bretagne, qui avait alors reçu l'engagement qu'il serait résolu si la situation devenait inacceptable.**
- **Le budget de la CEE effectue des transferts de ressources entre les Etats membres, sans aucun système les justifiant. La Grande-Bretagne en particulier, qui est l'un des Etats membres les moins prospères, verse des transferts importants aux autres, et notamment à plusieurs de ses partenaires plus prospères.**
- **Le problème tient surtout au fait que la plus grosse part des dépenses de la Communauté reste consacrée au soutien de l'agriculture dont la Grande-Bretagne tire relativement peu d'avantages, son secteur agricole étant relativement limité.**
- **Ces transferts constituent pour l'économie britannique un coût réel et sont presque aussi importants que l'ensemble du programme d'aide de la Grande-Bretagne.**
- **Tous les Etats membres tirent des avantages politiques et économiques substantiels de leur adhésion à la Communauté. Seules la Grande-Bretagne et l'Allemagne sont tenues de faire des transferts budgétaires nets à leurs partenaires.**
- **La Grande-Bretagne ne demande pas un juste retour et ne cherche pas à saper le système financier de la CEE ni la Politique agricole commune.**
- **Il est erroné de dire que le problème budgétaire provient d'une insuffisante adaptation du commerce ou de l'économie de la Grande-Bretagne à la situation nouvelle créée par son adhésion à la CEE.**
- **Le problème budgétaire de la CEE ne va pas disparaître de lui-même. Il se pose à l'ensemble de la Communauté.**
- **Il faut lui trouver une solution durable.**

# Le problème budgétaire

Pour 1980 et 1981, le Royaume-Uni a perçu des remboursements spéciaux prélevés sur le budget de la CEE, qui ont permis de réduire les paiements nets excessifs. Pour 1982, d'autres remboursements doivent lui être versés. Les discussions sur les aménagements à apporter pour 1983 et les années suivantes seront bientôt entamées. Malgré les décisions ainsi prises par la Communauté, la question des remboursements a été en général mal comprise et parfois même interprétée de manière erronée.

Le présent rapport explique la nature du problème et montre pourquoi il est indispensable de lui trouver une solution durable, dans l'intérêt à long terme de la CEE même.

## Historique

Au cours des négociations de 1970 portant sur l'adhésion de la Grande-Bretagne à la CEE, les délégués britanniques signalent qu'une fois la période transitoire terminée et à moins d'un changement dans les règles financières de la Communauté, celles-ci feront peser sur la Grande-Bretagne une charge financière excessive. Cette situation tient à la prédominance de la Politique agricole commune (PAC) au titre de laquelle la part des dépenses incombant à la Grande-Bretagne devrait être faible, par suite de l'importance relativement limitée de son agriculture. La Communauté affirme alors que cela ne se produira pas, car on modifiera l'équilibre des politiques budgétaires. L'agriculture en particulier devrait absorber une moindre part des dépenses budgétaires. On élaborera d'autres programmes dont la Grande-Bretagne sera plus à même de bénéficier. Cependant la CEE précise que «au cas où la situation deviendrait inacceptable... la survie même de la Communauté exigerait que les institutions en place trouvent des solutions équitables».

Il y a eu des changements bien accueillis dans l'équilibre des politiques budgétaires de la CEE, notamment grâce à l'accroissement donné aux Fonds régional et social. Mais ces modifications sont loin d'être suffisantes pour résoudre le problème budgétaire dont l'existence avait été reconnue explicitement dès 1975, dans la législation de la Communauté qui a prévu alors un mécanisme financier pour y remédier. Mais il ne s'est pas montré efficace. Le Conseil des ministres de la Communauté a donc admis, en mai 1980, que la charge des dépenses budgétaires pesant sur la Grande-Bretagne était telle qu'il fallait redresser immédiatement ce déséquilibre par des remboursements et il s'est engagé, à plus long terme, à trouver une solution structurelle (mandat du 30 mai). Les remboursements ont été effectués, mais la solution à plus long terme reste encore à trouver.

## Un problème touchant la Communauté

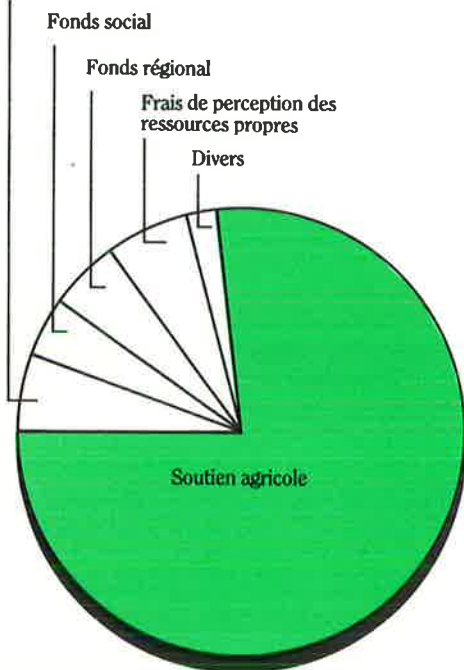
Le déséquilibre budgétaire est un problème qui touche l'ensemble de la CEE. Il se trouve que c'est la Grande-Bretagne qu'il touche le plus, mais un problème analogue s'est déjà présenté pour l'Allemagne et pourrait à l'avenir toucher d'autres pays membres, notamment après l'élargissement de la CEE. A présent huit Etats membres, dont cinq plus prospères que la moyenne communautaire, retirent du budget davantage que ce que leurs contribuables ne versent au fonds budgétaire. Deux autres, l'Allemagne et la Grande-Bretagne, effectuent des transferts vers les autres pays membres.

## Cause fondamentale du problème

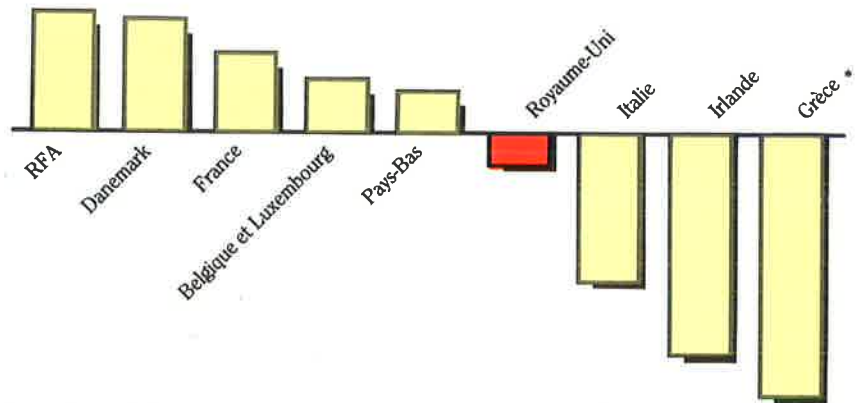
La CEE tire ses revenus des prélèvements agricoles, des droits de douane et d'une proportion de la TVA allant jusqu'à 1%: ce sont là ses ressources propres qui financent les politiques communautaires. C'est encore à la politique de soutien agricole que revient aujourd'hui la part du lion, malgré les progrès encourageants réalisés pour mettre en œuvre d'autres programmes communautaires (voir tableau ci-dessous).

## Affectation budgétaire, moyennes de 1980 et de 1981

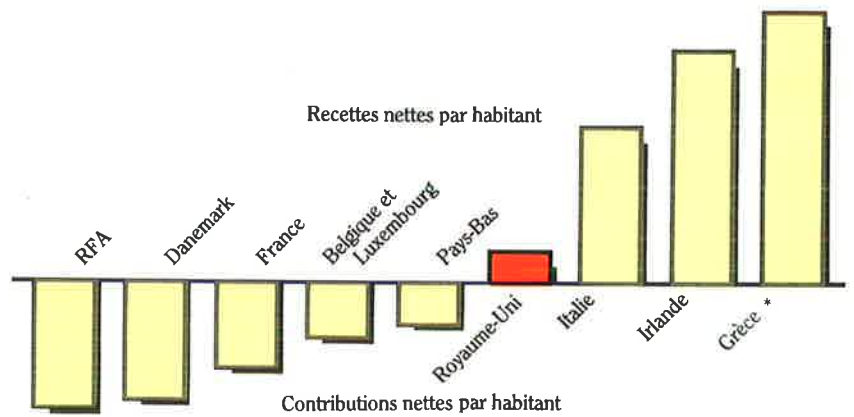
Administration



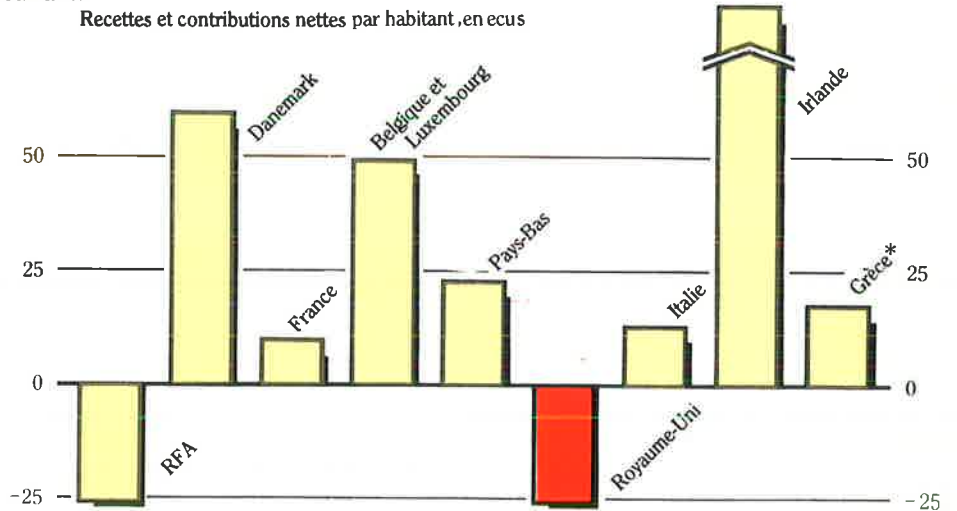
Il en résulte que le budget communautaire transfère des ressources provenant d'Etats membres ayant un secteur agricole relativement limité à des pays nets exportateurs de produits agricoles, sans tenir compte de leur prospérité relative. Le graphique ci-dessous montre quels sont les Etats membres les plus riches et les plus pauvres, ceux de gauche ayant un revenu par habitant supérieur à la moyenne et ceux de droite un revenu par habitant inférieur à la moyenne.



Si les transferts réalisés par le biais du budget communautaire s'effectuaient des Etats membres les plus riches vers les plus pauvres, le schéma aurait la forme suivante:



Le schéma des échanges est bien différent, en réalité. Par exemple, pour 1980 et 1981 (et sans tenir compte des remboursements spéciaux versés à la Grande-Bretagne), le schéma est le suivant:



Pour donner une idée de l'échelle du problème, si l'on ne tient pas compte des remboursements spéciaux, en 1980 et en 1981, la Grande-Bretagne aurait transféré aux autres Etats membres de la CEE environ 4,5 milliards d'Ecus (£2,5 milliards, 11 milliards DM, 27 milliards Ff). Cette dépense est presque aussi importante que la totalité du programme d'aide aux pays d'outre-mer de la Grande-Bretagne, pour ces deux années.

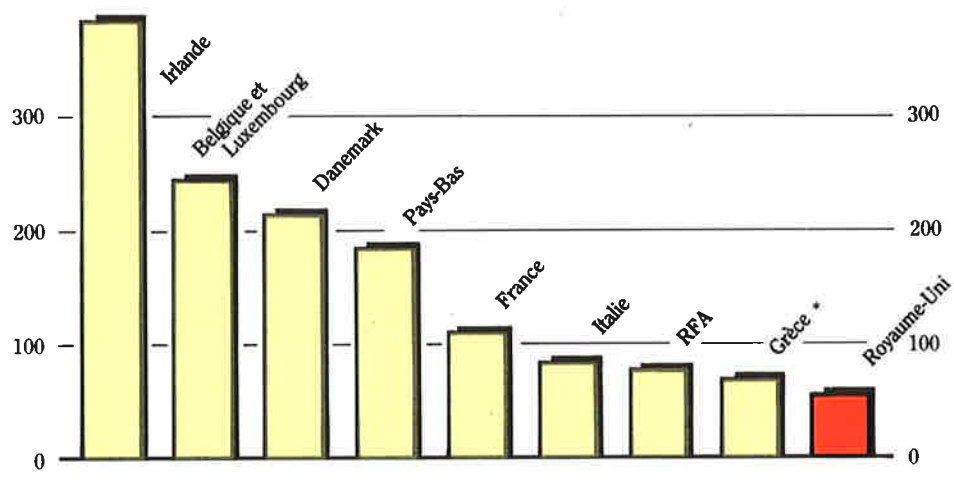
**En fait :**

★ **Ce sont les Britanniques qui retirent le moins d'avantages, par tête, du budget communautaire,**

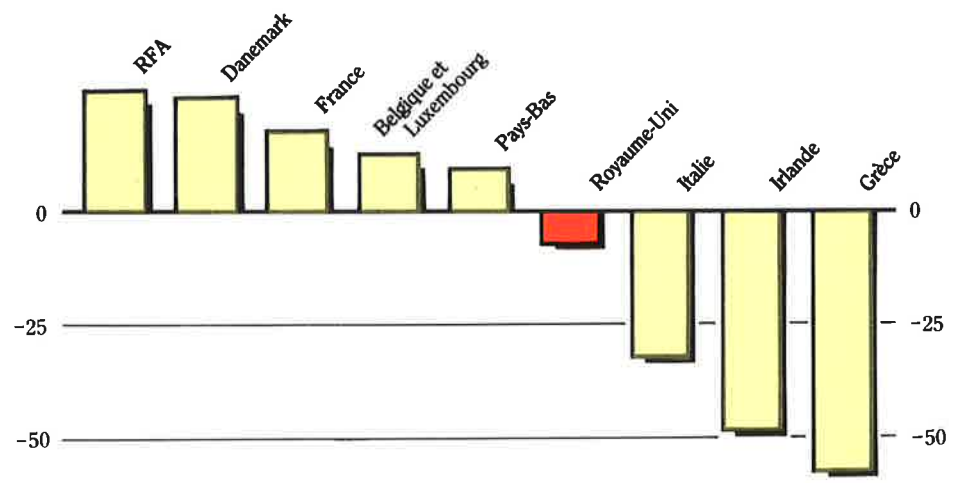
★ **bien que n'étant pas les plus prospères,**

★ **et bien qu'ils versent une pleine contribution aux revenus de la CEE.**

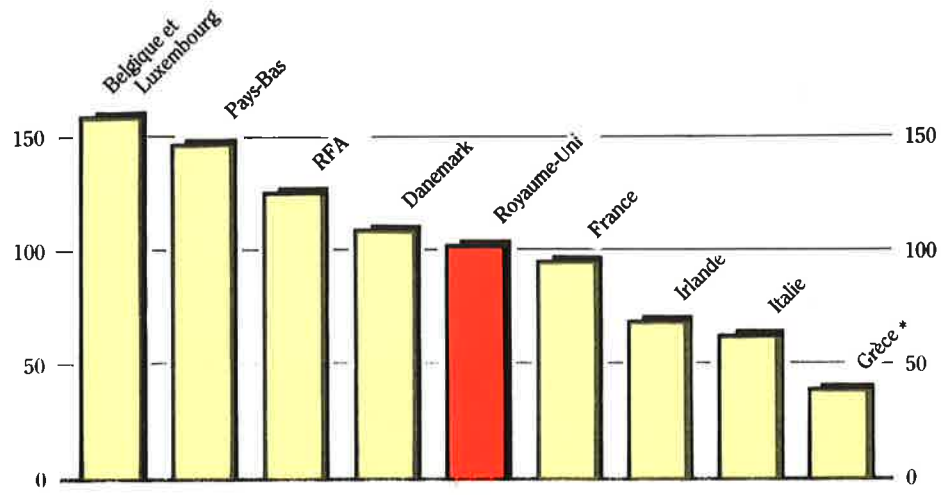
Recettes provenant du budget communautaire, par habitant, en pourcentage de la moyenne communautaire pour 1980 et 1981



PIB en pourcentage d'écart par rapport à la moyenne de la CEE en 1980 et 1981



Contribution versée au budget, par habitant, en pourcentage de la moyenne communautaire pour 1980 et 1981



\* Les chiffres concernant les contributions et les recettes de la Grèce se rapportent seulement à 1981.

## Mode d'acheminement des fonds

Ces transferts ne sont pas une simple abstraction. Ils se traduisent par des sorties réelles de capitaux de certains pays au profit d'autres Etats membres. Le système est le suivant. Chaque pays membre prélève les ressources propres de la CEE auprès de ses contribuables et les verse dans un compte bancaire détenu par la Commission dans l'Etat membre. La Commission utilise ses fonds pour les paiements de soutien aux agriculteurs, commerçants, entreprises industrielles et autres bénéficiaires des programmes communautaires de ce pays. Dans huit Etats membres, les dépenses communautaires dépassent les ressources perçues et ces comptes doivent être

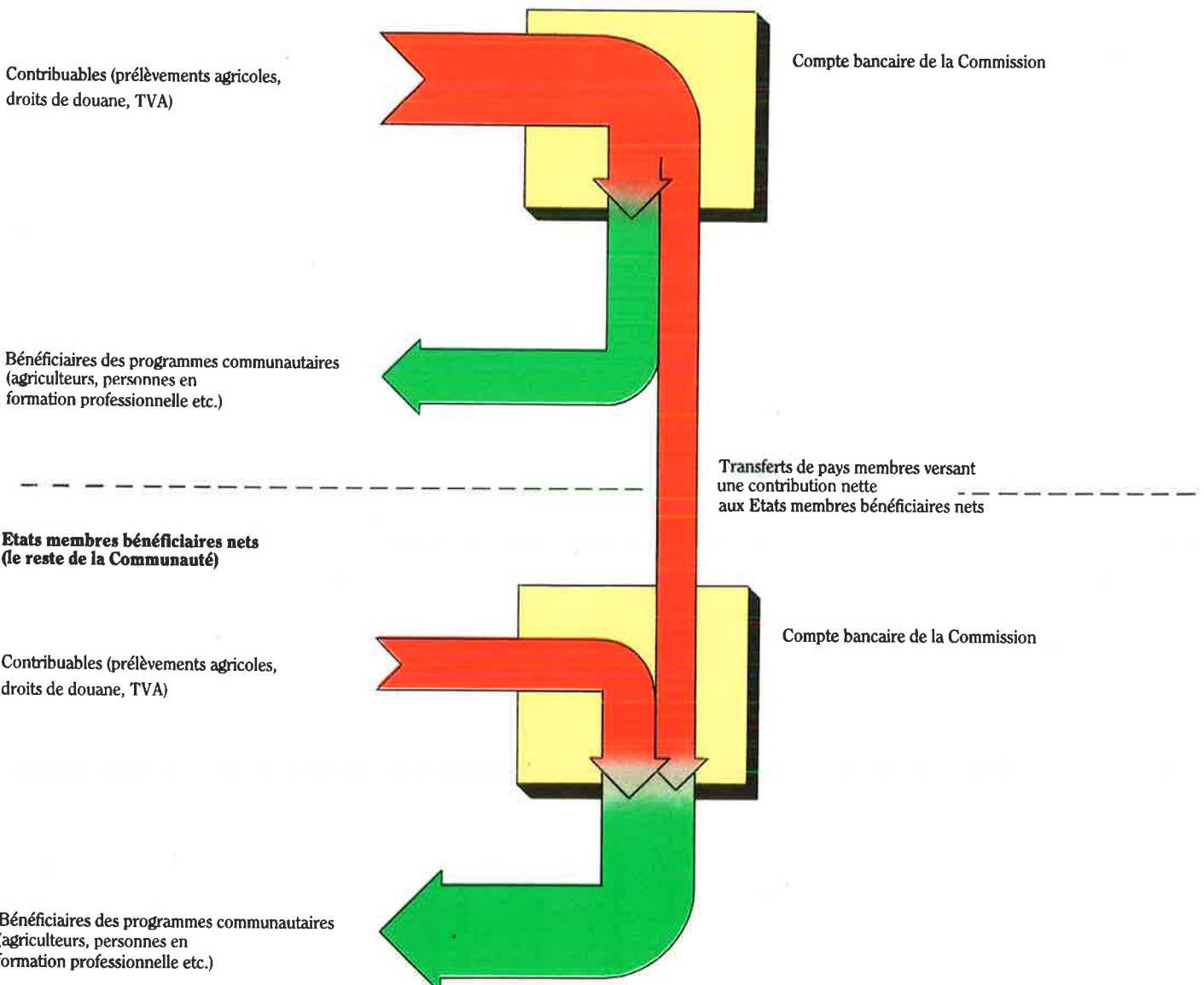
complétés par des transferts provenant des deux autres: la Grande-Bretagne et l'Allemagne fédérale. Dans ces deux pays, les paiements versés aux bénéficiaires des programmes communautaires sont inférieurs aux impôts perçus. La Commission constitue ainsi des fonds excédentaires que, de temps à autre, elle transfère dans les comptes qu'elle détient dans les autres pays où ils sont dépensés. Ces transferts constituent un apport réel pour le pays bénéficiaire et un coût réel pour les pays versant une contribution nette. Ils alourdissent la faculté contributive du pays sur le plan fiscal et obligent la Grande-Bretagne et la RFA à en tenir compte dans leur budget national.

Le graphique ci-dessous illustre ces acheminements de fonds. Il est aisé de

comprendre pourquoi la population des pays bénéficiaires nets est plus satisfaite des dispositions budgétaires de la CEE que celle des pays versant une contribution nette. Même la RFA, qui est l'Etat membre le plus important et l'un des plus prospères de la Communauté, commence à trouver que l'ampleur de ses transferts nets constitue un lourd fardeau. Le public britannique, sachant que la Grande-Bretagne est moins prospère que la moyenne s'estime exploité de manière injustifiable.

## Comment les contribuables de certains Etats membres financent les programmes communautaires dans d'autres Etats membres

### Etats membres versant une contribution nette à la CEE (Royaume-Uni et RFA)



## Malentendus concernant le problème budgétaire

On a parfois laissé entendre que:

● *La Grande-Bretagne chercherait à saper la base commune du financement communautaire en voulant obtenir un « juste retour », c'est-à-dire à récupérer du budget la contrepartie exacte des versements effectués par les contribuables britanniques.*

La Grande-Bretagne ne demande rien de tel. Elle accepte que le transfert des ressources se fasse par le canal du budget, mais considère que celui-ci devrait se faire des Etats membres les plus riches vers les plus pauvres, pour que la Communauté parvienne à « niveler les différences entre les diverses régions », comme il est précisé au Traité de Rome. La Grande-Bretagne a déclaré très nettement que, bien que n'étant pas parmi les Etats membres les plus prospères, elle était disposée à accepter une contribution nette peu élevée.

● *La Grande-Bretagne chercherait à détruire le système de revenus de la CEE (ou système des « ressources propres »).*

La Grande-Bretagne ne cherche pas à revenir sur les règles en vigueur dans la CEE. Elle a été au contraire l'un des premiers pays à adopter à fond le système des ressources propres. Ce qu'elle demande, c'est une distribution rationnelle des coûts et avantages.

Il n'y a pas lieu pour autant de modifier le système des ressources propres.

● *La Grande-Bretagne chercherait à détruire la PAC.*

La Grande-Bretagne accepte pleinement les principes fondamentaux de la PAC tels qu'ils sont énoncés dans le Traité. Elle a constamment appuyé les efforts de la Commission pour que soient apportées des améliorations aux mécanismes de la PAC et qu'on les adapte aux nouvelles conditions. Elle estime en particulier, tout comme la Commission, que la Communauté devrait trouver le moyen de limiter les excédents de production et les dépenses occasionnées par les moyens mis en œuvre pour les écouler, et trouver un meilleur équilibre budgétaire, en consacrant notamment une moindre part du budget à l'agriculture. Mais on doit pouvoir y parvenir sans modifier les mécanismes fondamentaux de la PAC.

● *La Grande-Bretagne ne s'intéresserait pas au développement de la CEE, mais seulement à récupérer les fonds qu'elle y verse.*

La Grande-Bretagne a constamment appuyé l'accélération du développement des politiques régionales et sociales de la CEE. Elle souhaiterait voir des progrès se réaliser dans la voie de la réalisation complète du Marché Commun et voir celui-ci prendre de l'expansion dans le secteur des services. Elle souhaiterait qu'une politique énergétique plus active soit adoptée en ce qui concerne le charbon par exemple.

● *La contribution de la Grande-Bretagne au budget serait plus que compensée par les avantages qu'elle gagne au chapitre de ses échanges.*

Les politiques communautaires coûtent plus à la Grande-Bretagne que sa contribution budgétaire nette. Elle est un pays importateur net de produits alimentaires. Elle les achète aux autres pays membres aux cours de la CEE qui sont plus élevés que les cours mondiaux, par suite des mécanismes de soutien des prix agricoles de la PAC. Ce système de soutien coûte plus à la Grande-Bretagne que les avantages qu'elle en retire sur le plan industriel, car la CEE n'a pas de système de soutien des prix comparable pour ses produits industriels. La Grande-Bretagne est, de toute façon, importatrice nette d'objets manufacturés autant que de produits alimentaires qu'elle achète aux autres pays membres.

● *Le problème budgétaire proviendrait de ce que la Grande-Bretagne n'a pas su s'adapter à la Communauté.*

Au contraire, la Grande-Bretagne s'y est adaptée. Aujourd'hui 43% de la totalité de ses échanges se font avec les autres Etats membres, contre 30% seulement avant son adhésion à la Communauté. C'est de tous les pays membres, celui où la transformation a été la plus rapide et celle-ci met aujourd'hui la Grande-Bretagne pratiquement sur le même pied que ses partenaires. Même avec une adaptation plus approfondie, on ne résoudrait guère le problème qui provient principalement de sa part insuffisante des recettes provenant du budget communautaire.

## Les avantages de l'adhésion à la Communauté

La Grande-Bretagne est fière de participer à la Communauté européenne dont le rôle a été primordial dans le développement de l'Europe d'après-guerre. Les avantages économiques d'un très vaste Marché commun et de politiques communes sont évidents. La Grande-Bretagne apprécie aussi à leur juste valeur les avantages politiques que l'on tire d'un groupement international

de ce poids. Et par-dessus tout, la CEE apporte de l'espoir pour le développement futur de l'Europe. Mais la Grande-Bretagne n'est pas le seul pays à bénéficier de ces avantages. Tous les Etats membres en jouissent au même titre mais il n'y a que la Grande-Bretagne et la RFA qui versent plus au budget qu'elles n'en reçoivent.

## Un problème constant

Les remboursements que la Communauté a accepté de verser à la Grande-Bretagne au titre du budget de 1980-1982 ont amélioré la situation, mais seulement de manière temporaire. D'aucuns les ont trouvés excessivement généreux. Et pourtant, même une fois ces remboursements versés, la Grande-Bretagne a payé pour ces trois années une contribution nette de plus de un milliard d'Ecus (£600 millions, ou 6,4 milliards de Ff, ou 2,5 milliards de DM). Les dispositions financières de la CEE sont beaucoup plus généreuses à l'égard de huit autres pays membres, même lorsqu'on prend en compte le coût des remboursements.

La création du fonds régional et du fonds social, ces dernières années, a aussi contribué à redresser le déséquilibre, mais les sommes versées ne constituent pas une contrepartie suffisante pour compenser les effets que la PAC exerce sur la Grande-Bretagne.

L'évolution future de la PAC, qui risque d'agrandir encore l'écart existant entre les prix de la CEE et les cours mondiaux, pourrait aggraver encore le problème.

Il en est de même de l'élargissement de la Communauté qui admettra deux nouveaux membres dont la prospérité est bien inférieure à celle de la moyenne communautaire et qui pourraient s'attendre à devenir bénéficiaires nets du budget.

## Conclusion

Le Conseil des ministres doit entamer prochainement de nouvelles négociations sur le problème du budget communautaire. Il est essentiel d'y apporter une solution durable, faute de quoi le différend se prolongerait, la Communauté s'affaiblirait et s'éloignerait des vraies questions à résoudre et des possibilités de développement que lui offrent les années 1980.

La prospérité et le développement de la Communauté européenne, vis-à-vis desquels la Grande-Bretagne demeure fermement engagée, ne restent assurés que si les populations des Etats membres ont la conviction qu'elles bénéficient de conditions équitables, au sein de la CEE. Il est donc indispensable d'apporter une solution durable au problème budgétaire. Telle est la tâche qui sera celle de l'automne 1982.

La Grande-Bretagne dans la Communauté européenne

# Le problème budgétaire

Préparé pour le ministère des Affaires étrangères et  
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From : Mrs M Hedley-Miller

Date : 2 November 1982

CHANCELLOR OF THE EXCHEQUER

cc CST  
FST  
EST  
Sir Douglas Wass  
Sir Kenneth Couzens  
Mr Littler  
Mr Lavelle  
Mr Carey  
Miss Court  
Mr Edwards  
Mr Fitchew

ANGLO-FRENCH SUMMIT. BILATERAL MEETING WITH M. DELORS

You have the set of summit briefs. The present note indicates fairly briefly some ideas for your bilateral with M. Delors.

2. He may well want to talk about his policy stance and his problems in trying to guide the French economy. (Brief No. 13(b)). It will be as well not to be too sympathetic about his balance of payments deficit, as this is the latest French excuse for being hard about the UK's Community Budget contribution - see below.

3. On the French franc, this fell sharply against the US dollar, from Ff6.25 to Ff6.70 after the 12 June realignment.

4. Since then it has weakened further, in line with other EMS currencies, to stand at Ff7.22 on 1 November. The franc has remained well within the EMS bands, but since August has been heavily supported by the Banque de France so as to try to contain exchange market pressures well before the margins are reached. Support has been as follows :

	Dollars	Deutschemark	£ mn Total
August	- 412	- 722	-1134
September	- 441	- 434	- 875
October	-1002	- 462	-1464
Total	-1855	-1618	-3473



France's official reserves (excluding gold but including the gold element of the French EMCF swap) have fallen from \$30 bn in March 1981 to \$13.9 bn at end-August 1982.

5. The French announced in September their syndicated eurodollar credit, \$4 billion, 10 years. This is the first occasion since the immediate post-war years that the Government has borrowed foreign currency in its own name. The purpose is to be able to support the franc and thus combat the widespread expectations of an early devaluation. The hope is that in six months the balance of payments will have strengthened and that confidence in the franc will be re-established. The loan was substantially oversubscribed, with Barclays, Midland and Natwest among the participants, in a market anxious to find alternatives to lending to Latin America or Eastern Europe.

6. Nevertheless confidence in the franc remains weak as the foreign exchange market remains gloomy about France's balance of payments prospects; and the margin on the loan ( $\frac{1}{2}\%$ ) was above what a UK public sector borrower would pay ( $\frac{1}{4}-\frac{3}{8}\%$ ).

7. On the Community Budget, this occasion is probably not the one for a confrontation, though you may have to speak severely (points in Brief No. 2(b) and below).

8. Instead, you might use the opportunity to exchange views on a better approach to financing the Community. In Toronto, M. Delors told you that he was interested in some of the ideas for reform which had been aired by the British government. We have just heard from Mr Garside in Paris that M. Camdessus, the Director of the Tresor, clearly believes that it would be a good thing to take the subject further this week. M. Delors has apparently set out for the President and members of the French government his views on the kind of reform



that France should seek. At present these views are still only those of the Tresor and not of the whole government. Even if the French government has not adopted a position by the time you see M. Delors it is still to be hoped that he will be willing to be reasonably open with you about his own thinking.

9. You will not want to go into great detail. It is the broad thrust of the French ideas which we need to weigh up. As well as attaching (not to all) your Hague speech, the EPR Article and the Green brief in French, I attach (again not to all) as Annex 1 a short description of ~~some~~<sup>some</sup> ideas on limits schemes, and some tables.

10. M. Delors may talk about "relaunching Europe" by means of new policies. This sounds fine. The trouble is no one can ever find any policies which are both promising and <sup>generally</sup> acceptable. If M. Delors says that there should be a new Community energy policy, it would be interesting to draw him out on the sort of thing he has in mind. Some forms of energy policy could be interesting to us. Whether the French and ourselves have shared interests is rather a question.

11. A good outcome of the meeting would be to agree (whether or not the French government had taken a final position) to report to the plenary that there had been a fruitful exchange of ideas on possible structural reform of Community finances, and that you and M. Delors were instructing/encouraging your officials to follow this up/to engage in further exploratory talks. But this may be going too far for M. Delors.

12. This is all on the constructive side. On a sourer note, M. Camdessus has indicated to our Embassy that "in the short term his government would have to take a very hard line ... in the year ahead. As negotiations ... took place, their position would be that it was unacceptable for France to give any assistance whatever to a country which was in balance of payments surplus".



13. You might have to use the following :

- the balance of payments fluctuates. It does not at any one period show the size and strength of the economy. What counts in relation to the imbalances in Community financing is relative national wealth.
- anyway France makes large balance of payments gains from the Community Budget, and the UK a large loss. (UK - loss of 1800 mecu before refunds, plus 350 mecu from importing food at higher Community prices. France plus 600 mecu net from Budget, or 150 million after UK refunds, plus gain of 750 mecu from exporting food in the Community.
- we have no patience with trumped-up charges of not adapting, wanting to ruin the CAP, demanding a juste retour, etc.
- the problem is structural and won't go away quickly. We would not obstruct any genuine solution to the gross imbalance. We have been far in the lead in urging rational financing arrangements as vital to the health and well-being of the Community in the future.
- If we cannot have that kind of common sense, we must have refunds for as long as the problem lasts. The idea of ~~degressivity~~ is irrational.

14. You might raise the question of the CAP 1983 price fixing. In Toronto, M. Delors said that he would be in favour of a low price increase this year (4-5%). All the subsequent indications we have had from him confirm that (on anti inflation grounds) the French will want a much lower settlement than last year, but may be prepared to go up to 5% or 6% in order to "buy" a revaluation of the German "green rate".

15. You might see whether M. Delors' thinking on the level of the price settlement has changed, and urge the case for a tough





approach, particularly for surplus products (cereals, milk, wine and sugar, all of which are likely to show record harvests this year).

16. If asked about our own thinking on the level of price settlement, you might say that in your view the Community should be looking for a final settlement in which no agricultural prices rise by more than 4-5% and that there is a strong case for freezing the prices of the surplus products.

17. M. Delors may mention the Jumbo Council, as the French seem to be hankering after a Community response to problems of recession in general and perhaps to the problems of France in particular. You might warn him against expecting too much.

18. He may ask you how you feel about as much as 3 billion ecus for another tranche of the Ortoli facility, about which you have also been canvassed by M. Ortoli himself. Perhaps on a political and psychological level there will be value in 3 billion. But we in the Treasury have always been a bit reserved about the facility. It is doubtful whether it was really necessary to introduce it. It overlaps with EIB activity, and the EIB actually makes and administers the loans. It is true that the financial markets seem to like a variety of Community names, and this is a plus point. But there must be some doubt whether there are 3 billion worth of good projects on the shelves. It would be best for the British not to be too far out on this one, until we can see the line up among the member states. So perhaps you could tell M. Delors that you are not unsympathetic but haven't yet quite made up your mind.

19. On international debt, official Anglo-French discussions suggested a similarity of assessment of the banking/debt scene. You might nevertheless like briefly to restate our general approach on the lines set out to No.10 last week :



- (i) problem basically one of transition from high to low inflation world economy;
- (ii) main part of solution is adjustment, not general reflation;
- (iii) but also important to manage transition so as to minimise costs eg by maintenance of confidence in adequacy of system;
- (iv) IMF support also essential to provide time for adjustment even after acute risks of failures have receded;
- (v) prospective easing of situation as benefit of lower inflation come through.

20. On IMF issues, there is as yet no clear Ministerial G5 view on the American proposals discussed by Deputies in Washington last month. There seems no likelihood of an early substantive Japanese response. The German response has been delayed because of the change in administration. The French appear to be digging in on a minimum 50% quota increase. It would be worth saying :

- (i) we think the US package has certain merits;
- (ii) (like the French) we see advantage, of substance and presentation, in advancing the next meeting of the Interim Committee and the implementation of the quota increase;
- (iii) we think an advancing of the quota implementation plus a GAB window would be factors to be taken into account in assessing the necessary size of a quota increase;
- (iv) we thought and think it was worth pushing the Americans hard to accept a Fund of SDR 85 billion : this plus an SDR 10 billion window may (as the Americans claim) be the package most saleable to Congress.



21. We do not suggest that you should raise the question of IDA replenishment, but if M. Delors does so you might express the hope that it will be possible to return to the single normal method of financing IDA in the future, since it is not in the long term interests of IDA to have its resources split among different funds, especially since this may provoke an adverse reaction in the US Congress.

22. The background is that agreement was reached in Toronto on arrangements which should allow IDA to continue its activities at a reasonable level during FY84, now that American backsliding has postponed the start of the next replenishment, IDA7, until FY85. Part of IDA's resources for FY84 will be special contributions by a majority of the main donors, including the UK, to a FY84 Account, and special contributions by some other donors, led by France, to a "special fund" separate from IDA's general resources. The special fund differs from the FY84 account in that contributions to it do not attract voting rights in IDA and contracts financed from it can only be placed with firms from the countries contributing to it and from developing countries (a French stipulation aimed primarily against the US).

23. On the Siberian gas pipeline, a last minute brief will be sent round in the main series, in the light of discussions currently taking place.

*hm*

MRS M HEDLEY-MILLER



'Limits' Scheme

47. Such an arrangement would be a 'limits' scheme for net contributors. <sup>The table attached</sup> Appendix 4 illustrates some different variants of possible schemes. Table 1 in the Appendix relates to the Community of 10 in 1981 and table 2 relates to a Community of 12 in the mid 1980s. The figures in table 2 should be treated with extreme caution as broad orders of magnitude only.

48. There are two basic ideas behind any 'limits' scheme. These are, first, that the possible net contribution of all member states should be limited in accordance with their relative prosperity (below a certain prosperity level they would pay no net contribution); and, second, that the adjustments to achieve these limits, if they bite, should be financed in a way which relates to the others' ability to pay. In practice, the limits would only bite for the UK and, conceivably, for Germany. The financing adjustments would then be borne primarily by France, the Benelux and Denmark in accordance with the gap between their actual net receipts and the theoretical limit of their net contribution - what could be regarded as their "ill-gotten" gains.

49. In the schemes illustrated: the UK remains a modest net contributor because they are pivoted on 95 per cent average GDP per head as a measure of relative prosperity; the less prosperous countries are fully protected because they are below this level; Germany still pays a share towards the UK refund, but considerably less than she does at present because the bulk of the financing falls on France, the Benelux and Denmark.





## LIMITS SCHEMES

The detailed effects of the schemes described in paragraphs 47 to 49 are set out in Table 1 (Community of ten in 1981) and Table 2 (Community of 12 in 1985) attached. The factors governing the two types of scheme illustrated are as follows:-

Scheme I

1. The limits are set at zero for countries whose GDP per head is below 95 per cent of the EC average.
2. For those whose GDP per head is above 95 per cent, the limits are calculated by multiplying the difference between their actual GDP per head and the EC average by total population, and applying a scaling factor. Scaling factors of  $1\frac{1}{2}$  per cent and 2 per cent are illustrated.
3. The limits bite only if they are below the actual net contribution (see column 3). The net contribution is then adjusted to equal the limit.
4. The adjustment is financed by a key based on the difference between the other countries' limits and their actual net contributions.

Scheme II

1. Again the limit is set at zero for countries whose GDP per head is below 95 per cent.
2. The other countries are put into three groups: Germany and Denmark (GDP per head at 125 of the EC average), France, Belgium, Luxembourg and the Netherlands (115), and the United Kingdom (97).
3. A limit is set on the German net contribution equal to 15 per cent of the allocated budget total. The Danish limit is set at the same ecu per head level as the German.
4. The other countries' limits are also set on ecu per head. This is done by expressing French and Benelux limits at two-thirds and the United Kingdom limit at one-fifteenth of the German and Danish limits.
5. The adjustments are operated as for Scheme I.



APPENDIX 4  
TABLE 1

LIMITS SCHEMES FOR NET PAYMENTS TO THE EC BUDGET : COMMUNITY OF 10 IN 1981 : MILLION ECUS

	1 Unadjusted net contribution	2 Limit on net contributions (at 1.5% scaling)	3 Headroom within limit (1-2)	4 Corrective payments	5 Adjusted net contribution (1-4) (at 1.5% scaling)	6 Adjusted net contribution (at 2% scaling)
<b>I <u>Limits fixed in relation to threshold *</u></b>						
Belgium	+ 300	- 160	460	150	+ 150	+ 175
Denmark	+ 285	- 175	460	150	+ 135	+ 160
France	+ 595	- 1465	2060	685	- 90	- 25
Germany	- 1750	- 2105	355	120	- 1870	- 2005
Luxembourg	+ 270	- 10	280	90	+ 180	+ 200
Netherlands	+ 190	- 250	440	145	+ 45	+ 65
UK	- 1420	- 75	- 1345	- 1345	- 75	- 100
Greece	+ 165	-	-	-	+ 165	+ 165
Ireland	+ 585	-	-	-	+ 585	+ 585
Italy	+ 780	-	-	-	+ 780	+ 780
<b>II <u>Limits fixed in relation to threshold *and German position †</u></b>						
Belgium	+ 300	- 250	550	170	+ 130	
Denmark	+ 285	- 195	480	150	+ 135	
France	+ 595	- 1350	1945	600	- 5	
Germany	- 1750	- 2320	570	175	- 1925	
Luxembourg	+ 270	- 10	280	85	+ 185	
Netherlands	+ 190	- 355	545	165	+ 25	
UK	- 1420	- 75	- 1345	- 1345	- 75	
Greece	+ 165	-	-	-	+ 165	
Ireland	+ 585	-	-	-	+ 585	
Italy	+ 780	-	-	-	+ 780	

\* Threshold is 95% of Community average GDP per head

† German limit is 15% of total allocated budget expenditure



TABLE 2

LIMITS SCHEMES FOR NET PAYMENTS TO THE EC BUDGET: COMMUNITY OF 12 IN 1985: MILLION ECUS

I. <u>Limits fixed in relation to threshold *</u>	Unadjusted net contributions	Limits on net contributions (at 2% scaling)	Headroom within limits (1-2)	Corrective payments	Adjusted net contributions (1-4) (at 2% scaling)	Adjusted net contributions (at 1.5% scaling)
Belgium	+ 480	- 325	805	230	- 250	+ 180
Denmark	+ 440	- 295	735	205	- 235	+ 165
France	+ 430	-2565	2995	845	- 415	- 540
Germany	-2120	-3510	1390	390	-2510	-2330
Luxembourg	+ 430	- 15	445	125	+ 305	+ 250
Netherlands	+ 260	- 490	750	215	+ 45	0
UK	-2750	- 740	-2010	-2010	- 740	- 555
Greece	+ 690	-	-	-	+ 690	+ 690
Ireland	+ 820	-	-	-	+ 820	+ 820
Italy	+ 980	-	-	-	+ 980	+ 980
Portugal	+ 200	-	-	-	+ 200	+ 200
Spain	+ 140	-	-	-	+ 140	+ 140
II. <u>Limits fixed in relation to threshold* and German position<sup>+</sup></u>						
Belgium	+ 480	- 615	1095	245	+ 235	
Denmark	+ 440	- 320	760	170	+ 270	
France	+ 430	-3335	3765	845	- 415	
Germany	-2120	-3825	1605	360	-2480	
Luxembourg	+ 430	- 25	455	100	+ 330	
Netherlands	+ 260	- 880	1140	255	+ 5	
UK	-2750	- 775	-1975	-1975	- 775	
Greece	+ 690	-	-	-	+ 690	
Ireland	+ 820	-	-	-	+ 820	
Italy	+ 980	-	-	-	+ 980	
Portugal	+ 200	-	-	-	+ 200	
Spain	+ 140	-	-	-	+ 140	

\* Threshold is 95% of Community average GDP per head

+ German limit is 15% of total allocated budget expenditure





Mr P. ~~Edwards~~  
Mr Edwards OK

RECORD OF A CONVERSATION BETWEEN THE CHANCELLOR OF THE  
EXCHEQUER AND THE FRENCH FINANCE MINISTER AT 4.00 PM  
ON 7 SEPTEMBER IN TORONTO

Present:

Chancellor  
Sir Kenneth Couzens  
Mr Kerr

M. Jacques Delors  
M. Michel Camdessus

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COMMUNITY BUDGET

The Chancellor explained that the agreement of 25 May 1982 was in our view deeply unsatisfactory. It marked the Community's failure to settle the Budget problem on a lasting basis - in spite of the 1980 agreement that a permanent solution should be found. There was no case for a Member State with less than average prosperity paying more than a modest net contribution to the Community Budget. That we were once again to do so was causing increasing concern among the British people. Those who argued for UK withdrawal from the Community took a lot of tricks with this card. Moreover, the Opposition now argued that the UK should "withhold" its Budget contributions.

2. M. Delors said that, speaking personally, he thought that the UK were quite right to seek a long-term solution. He had re-read the Chancellor's 1981 Hague speech, with much of which he agreed, and he had indeed put some proposals to the President. A satisfactory solution should have been secured long ago: the annual struggle, and unsatisfactory compromises, were bad for the Community, and its image. But it seemed that his view of the right course of action was not shared by others in the Community, and in particular by the Germans.

3. The Chancellor said that he was encouraged by what M. Delors had said. His purpose was to give warning that we would have





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to raise the matter again in Brussels: with French support we might perhaps be able to achieve a settlement which would close the file. There was however one pressing problem concerning the implementation of the 25 May Agreement. Apparently the budgetary timetable called for decisions at the 20/21 September Foreign Affairs Council, for otherwise the Commission would be unable to make the necessary amendment to the 1983 draft budget. M. Delors said that he would speak to M. Cheysson at once.

#### CAP REFORM

4. The Chancellor then said that he was concerned about the prospect, given enlargement, of future growth of CAP expenditure. He wondered whether there might be virtue in bilateral discussions between the Finance Ministry experts.

5. M. Delors said that this might indeed be useful. But his impression was that the costs of the CAP, relative to the budget as a whole, would fall. Price increases in the next few years should be well below those of recent years: for 1983 he envisaged an increase of only some 4 or 5%.

#### SIBERIAN PIPELINE

6. The Chancellor then briefly reported that Secretary Regan had suggested to him that he might be taking over the pipeline dossier, and attendance at any meeting of Ministers of the Five, from Shultz, but that he had since established that this was not in fact likely to happen. His impression was that Regan was anxious to find some way in which the US could back off. M. Delors said that this was also his impression, following conversations with Regan. He thought that a Ministerial meeting of the Five, in Europe, might be valuable, and he hoped that the British, French and Germans could keep in close touch with each other, in Finance as well as Foreign Ministries.



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7. Sir Kenneth Couzens said that if the let-out for the Americans was to be found in the field of restrictions on credit to the Soviet Union, Finance Ministries would be brought in quite naturally. M. Delors said that a way of covering a US climb-down might indeed be found in the field of East/West credit. But the Germans might need some persuading: Soviet imports from Germany were seven times greater than Soviet imports from France.

*JDK*

J O KERR

9 September 1982

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Distribution:

PS/Financial Secretary  
Sir Douglas Wass  
Sir Kenneth Couzens  
Mr Littler  
Mrs Hedley-Miller  
Mr Lovell  
Mr Peet

Mr Coles, No. 10  
Mr Hancock, Cabinet Office  
Mr Fall, FCO  
Mr Garside, Paris  
Mr Butt, UKREP, Brussels



NET CONTRIBUTIONS (-) AND RECEIPTS (+) BY MEMBER STATE

REVISED 6 MAY 1982

million ecus

	1975	1976	1977	1978	1979	1980	1981 (provisional)					
<u>I. Net positions before UK refunds</u>												
Belgium/Luxembourg	+135	+346	+329	+337	+610	+439	+568					
Denmark	+237	+294	+293	+381	+380	+327	+285					
Germany	-1007	-1054	-1467	-597	-1430	-1526	-1750					
Greece	-	-	-	-	-	-	+167					
France	+35	+58	-310	-371	-78	+431	+597					
Ireland	+175	+158	+212	+326	+545	+650	+586					
Italy	+40	+248	+294	-334	+534	+737	+778					
Netherlands	-27	+222	+88	+41	+288	+454	+191					
United Kingdom	+104	-90	+126	+228	-849	-1512	-1422					
<u>/Residual/</u>	<u>/+308/</u>	<u>/-179/</u>	<u>/+435/</u>	<u>/+445/</u>	<u>/- /</u>	<u>/- /</u>	<u>/- /</u>					
<u>II. Net positions after UK refunds</u>	Actual	Pro-		As expected	at time							
	1980	visional		of 30 May	agreement							
		1981		1980	1981*							
Belgium/Luxembourg	+377	+494		+709	+846							
Denmark	+294	+248		+389	+523							
Germany	-1957	-2251		-1623	-1836							
Greece	-	+155		<u>/- /</u>	<u>/- /</u>							
France	+81	+160		-335	-421							
Ireland	+639	+572		+524	+656							
Italy	+527	+539		+598	+589							
Netherlands	+376	+95		+347	+463							
United Kingdom	-337	-12		-609	-730							

Source: Commission.

As the residuals show, the figures for 1975 to 1978 are unsatisfactory, but they give some guidance as to the orders of magnitude.

\* The residual of -90 reflected a last-minute revision to the UK figure which the Commission made without revising the figures for other member states.



AMENDMENT

ANGLO-FRENCH SUMMIT

The Secretary of State for Foreign and Commonwealth Affairs will not now accompany the Prime Minister to Paris on the Andover. Any further amendments will be notified later to those who need to know.



M M Goldsmith (Miss)  
Conference and Visits Section  
Protocol and Conference Department

3 November 1982

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ADMINISTRATIVE ARRANGEMENTS FOR THE BRITISH  
DELEGATION ATTENDING THE ANGLO/FRENCH SUMMIT IN PARIS,  
4-5 NOVEMBER 1982

1. The Prime Minister, accompanied by the Chancellor of the Exchequer, the Secretary of State for Foreign and Commonwealth Affairs, the Secretary of State for Trade, the Secretary of State for Industry, and the Minister of Agriculture, Fisheries and Food, together with those shown at Appendix I, will attend the Anglo-French Summit in Paris on 4/5 November.

2. The programme for the visit, as at present known is attached at Appendix II.

3. TRAVEL

(a) Outward

The Prime Minister and those listed at Appendix III will travel in an RAF Andover, task number 1542, departing RAF Northolt at 1455 hours on Thursday 4 November, arriving Villacoublay Airport, Paris, at 1730 hours local time. (flying time 1 hour 35 minutes).  
UK = GMT, France = GMT + 1.

(b) Return

The RAF Andover will be on standby to depart Villacoublay at 1430 hours local time on 5 November.

(c) Full travel details are given in Appendix III.

4. PASSPORTS AND HEALTH

(a) All those travelling should be in possession of a valid passport.

(b) There are no special health requirements for France.

5. BAGGAGE

(a) Passengers in the Andover are asked to take only one suitcase weighing up to 20 kilos.

(b) Baggage labels are enclosed on the following colour coding according to accommodation:-

Ambassador's Residence	BLUE
Other staff residences	RED
Bristol Hotel /Castiglione Hotel	GREEN
Official Equipment (boxes etc)	WHITE

(NB:- All luggage on Andover flights is cabin loaded)

6. BAGGAGE AND INSURANCE REGULATIONS FOR RAF FLIGHTS

Guidance is given in the separate note at Appendix IV.

7. LIVING ACCOMMODATION

Details of the living accommodation for members of the party are shown on the delegation list at Appendix I.

8. WORKING ACCOMMODATION

- (a) Offices for the No 10 and FCO Private Secretaries and Personal Assistants for use on Thursday evening and early Friday morning will be set up in the Ambassador's Residence in the Ambassador's Library and Lady Fretwell's study.
- (b) Three offices will be available in the secure zone in the Embassy for members of the party as required.
- (c) The No 10 Duty Clerk will operate from the Embassy Chancery conference room (in the secure zone) or from the Elysée as necessary.
- (d) Two rooms have been reserved in the Elysée. These will be allocated as follows:-
  - i) Waiting room next to Meeting room - Ministers/Advisors
  - ii) 1 large divided room in East-Wing (1st floor) for:-  
Private Secretaries (No 10, FCO and Chancellor's) and Personal Assistants
- (e) Mr Ingham will have the use of the Embassy conference room (outside the secure zone) for press briefings.

9. OFFICE EQUIPMENT AND STATIONERY

- (a) Typewriters (2 electric and one manual) will be provided in the Personal Assistants' offices in the Residence and in the Elysée. A photocopier will be available in the Chancery (through the hole in the wall from the Residence); a further photocopier will be installed in the office in the Elysée.
- (b) Common-user stationery will be provided by the Embassy.

10. COMMUNICATIONS

Telegrams

- (a) The Embassy communications section will operate throughout the visit.
- (b) Telegrams should generally be addressed 'Following for British delegation' in which case they will be distributed to all senior

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members of the party. Telegrams should only be addressed to individual Private Secretaries if it is intended that they should be given further distribution only on the Private Secretary's authority. Telegrams addressed to individual members in the party should not be given further distribution without the prior consent of the addressee.

Telephones

- (a) The Embassy switchboard will operate throughout the visit.
- (b) The Private Secretary's office in the Elysée will have the following facilities:-
  - 1 direct tie line to No 10
  - 2 extensions off the Embassy switchboard (480/481)
  - one extension off the Elysée switchboard (224)
  - one commercial direct line. 265-12-76
- (c) Contact between London and Paris may also be made through the tie line between the FCO and the Embassy switchboard. At the London end this is done by dialling 2920 and asking for the Embassy in Paris.
- (d) A list of useful telephone numbers is attached at Appendix I.

11. SECURITY

- (a) A security brief for those travelling is attached; this should not be taken overseas.
- (b) Mr Coombes (the No 10 Duty Clerk) will be documented as Special Courier for all members of the party with the exception of the Foreign and Commonwealth members; the FCO Special Courier will be Miss A Holliday. They and all members of the party carrying confidential papers in their individual briefcases, are asked to contact Mr Chapman, Communications Operations Department, Foreign and Commonwealth Office (telephone number 233 3706) for the necessary cross-labelling.
- (c) The facilities of the Embassy will be available for the storage of papers and boxes when not in use.
- (d) The British Embassy in Paris will arrange for the Elysée Private Office to be manned at all times. When not manned, boxes should be sent back to the Chancery.
- (e) A regular safe-hand run will be provided by the Embassy to the Elysée and also the Matignon, if required.
- (f) London office security passes should not be taken overseas.

12. TRANSPORT

- (a) Transport in Paris will be provided by the Embassy and the French Government, supplemented by hiring where necessary. The allocation of cars on arrival for the journey from the airport

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will be provided if possible before departure from the UK.

- (b) The Embassy will provide transport for safe-hand runs.

13. TRANSPORT TO RAF NORTHOLT ON 4 NOVEMBER

- (a) The Private Offices will be responsible for arranging the cars of Ministers. Those Ministers travelling on the Andover should arrive 15 minutes before take-off to allow luggage to be checked and loaded.

- (b) Parent Departments will be responsible for arranging the transport of all other officials and staff travelling. These should arrive at RAF Northolt not later than:-

20 minutes before departure - Senior officials

25 minutes before departure - other members of the party

- (c) Conference Section, FCO, will arrange for an FCO security van to leave the FCO at 1255 hours and call at No 10 Downing Street at 1300 hours to transport the boxes and other baggage travelling on the Andover. The security van will meet the Andover on return on 5 November at 1445 hours.
- (d) The Private Offices (excluding the FCO, see below) and Parent Departments will be responsible for arranging cars to meet the members of the party on return to RAF Northolt at 1445 hours on 5 November. Efforts will be made to contact these offices if the above timing is considerably changed (contact number in FCO is Miss Goldsmith: 273 5610).
- (e) Conference Section will issue separate departure arrangements for members of the FCO and will make arrangements for cars to meet the FCO members on return.

13. NEWSPAPERS AND COI SUMMARY

Arrangements have been made for members of the party to receive copies of the UK newspapers of 5 November as well as the COI press summary of that day.

14. DUTY-FREE SUPPLIES

- (a) Members of the party have already indicated their requirements and these have been passed on to the Embassy in Paris. The whole consignment will be placed on the Andover for the return flight to the UK. Mr Coombes, the No 10 Duty Clerk, will collect payment from all members of the party with the exception of the FCO members; payment from the latter will be collected by Miss Holliday.

15. ENTERTAINMENTS AND CLOTHING

The dress for both dinners on 4 November:

- i) at the Elysée for Ministers and some senior officials and  
ii) at the Quai for the remaining senior officials.  
is informal, lounge suit.

16 FINANCE

- (a) Costs for the visit will be borne by Parent Departments. Common service costs will be borne by the Management and Personnel Office.
- (b) Costs for the FCO members of the party will be charged to DCS Vote Subhead C3(2)(e).
- (c) Subsistence

Rates for Paris are as follows:-

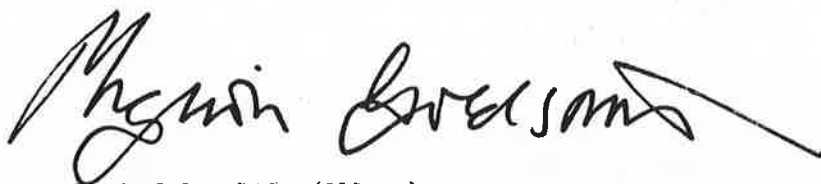
Class A	F 697.00
Class B	F 523.00

The rate of exchange is £1 = F12.085

- (i) Members of the party staying with colleagues will receive one-third of the appropriate subsistence rate.
- (ii) For those detectives accommodated in a hotel, the cost of room, breakfast, service and taxes should be paid by the Embassy, charging the Metropolitan police. Otherwise the Detectives will provide their own subsistence.
- (iii) Members of the party staying at the Bristol Hotel will receive Class A conference terms, ie the Embassy will pay direct the bill for room, continental breakfast, service and taxes and the individuals concerned will receive half the Class A rate to pay for all other expenses.

17 ADMINISTRATION

Any enquiries in London concerning these arrangements should be addressed to the undersigned. In Paris the administrative arrangements for the British delegation are being coordinated by Mr Christopher Hum.



M M Goldsmith (Miss)  
Overseas Conference and Visits Section  
Protocol and Conference Department  
Tel No: 273 5610

2 November 1982



ANGLO-FRENCH SUMMIT, PARIS: 4/5 NOVEMBER 1982COMPOSITION OF THE PARTY(not in protocol order)

<u>Serial No.</u>	<u>Name</u>	<u>Designation</u>	<u>Accommodation</u>
1.	The Rt Hon Margaret Thatcher MP	Prime Minister	Ambassador's Residence
No. 10 DOWNING STREET			
2.	Mr F E R Butler	Principal Private Secretary	Ambassador's Residence
3.	Mr A J Coles	Private Secretary	Ambassador's Residence
4.	Mr B Ingham	Chief Press Secretary	Ambassador's Residence
5.	Mr A Coombes	Duty Clerk	Ambassador's Residence
6.	Mrs B Moore	Secretarial Assistant	Ambassador's Residence (sharing)
7.	Chief Inspector J Russell	Detective	Ambassador's Residence
8.	Inspector J Pearse	Detective	Castiglione Hotel
CABINET OFFICE			
9.	Sir Robert Armstrong KCB CVO	Secretary of the Cabinet	Ambassador's Residence
HM TREASURY			
10.	The Rt Hon Sir Geoffrey Howe QC MP	Chancellor of the Exchequer	Head of Chancery's Residence (Gatehouse)
11.	Mr J O Kerr	Private Secretary	Head of Chancery's Residence (Gatehouse)
12.	Sir Kenneth Couzens KCB	Second Permanent Secretary	Head of Chancery's Residence (Gatehouse)

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APPENDIX I (continued)

<u>Serial No.</u>	<u>Name</u>	<u>Designation</u>	<u>Accommodation</u>
FOREIGN AND COMMONWEALTH OFFICE			
13.	The Rt Hon Francis Pym MC MP	Secretary of State for Foreign and Commonwealth Affairs	Ambassador's Residence
14.	Mr B J P Fall	Private Secretary	Ambassador's Residence
15.	Miss A Holliday	Personal Assistant	Ambassador's Residence (sharing)
16.	Superintendent D Paton	Detective	Castiglione Hotel
17.	Inspector D Bard	Detective	Castiglione Hotel
18.	Sir Antony Acland KCMG KCVO	Permanent Under Secretary of State	Ambassador's Residence
DEPARTMENT OF INDUSTRY			
19.	The Rt Hon Patrick Jenkin MP	Secretary of State for Industry	Bristol Hotel
20.	Ms C Varley	Private Secretary	Bristol Hotel
21.	Sir Peter Carey GCB	Permanent Secretary	Bristol Hotel
DEPARTMENT OF TRADE			
22.	The Rt Hon Lord Cockfield	Secretary of State for Trade	Commercial Counsellor's flat
23.	Mr R Gray CB	Deputy Secretary	Commercial Counsellor's flat
MINISTRY OF AGRICULTURE, FISHERIES AND FOOD			
24.	The Rt Hon Peter Walker MP	Minister of Agriculture, Fisheries and Food	Bristol Hotel
25.	Sir Brian Hayes KCB	Permanent Secretary	Bristol Hotel
CENTRAL OFFICE OF INFORMATION			
26.	Mr J Ensoll	Chief Political Correspondent	Castiglione Hotel
INTERPRETER			
27.	Mr Peers Carter CMG		Bristol Hotel



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## ANGLO-FRENCH SUMMIT: 4-5 NOVEMBER

Programme for the Prime MinisterThursday 4 November

1455 Take-off from RAF Northolt  
1730 Arrive at Villacoublay  
1735 Leave Airport for Elysée  
1800 Tête-à-tête with President Mitterrand  
1900 Leave Elysée and return to Residence  
2000 Dinner at the Elysée  
2230 Return to Residence

Friday 5 November

0920 Leave Residence for Elysée  
0930 Tête-à-tête with President Mitterrand  
1030 Plenary Session  
1200 Press Conference  
1230 Leave Elysée for Residence  
1235 Approx Interviews with the British Press  
1305 Leave Residence for Matignon  
1315 Lunch at Matignon as guests of the Prime Minister  
1500 Approx Depart for Villacoublay

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RESTRICTED

ANGLO-FRENCH SUMMIT: 4-5 NOVEMBER

Programme for the Chancellor of the Exchequer

Thursday 4 November

1455 Take-off from RAF Northolt  
1730 Arrive at Villacoublay  
1735 Leave Airport for the Residence Gatehouse (Head of  
Chancery's House)  
2000 Dinner at the Elysée  
2230 Return to Residence Gatehouse

Friday 5 November

0850 Leave the Residence for the Ministry of Economy,  
rue de Rivoli  
0900 Talks with Monsieur Delors  
1020 Leave for the Elysée  
1030 Plenary Session  
1200 Press Conference  
1230 Leave Elysée for Residence  
1305 Leave Residence for Matignon  
1315 Lunch at Matignon as guests of the Prime Minister  
1500 Approx Depart for Villacoublay

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RESTRICTED

ANGLO-FRENCH SUMMIT: 4-5 NOVEMBER

Programme for the Secretary of State for Foreign and Commonwealth Affairs

Thursday 4 November

1455 Take-off from RAF Northolt  
1730 Arrive at Villacoublay  
1735 Leave Airport for Residence  
2000 Dinner at the Elysée  
2230 Return to Residence

Friday 5 November

0840 Leave Residence for the Quai d' Orsay  
0900 Talks with Monsieur Cheysson  
1020 Leave for the Elysée  
1030 Plenary Session  
1200 Press Conference  
1230 Leave Elysée for Residence  
1305 Leave Residence for Matignon  
1315 Lunch at Matignon as guests of the Prime Minister  
1500 Approx Depart for Villacoublay

RESTRICTED

RESTRICTED

ANGLO-FRENCH SUMMIT: 4-5 NOVEMBER

Programme for the Minister of Agriculture, Fisheries and Food

Thursday 4 November

1455 Take off from RAF Northolt  
1730 Arrive at Villacoublay  
1735 Leave Airport for the Hotel Bristol  
2000 Dinner at Elysée  
2230 Return to Residence  
Later Return to Hotel Bristol

Friday 5 November

0845 Leave the Hotel Bristol for the Ministry of  
Agriculture, rue de Varenne  
0900 Talks with Mme Cresson  
1020 Leave for the Elysée  
1030 Plenary Session  
1200 Press Conference  
1230 Leave Elysée for the Hotel Bristol  
1305 Leave for Matignon  
1315 Lunch at Matignon as guests of the Prime Minister  
1500 Depart for Villacoublay

RESTRICTED

RESTRICTED

ANGLO-FRENCH SUMMIT: 4-5 NOVEMBER

Programme for the Secretary of State for Industry

Thursday 4 November

1455 Take-off from RAF Northolt  
1730 Arrive at Villacoublay  
1735 Leave Airport for the Hotel Bristol  
2000 Dinner at the Elysée  
2230 Return to Residence  
Later Return to Hotel Bristol

Friday 5 November

0845 Leave the Hotel Bristol for the Ministry of Industry,  
rue de Grenelle  
0900 Talks with Monsieur Chevènement  
1020 Leave for the Elysée  
1030 Plenary Session  
1200 Press Conference  
1230 Leave Elysée for the Hotel Bristol  
1305 Leave the Hotel Bristol for Matignon  
1315 Lunch at Matignon as guests of the Prime Minister  
1500 Approx Depart for Villacoublay

RESTRICTED

ANGLO-FRENCH SUMMIT: 4-5 NOVEMBER

Programme for the Secretary of State for Trade

Thursday 4 November

1455 Take-off from RAF Northolt  
1730 Arrive at Villacoublay  
1735 Leave Airport for the Commercial Counsellor's flat,  
2 rue de Miromesnil  
2000 Dinner at Elysée  
2230 Return to Residence  
Later Return to Commercial Counsellor's flat

Friday 5 November

0845 Leave the Commercial Exchequer's flat for the  
Ministry of Foreign Trade, Quai Branly  
0900 Talks with Monsieur Jobert  
1020 Leave for the Elysée  
1030 Plenary Session  
1200 Press Conference  
1230 Leave Elysée for the Commercial Counsellor's flat  
1305 Leave for Matignon  
1315 Lunch at Matignon as guests of the Prime Minister  
1500 Approx Depart for Villacoublay

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## TRAVEL ARRANGEMENTS

(all times local)

UK = GMT FRANCE = GMT + 1

OUTWARDMonday 1 November

Chief Inspector J Russell	BA 316	ETD LHR 1830
		ETA Paris 2030

Wednesday 3 November

Inspector D Bard	BR 882	ETD Gatwick 0730
		ETA Paris 0925

Mr Peers Carter	BR 886	ETD Gatwick 1200
		ETA Paris 1355

Thursday 4 November

Prime Minister	RAF Andover	ETD Northolt 1455
Mr Butler		ETA Villacoublay 1730

Mr Coles  
Mr Ingham  
Mr Coombes  
Mrs Moore

Inspector Pearse  
Sir Robert Armstrong  
Chancellor of the Exchequer  
Mr Kerr

Refreshments will be served  
Flying time 1 hour 35 minutes

Foreign and Commonwealth Secretary

Mr Fall

Miss Holliday

Superintendent Paton

Sir Antony Acland

Secretary of State for Industry

Ms C Varley

Sir Peter Carey

Secretary of State for Trade

Mr R Gray

Minister of Agriculture, Fisheries and Food

Sir Brian Hayes

Mr Alan Walters (not on delegation list)

23 passengersRETURNFriday 5 November

Passengers as above	RAF Andover	ETD Villacoublay 1430
<u>less</u> Superintendent D Paton and Mr Walters		(on standby)
<u>plus</u> Inspector D Bard and Sir K Couzens		ETA Northolt 1505

23 passengers

Refreshments will be served  
Flying time 1 hour 35 minutes

Mr Peers Carter

Supt D Paton

Chief Inspector J Russell

Open return

Open return

Open return





TRAVEL ON SPECIAL FLIGHTS  
BAGGAGE AND INSURANCE REGULATIONS

## 1. BAGGAGE

- a. Those travelling by RAF aircraft are reminded that baggage should be left unlocked for the customary check. Butane gas lighter refills and matches, other than safety ones, may not be taken on the aircraft; certain aerosol sprays are now accepted on flights, provided they are not used on the aircraft. Any electrical items must be disconnected from their batteries.
- b. For space reasons those travelling in the RAF aircraft are asked to limit their personal baggage to one suitcase.

## 2. INSURANCE

- a. No refund of insurance premium is payable from public funds for officers on short-term visits overseas. When the personal property (other than money or luxury articles) of an officer sent overseas on a short-term visit is lost or damaged during transit to or from the UK or while he or she is in receipt of subsistence allowance during his stay overseas, and the loss or damage is not covered by an existing insurance policy, and the officer himself has not been negligent, compensation would be based on the current cost of replacing the articles, less the amount for depreciation or, if less, the full cost of repair.
- b. Those travelling in the <sup>RAF</sup> planes are advised to check whether their insurance policies provide cover for travelling by non-commercial flights and to consult their insurers if they are in any doubt about their position. At present claims on HMG for compensation are subject to a liability limit of £25,000.

Conference and Visits Section  
Protocol and Conference Department



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Direct dialling code from London to Paris is: 010-331

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or	Tie line to Whitehall CBX -2920
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Elysée Palace	261 51 00
British Delegation Offices in Elysée	
Waiting Room (Ministers/Advisers)	ext: 656
Private Secretaries Office	a) direct line from No 10
	b) off Elysée switchboard: 224
	c) off Embassy switchboard: 480/481
	d) direct line: 265 12 76
Ambassador's Residence	266 91 42
Private Office in Residence	ext 403/412
Head of Chancery's Residence (Gatehouse)	266 91 42
Commercial Counsellor's Residence	265 06 99
Mr Christopher Hum (Home tel no)	544 65 63
Bristol Hotel	266 91 45
Castiglione Hotel	265 07 50
Villacoublay Airport	630 23 88 or 946 07 14
Ramadam Hotel (RAF crew)	To be checked



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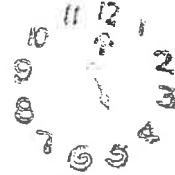
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News Room

BRITISH EMBASSY, PARIS (3)

EACH MEMBER OF THE DELEGATION

04 NOV 1982



GRS 478

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ZZ PARIS

GRS 478

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FM FCO 141415Z NOV 82

TO FLASH WASHINGTON

TELEGRAM NUMBER 1955 OF 4 NOVEMBER

AND TO FLASH PARIS

AND TO IMMEDIATE BONN

INFO PRIORITY UKREP BRUSSELS, COPENHAGEN

ROUTINE UKDEL NATO, UKDEL OECD, ROME, THE HAGUE, BRUSSELS,

INFO SAVING DUBLIN, ATHENS, TOKYO, OTTAWA

INWARD

YOUR TELS 3555-7: EAST/WEST ECONOMIC RELATIONS (PIPELINE)

1. WE HAVE THE FOLLOWING COMMENTS ON THE LATEST TEXT AND DISCUSSIONS. WE HAVE NO OBJECTION TO THE IRISH REFORMULATION IN THE PREAMBLE (NOR TO THE CONCEPT OF A COMMISSION SIDE LETTER) THOUGH WE ARE, AS YOU KNOW, CONTENT WITH THE EXISTING WORDING. WE ENDORSE DENMAN'S OBSERVATION ON THE WORD QUOTE THEREFORE UNQUOTE IN THE SECOND CRITERION. IN 3(A) WE PREFER THE WORD QUOTE FOLLOWING UNQUOTE TO THE WORD QUOTE BUILDING UNQUOTE, BUT CAN EASILY LIVE WITH THE LATTER WORD.

2. ON THE FINAL SENTENCE OF 3(B) WE ALSO HAVE DIFFICULTY WITH THE LATEST US VERSION, PARTICULARLY WITH THE WORDS QUOTE BUILDING UPON UNQUOTE FOLLOWED BY THE ITEMISATION. WE WOULD PREFER THE WORDING QUOTE HAVING IN MIND THE CRITERIA IN PARAGRAPH 2 ABOVE AND THE AGREEMENTS ALREADY REACHED IN THE OECD EXPORT CREDITS CONSENSUS ARRANGEMENT, THEY WILL WORK URGENTLY FURTHER TO HARMONISE NATIONAL EXPORT CREDIT POLICIES FULLSTOP UNQUOTE. WE COULD AGREE TO THE DELETION OF THE REFERENCE TO THE OECD CONSENSUS BUT IF IT STAYS WE WOULD PREFER TO DELETE THE WORDS QUOTE BUILDING UPON UNQUOTE.

3. IF THESE FORMULAE CONTINUE TO CAUSE PROBLEMS YOU HAVE DISCRETION TO FLOAT (YET ANOTHER) MORE GENERALISED VERSION WHICH TRIES TO AVOID THE AMERICAN OBJECTIONS TO MERE STUDIES AND THE FRENCH BROAD OBJECTIONS TO HARMONISATION: QUOTE THEY WILL WORK URGENTLY FOR GREATER CONSISTENCY OF NATIONAL POLICIES IN THE EXPORT CREDIT FIELD FULLSTOP UNQUOTE.

4. THE EXTENDED DEFINITION OF NATIONAL CREDIT POLICY AS PROPOSED BY THE FRENCH IS A NON-STARTER. THE GERMAN ECONOMIC DIRECTOR TOLD HIS FRENCH COUNTERPART THIS MORNING THAT THE GERMAN GOVERNMENT FOUND THE FRENCH FORMULATION UNACCEPTABLE. NEITHER COULD WE ACCEPT ANY EXPLICIT COMMITMENT TO HARMONISE NON-OFFICIAL CREDITS.

5. I HOPE TO SPEAK TO CHEYSSON ON THE TELEPHONE LATER TODAY, AND WE ARE RECOMMENDING THAT THE PRIME MINISTER SHOULD STRESS TO PRESIDENT MITTERRAND THIS EVENING, WHEN THEY MEET IN PARIS, THE DANGER OF LOSING THE OPPORTUNITY OF AGREEING A TEXT, WHICH ENABLED US TO ACHIEVE THE LIFTING OF SANCTIONS, AND THE ESTABLISHMENT OF A STRATEGY FOR THE CONDUCT OF EAST/WEST ECONOMIC RELATIONS.

6. HOWEVER, WE (LIKE PAYE) ARE DISTURBED BY THE IMPLICATIONS OF EAGLEBURGER'S REMARKS TO BORCH (PARA 10 OF YOUR TEL 3557). THEY COULD MEAN THAT THE AMERICANS INTEND IN RETURN FOR AN AGREED TEXT ONLY TO REIFASE EXISTING REPEAT EXISTING CONTRACTS FROM THEIR





MYDRHS  
AJULGO

04 NOV 1982

FOPA 041

CONFIDENTIAL



FLASH PARIS

CONFIDENTIAL

~~SIA~~ / 1/0SIEJSDM FCO 041430Z NOV 82  
TO F L A S H WASHINGTON  
TELEGRAM NUMBER 1956 OF 4 NOVEMBER 1982  
INFO F L A S H TO PARIS  
INFO IMMEDIATE TO BONN  
INFO ROUTINE TO UKDEL OECD, UKREP BRUSSELS, UKDEL NATO, ROME,  
COPENHAGEN

INWARD

EAST/WEST ECONOMIC RELATIONS (PIPELINE)  
YOUR TELNOS 3555, 3556 AND 3557

1. YOU WILL WISH TO BE AWARE OF THE FOLLOWING TELEPHONE CONVERSATIONS BETWEEN EVANS AND PAYE AT 1130 HOURS GMT THIS MORNING.

2. EVANS ASKED WHAT IT WAS THAT THE FRENCH OBJECTED TO IN THE LATEST AMERICAN DRAFT OF MR SHULTZ'S NON-PAPER. HE SAID THAT THERE WERE THREE KEY POINTS:

(A) THE FRENCH DISLIKED THE WORD 'SUBSIDISE' IN THE SECOND CRITERION. THE FACT WAS THAT HIGH INTEREST RATE COUNTRIES IN EUROPE (FRANCE CERTAINLY AND PROBABLY ITALY AND THE UNITED KINGDOM AS WELL) WOULD HAVE TO SUBSIDISE EXPORT CREDIT FOR THE SOVIET UNION IN ORDER FOR THEIR COMPANIES TO OBTAIN BUSINESS THERE. THERE WAS ALSO THE FACT THAT THE AMERICANS WERE SUBSIDISING CEREAL EXPORTS TO THE SOVIET UNION, IF NOT AT THE FRONTIER THEN THROUGH THEIR SYSTEM OF AGRICULTURAL PRICING. NEVERTHELESS, THE FRENCH COULD LIVE WITH THE WORD SO LONG AS THE LANGUAGE OF THE SECOND PART OF THE CRITERION WAS MADE TO GOVERN IT. THEY WERE THEREFORE FIRM THAT THE WORD 'THEREFORE' SHOULD APPEAR AFTER THE WORDS 'TRADE SHOULD' IN THIS PART OF THE CRITERION.

(B) THE FRENCH DISLIKED THE PHRASE 'BUILDING ON THE CONCLUSIONS OF THE HIGH LEVEL MEETING' AT THE BEGINNING OF PARAGRAPH 3(A). THEY THOUGHT THIS LANGUAGE IMPLIED THAT THE AMERICANS WANTED TO GO BEYOND THESE CONCLUSIONS. THEIR CONFIDENCE IN THE GOODWILL OF THE AMERICANS HAD BEEN UNDERMINED BY THE HEAVY-HANDED ATTEMPT BY THE AMERICANS TO IMPOSE A TOTAL NO-EXCEPTIONS POLICY IN COCOM SINCE THE TURN OF THE YEAR. THE PREFERRED LANGUAGE OF THE FRENCH WAS 'IN ACCORDANCE WITH THE CONCLUSIONS OF THE HIGH LEVEL MEETING', ALTHOUGH THEY COULD (AT A PINCH) ACCEPT 'FOLLOWING ON THE CONCLUSIONS OF THE HIGH LEVEL MEETING'. M. PAYE HIMSELF WAS PREPARED TO TAKE A RISK WITH THE LANGUAGE WHICH APPEARED IN THE LATEST AMERICAN DRAFT, BUT HE WAS NOT BY ANY MEANS CERTAIN THAT M. CHEYSSON WOULD BE READY TO DO THIS.

(C) THE FRENCH STILL GREATLY DISLIKED THE LANGUAGE ABOUT CREDIT IN THE SECOND SENTENCE OF PARAGRAPH 3(B). THEY DID NOT WISH TO BE FORCED INTO GIVING A COMPETITIVE ADVANTAGE TO THE GERMANS, THE JAPANESE AND OTHERS: NOR DID THEY WISH TO ALLOW THE AMERICANS TO GO BEYOND WHAT HAD BEEN AGREED ABOUT CREDIT AT VERSAILLES. IN TERMS OF LANGUAGE, THEY COULD ACCEPT EITHER THE DELETION OF THE WORDS 'COVERING INTEREST RATES, MATURITIES, DOWN PAYMENTS AND FEES' OR THE INCORPORATION OF THEIR OWN FULLER LANGUAGE ABOUT THE TYPES OF CREDIT WHICH WOULD BE COVERED BY HARMONISATION (THIS IS GIVEN IN THE MIDDLE OF PARAGRAPH 4 OF WASHINGTON TEL NO 3557). THE DIFFICULTY ABOUT THE LATTER OPTION WAS THAT IT WAS TOTALLY UNACCEPTABLE TO THE GERMANS: DR FISCHER, THE GERMAN ECONOMIC DIRECTOR, HAD JUST SAID AS MUCH TO M. PAYE ON THE TELEPHONE.

3. EVANS SAID THAT OUR MINISTERS WERE INCLINED TO THINK THAT A FEW RISKS SHOULD BE TAKEN (AT THE MARGIN) ABOUT PREJUDICIAL LANGUAGE, GIVEN THAT A DOUBLE PRIZE (THE LIFTING OF SANCTIONS AND THE ESTABLISHMENT OF A STRATEGY FOR THE CONDUCT OF EAST/WEST ECONOMIC RELATIONS) NOW SEEMED TO BE WITHIN OUR GRASP: THAT THE AMERICANS HAD REVISED MR SHULTZ'S NON-PAPER THREE TIMES AND NOW SEEMED TO BE NEAR THEIR BOTTOM LINE: THAT THE PRESIDENT WOULD BE UNDER LESS PRESSURE TO LIFT HIS SANCTIONS NOW THAT THE MID-TERM ELECTIONS WERE OVER: AND THAT MR EAGLEBURGER WAS ABOUT TO LEAVE WASHINGTON FOR A FORTNIGHT.

4. M. PAYE RESPONDED BY SAYING THAT HE HAD JUST RECEIVED A DISTURBING TELEGRAM FROM THE FRENCH AMBASSADOR IN WASHINGTON. THIS RECORDED MR EAGLEBURGER AS HAVING TOLD THE DANISH AMBASSADOR THAT THE PRESIDENT WOULD ONLY BE ABLE TO TAKE ACTION OVER SANCTIONS IN RESPECT OF FOREIGN COMPANIES AFTER BILATERAL NEGOTIATIONS WITH THE FOUR COUNTRIES CONCERNED AND THAT THIS ACTION WOULD IN ANY CASE NOT COVER HSS MEASURES OF JUNE 1982. EVANS AGREED WITH M. PAYE THAT THE AMERICAN POSITION ABOUT THE TIMING AND EXTENT OF A LIFTING OF SANCTIONS NEEDED FURTHER PROBING.

5. COMMENT. THE INWARDNESS OF THE FRENCH POSITION ON EXPORT CREDIT IS THAT THE FRENCH MUST SUBSIDISE CREDIT IN ORDER TO REMAIN COMPETITIVE (IN EASTERN EUROPE AND ELSEWHERE): THAT, EVEN WITH SUBSIDISATION, FRENCH INTEREST RATES ARE HIGHER THAN INTEREST RATES IN GERMANY, JAPAN AND OTHER COUNTRIES WITH LOW MARKET RATES: AND THAT THEY ARE UNWILLING TO RE-OPEN THE AGREEMENT WHICH THEY HAVE WITH THE SOVIET UNION ON EXPORT CREDIT TERMS.

PYM

NNNN

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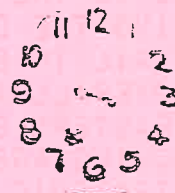
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PP PARIS

PP UKDEL OECD

GRS 1400

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SECRET  
DESKBY 040830Z  
FM WASHINGTON 040055Z NOV 82  
TO IMMEDIATE FCO  
TELEGRAM NUMBER 3556 OF 3 NOVEMBER

INWARD

INFO PRIORITY PARIS BONN ROME COPENHAGEN UKDEL NATO UKDEL OECD  
UKREP BRUSSELS  
ROUTINE TOKYO OTTAWA BRUSSELS THE HAGUE  
INFO SAVING ATHENS DUBLIN LUXEMBOURG

MIPT: EAST-WEST ECONOMIC RELATIONS (PIPELINE)

1. FOLLOWING IS TEXT OF REVISED VERSION, DATED TODAY, OF US  
NON-PAPER:

DURING CONVERSATIONS IN WASHINGTON BETWEEN THE SECRETARY  
OF STATE OF THE UNITED STATES OF AMERICA AND REPRESENTATIVES OF  
THE EEC, CANADA, THE FEDERAL REPUBLIC OF GERMANY, FRANCE,  
ITALY, JAPAN AND THE UNITED KINGDOM ON THE SUBJECT OF EAST-WEST  
RELATIONS, A CERTAIN NUMBER OF CONCLUSIONS HAVE BEEN REACHED ON  
BEHALF OF THEIR GOVERNMENTS. THE SUMMARY OF THESE FOLLOWS.

1. THEY RECOGNIZE THE NECESSITY OF CONDUCTING THEIR  
RELATIONS WITH THE USSR AND EASTERN EUROPE ON THE BASIS OF A  
GLOBAL AND COMPREHENSIVE POLICY DESIGNED TO SERVE THEIR COMMON  
FUNDAMENTAL SECURITY INTERESTS. THEY ARE PARTICULARLY  
CONSCIOUS OF THE NEED THAT ACTION IN THE ECONOMIC FIELD BE  
CONSISTENT WITH THAT GLOBAL AND COMPREHENSIVE POLICY AND THUS  
BE BASED ON A COMMON APPROACH. THEY ARE RESOLVED TOGETHER TO  
TAKE THE NECESSARY STEPS TO REMOVE DIFFERENCES AND TO ENSURE  
THAT FUTURE DECISIONS BY THEIR GOVERNMENTS ON THESE ISSUES ARE  
TAKEN ON THE BASIS OF AN ANALYSIS OF THE EAST-WEST RELATIONSHIP  
AS A WHOLE, WITH DUE REGARD FOR THEIR RESPECTIVE INTERESTS AND  
IN A SPIRIT OF MUTUAL TRUST AND CONFIDENCE.

2. THE FOLLOWING CRITERIA SHOULD GOVERN THE ECONOMIC  
DEALINGS OF THEIR COUNTRIES WITH THE SOVIET UNION AND EASTERN  
EUROPEAN COUNTRIES:

-- THAT THEY WILL NOT UNDERTAKE TRADE ARRANGEMENTS, OR  
TAKE STEPS, WHICH CONTRIBUTE TO THE MILITARY OR STRATEGIC  
ADVANTAGE AND CAPABILITIES OF THE USSR.

-- THAT IT IS NOT IN THEIR INTEREST TO SUBSIDIZE THE  
SOVIET ECONOMY: TRADE SHOULD BE CONDUCTED IN A PRUDENT MANNER  
WITHOUT PREFERENTIAL TREATMENT.

-- THAT IT IS NOT THEIR PURPOSE TO ENGAGE IN ECONOMIC  
WARFARE AGAINST THE SOVIET UNION. TO BE CONSISTENT WITH OUR  
BROAD SECURITY INTERESTS, TRADE WITH THE USSR MUST PROCEED,  
INTER ALIA, ON THE BASIS OF A STRICT BALANCE OF ADVANTAGES.

IT IS AGREED TO EXAMINE THOROUGHLY IN THE APPROPRIATE  
BODIES HOW TO APPLY THESE CRITERIA, TAKING INTO ACCOUNT THE  
VARIOUS ECONOMIC AND POLITICAL PROBLEMS INVOLVED, WITH THE VIEW  
TO AGREEING ON A COMMON LINE OF ACTION IN THE SPIRIT OF  
PARAGRAPH ONE AND THE ABOVE CRITERIA. THEY WILL PAY DUE

ATTENTION IN THE COURSE OF THIS WORK TO THE QUESTION OF HOW BEST TO TAILOR THEIR ECONOMIC RELATIONS WITH EASTERN EUROPEAN COUNTRIES TO THE SPECIFIC SITUATION OF EACH OF THEM, RECOGNIZING THE DIFFERENT POLITICAL AND ECONOMIC CONDITIONS THAT PREVAIL IN EACH OF THESE EASTERN EUROPEAN COUNTRIES.

THE OVERALL ANALYSIS OF ECONOMIC RELATIONS WITH THE USSR AND THE EASTERN EUROPEAN COUNTRIES WILL TOUCH IN PARTICULAR ON THE FOLLOWING AREAS:

- STRATEGIC GOODS AND TECHNOLOGY OF MILITARY SIGNIFICANCE (COCOM):
- OTHER HIGH TECHNOLOGY ITEMS:
- CREDIT POLICY:
- ENERGY:
- AGRICULTURAL PRODUCTS.

IN THEIR ANALYSIS OF OTHER HIGH TECHNOLOGY ITEMS, IT IS AGREED TO EXAMINE IMMEDIATELY WHETHER THEIR SECURITY INTERESTS REQUIRE CONTROLS, TO BE IMPLEMENTED IN AN AGREED AND APPROPRIATE MANNER, ON THE EXPORT TO THE SOVIET UNION AND EASTERN EUROPE OF ADVANCED TECHNOLOGY AND EQUIPMENT TO BE JOINTLY DETERMINED. THIS IMMEDIATE EXAMINATION OF WHETHER THEIR SECURITY INTERESTS REQUIRE CONTROLS, TO BE IMPLEMENTED IN AN AGREED AND APPROPRIATE MANNER, ON THE EXPORT TO THE SOVIET UNION AND EASTERN EUROPE OF ADVANCED TECHNOLOGY AND EQUIPMENT WILL INCLUDE TECHNOLOGY AND EQUIPMENT WITH DIRECT APPLICATIONS TO THE OIL AND GAS SECTOR.

IN THE FIELD OF ENERGY, THEY WILL INITIATE A STUDY OF THEIR PROJECTED ENERGY REQUIREMENTS AND DEPENDENCE UPON IMPORTS OVER THE NEXT DECADE AND BEYOND AND POSSIBLE MEANS OF MEETING THESE REQUIREMENTS, WITH PARTICULAR ATTENTION BEING GIVEN TO THE EUROPEAN ENERGY SITUATION. THE STUDY WILL BE CONDUCTED UNDER THE AUSPICES OF THE OECD.

3. AS AN IMMEDIATE DECISION AND FOLLOWING DECISIONS ALREADY MADE, THEY HAVE FURTHER AGREED ON THE FOLLOWING:

(A) BUILDING ON THE CONCLUSIONS OF THE HIGH-LEVEL MEETING, THEY WILL WORK TOGETHER WITHIN THE FRAMEWORK OF THE COORDINATING COMMITTEE (COCOM) TO PROTECT THEIR CONTEMPORARY SECURITY INTERESTS: THE LIST OF STRATEGIC ITEMS WILL BE EVALUATED AND, IF NECESSARY, ADJUSTED. THIS OBJECTIVE WILL BE PURSUED AT THE COCOM REVIEW NOW UNDER WAY. THEY WILL TAKE THE NECESSARY MEASURES TO STRENGTHEN THE EFFECTIVENESS AND RESPONSIVENESS OF COCOM AND TO ENHANCE THEIR NATIONAL MECHANISMS AS NECESSARY TO ENFORCE COCOM DECISIONS.

(B) IT WAS AGREED AT VERSAILLES THAT THE DEVELOPMENT OF ECONOMIC AND FINANCIAL RELATIONS WITH THE SOVIET UNION AND EASTERN EUROPE WOULD BE SUBJECT TO PERIODIC EX POST REVIEW. THE NECESSARY PROCEDURES FOR THIS PURPOSE WILL BE ESTABLISHED WITHOUT DELAY. HAVING IN MIND THE CRITERIA IN PARAGRAPH TWO ABOVE AND BUILDING UPON THE AGREEMENTS ALREADY REACHED IN THE OECD EXPORT CREDITS CONSENSUS ARRANGEMENT, THEY WILL WORK URGENTLY TO HARMONIZE FURTHER NATIONAL CREDIT POLICIES COVERING INTEREST RATES, MATURITIES, DOWN PAYMENTS AND FEES.

(C) THEY HAVE INFORMED EACH OTHER THAT DURING THE COURSE OF THE STUDY ON ENERGY REQUIREMENTS, THEY WILL NOT SIGN, OR APPROVE THE SIGNING BY THEIR COMPANIES OF, NEW CONTRACTS WITH THE SOVIET UNION FOR THE PURCHASE OF NATURAL GAS.

FCO PLEASE PASS SAVING ATHENS DUBLIN LUXEMBOURG

WRIGHT



Chancellor

At the flat in at 6.30 / 7.30

we shall be :-

Chancellor, 2 of S / Industry, 2 of S /  
Trade.

They will be :-

Mauroy, Delors, Chevenement,  
Johson.

So we need some concentration  
on our side, either now, or  
at the Embassy at 6.

2. We are told that Mauroy  
will lead off on "Economic  
Aspects of the Summit in the  
context of French economic  
policy" - whatever that means.  
(All I know is that Summit =  
today, not Versailles in June)

You will no doubt have to  
say something general in  
reply. Then the French  
will deal with Community

Community issues, with their  
full team working, then ours.  
If there's time (there won't be),  
round 3 would be on Bilateral  
issues.

My tentative suggestion is  
that, if Treasury round 1 is  
substantive, your reply should  
be World Economy + UK Economy

For round 2 the Community  
Budget must be our first issue.  
You'll do it in detail with delays  
forewarned, but it would be quite  
wrong not to show Treasury that  
we mean what we say to delays.  
You may wish to ask Lord  
Cockfield + Mr Jenkins what  
they would wish to say.  
Ditto a Round 3.

Lfd

# Thoughts on the Euro-Budget

~~With~~  
Your opposite number Delors  
seems rather an obstinate  
~~seems a very~~ ~~stubborn~~ ~~us~~ bore;

On budget correction,

A multi-rejection!

One 'non' ~~has now grown into~~

four!

See G House



1 English case reason

for on university

for being to high

is that they are

have been by the

State - + not by the

Students themselves or

a reimbursement basis.

On system studies done

+ students alike from any

major into cost



THE Work done by Pamie Manroy

would not be enough for a poor boy

He often must face

It was better in bills

When at least he was given a pourboire



J.K:

Tax treatment of  
Lycee + British Council

- As raised in  
Memorandum: what's  
it all about?



THE IMPORTANCE OF DECORS'  
DISCUSSION WITH ME  
WAS

(A) HIS REFERENCE TO THE  
NEED FOR A SOLUTION THAT  
COULD LAST FOR 3-5 YEARS

(B) HIS REFERENCE (NOW) TO  
THE NEED FOR "RULES"

(C) HIS REFERENCE (NOW) TO  
THE NEED FOR "EQUITABLE"  
ADJUSTMENT

(D) HIS SUGGESTION FOR AN  
EX-POST-FACTO ADJUSTMENT

ALSO: MITTERAND'S STATEMENT (NOW) THAT  
IN 1980 "WE ACCEPTED THE PRINCIPLE





THERE IS <sup>A GROSS</sup> ~~AN~~ UNEVENNESS  
ABOUT THE FRENCH ARGUMENT

"WE ARE RELATING" (TO  
HELP EUROPE, THEY SAY, RATHER  
THAN THEMSELVES) "AND SO  
CREATING A BALANCE OF  
PAYMENTS DEFICIT. SO WE  
— THE FRENCH — NEED 'HELP'  
WITH THAT, WHICH OFFSETS  
THE BRITISH NEED FOR  
'HELP' ON THE BUDGET"



H of C

M. MAUROY'S SPEECH

1. The principal <sup>new</sup> points are as follows. Following an up-beat presentation of the benefits of his government's actions to date Mauroy emphasised that France was currently containing unemployment and achieving economic growth more successfully than other developed countries. He undertook to exclude any increase in employers' contributions to social security in the course of 1983. He announced that reform of family benefits was being studied with a view to removing the burden from firms and financing such benefits from the national income generally. He confirmed that UNEDIC contributions would be raised by 1.2% with 0.72% falling on employers. At the same time relief would be provided for firms through introduction of a more favourable system of aids to investment with an easing of interest charges and the development of subsidised loans. He also anticipated a further reduction in bank base rates which he claimed would offset the increase in employers' contributions to UNEDIC. Finally he indicated that safeguard clauses could be introduced in wage agreements to maintain average purchasing power at the end of 1983.



N H Reed

4 November 1982

cc: Ambassador  
Minister  
C(C)  
C(T)  
C(A&E)  
C(F) ✓  
C(I)  
Mr Hum  
Mr Millington  
Mr Ford  
Mr Westmacott



4/11/82.

C(F)

M MAUROY'S PRESS CONFERENCE: 4 NOVEMBER

1. The following, according to AFP, were the main points made by Mauroy at his press conference this morning.

Government Economic Policy

2. "Rigour" the Government's watchword. Any changes in policy caused by the international economic crisis. Government will continue to walk a narrow tightrope but the objective remains to achieve the maximum rate of growth possible in the current crisis. No reason for people to be disappointed with socialism. Many different categories of individual have gained enormous benefit from the Government's policies.

Purchasing Power

3. Wrong to say that the purchasing power of wage earners is declining. The freeze has led to some loss of purchasing power during the second half of 1982 but the Government will aim to make this up before the end of 1983.

Unemployment

4. France is doing better than other countries. The seasonally adjusted unemployment total has remained steady at just over 2 million since the start of the summer. Employment in industry has held up well and jobs have been created in the tertiary sector.

Growth

5. France has not done half as well as expected this year but will still have the second highest growth rate after Japan. Should achieve 1.5% growth rate in 1983.

Counter Inflation Policy

6. The Government intends to get rid of the structural reasons for inflation. Looking again at the whole range of built-in incentives and bonuses in the civil service. Expects a similar effort from the "protected" professions. No-one is going to hide behind rules and practices to justify incomes which do not reflect services rendered, training received or special skills.

Social Security

7. No increase in employers' social security contributions during 1983. Review of present system of family allowances to be undertaken. UNEDIC contributions to be increased by 1.2% divided 0.48% employees, 0.72% employers.

/Company



Company Finances

8. Further tax concessions to companies to stimulate investment to be introduced before the end of the year. Additional support for companies which have borrowed at rates of interest in excess of 12%. Further extension of the present participatory loans scheme and additional loans at subsidised rates of interest to be made available. New savings instrument directly linked to industry's needs to be created.

High Speed Train

9. TGV "Atlantique" given the go-ahead. Cost F8 billion in works and F4.5 billion in materials.



4 November 1982

P J Hurr

cc: Ambassador  
Minister  
H of C  
Mr Hum  
Mr Millington  
C(A&E)  
C(T)  
Mr Westmacott  
C(I)  
Mr Reed



Common  
GMP.

← services

- INFL: ADM. 21  
- W.R. Rms: 16/9

22 | 12 | 7 | 5  
L PRODUCTION

UNEMP: INCRS SLOWING DOWN

← growth 1 1/2 %

PSBR / VRS AUCS  
INFL:

← WORLD RECOVERY SERVICES  
UK: 1 1/2 → 1/2  
1 1/2

MTI. Powers and

5. INT. RATE

1 M / 70 RONTO.

TRADE POLICY

BUDG

DEBIT / DOMESTIC CREDIT

DEBIT: NEW 700

BANK OF TRADE

12 B FRANKS '75 | '80 | '82

30 M MEMBERS OF DEBIT

25. V L + FOR 1983 + 1984



~~Chancellor~~ No softening,  
I think VSC

DN REBROADCAST

IT, I'VE PUT

THE BUDGET

MESSAGE A BIT

HARD? BUT

I DIDN'T THINK

WE HAD ENOUGH

TIME TO SAY

ANYTHING UNLESS

I DID THAT.

DO I NEED

TO JOYCE

A BIT?

(I DON'T SUPPOSE

ANYBODY EVER  
HEARD IT BEFORE?)