PREM19

133

EUROPEAN POLICY

(Dublin European Council, November 1979 - briefing material for MT)

PREM 19/133

P.M's papers on the E.E.C. Budget.

Pse keep to-gether with Dublin briefs.

5.45 [illegible]

COM(79) 680.

Sweep [illegible] —

<u>Introduction</u>

My colleagues will remember that it was in Strasbourg that we first discussed the problem of the size of the UK's net contribution to the EEC Budget in 1980 and onwards.
We asked the Commission then <u>to find the facts and report</u> and <u>to suggest solutions</u>.

<u>Problem</u>

Britain's position in this respect is <u>unique in</u> the Community. We have an income per head which is well below the average.
Yet we are expected to make the biggest net contribution to the EEC.

Six of the countries here are much better off than we are; and they are growing faster than we are.

/ But with

But with the exception of Germany, those countries either break even or benefit substantially from the budget.

Whether you calculate it as 1814 million units of account or as 1552 million, we - a less well-off country - make a huge net transfer that is unacceptable and inequitable. We therefore seek a fair and equitable solution.

Difference between Dublin now and Dublin 1975

The present financial mechanism was of course negotiated at Dublin but this was under extremely different circumstances. First, the previous Government was then renegotiating entry before a referendum.
Now, we are wholly committed to the Community for larger reasons ie it is best for us and for Europe that the countries of free Europe grow together, consult together and on many things act together.

/ Here we

Here we are and here we stay.
Second, then the problem was in general terms about the future - now it is about hard cash next year.

At time of Entry

May I just take colleagues back to the assurances given us at time of entry. Realising that the course of events could not be predicted, the Commission prepared and the Council of Ministers approved a document which was then transmitted to the UK.
Its subject was "The financial arrangements in an enlarged Community."
At the end of paragraph 20 the documents says:
"Indeed 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."
That document was dated 13 November 1970.

/ The new

The new Commission document before us specifically reminds us of those words.

We are relying on that assurance now.

Broad Balance

Before referring to the present Commission document now before us, colleagues will note that we are asking for "broad balance" between contributions and benefits.

Some of my own people would say that being below average income and well below, we should argue that we should become net beneficiaries, and that transfers from the European budget could be expected to go more to the poorer members than the better off.

/ But I am not

But I am <u>not arguing for that</u>.

We are <u>not asking for net gain from the Budget</u>.

Britain does <u>not</u> expect to be financed by <u>any</u> of our partners.

We are asking only to be <u>broadly in balance</u>. At a time when we are cutting expenditure at home on things like education, housing, social services, a net contribution to Europe of £1000 m. is deeply <u>resented as unfair</u>.

I hope that we shall be able to complete the work we started at Strasbourg and take the requisite decisions.

<u>Turning now to the proposals on the Commission's paper</u>, I should like to make a number of points:

/ (i)

(i) The precise figure for our net contribution depends on how MCAs are allocated. In our view it is the exporter who benefits from MCAs. But I know that some colleagues would argue differently, and I will therefore discuss on the importer benefits basis - 1552 million units instead of 1814 million.
If I were in fact to accept that basis, I should already be accepting that we should be net contributors to the extent of 262 million units of account.
I may want to come back to that point later.

(ii) The Commission's paper to which I now refer in detail shows that the problem can be solved within the framework of Community principles.
I welcome that. It means that today we can concentrate our discussion on substance.
The Commission has specifically left to us decisions on amounts.

The Commission paper deals first with the
structure of the budget.
It asks that we endorse the principle of shifting some expenditure away from agriculture to structural and investment policies.

We believe that such a move would be in the right direction, so long as it does not involve us all in a great expansion of the budget.

But We believe that its effects would only be gradual.
It would do little or nothing to solve immediate problems.

/ On the contributions

On the contributions side, the paper deals with the financial mechanism.
So far the mechanism has failed to benefit us.
I hope therefore that we can remove the restrictions it contains.

We should remove

- the balance of payments test
- the 3 per cent limit
- the tranche system

and we should remove also

- the test of 85 per cent GNP and substitute "below average GNP per head"
- the 120 per cent growth criterion.

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If those changes were put into effect the UK contribution would be reduced by 520 m~~e~~ua net.
This reduction would be achieved by established Community methods.

/ That would

But that would leave us still contributing more than 1000m eua net - not far short of Germany and vastly more than France (which has a GNP 40% greater than ours.

I turn therefore, as does the paper, to the other side of the budget problem: receipts.
If contributions are the resources of the Community, the distribution of receipts from the budget largely determines the pattern of burdens and benefits - who will gain and who will pay.

Here too the UK is in a unique position. Our receipts per head are less than half the Community average.

/ UK receipts per head: 28 eua

UK receipts per head:	28 eua
Community average receipts per head:	59 eua
Shortfall: receipts per head	30.6 eua
total	1707 million eua
Net refund if UK contributes	1408 million eua /

/ From the Commission

From the Commission report at the time of accession (approved by the Council and to which I have already referred) - we expected, and so did our colleagues who endorsed it, that we should by now be getting a much higher share of receipts.

The 3rd Commission proposal - that on expenditure to help UK receipts - is therefore a <u>necessary component</u> in any solution.

The method we ourselves have suggested would be straightforward, simple and effective.

Alternatively we could follow the Commission's idea of payments linked to expenditure in the UK of a structural character, which would qualify under Community policies.
They have suggested some examples.

/ Whatever the

Whatever the methods, if UK receipts per head were brought into line with the Community average, the <u>UK would</u> benefit by an extra 1400 million units of account.
I could easily justify such a sum. Indeed, since we are well <u>below</u> average income, I could <u>justify more</u>.

I hope that at least the gap between our receipts per head and the Community average can be reduced by three quarters - not closed completely but narrowed by about 75%.
That would mean that UK receipts would need to be increased by about 1000 million units of account net.

The two methods, the removal of constraints
on the financial mechanism and
raising receipts to a level which
would bring us nearer to the average
would relieve the UK of having to
transfer 1550 million units of account
net of her income to the Community.
As I said at the outset, looking
at it on the exporter benefits basis,
we should still be a net contributor
to the extent of 200-300 million units
of account.

The Commission has suggested the methods of dealing with the problem - Communautaire methods which I accept.

The details and amounts have to be determined here.

I believe that the amounts I have suggested would be fair.

The arrangement would last as long as the problem.

~~If and when the UK income per head becomes above average, we should expect to pay above average net contributions.~~

(i) Structural changes in the budget should in due course produce a better balance of contributions & receipts

(ii) If and when the UK income per head becomes above Community average - we should of course be ready to pay more

Finally

I must leave you in no doubt about the great political problem at home caused by this budget question.

If any other country were in the same position as we are, their representatives they would be making the same case with the same force and conviction.

And they would expect the same sort of response from their partners as we are expecting today.

/ Deeply

Deeply committed to Europe as we are, we
should find it difficult to explain
to our people if we do not
succeed in remedying our problems.

When there is so much trouble in the world,
the last thing we need or want is
a crisis within the Community.
I hope therefore that here today
we can prevent that happening,
because there is so much for us to
do together in the larger world.

There was no prospect of agreement.

Could not approach that with
a spirit of great optimism

Germany [illegible] [illegible] a solution.

Is there any chance of [illegible] a solution
in the early period of 1980.

80-81.

Robert [illegible]

Community [illegible] – [illegible]

Jenkins.

Need to be agreed on size. 1552 m cuc.

MCA - Important -

If MCA eliminated deficit will be increased.

131 m Olm. - out.

Financial Conditions - Secondary Financial Reserves.

Comment on end of 2.

Bal P. 250

5.20 m

3%.

Payments in equity

82 -

Expenditure size of budget.

Interest rate scheme - proposals in corporate with Lewis can interest.

Special ad hoc scheme.

Cuts - only basically be solved in the medium term.

Restr scheme - studies on constituent proposals before they are finalised.

1% threshold.

Can't keep about extra receipts
and keep 1% ceiling.

C.A.P. – must not make faulty assessments.

We receive less money than Fed. Rep.

<u>M.C.A's</u> - <u>Lynch</u>

Money found within.

Levies - Tariffs - Pattern could be changed in free market.

Pattern <u>of Trade</u>. - Britain buys from other <u>countries</u>.

Van Aelt.

1

Whether this Council does or does not believe that the probl. we shall have to find next meeting conclusions.

1. System of own resources must not be affected. "fair return".
2. Whatever solution – Community's solution.
3. Solution limited in time. – 3 years.
4. Upper limit of 1% VAT must not be breached. Insufficient to solve this problem.

Article 235

Asks Council for its opinion on these 4 points 3 Presidency conclusions.

Speech for Thorn.

Corrspce. – Italy – Inadequacy of Community policies destined to bring about convergence of policies.

Speech from a more general viewpoint.

Mr T. – whatever happens we have made progress. deep convergence of economy.

Clear. Policies of Community must respect those of national govts.

Limitation of imbalances on resources of Community budget via C.A.P.

Imbalance in all policy

Avoid of external protection – Farms closing down

Oil — Rotterdam
35–40.
Brent.

Inflation. — New law

House — Retired.

~~— Congress Energy Policy.~~
Coal. — £600 – –. 10%.
70% — electricity

£6000 – – – .
– –.

17% — 2 look

Unemployment

Sugar 100%   95% milk   96% meat. bought from Community.

Only 3 out of 100 oranges are Italian.

Policy for Mediterranean countries.
In favour of [illegible] of others.

Also required – strengthening of monies set aside for [illegible] countries.
Must hold our prospect of [illegible].

Review of budget. – Of growth – other exp. soon have to be renewed

Should show to which should be set aside for various policies.

For 1982 – structural investment exp. 24%. – 22% in Community programme.

M.T.'s problems call for equitable solution.
Can't [illegible] make [illegible] without i.e. spread [illegible] of responsibility of all [illegible] M.T.

The real solution to the problem could be found if we can promote growth in such way that Community can mobilise resources for distribution of [illegible].

Brynjolf - Denmark -

(3)

Raised in contributing convergence.
Some disappointments as they should be.

U.K. gets contribution deal compared with other countries.

Disappointment in political terms - this remains problem
∴ prepared to contribute.

But can't accept solution which means
undermining position in agricultural means.

Contributions - unacceptable result emerge
solve not along present lines
Common Market - Income Own resources.

Trade should increase towards common community market

Denmark lets up oil market -
This is as significant for us as budget for U.K.

Regrettable - 'advantages from membership'

Unfortunate - Denmark disturbing vitality in difficulties
- no energy Policy.

Agricultural - keep up for last too high because of surpluses.

Denmark - lesson of CFP - C.F.P.

Sufficient incentive in policies
to relax the narrow constraints.
Total should be limited in extent
limited in time.

Germany - How she thinks that the
problem be solved.

Don't understand. -
Understood why - conditions
520 m.u.a.

Roy Jenkins asked to explain How my doubt receipts.
Receipts. - How to get another Billion
units of account.
Simple common regime for disbursement
of grand credits for a total sum
or agreed objectives.
E.M.S. - without all increase
- general interest
investment
financing projects in that context.
- in particular in less regions.
Examples - Coal exploitation - Grants to $840 m.u.a
- Wider projects - all regions for.
- Transport infrastructure
Commission to judge eligibility.
H.S. - Do you increase Overall expenditure.
of Community?
R.J. ~~poss~~ one -
part another.

Cossiga. - Don't understand mechanism

I haven't got the notes ----

Structural policy must be in convergence.

Giscard. - Is a Brit. difficulty - nobody denies it.

Resolve it in Community spirit.

Budget important but only part of E.E.C.

France - Broad balance.

Nothing to ask - no-one can ask anything of us.

∴ Community problem.

First met - net balance used as a basis.

- Contest - knowing the rules. -

- 1980. - 780 (650) m more than on G.N.P.

No identity among member states.

Contribution - increased consumption

Structure of Brit. Imports. - Outside the Community.

Structure of Brit. Trade

was a development of Brit. Emp. Trade.

Ought to look at this for a transitional period.

Receipts - more than some less than others.

Exp. depends on Common Policies.

Don't approach others for [illegible] benefits!

- I came to Dublin - but I'm [illegible]

~~[illegible]~~

H.S. would not accept any increase of
total budget of community.

Already hitting ceiling 1% V.A.T.

Add further resources would have
to come from others.

H.S. would use some studies for economies.
Reluctant to get into real reviews.

Agriculture: - Reduce ag. exp.

Problem for 80 - Helmut Schmidt
wants to step
[illegible]

Play help for UK. - not responsible
but example
(i) stick to 1% ceiling. V.A.T.

We thought we had joined
- equality [illegible].

Oil. → Relevance to the Problem.

Coal & Nuclear Energy

Targets.
Credit Contraction.
Employment - Competitiveness - Higher growth
& employment are possible.

-

T.U.C Workshops. - Unemployment.

How to promote ec & social democracy.

Optimistic Analysis. ① Inflation - U.K.
② Oil → Handling Problems
Greater than the Margin.
Strategy → Is it most E. Countries
-valid.
Inflation - Fight against - top priority.
Monetary Policy. Not increase deficits.
for 1979
Continue to be rigorous.
Community - National approach
- Rigorous
E.M.S → Produced results.
Convert our policies much more

Germany – France
U.K. results of France

Growth GNP – higher than expected.

74–5 division of great ec. activity → inflation.

Beware of repeating storm in 1979–80.

Forecasts of Commission too weak.

Employment better.

Growth better.

Inflation "shorter". – If we don't manage to keep down first half of 1980 –

Germany. – Energy – determine everything.

6 Billion Marks a Year

– Subsidising Coal.

In Most recent years – Coal cheaper than oil.

Distribute Coal – not subsidies.

Must Build Nuclear Reactors.

3rd world – great deterioration of their budgets.

Change of leadership in Soviet Union.

Years of enormous turmoil

Commission ~~Germany~~ Secure monetary policy.

Different methods of reduction - more market related

Coal - alternative source of energy.

Denmark. Increased reduction not complete

but - unemployment - - .

Take out energy factor from indexing

Discussed with T.U.'s.

Belgium. - Workers - more unemployment regions

Coal. Programme for more nuclear power

unemployment.

Great effort on cuts in public exp.

Reduction in social security.

Sickness, Insurance 1000s of Belgian francs more.

Redn to 38 hours a week before end of 1980.

E.M.S. before 1981.

Holland -

CONVERGENCE AND BUDGETARY QUESTIONS

The European Council held an exchange of views on convergence and budgetary questions. They re-affirmed the conclusions reached at their meetings in Brussels and Paris that achievement of the convergence of economic performances requires measures for which the Member States concerned are primarily responsible, that Community policies can and must play a supporting role within the framework of increased solidarity and that steps must be taken to strengthen the economic potential of the less prosperous countries of the Community.

~~To these ends~~ The European Council expressed its determination to promote the adoption of measures to improve the working of Community policies, to reinforce those policies most likely to favour the harmonious growth of the economies of the Member States and to reduce the disparities between these economies. They further declared the need, particularly with a view to the enlargement of the Community, to strengthen Community action in the structural field and to provide the necessary resources.

They recalled the agreement in Council on 17 May, 1976 that:

[illegible]

> firstly, conditions incompatible with the proper functioning of the Community could arise when a Member State's economy, whilst in a special situation, is forced to bear a disproportionate burden in the financing of the Community; and
>
> secondly, such conditions should be prevented from arising during the process of convergence of the economies of the Member States by providing that a payment should be made from the budget of the Community to the Member State in question, through a financial mechanism, established for a trial period of seven years by a Council Regulation of 17 May, 1976.

E

The European Council conducted a deep examination of the question of the British contribution to the budget of the Community.

It agreed that any adaptation of the financial mechanism should respect the Community acquis and solidarity. This solution should not lead in itself to a rise in the ceiling of 1% VAT allocated to the Community.

The European Council invited the Council to pursue the search for a solution based on the above principles and to report to it at its next meeting.

They recognised that in parallel with this proposal, Community solutions must be implemented in a range of Community activity, where lack of progress has threatened the cohesion of the Community-

The European Council has carried out a thorough examination of the problem of the British contribution to the Community budget.

It was agreed that the Commission's proposals concerning the adaptation of the financial mechanism could constitute a useful basis for a solution which would respect Community achievement and solidarity. This solution should not result in raising the 1 per cent VAT ceiling.

In addition, the Commission is requested to pursue the examination of proposals for developing supplementary Community measures within the United Kingdom which will contribute to greater economic convergence; and which will also lead to a greater participation by the United Kingdom in Community expenditure.

The Commission is asked to make proposals which will enable the Council of Ministers to pursue the search for appropriate solutions to be reached at the next meeting of the European Council.

The President of the Council will convene the European Council as soon as the conditions for such a meeting have been fulfilled.

TESTO COMMISSIONE
12.30

The European Council has carried out a thorough examination of the problem of the British contribution to the Community budget.

(1) It was agreed that the Commission's proposals concerning the adaptation of the financial mechanism could constitute a useful basis for a solution which would respect Community achievement and solidarity. This solution in itself should not result in raising the 1 per cent VAT ceiling.

In addition, the Commission is requested to pursue the examination of proposals for developing supplementary Community measures within the United Kingdom which will contribute to greater economic convergence; and which will also lead to a greater participation by the United Kingdom in Community expenditure.

The Commission is asked to make proposals which will enable the Council of Ministers to pursue the search for appropriate solutions to be reached at the next meeting

(2) of the European Council. (2) which will be adopted by the beginning of Feb.

(1) prefer ~~"element in"~~ / but "basis for" ~~acceptable in last~~ analysis.

(2) Try to ~~add~~ "which ~~will~~ be brought ~~forward~~"

Misunderstanding.

Warned that situation not likely to change over the 10 weeks.

900

8

COMMUNITY BUDGET 1980

There may be some discussion about the reaction of the European Parliament to the decisions of the Budget Council last week.

There are two aspects:

(i) The Council declined to follow the European Parliament's wish to cut CAP expenditure on milk, although the seven delegations who voted against the Parliament's amendments (including France and ourselves) made a useful explanation that they shared the Parliament's aims (copy attached). If the European Council says something about the need to reduce the cost of agricultural surpluses it will help relations with the Parliament. The Germans seem keen on this; we should have to watch that the wording did not commit us on methods

(ii) The Council's decision to cut back the Commission's original proposals (endorsed by the European Parliament) for increases in the size of the Regional Fund. This was done in order not to raise the total size of the Budget. The Italians, who are the main beneficiaries from the Regional Fund, may press for these cuts to be restored. The figures are:

Commission/Parliament proposal	1200 mua
Budget Council decision	1015 mua

If the European Council decided to make a token increase, say of 100 mua, this might help the Italians who are determined not to lose out on this meeting by getting nothing for themselves and contributing towards our budget refund. It would also be a gesture towards the European Parliament. We should make a small net benefit.

Ian G.

RESTRICTED

GRS 320

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DESKBY 260800Z
FM UKREP BRUSSELS 240747Z NOV 79
TO IMMEDIATE FCO
TELEGRAM NUMBER 6341 OF 24 NOVEMBER
INFO PRIORITY COPENHAGEN THE HAGUE ROME DUBLIN PARIS BONN
INFO SAVING BRUSSELS AND LUXEMBOURG

BUDGET COUNCIL 23 NOVEMBER 1979
1980 DRAFT BUDGET: MODIFICATIONS STILL UNDER DISCUSSION (10822/79)

MIPT REFERS. BELOW IS TEXT OF DECLARATION OF 7 MEMBER STATES EXPLAINING REASONS FOR REJECTION OF MODIFICATIONS ON CHAPTER 62.

" MODIFICATIONS IN THE MILK SECTOR.

THE COUNCIL HAS NOTED WITH SYMPATHY AND UNDERSTANDING THE REASONS WHICH HAVE LED THE EUROPEAN PARLIAMENT, WITHIN THE FRAMEWORK OF BUDGETARY PROCEDURE TO PROPOSE CHANGES IN THE GUARANTEE SECTION. THE COUNCIL INTERPRETS THE ADOPTION BY THE PARLIAMENT OF THESE PROPOSED MODIFICATIONS AS THE WILL OF THE PARLIAMENT TO INDICATE ITS PREOCCUPATION FACED WITH THE FINANCIAL CONSEQUENCES OF PERSISTANT AGRICULTURAL SURPLUSSES.

THE COUNCIL SHARES THIS PREOCCUPATION AND ACCEPTS THAT, PROVIDED THAT THE FUNDAMENTAL PRINCIPLES OF THE COMMON AGRICULTURAL POLICY ARE NOT CALLED INTO QUESTION, CHANGES WILL BE NECESSARY.

THE COUNCIL AGREES WITH THE PARLIAMENT THAT EARLY ACTION BY THE COUNCIL, IS AN ESSENTIAL STEP TO SECURE A BETTER BALANCE WITHIN THE AGRICULTURAL SECTION OF THE BUDGET.AND WITHIN THE BUDGET AS A WHOLE.

/THE

RESTRICTED

THE COUNCIL DRAWS THE ATTENTION OF THE PARLIAMENT TO THE FACT THAT THE COMMISSION HAS RECENTLY MADE A NUMBER OF SUGGESTIONS TO THIS END. THE COUNCIL WILL EXAMINE THESE SUGGESTIONS WITH ALL THE CONSIDERATION THAT THEIR IMPORTANCE INVOLVES.

THE COUNCIL BELIEVES THAT, UNTIL THE DECISIONS HAVE BEEN TAKEN, IT WOULD BE PREMATURE TO ACCEPT THE PARLIAMENT'S PROPOSALS TO CHANGE THE APPROPRIATIONS IN THE DRAFT BUDGET, WHICH REPRESENT A REASONABLE ESTIMATE OF THE COSTS OF THE MEASURES CURRENTLY IN FORCE. FOR THIS REASON IT HAD TO REJECT THE PROPOSED MODIFICATIONS, WITHOUT IN ANY WAY REJECTING THE MOTIVATION WHICH LAY BEHIND THEM. ''

FCO ADVANCE TO:-
FCO - PS/SOS PS/LPS SPRECKLEY MACGREGOR DISTRIBUTION : BUDGET
CAB - ELLIOTT WALSH
MAFF - HADLEY VIRGO
TSY - PS/CHANCELLOR PS/FST MRS HEDLEY-MILLER ASHFORD ROBERTS SHOE

BUTLER (ADVANCED AS REQUESTED)

FRAME ECONOMIC
EID (1)

CONFIDENTIAL

MR. GAFFIN

cc. Paymaster General
Mr. Alexander

With the help of Peter Middleton, I have got out the attached child's guide to the negotiations in Dublin.

It is intended merely for illustrative purposes and the figures may not be absolutely accurate but they are broadly right.

We should not use the paper externally. It is intended merely to illuminate the subject for ourselves.

B. INGHAM

28 November, 1979

Eurobudget

This note sets out in simple terms the UK's position preparatory to our attempt in Dublin to secure the objective of "broad balance" in our contribution/receipts to the EEC in 1980/81. The figures are taken from Commission documents prepared for Dublin.

First, all the figures relate to millions of European units of account (MEUAs), each unit of which is worth 0.65p.

Second, there are two ways of measuring the UK's cost/benefit of being in the EEC. This depends on monetary compensatory amounts (MCAs) - amounts paid to ensure that high cost agricultural suppliers can compete in lower cost countries such as the UK.

If MCAs benefit the exporter - as we say they do - the net cost of membership will, in 1980, be 1814 meua (£1179m). If they benefit the importer, the net cost of membership to the UK is 1552 meua (£1008m) - the £1 billion "loaf" for the purposes of the present discussion.

We believe that our just claim for broad balance in our contribution/benefit should be based on the "exporter pays" basis - i.e. on the higher figure. But we are prepared in the first instance to conduct the Dublin negotiations on the basis of the lower figure - i.e. on the importer benefit figure.

This means, however, that we are potentially foregoing 262 meua (£170m). Depending on the course of the negotiations, we may well use this to underline the reasonableness of our claim for a full settlement on the "importer benefits" basis - namely for the elimination of our 1980 net contribution of 1552 meua (£1008m).

That then is the essential background.

The Commission has come forward in its latest paper with proposals to remove some of the constraints operating in the existing financial mechanism. These mean that the total net relief we can at

/present

present expect, if the Commission's proposals are acceptable to other member States, is 520 meua (£332m).

There is thus a gap between this point (520 meua) and what may be termed our minimum objective of 1552 meua.

How is this gap to be bridged? That is the question.

A major (roughly two-thirds) part of the UK's problem lies in our low receipts from the Community. Our contributions represent 20 per cent of the Community's income whereas our receipts represent only 10 per cent of it - compared, incidentally, with our 16 per cent share of GNP.

Now if, over an above the benefit from the ending of the constraints on the operation of the corrective financial mechanism, our receipts were to be brought into line with our share of GNP we would gain <u>another</u> 720 meua (£480m). Thus we would then be relieved of 1240 meua (520 plus 720) or £830m.

If, over and above the benefit from the ending of constraints on the operation of the present corrective financial mechanism, UK receipts per head were brought into line with the average for the EEC as a whole, we would gain a <u>further</u> 1400 meua (£930m). Thus we would then be relieved of 1920 meua (£1280m).

We are not seeking to make a profit out of the Community.

That being so, it seems reasonable to seek relief from a combination of (a) the removal of constraints on the corrective financial mechanism and (b) achievement of sufficient extra receipts to make up the 1550 meua we need in 1980.

If, for example, we were to go for receipts per head equivalent to 80 per cent of the EEC average, this would yield 1125 meua (£750m) Seventy per cent would yield 985 meua (£705m). Together with the financial mechanism, this would relieve us of around £1 billion.

/This

This demonstrates how we might achieve broad balance or what is loosely termed our full loaf.

But that is not the end of the story. We cannot in fact achieve the full benefit of any relief because under the normal rules we have to pay our share of that relief.

The attached tables show the consequences for the UK of the operation of this rule on both exporter and importer benefit bases. They also very heavily emphasise the moderacy of our claim for broad balance on the lower "importer benefits" basis.

Table 1 shows that we should still be contributing 269 meua (£175m) into the Community,even if we got our £1 billion loaf. We would be paying in 1031 meua (£670m) if we got the benefit only of the removal of the constraints on the operation of the corrective financial mechanism.

Table 2 shows that, even if we got our £1 billion loaf we would, unlike the majority of member States, still be net contributors per head. If we got only the relief from the full operation of the corrective mechanism, we would be the second of only three net contributors per head to the Community. The rest of the member States would still be quids in.

The conclusion to be drawn from all this is that our claim for broad balance on the basis of £1 billion potential contribution to the EEC in 1980-81 is essentially modest. It underlines the justice of that claim.

H M Treasury
Parliament Street London SWIP 3AG
Switchboard 01-233 3000
Direct Dialling 01-233 4178

26 November 1979

Michael Alexander Esq
10 Downing Street
WHITEHALL

Dear Michael,

I attach a set of revised tables following yesterday's discussion:

a. Table 1 shows the net position after various sizes of refunds which might come up in discussion. It does this on both an exporter benefits and an importer benefits basis.

b. Table 2 shows the same information on an EUA per head basis and as a percentage of GNP. These are the figures which were shown in manuscript on the copy I handed over to the Prime Minister.

c. Table 3 shows how the refunds described in Table 1 would be financed by various countries on the alternative assumptions; first that all countries contribute, second that the less prosperous do not contribute.

d. Table 4 shows this lot of figures on an EUA per head basis, and as a percentage of GNP per head basis.

e. The remaining 2 tables provide more detail on the UK's Budget problem in 1980, including figures for UK receipts per head relative to the EEC average. Part B of the final table shows that if both per capita contributions and per capita receipts were brought into line with the EEC average (to achieve broad balance on the UK contribution), we should have to increase our gross contributions. Relative to GNP however, we have both excess contributions and deficient receipts.

Yours sincerely

Rachel Lomax

pp. P E MIDDLETON

Encs

TABLE 1. NET CONTRIBUTIONS IN 1980 : ALL COUNTRIES CONTRIBUTE TO UK REFUND meua

Country	BEFORE FINANCIAL MECHANISM Changes	AFTER UK REFUND (GROSS) OF: F Mech.			
		1814	1552	1000	630
Exporter benefits					
UK	-1814	-315	-531	-988	-1293
Germany	-1048	-1643	-1557	-1376	-1255
France	-19	-466	-402	-266	-174
Italy	+734	+536	+565	+625	+665
Netherlands	+422	+312	+328	+362	+384
Belgium	+550	+468	+480	+505	+521
Denmark	+370	+323	+329	+344	+353
Ireland	+513	+497	+500	+504	+508
Luxembourg	+292	+288	+289	+290	+291
Importer benefits					
UK	+1552	-53	-269	-726	-1031
Germany	-1107	-1702	-1616	-1435	-1314
France	-120	-567	-503	-367	-275
Italy	+871	+672	+702	+762	+802
Netherlands	+359	+249	+265	+299	+321
Belgium	+538	+456	+468	+493	+509
Denmark	+283	+236	+242	+257	+266
Ireland	+436	+420	+423	+427	+431
Luxembourg	+292	+288	+289	+290	+291

TABLE 2 : NET CONTRIBUTIONS IN 1980 : ALL COUNTRIES CONTRIBUTE TO UK REFUND

eua per head and as % of GNP

Country	BEFORE Financial Mechanism		AFTER UK REFUND (GROSS) OF: 1814		1552		1000		630	
	eua per head	as % GNP	eua per head	as % GNP	eua per head	as % GNP	eua per head	as % GNP	eua per head	as % GNP
Exporter benefits										
UK	-32.5	-0.59	- 5.6	-0.10	- 9.5	-0.17	-17.7	-0.32	-23.2	-0.42
Germany	-17.1	-0.18	-26.8	-0.28	-25.4	-0.26	-22.4	-0.23	-20.5	-0.21
France	- 0.4	-	- 8.7	-0.10	- 7.5	-0.08	- 5.0	-0.06	- 3.3	-0.04
Italy	+13.1	+0.27	+ 9.6	+0.20	+10.1	+0.21	+11.1	+0.23	+11.9	+0.25
Netherlands	+30.1	+0.34	+22.2	+0.25	+23.4	+0.27	+25.8	+0.30	+27.4	+0.31
Belgium	+55.7	+0.62	+47.4	+0.52	+48.6	+0.54	+51.2	+0.57	+52.8	+0.58
Denmark	+72.2	+0.68	+63.0	+0.59	+64.2	+0.60	+67.1	+0.63	+68.9	+0.65
Ireland	+157.7	+4.00	+152.8	+3.85	+153.7	+3.88	+154.9	+3.91	+156.2	+3.94
Luxembourg	+817.9	+6.64	+806.7	+6.55	+809.5	+6.57	+812.3	+6.59	+815.1	+6.61
Importer benefits										
UK	-27.8	-0.50	- 0.9	-0.01	- 4.8	-0.09	-13.0	-0.24	-18.5	-0.33
Germany	-18.1	-0.19	-27.8	-0.29	-26.4	-0.27	-23.4	-0.24	-21.4	-0.22
France	- 2.2	-0.03	-10.6	-0.12	- 9.4	-0.11	- 6.9	- 0.08	- 5.2	-0.06
Italy	+15.5	+0.32	+12.0	+0.25	+12.5	+0.26	+13.6	+0.28	+14.3	+0.30
Netherlands	+25.6	+0.29	+17.7	+0.20	+18.9	+0.22	+21.3	+0.24	+22.9	+0.26
Belgium	+54.5	+0.60	+46.2	+0.51	+47.4	+0.52	+49.9	+0.55	+51.6	+0.57
Denmark	+55.2	+0.52	+46.0	+0.43	+47.2	+0.44	+50.1	+0.47	+51.9	+0.49
Ireland	+134.0	+3.38	+129.1	+3.25	+130.0	+3.28	+131.3	+3.31	+132.5	+3.34
Luxembourg	+817.9	+6.64	+806.7	+6.55	+809.5	+6.57	+812.3	+6.59	+815.1	+6.61

TABLE 3 : EFFECT OF FINANCING UK REFUND (through normal VAT key)

meua

Country	% share cost	GROSS REFUND TO UK OF:-			
		1814	1552	1000	630
All countries contribute					
UK NET REFUND	17.4	+1499	+1283	+ 826	+ 521
Germany	32.8	- 595	- 509	- 328	- 207
France	24.7	- 447	- 383	- 247	- 155
Italy	10.9	- 198	- 169	- 109	- 69
Netherlands	6.1	- 110	- 94	- 60	- 38
Belgium	4.5	- 82	- 70	- 45	- 29
Denmark	2.6	- 47	- 41	- 26	- 17
Ireland	0.9	- 16	- 13	- 9	- 5
Luxembourg	0.2	- 4	- 3	- 2	- 1
Less prosperous excluded					
UK NET REFUND	-	+1814	+1552	+1000	+ 630
Germany	46.3	- 839	- 718	- 463	- 291
France	34.8	- 631	- 540	- 348	- 219
Italy	-	-	-	-	-
Netherlands	8.5	- 155	- 132	- 85	- 54
Belgium	6.4	- 116	- 99	- 64	- 40
Denmark	3.7	- 67	- 58	- 37	- 23
Ireland	-	-	-	-	-
Luxembourg	0.28	- 5	- 4	- 3	- 2

TABLE 4 : EFFECT OF FINANCING UK REFUND(through normal VAT key)

EUA per head/As % GNP

Country	GROSS REFUND TO UK OF :-							
	1814		1552		1000		630	
	eua per head	As % GNP	eua per head	As % GNP	eua per head	As % GNP	eua per head	As % GNP
<u>All countries contribute</u>								
UK net refund	26.8	+0.49	23.0	+0.42	14.8	+0.27	9.3	+0.17
Germany	-9.7	-0.10	-8.3	-0.09	-5.3	-0.06	-3.4	-0 03
France	-8.4	-0.10	-7.2	-0.08	-4.6	-0.05	-2.9	-0.03
Italy	-3.5	-0.07	-3.0	-0.06	-1.9	-0.04	-1.2	-0.03
Netherlands	-7.8	-0.09	-6.7	-0.08	-4.3	-0.05	-2.7	-0.03
Belgium	-8.3	-0.09	-7.1	-0.08	-4.6	-0.05	-2.9	-0.03
Denmark	-9.2	-0.09	-8.0	-0.08	-5.1	-0.05	-3.3	-0.03
Ireland	-4.9	-0.10	-4.0	-0.10	-2.8	-0.07	-1.5	-0.04
Luxembourg	-11.2	-0.09	-8.4	-0.07	-5.6	-0.05	-3.5	-0.03
<u>Less prosperous excluded</u>								
UK net refund	32.5	+0.59	27.8	+0.50	17.9	+0.30	11.3	+0.20
Germany	-13.7	-0.14	-11.7	-0.12	-7.6	-0.08	-4.7	-0.05
France	-11.8	-0.13	-10.1	-0.11	-6.5	-0.07	-4.1	-0.05
Italy	-	-	-	-	-	-	-	-
Netherlands	-11.0	-0.13	- 9.4	-0.11	-6.1	-0.07	-3.8	-0.04
Belgium	-11.8	-0.13	-10.1	-0.11	-6.5	-0.07	-4.1	-0.05
Denmark	-13.1	-0.12	-11.3	-0.11	-7.2	-0.07	-4.5	-0.04
Ireland	-	-	-	-	-	-	-	-
Luxembourg	-14.2	-0.12	-12.2	-0.10	-7.8	-0.06	-4.9	-0.04

THE UK'S BUDGET PROBLEM IN 1980

UK GNP share 16%; UK GNP per head as % EEC average approx.75%

Contributions	meua	EUA per head	UK as % EEC total	UK per head as % EEC per head
Agricultural levies	417	7.5	18.6	87.2
Customs duties	1370	24.5	26.7	123.7
VAT	1522	27.3	17.4	80.8
Other*	-196	-3.5	-3.5	100.0
Total contributions	3113	55.8	20.5	95.2
Receipts				
CAP Guarantee	857	15.4	7.6	35.4
Structural Funds	352	6.3	20.7	96.9
Investment, Energy and Industry	55	1.0	12.2	58.8
Other	297	5.3	16.7	77.9
Total receipts (incuding MCAs)	1561	28.0	10.3	47.8
Total receipts (excluding MCAs)	1299	23.3	8.5	39.8

*matching unallocated expenditure and Article 131

CHANGE TO UK BUDGETARY CONTRIBUTIONS

IF

A. Payments and Receipts in line with GNP share

	meua	As % net contribution	
		exporter pays (1814)	importer pays (1552)
Excess contribution	676	37.3	43.6
Deficient receipts			
exporter benefits MCAs	1138	62.7	
importer benefits MCAs	876		56.4

B. Payments and Receipts per head in line with EEC average

	meua	exporter pays	importer pays
Contributions shortfall	158	-8.7	-10.2
Deficient receipts			
exporter benefits MCAs	1972	108.7	
importer benefits MCAs	1710		110.2

COVERING CONFIDENTIAL

Tf 02190

Mr Alexander

MR VILE

cc Mr Franklin
   Mr Elliott
   Mr Thomas (Treasury)

COMMISSION v PESC FIGURES FOR UK 1979 NET CONTRIBUTION TO THE COMMUNITY BUDGET

I attach a note for you to send to Tim Lankester in response to his minute to you of 22 November about the UK 1979 net contribution to the Community Budget. It has been cleared with the Treasury.

310 → 1552

800

H.W.

H G WALSH

23 November 1979

[illegible]

COVERING CONFIDENTIAL

1979 UK NET CONTRIBUTION TO THE COMMUNITY BUDGET

The figure for the expected out-turn for our net contribution to the Community Budget in 1979-80 contained in the Public Expenditure White Paper (Cmnd. 7746, page 10, table 2) is £919 million. This figure excludes about £30 million of Community aid expenditure, which is attributed elsewhere in the Survey, and includes a small amount for our contribution to the European Investment Bank and our receipts from the European Coal and Steel Community. A figure for the 1979 calendar year consistent with the White Paper figure would be about £890 million. The equivalent of this figure in European Units of Accounts would be about 1367 MEUA.

2. The Commission figure referred to in Mr Lankester's minute (in Annex A of OMV(79)(2)(ii)) is 1254 MEUA on an "exporter-pays" MCA basis, which is the same basis as is used in the White Paper.

3. The difference of 113 MEUA between the two figures could be accounted for by several factors. The White Paper figure is based on the latest Treasury forecasts of exchange rates and of UK payments of levies and duties; in particular, it takes account of the latest Supplementary Estimate to the 1979 Community Budget which added between 150 - 200 MEUA to the UK gross contribution. The Commission figures are based on earlier forecasts of levies and duties and of the total size of the Community Budget. They are also based on a different set of exchange rate assumptions.

4. The detailed assumptions made by the Commission in making their forecasts are not known and therefore a detailed reconciliation of their figure with that contained in Cmnd. 7746 is not possible.

5. The figure of £1,000 million in Cmnd. 7746 for our net contribution to the Community Budget in 1980-81 is only a provisional one. Preliminary indications are that the estimate in the next Public Expenditure White Paper will be very broadly consistent with the Commission forecast for calendar 1980 of 1814 MEUA given in Annex A of OMV(79)2(ii).

10 DOWNING STREET

From the Private Secretary

CABINET Q2. 5248

FILING INSTRUCTIONS

FILE No. ....

3581

MR. VILE

CABINET OFFICE

At the Prime Minister's meeting with the Chancellor of the Exchequer this morning, she referred to Annex A of the brief on the EEC Budget for President Giscard's visit. She expressed surprise that the figures for the UK's net contribution for 1979 were so much lower than the figure in the Public Expenditure White Paper. The difference may simply be because of the distinction between calendar and financial years. But I would be grateful for a short note explaining how the figures are reconciled.

T. P. LANKESTER

22 November 1979

(1) No asking for money.
- we [illegible] [illegible]

(2). Refund of £350. - [illegible] that [illegible] stay.
You wouldn't [illegible] to [illegible] for that.

(3) ~~[illegible]~~[illegible] - No of patients [illegible] wanted to help

(4) Several different people [illegible] on ~~[illegible]~~ [illegible] [illegible]
of this [illegible]. - to see if we can

<u>UK's Budget problem 1980</u>

The table shows the difference between UK's forecast contributions and receipts and what theywould be if they were in line with its GNP share.

	meua	meua	% total
<u>Net contribution</u>	1550	1814	100
<u>Excess contributions:</u>	680		44
agricultural levies	55		3
customs duties	515		33
VAT	110		7
<u>Deficient receipts</u>	870		56
CAP	950		61
Structural funds	-100		-6
Other	20		1

Based on reference paper forecasts

<u>"Rotterdam" effect</u>: Where one member state pays import duties on goods that are immediately re-exported to another member. A major reason why own resource contributions may sometimes not reflect real economic burdens on member states. Does not apply to UK. Department of Trade estimates for 1977 show that UK re-exports to EEC, at £550 million, much less than EEC re-exports to us (£1440 million).

Office of the United Kingdom Permanent Representative to the European Communities
Rond-Point Robert Schuman 6
1040 Brussels
Telephone 736 99 20

PS/PUS
Lord Bridges
Mr Braithwaite
Mr Elam.

Mr Goodenough
Mr Marsden
Mr MacGregor

Your reference

M J E Fretwell Esq CMG
FCO

Our reference

Date 12 November 1979

This confirms that we can place considerable weight on the commitment even though it falls short of being a binding obligation.

Dear John,

COMMUNITY BUDGET

1. Your letter of 5 November about the documentation of "unacceptable situations in the Community". Kenneth Christofas was good enough to extract relevant documents from the Council Archives and Robin Chatterjie went to examine them. We have compared the results with the account on pages 137-140 of Con O'Neill's report on the entry negotiations. The Council Archives and the Con O'Neill account are complementary but neither fully answers your question. Christofas, incidentally, also looked at the Council Archives and agrees with the interpretation we have put on them below.

2. It is clear from the Archives that the Commission communication which referred to unacceptable situations was approved by COREPER and the Council before transmission to the UK at the Negotiating Conference. This is in effect confirmed by the heading of the paper which specifies "following examination by the Council of the Community ...". The Archives also show that UK comments in the Negotiating Conference were subsequently discussed in COREPER; but the documents do not show what if any outcome there was; it looks as if the matter simply ran into the sand.

3. Chapter 18, paragraph 12 on page 138 of the Con O'Neill report makes it clear not only that, in our proposals of 16 December 1970, the UK referred to the "unacceptable situations" sentence in the Commission's paper as approved by the Council; but also sought a formal reaffirmation in the Treaty of Accession of the "concept underlying this statement". O'Neill makes it clear that at a later stage we decided that a formal reaffirmation was not possible and we settled instead for the fact that the Community had already formally given us this assurance; and it was quoted in our White Paper of July 1971". Paragraph 17 on page 140 spells this out in a little more detail.

/4.

4. It seems evident that we accepted as long ago as 1971/2 that a legally binding commitment from the Community was not possible. But equally, as Con O'Neill recognised in his paragraph 11, the Community were giving valuable hostages to fortune, which we could exploit against it in a political context. Whatever the legal significance (if any) which the paper GB/33/70 has, therefore, we ~~would~~ can surely regard it as representing a firm political commitment made by the Six which they did not withdraw then and could hardly repudiate now.

5. Kenneth Christofas has commented that more of the story may be buried in parts of the Archives which he did not have dug out, but he doubts it very much.

Yours ever

Brian

B L Crowe

cc: Mr Jordan-Moss, HM Treasury
Mr Franklin, Cabinet Office

EPHEMERAL - covering CONFIDENTIAL

~~Mr Alexander, No 10~~

Mr Rank

STATUS OF DOCUMENT GB/33/70

1. The attached letter from Mr Crowe (UKREP Brussels) confirms that the document containing mention of "unacceptable situations" was approved by COREPER and the Council before transmission to us. Considerable weight can therefore be placed on this commitment though it falls short of a binding legal obligation and Sir C O'Neill's history of the negotiations makes clear that it was decided shortly after this (ie November 1970) that it would not be possible to secure a formal reaffirmation of this principle.

2. The mention of "unacceptable situations" comes in paragraph 20, page 20, of the Commission document.

J Macgregor

J Macgregor

19 Novemaber 1979

Giving Britain a fair deal in the EEC

From Mr Peter Lloyd, MP for Fareham (Conservative), and others

Sir, We recently sponsored a motion offering the Prime Minister every encouragement in her determination to secure an early and equitable reduction in the unacceptably high United Kingdom contribution to the EEC budget. It has so far been signed by 162 Conservative MPs—three-quarters of those eligible to do so as members of the Government and their parliamentary private secretaries are by tradition debarred from adding their signatures.

It should leave our EEC partners in absolutely no doubt that Mrs Thatcher's stand is overwhelmingly supported by her parliamentary party, which has been, and still is, the mainstay of the European cause in Great Britain.

Nevertheless we believe that the EEC cannot much longer retain the loyalty of a member country if it continues to demand a membership fee entirely out of line with the resources that country brings to the Community or the benefits it draws from it. The following table illustrates very starkly how heavily the United Kingdom is penalized in this respect.

1980 EEC Budget

	Gross domestic product per head Denmark = 100	Net receipts/ contributions per family of 4
Denmark	100	+£196
Germany	92	− 46
Belgium	87	+ 151
Netherlands	84	+ 82
France	83	− 1
UK	53	− 88
Italy	46	+ 35
Ireland	37	+ 430

Neither the offer of short-term budgetary adjustments, nor the promise of long-term increases in programmes which directly favour the United Kingdom, will provide an acceptable remedy. Only with new and permanent financial arrangements, involving in particular the fundamental reform of the common agriculture policy which will reduce the central budget as well as spread the visible net cost/benefit of membership far more equally than at present, can the EEC remain united and flourish.

We believe our European partners accept the general truth of this proposition. We believe they want Britain to remain part of the Community. We trust they also recognize that, unless we can jointly work out the radical changes needed and put them speedily into effect, the case for Britain staying inside becomes increasingly difficult to sustain.

Yours,
PETER LLOYD,
JOHN WATSON,
TONY MARLOW,
JOHN MAJOR,
House of Commons,
November 7.

'TAX TIMES'
13. 11. 79

Dressed as sheepmeat

From Mr Parker Heskett

Sir, There does not seem to be any limit to the ingenuity of the bureaucratic mind in the concoction of fractured phraseology and inelegant English.

The recent use of the term "sheepmeat" in place of mutton and lamb is depressing in the extreme and will, I should think, put many people off buying what is one of our most important farm products.

The English language is rich in the vocabulary of the table. Barons and rounds and sirloins of beef, venison, gammons, hams and flitches illuminate the mind and all invitations to the feast. Now we are to be deflated and discouraged by nauseating pictures of saddles and crowns of sheepmeat.

What next? Cowmeat?

Yours etc.,
PARKER HESKETT,
Evington,
Hastingleigh,
Kent.
October 30.

VAT no longer an appropriate tax for the Community

[From] Mr Julian Lessey

Sir Derek Ezra rightly [poin]ted out on November 6 that [Brita]in and Europe in particu[lar n]eed to come to grips with [an u]nprecedented situation — major natural resources running out. The return of [the] *Times* is therefore a suit[able] occasion to reconsider a [maj]or aspect of EEC fiscal [polic]y.

[Th]e cornerstone of the Com[munity's] ... VAT ... ideal. The broad aim was a tax broadcast without discrimination over the whole of commerce.

Since those times we have had more than one oil crisis, a substantial increase in the scarcity and price not only of energy but of many natural resources and a world recession. Energy saving is now general policy, not only in the Community but in its member states. Fiscal discrimination and ... from being ... to the resource we want to save (energy/materials). The British Government should therefore urge the EEC to abandon its obsession with VAT and to take the first steps in replacing it as our main indirect tax with a raw materials tax.

Such a tax could be charged *ad valorem* on the extraction (in the Community) and importation (from outside it) of non-renewable resources including fossil fuels. It would pro...

Page 13: third paragraph:

We suggest:

" <u>The arrangement would last as long as the problem</u>

(i) <u>Structural changes</u> in the Budget <u>should</u> in due course <u>produce a better balance</u> of contributions and receipts;

(ii) If and when UK income per head becomes <u>above ~~average~~ Community average</u>, we should be ready to pay more ".

COMMUNICATION TO THE COUNCIL

CONVERGENCE AND BUDGETARY QUESTIONS

FORTROLIGT

I. INTRODUCTION

The Commission has made two communications to the Council of Ministers (COM(79) 462 of 12 September and COM(79)620 of 31 October) analysing certain problems connected with economic convergence and budgetary matters within the Community. On the basis of these communications there has been extensive discussion within the institutions of the Community, including the European Parliament, in Member States and by public opinion generally. The Commission believes that the moment is now right to propose to the Council the approach and decisions which will be necessary if present difficulties are to be resolved.

VERTROUWELIJK

RISERVATISSIMO

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2. These difficulties cover a number of inter-related questions, including some concerned with the Common Agricultural Policy. These need to be dealt with on their merits, and are the subject of a separate paper by the Commission for the European Council. The present communication deals with the Community budget, both as concerns convergence and the particular problems which have arisen for the United Kingdom.

VERTRAULICH

CONFIDENTIEL

II. THE STRUCTURE OF THE COMMUNITY BUDGET

3. The Commission believes that a larger proportion of budgetary spending should be devoted to the improvement

/of

of structures and to general investment purposes within the Community. Such expenditure was envisaged in the Commission's latest three-year forecast to rise from 14% in 1980 to 22% in 1982 on the assumption that market support expenditure for agriculture would rise over the period at around 6% a year.

4. On expenditure within the agricultural sector, the Commission pointed out in its communication of 31 October that an increasing number of measures had been adopted in recent years to strengthen market support arrangements for Mediterranean products and to improve the incomes of the producers concerned. The Commission will do all it can to secure the rapid execution of these and other measures and the rapid adoption by the Council of further measures in other agricultural sectors of particular interest to Italy and Ireland. This should lead to a better balance in the pattern of agricultural production as a whole.

5. In the view of the Commission the approach suggested by the Italian Government of fixing objectives for a rising proportion of Community expenditure devoted to structures and general investment purposes over a period is useful. The achievement of such objectives will depend on the ability of the Community to bring agricultural expenditure under control. Moreover the significance of the effects will be relatively small so long as present limitations on the size of the budget remain.

/6. In

6. In the light of these considerations the Commission invites the European Council to endorse the principle that to achieve a better balance between Community policies, the rate of increase in expenditure on structural and general investment policies should from 1980 onwards be significantly greater than the rate of increase in the size of the Community budget.

If during the budgetary process this principle is not respected, the Commission undertakes to draw the attention of the Institutions to the situation without delay.

III. BUDGETARY DIFFICULTIES

7. The Commission believes that the achievement of a better balance within the budget will, together with other factors mentioned in its communication of 31 October, eventually solve most of the present difficulties of the United Kingdom in respect of the Community budget. But it recognises that for the immediate future there is a serious problem.

8. The transitional period for the United Kingdom, Ireland and Denmark was designed to permit the gradual integration of these Member States into the system of Community financing. The Commission believes that this approach was and remains right. In consequence such further measures as may be agreed should be temporary in nature. The necessary resources should be found from within the budget.

9. The Commission believes that any solutions adopted should not only be Community solutions but designed to

/strengthen

strengthen the cohesion and solidarity of the Community. They should conform to two basic principles. First they should respect the integrity of the own resources system. Second they should not have as their objective to put a Member State in a position of "juste retour" in respect of the Community budget.

10. In its reference document of 12 September the Commission forecast that the United Kingdom's financing share would rise sharply over her forecast share of Community GNP between 1979 and 1980. The main reason is that payments under the transitional arrangements set out in Article 131 of the Accession Treaty will come to an end.

11. One simple way of approaching the problem thus created would be to create a new ad hoc mechanism to compensate for any British contribution of full own resources going beyond a predetermined percentage increase in a given year. In its communication to the Council of 31 October, the Commission indicated that if no percentage increase over 1979 were allowed, the forecast share of the United Kingdom in financing the 1980 budget would be reduced by some 500 MEUA gross (390 MEUA net). But unless the British contribution were to be frozen at a given level, the arrangement would have diminishing impact.

12. A more promising approach would be to adapt the existing Financial Mechanism. The Commission recalls that when the Heads of State and Government agreed in principle to create the Mechanism in 1974, they had expressly in mind

/the

the Community declaration during the accession negotiations that "if unacceptable situations were to arise the very life of the Community would make it imperative for the Institutions to find equitable solutions". At its meeting in Strasbourg of June 1979, the European Council requested the Commission to examine the extent to which the Mechanism could play its part in 1980 and fulfil the objectives assigned to it.

13. For the reasons set out in the Commission's reference document of 12 September, payments made under the Mechanism as at present constituted could scarcely solve the problem. The Commission believes that the qualifying criteria for the operation of the Mechanism remain a valid measure of the relative prosperity of Member States within the Community and should remain unchanged. But to enable the Mechanism to fulfil more closely the role assigned to it, the Commission recommends removal of the limitation that if there were a balance of payments surplus the calculation of the excess contribution must be related solely to VAT. This would produce a payment of 300 MEUA gross (250 MEUA net) in respect of 1980 whether or not there was a balance of payments surplus. But as the United Kingdom will anyway find itself in payments deficit in 1979 and almost certainly in 1980, the Commission further recommends that the European Council in Dublin should define the conditions under which the two further restrictions on the operation of the Mechanism could be lifted. These are the tranche system which provides that only a part of the excess

/contribution

contribution is reimbursed; and the ceiling of 3% of the budget . If these restrictions were also removed, payments under the Mechanism in respect of 1980 would rise from 300 MEUA gross to some 630 MEUA gross (520 MEUA (net).*

14. There would be difficulty in any approach designed to combine a system of limiting increases in the British share of financing the budget with improvements in the operation of the Financial Mechanism. This is because the reduced share of financing which would result from any such limitation would logically have to be used in applying the Financial Mechanism. Payment under the Financial Mechanism would therefore be reduced by the amount resulting from the limitation.

15. This difficulty would not exist for arrangements affecting the expenditure side of the budget. Such arrangements would have to flow from the strengthening of Community policies which are necessary to improve the cohesion of the Community and are therefore central to the interest of the Community as a whole. It would be possible to envisage special, temporary and ad hoc measures which would ensure a greater participation by the United Kingdom in a number of Community policies and which would increase the present low level of Community expenditure in the United Kingdom. Such arrangements which would need

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* These figures, which were contained in COM(79)620 were based on exchange rates of mid-August 1979.

need to be in full conformity with the principles set out in paragraphs 8 and 9, could, for example, take the form of immediate assistance for exploitation of coal resources, measures to promote transport infrastructure, and some agricultural improvement schemes. If the United Kingdom were to join the European Monetary System an interest rebate system in respect of Community loans could comprise one vehicle for such payments.

16. If this approach were to be pursued, the Commission would stress that any contribution should be made on the basis of the Community budget and should be limited in time (perhaps three or four years). The volume of resources to be found must necessarily be settled by discussion within the Council.

17. So far only short and medium term solutions to the problems of convergence and the budget have been discussed. But as the European Parliament has pointed out, the existing policies of the Community are insufficient to bring about the degree of convergence between the economies of the Member States which is necessary for the progress and cohesion of the Community. The Commission believes that the European Council should bear this longer term consideration in mind when examining the proposals in this paper.

SECRET

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Ref. A0650

PRIME MINISTER

Community Budget

The paper we have prepared for Wednesday's discussion sets out the questions to be considered in deciding what might or might not be an acceptable outcome at Dublin. You will wish to take the meeting through them and hear what the others present think. The Chancellor of the Exchequer has probably got his sight set on a reduction of between two-thirds and three-quarters, but will be especially concerned to ensure that we do not make another mistake and that this time the solution should be sufficiently robust to be certain of working in any foreseeable circumstances. The Foreign and Commonwealth Secretary may be more inclined to settle for, say, a half now with promises about a further reduction in the future. You will have your own views, and you need not necessarily reveal at this meeting precisely what your own sticking points will be: another meeting just before Dublin may be necessary (especially as the Chancellor will not be at Dublin). But you will need to decide in the light of this meeting what is and is not likely to have the support of your colleagues; and how much and when to tell your colleagues in Cabinet of your intentions.

2. The gap between our minimum requirements and what the French and others are willing to concede will be big. We shall probably be offered a new Financial Mechanism, but much may turn on the question whether the Community can adapt existing mechanisms to give us what we need, or whether we have to seek to be directly compensated for our low receipts. Only the Belgians have so far shown any disposition to go that far: reluctance on the part of the rest will be strong and deep-rooted. One possibility which has been mooted but is not dealt with in the paper is some kind of special fund or lump sum for a specific project or projects of benefit to the United Kingdom. Whether, if offered, this would be worth looking at would depend on how big the sum was; for how long it would be available; and whether it could be tied in with existing rather than new public expenditure. We do not have to rule this out; our partners may well be reluctant to propose it.

3. Even if the prospects for a successful outcome in Dublin are uncertain, it would be wrong to conclude now that we shall fail. No-one is in any doubt about your determination and other Governments will only now be seriously applying their minds to how far they are really prepared to go. One of the features you may like to raise is the problem of how little we appear to have to offer in return. We do not need to negotiate on the budget other than on its merits, or to see it as part of a bargain; but we have to face the reality of the fact that other Governments will have to justify to their Parliaments and public opinion giving something up in our favour. To do that, they will need to point to something they have got out of us. This Government has already had to promise a more constructive European commitment to get even as far as we have. On the specific issues, you ruled out at your meeting on 17th October saying anything on EMS. But I wonder whether you should not reconsider including some words in the Dublin communique of the kind you have already used publicly i.e. that it is the Government's objective to join EMS but that the timing will need to be a matter for discussion with our partners. On the CAP, you could subscribe to its importance for the Community while still criticising the surpluses (we shall still have the 1 per cent VAT ceiling as a means of holding down the cost). You will not want to have fisheries brought up at Dublin but you may be pressed bilaterally by Giscard to guarantee historic rights for his Breton fishermen. And he may need your help on sheepmeat. As you know, OD(E) has been looking at the energy card but so far has not come up with anything of real positive merit. This is partly out of a natural desire to safeguard our own position first, and partly because of the difficulties that would be caused with the Americans and the Japanese if we gave the rest of the EEC preference over other IEA countries. With developments in Iran, the rest of the Community will be more worried than ever about prices and security of supplies. Unless we can show some understanding, we shall have North Sea oil thrown at us as a reason why we should shoulder the budget burden.

4. If it becomes clear that no solution in Dublin is possible, OD has agreed that the next step would be to insist on another early meeting of the European Council. This would be unprecedented, and would certainly mark the seriousness of the crisis. You would need to make it clear that, so far as we were concerned, the rest of the Community's work would be in suspense; so the sooner the

European Council reconvened, the better. There might be a disposition to invite, say, Mr. Lynch and Mr. Jenkins to search for an acceptable compromise in the meantime: we could hardly object. The important thing would be to keep up the pressure. The others will not relish the prospect of a prolonged crisis, and nor should we. Even if the TNF has gone well at the NATO Council, we shall not want to see Western Europe preoccupied with an internal crisis. The Soviet Union will be only too ready to exploit such a situation. And the closer we get to the German and French elections, the harder it will be for them to move.

5. This suggests that our tactics should be directed at getting a solution if possible before the end of the year but at least as early in 1980 as possible. It would be understood by our partners, even if unwelcome to them, that during this period we would be unco-operative. There are Council meetings on research and transport in early December. We could stop anything being settled. We could, if we so wished, prevent the Community adopting any further mandates for negotiations with Spain and Portugal (although that would lead to pressure on us from those countries). We would not be able to prevent the adoption of the 1980 budget and if we were to prevent progress on fisheries we risk running up against adverse rulings from the Court. Blocking decisions to regulate the steel industry in 1980 would also be against our interests. Going into 1980, we could threaten to invoke "the Luxembourg compromise" to prevent any increase in farm prices (for which the pressure next spring is likely to be greater than last time). In his OD paper, the Foreign and Commonwealth Secretary recommended a graduated response with a selective policy of obstruction. If it were agreed that we should go for an early settlement, there would be something to be said for simply blocking all forms of new expenditure from which we would not benefit.

6. Chancellor Schmidt's reaction to what you told him was that we were putting our membership at stake. Some of your Cabinet colleagues reacted in the same way. It may well be true that failure to find a reasonably satisfactory solution of the budget problem would eventually bring the question of continued membership back to the centre of the British political stage - something which our partners in the Community would like to avoid as much as the Government would. But that is a very different matter from threatening to pull out if we do not get our way. I doubt whether there would be a majority in the Cabinet for that course,

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and I also doubt whether it would be very effective as a threat to our partners. So the best answer to Chancellor Schmidt (and others who may take the same line) is that Britain wants to be a good and whole-hearted member of the Community, and has no intention of leaving; and that we therefore intend to press our case from within: to sit it out and, if necessary - of course we hope it won't be - make life awkward for everyone else. When General de Gaulle was dissatisfied, he did not leave the Community but he brought it to a standstill. His empty chair tactic proved to be the wrong one: we can achieve the same result as effectively and with less risk to our own interests by remaining in our place and being as bloody-minded as we know how. This would be very vexatious for our partners, but it would be extremely difficult for them to evict us.

7. We should not however reveal any of this before Dublin. To do so would destroy any chance we might have of pocketing what is on offer at Dublin and still continuing to argue the toss over the rest.

RCA

ROBERT ARMSTRONG

13th November, 1979

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SECRET AND PERSONAL

Ref. A0649

PRIME MINISTER

This personal note attempts to set the scene for the visit of President Giscard and the meeting of the European Council at Dublin. It supplements an "official" Cabinet Office brief, which I attach.

2. The reduction we shall achieve in our contribution to the EEC Budget will depend in the end on Germany and France: in other words, on Schmidt and Giscard. We have to remember that the first Community crisis that hit these two after taking their present offices was the Labour Government's demand for "renegotiation" of the terms of British entry. There was, by all accounts, some fairly plain speaking by both of them in the course of that episode. In the end, however, they made it possible for Mr. Wilson and Mr. Callaghan to "succeed" in renegotiation: Schmidt and Giscard each had his own reason for wanting us to be in rather than out, and they were convinced that both Mr. Wilson and Mr. Callaghan on balance - and perhaps for negative as much as positive reasons - wanted Britain to stay in.

3. What is the position five years later?

4. Schmidt made his position clear at Bonn a fortnight ago. He acknowledges the strength of our case for a reduction of our net contribution, and understands the seriousness of the problem. He would rather we were in the Community than out of it. He needs us, in political and defence terms. He will be helpful, within limits. But he will not go as far as "broad balance". This is partly for domestic reasons - not increasing the German contribution by too much; it is partly that he will not want to be too far in front of the other members of the Community; and above all because he will not be prepared to push the French too hard. His relationship with Giscard has grown much closer in the last five years; he foresees a period of great political uncertainty ahead, as a result primarily of the weakness of American leadership, and in this period his first priority is to maintain the closeness of the French connection; and he has not been impressed by the European performance of Britain under the Labour Government.

5. Schmidt does not seem to be unduly worried about his own domestic political position. But he has an election at the end of next year, and we know that he and Genscher are apprehensive about the position of the FDP, whose share of the vote is only just above the 5 per cent which they must achieve to be represented at all in the German Parliament. That would, even without the French, set limits on the extent to which he can or will help.

6. Giscard has to face a Presidential election in May 1981 - less than eighteen months from now. He must be thinking about the need to protect his domestic political position: he has to fend off the challenge of Chirac who represents the Gaullist element on the French right (never wholly reconciled to British membership), as well as to best the left. His worries must have been compounded by the scandal surrounding the suicide of his Minister of Labour. The farming vote is of great importance to him.

7. I would think that Giscard himself would prefer us to continue in membership of the Community. But the political and defence considerations which must affect Schmidt probably affect Giscard less strongly; he would be less concerned than Schmidt at the prospect of our coming out of the Community; and I have no doubt that he calculates that, despite North Sea oil, we need the Community more than the Community needs us (this is a judgment that you may want to test with the Foreign Secretary).

8. Giscard, like Schmidt, remembers "renegotiation", and was disenchanted with Britain as a member of the Community under the Labour Government. He too will be looking for evidence that under your leadership Britain will become a more whole-hearted member of the Community, and looking for evidence of the genuineness and depth of the European commitment which you have publicly stated. That does not mean that he will not expect you to fight for British interests: the French are expert at protecting their own national interests, and do not think the worse of other people for protecting theirs. But he as well as Schmidt will want to be sure that you see British national interests as including continuing British membership of the Community and that you and your colleagues are committed to preserving and strengthening the Community, and to closer European co-operation, as well as to protecting our national interests.

9. Schmidt is less likely to look for some definite quid pro quo from us for his support on the budget question. Giscard, on the other hand, will do so: not just because the French always do, but because he will need, in domestic political terms, to have something which he can claim as a benefit for France. This does not mean that we have to negotiate in terms of a bargain: we can discuss the budget issue on its merits. But we must not blind ourselves to the fact that he will be looking for, and will need, some signs of movement from us on other points. And he would no doubt prefer it on things which interest his farmers and fishermen: he will think that, if we claim to want to be good partners in the Community, we should be responsive to his political needs just as we expect him to be responsive to ours.

10. Both Giscard and Schmidt will see it as one of the tests of our commitment to the Community that we should look for solutions to our budget problem that are within the framework of Community rules and principles and do not do violence to them. There is increasing evidence that there will be little or no support for new mechanisms based on net contributions or on GNP figures.

11. A smaller net contribution for us means larger net contributions (or smaller net receipts) for our partners. On a question of timing, you already have it in mind that the Community itself and many of the member countries (including France) work to a financial year which coincides with the calendar year. Those countries will have made up their budgets for 1980, and we are very late in the day in asking for changes that will take effect on their budgets in that year. On the other hand there may be some help in the fact that our financial year runs from April to March: benefits which accrued to us in the Community's fiscal year 1981 would to some extent be reflected in our financial year 1980-81.

12. The case in equity for getting our net contribution to somewhere near broad balance is strong. It is not equitable that we should be seventh by the GNP per head standard, and pay the largest net contribution of all. We have the 1971 undertaking when we came in that if unacceptable situations should arise "the very survival of the Community would demand that the institutions find equitable solutions".

13. But the argument of equity may not be the one which will carry most weight with our partners, or the most advantageous one for us to rest our case on, for two reasons:

(a) An argument from equity carries with it the implication that our partners have treated us inequitably. It invites them to contest the basis of the argument, in an almost legalistic fashion, by counter-arguments to the effect that our problem results not from their inequity but from our own failures and weaknesses. That road may lead to sterile debates rather than constructive negotiations.

(b) An argument from equity also invites other partners to compare their situations with our own, and to look for the respects in which they can claim to be suffering from inequity, or to be in no less difficult a situation than ourselves. Some of our partners will certainly claim that their economic situations and prospects are no less difficult - in their own way - than ours.

14. Thus the argument from equity may stimulate resistance from our partners. Is there another line of argument which would go more with the grain?

15. There is a considerable fund of goodwill in the Community towards you and your Government. They believe that you are committed to Europe in a way your predecessors were not; they admire your policies, and the strength of purpose with which you are pursuing them; and they want those policies to succeed. There is some reason to believe that they all, including Giscard, will be more responsive to a line of argument which says in effect: you gave our predecessors transitional arrangements (the transitional period under Article 131 and the 1975 financial mechanism which has proved to be ineffective) which, because of their other policies, they failed to take advantage of; we have different and better policies, but we need time; give us the same amount of time that they wasted, and just see what we do with it; we are not the only people who need time: the Community needs time for the development of structural changes (notably, reform of CAP) which most of us think are needed; so the Community's need for time and ours coincide.

16. If in Dublin we are having to negotiate about mechanisms as well as figures, we shall be in considerable danger of coming away with nothing, except loss of goodwill. As I have already indicated, if we are arguing for new mechanisms based on net contributions or on GNP figures, we are likely to encounter resistance. Thus there would be negotiating advantage if, following the line of argument I have just described, we were to go on to say to our partners in effect: we do not want to call in question the structure of the Community or its received principles; we do not even ask you necessarily to consider new mechanisms; we should be content to work on the basis of adapting and developing the existing mechanisms (the 1975 financial mechanism and, if our partners think that this provides a suitable framework, the provisions of Article 131), or of ad hoc arrangements within Community principles, provided these methods can yield the sorts of figures we need and you are prepared to accept, and will last for a reasonable period of years (i.e. four years, to match your predecessors' four "wasted" years).

17. This line might help to narrow the area of negotiation: we should be able to avoid negotiating about mechanisms. We could leave the Commission to sort that out, and report back to the Council of Finance Ministers. Mechanisms are in any case a subject of such complexity as to be difficult to deal with at Heads of Government level. You could then concentrate at Dublin on the figures.

18. What is the range of figures in which we look for a solution? The indications are that both the French and the Germans are thinking in terms of removing the constraints on the 1975 financial mechanism, which would produce a reduction in our net contribution by £380 million to £700 million. We cannot, I believe, have any hope of getting agreement to a smaller net contribution than the French; if that is right, the maximum reduction we could hope to achieve would be by about £750 million to about £300 million. This suggests that a solution will in practice have to lie within the range £300 to £750 million. If we could get a solution near the upper end of that range, it could be presented both in this country and in Europe as a reasonable outcome:

it would compensate us for the fact that the proportion of the Community budget accounted for by the CAP had not come down to 40 per cent, as predicted at the time of our entry, while enabling us to claim that we were ready to accept and not bill our partners for the consequences of our own economic inadequacy in recent years.

19. The disadvantage about the kind of approach I have outlined in paragraphs 15 to 18 of this note is that it is a temporary solution: it does not go to the receipts side of the balance sheet, and if in four years' time there had not been other economic or structural changes which improved our net contribution, we should have to have another battle. But we shall in any case have to fight our corner in future discussions of structural change, and the advantage of the approach I have outlined is that we ought to get more benefit (i.e. hard cash) out of it in the next two or three years than our partners will concede on any other basis. But we should certainly combine it with a determination to pursue the reform of the CAP (on which we shall have strong German support) and other structural changes which both contain the total and improve (so far as we are concerned) the distribution of Community expenditure. These questions will also come up at the Dublin meeting (which should not be confined exclusively to the budget problem), and we should have to make it a condition of our approach on the budget question, whatever it is, that the Community commits itself to the initiation of a programme of structural change, and above all reform of the CAP.

20. You have a tough negotiation on your hands, if you are to get at Dublin a reduction reasonably near the top of the £300 to £750 million range I have indicated in paragraph 18. It is arguable that, on the sort of approach I have outlined, you would be making the most of the goodwill you enjoy in the Community, and cutting with rather than against the grain; and that, because you were cutting with the grain, you would cut deeper.

21. There will be a great desire on the part of our partners and of the Commission not to have an unsuccessful outcome to the Dublin meeting. We should make the most of that in order to try to get what we want at Dublin. It may be, however, that, in order to achieve as much as we need to achieve, we

shall have to precipitate a "crisis of the Community" at Dublin. I do not think that we need shrink from that, if it is necessary, provided that we can keep the situation under control, and in particular that:

(a) we do not put our membership of the Community at stake;

(b) we make it clear that we want a quick settlement, and have no desire for a long drawn out crisis.

It is not in our own national interest that the Community should be in prolonged crisis through 1980, with all that that would mean in terms of its ineffectiveness in a very uncertain international economic and political scene. Moreover, we know that this prospect looms large in Schmidt's thinking: we shall risk losing such support as we hope to have from him if we do not seek to resolve the budget problem quickly as well as satisfactorily, so that the Community can be solidly together in the coming year. Lastly, because Schmidt faces elections at the end of 1980 and Giscard in the spring of 1981, we cannot calculate that a better solution will be available later in 1980 than at the beginning of it. If therefore we cannot agree a solution at Dublin, we should press for an early resumption of the meeting. I guess that, in practice, it could hardly be before the second or third week of January 1980, but we might want to propose an earlier date, as a demonstration of our desire to solve the problem quickly.

RtA

(Robert Armstrong)

13th November, 1979

CONFERENCE
BETWEEN THE EUROPEAN COMMUNITIES
AND THE STATES
WHICH HAVE APPLIED FOR MEMBERSHIP
OF THESE COMMUNITIES

Brussels, 13 November 1970
GB/33/70

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Negotiations with the
UNITED KINGDOM

SECRET

MWE 4/2.

MWE 9/1.

Copy on
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NOTE

Subject: The financial arrangements in an enlarged Community.

A communication from the Commission to the Council of the Community, concerning the document submitted by the United Kingdom Delegation on "The financial arrangements in an enlarged Community", will be found annexed (1).

This communication is hereby forwarded to the Conference, following examination by the Council of the Community, in accordance with the decision taken at the 1st Ministerial Meeting on 21 July 1970 (2).

NP P.A. 24/XI

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(1) cf. GB/9/70.

(2) cf. GB/6/70, points 3 and 4.

GB/33/70 e/70 ico/PA/ch

COMMUNICATION FROM THE COMMISSION TO THE COUNCIL
CONCERNING THE UNITED KINGDOM DOCUMENT ENTITLED
"THE FINANCIAL ARRANGEMENTS IN AN ENLARGED COMMUNITY"

INTRODUCTION

At the first Ministerial Meeting with the United Kingdom, on 21 July 1970, the Conference took the following decision:

"Having regard to the wishes expressed by the United Kingdom delegation, the Community delegation invites the Commission to undertake the studies required with a view to analysing the data to be supplied by the United Kingdom on the consequences of adopting the common agricultural policy."
(point 3 of the Summary of Conclusions)

The United Kingdom delegation then submitted the document entitled "The financial arrangements in an enlarged Community" to those taking part in the Conference. This document does not confine itself to the consequences of adopting the common agricultural policy. On the contrary, without entering into a detailed evaluation of all the consequences of the adoption of this policy, it aims at giving an overall assessment of the Community budget for 1978, both with regard to contributions from the Member States of an enlarged Community, and with regard to receipts from which their economies would benefit, on the basis of various sources of revenue and various categories of Community expenditure. It is this overall statistical assessment which the Commission has analysed. Since the United Kingdom document does not include any indications as to the sources and methods used, the Commission made the necessary technical contacts with the United Kingdom delegation, in accordance with paragraph 4 of the aforementioned Summary of Conclusions. It was thus able to clarify certain working assumptions which had been adopted and a number of methods of calculation which had been employed.

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ANNEX

"COMMUNITY - UNITED KINGDOM" NEGOTIATIONS

COMMUNICATION

from the Commission to the Council of the Community
concerning the United Kingdom document entitled
"THE FINANCIAL ARRANGEMENTS IN AN ENLARGED COMMUNITY"

GB/33 e/70 ico/PA/ch

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The aim of the United Kingdom delegation's note is to arrive at an estimate of the net transfers to the Community budget which the application of the financial regulations in 1978 (1) would involve for the Member States of a Community of Ten. For this purpose, it evaluates the yield of customs duties and agricultural levies in 1978 for each of the present Member States, for Ireland, Denmark and Norway taken together, and for the United Kingdom. Then starting from a total budget of 4,500 million UA and calculating the total VAT from the Member States which would be necessary to supplement the contributions (2) from customs duties and levies, it arrives at estimates of the transfers from the Member States to the Community budget. Conversely by estimating what the Member States will receive from this budget under FEGOA, on the one hand, and in respect of non-agricultural expenditure on the other, an estimate of the net transfers of the Ten is deduced.

According to the calculations made by the United Kingdom administration, the United Kingdom would thus have to transfer a net sum exceeding 1,100 million UA to the Community budget, three and a half times as large as that of the Federal Republic of Germany; France would benefit from a net transfer in her favour of 765 million UA, and the Netherlands, 430 million, while the net transfer from which the Six would benefit as a whole would be 950 million.

2. Such statistical estimates cannot fail to attract attention, especially if, as in the case in the United Kingdom's document, they are accompanied by an estimate of GNP trends which is much more favourable for the present Member States than for the United Kingdom. The analysis which the Commission has made has not, however, convinced it that these calculations give a valid

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(1) the first year when these regulations would be applied without adjustment

(2) that is, 90% of the receipts

representation of the results in eight years' time of applying the Community financial regulations in a Community of Ten.

On the one hand, certain elements of the calculations must be revised or corrected, both individually and as part of the whole; on the other hand, the Community structures will inevitably undergo fundamental changes by the very operation of enlarging and strengthening the Community.

CUSTOMS DUTIES

3. The United Kingdom document states that the estimate of the yield from customs duties has not taken into account the application of generalised preferences or association agreements to which the United Kingdom will also be a party, following accession. This factor must reduce the yield from customs duties.

4. The total amount of customs duties levied in Great Britain will obviously depend on the development of the United Kingdom's trade both with the rest of the world and with the enlarged Community, and more precisely on the future relationship between these two sources of supply. Any increase in the share of intra-Community trade in the overall foreign trade of the United Kingdom will tend to produce a relative reduction

in the total of customs duties levied in Great Britain which is subject to transfer. The United Kingdom's note attributes a fairly modest effect to this aspect of the working of the Common Market, estimating that for 1978 the increase in intra-Community trade will exceed the normal "trend" by 30 to 34% of total trade.

It is true that this trade has already been considerably expanded in the past, and part of the margin normally estimated for its increase could already have been absorbed. However, the United Kingdom's estimate of the mechanical and psychological effect of the Community preference seems to be minimal. Within the Six, "intra" trade has increased from 30% of total trade in 1958 to 50% in 1969.

5. Also, there is reason to query the figures contained in the United Kingdom document concerning the customs contributions of the present Member States as compared with those envisaged for the United Kingdom (1310 million and 700 million UA respectively). Furthermore, the authors of the United Kingdom note indicate that they have not been able to make detailed calculations concerning the "Six" due to lack of data. In addition, they have not taken into account the effect of association agreements on this revenue. By using the same methods, the Commission's experts have obtained estimates for customs revenue which are much higher than the estimates contained in the United Kingdom's note. Taking into account the effect of association agreements, the Commission's experts still arrive at estimates slightly higher than the United Kingdom's estimates, while the calculations on customs duties to be levied in the United Kingdom have produced a result which is considerably lower than the corresponding United Kingdom figure. Thus, the assumption that the United Kingdom's customs duty contributions would amount to more than half the contributions of the "Six" has not been confirmed.

Nevertheless, even keeping to conservative estimates, emphasis must be laid on the purely relative value of any calculation of this kind which involves not only a combination of assumptions, but also uncertainty about the coherence of these assumptions among themselves.

AGRICULTURAL LEVIES AND FEOGA PAYMENTS

6. The number and nature of the assumptions (concerning the development of prices within the framework of the common agricultural policy and world prices, the development of the United Kingdom's domestic production, the development of trade, not only with the markets of the Six, but also with the markets of the other applicant States) etc., which are necessary to carry out the calculations relating to levies, refunds, etc. with 1978 in view, render this exercise particularly problematical, not to mention the reorientation of the common agricultural policy which is due between now and 1978. It is not possible, for example, to say a priori in which regions of the Community interventions within the common agricultural policy will be concentrated for any particular product.

The figures for levies contained in the United Kingdom's note seem to be the result of a juxta position of assumptions which tends to overestimate the levies collected in the United Kingdom while underestimating those collected in the Member States. Thus, all the analyses carried out by the Commission's experts lead to the estimate that the figure put forward for the levy contribution of the Six (500 million UA) could be placed at a level a third as high again.. Similarly, the estimates made by the Commission's experts for the sum which the United Kingdom would receive from FEOGA in 1978 were considerably higher than that of the United Kingdom, which was 200 million UA.

As an example of the "variability" of the calculations, it may be mentioned that the United Kingdom's estimate for its levy contributions would fall by 10% on the assumption of a certain measure of substitution between coarse grains.

GB/33 c/70 (Annex) oyd/PA/cat ..../...

All these adjustments, resulting from differing but cautios assumptions, are often of only limited interest when considered in isolation, as also are those mentioned above for customs duties. Their significance is a result of the fact that they all operate in the same direction.

7. Besides these comments on the different projections, some general remarks on the initial situation may be useful. Thus, if one of the main problems raised is that of the United Kingdom as a major importer of agricultural products, it may be helfful to make a comparison with the Federal Republic of Germany, whose economic structure undoubtedly approximates most closely among those of the present Member States, to that of the United Kingdom. The comparison should be made between the initial situation of the Federal Republic in the Community of the Six in 1958 and the initial situation of Great Britain today in a Community of Ten.

In 1958, the five other Member States supplied about 25% of the Federal Republic's agricultural imports. On the basis of the 1968 figures, about 30% of the United Kingdom's agricultural imports already come from the six Member States and the three other applicant States (1).

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(1) If the concept of agricultural imports is taken in a broad sense to include skins, seeds and nuts, rubber, wood, fibres, etc... these percentages should be reduced by about one fifth; the relationships are therefore not affected by doing so.

The participation of the United Kingdom, as a major importer of agricultural products, in a Community of Ten thus creates no situations which are basically different from those already experienced by the Six themselves.

FUTURE DEVELOPMENT OF COMMUNITY EXPENDITURE

8. Any estimate of the United Kingdom's net transfers to the budget of the enlarged Community involves not only assumptions concerning the trend of the United Kingdom's trade and of the other Member States' trade, but, above all, assumptions about the development of Community expenditure. It must be realised that there is uncertainty here both about the total amount of the Community budget for 1978 and about the composition of its expenditure and the proportion of the different expenditures within it. The United Kingdom study does not touch on this aspect of the development for which, moreover, it is impossible to make any true estimates. In fact, in accordance with the options taken by the Conference of Heads of State or of Government held in The Hague in December 1969 and by the Council of Ministers during the past year, the Community will undergo considerable transformations which should take shape precisely within the ten-year period dealt with in the United Kingdom study. During this period it will be a matter of making decisive steps from the present customs union towards economic and monetary union.

This development of the Community should logically be reflected in its budget. The reform of the Social Fund, decided on in principle last July, the implementation of the industrial policy, with its commercial extensions, scientific and technical research policy, regional policy, etc., are all subjects which could lead sooner or later, and to a varying extent, to a partial transfer of national activities to the Community, resulting in an entirely different structure for the Community budget and for intra-Community transfers. At the same time, the Community's efforts to eliminate agricultural surpluses by a suitable prices policy and by structural reforms, should, within a period impossible to determine a priori, lead to a better balance of markets and a reduction in certain agricultural expenditures.

9. In the light of the above, the Commission does not think that the United Kingdom's estimate of 4,500 million UA, 4,000 million of which are for FEOGA (i.e., the same proportion as at present), constitutes a usable basis for calculating the expenditure of a Community of Ten in 1978. It would be abnormal, ten years after the end of the transitional period, for agricultural expenditure to continue to constitute almost the whole of the Community budget. It is pointless to put forward statistics to show the effect of a development concerning which no firm data are to hand; an overall appreciation of the situation

in 1978 must include at least the possibility of an entirely changed distribution as between agricultural and other forms of expenditure.

It is accordingly interesting to note the effect of two alternative assumptions on payments from the Community budget in favour of a country like the United Kingdom:

(i) one assumption according to which a little less than half (40% for example) of the expenditure would be occasioned by activities other than "agricultural";

(ii) the alternative assumption, according to which "agricultural" expenditure would instead amount to 40% of the total.

In order to facilitate a comparison with the United Kingdom assumption of a volume of 4,000 million UA for "agricultural" expenditure in 1978, this figure has been retained in spite of the reservations which can be made about it. If this item is to constitute 60% of the total budget, the latter will amount to some 6,700 million UA - a figure which clearly has no other meaning than that it is the result of a calculation of this sort.

A Now the benefit which a country like the United Kingdom can derive from agricultural expenditure is necessarily limited by the very fact of the low share of British agriculture in the agricultural economy of a Community of Ten. This country's agricultural revolution came about as early as last century, so that it no longer has to bear the costs of an outmoded agricultural economy employing a high proportion of workers. Conversely, as regards Community activiites other than agriculture, it is precisely a country like Great Britain which can benefit to the greatest degree from outlays under the relevant Community budget (1).

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(1) On the basis of these considerations, a proportion of 20% for "non-agricultural" outlays in favour of the United Kingdom has been adopted for the calculations in the following paragraph.

10. A simple calculation, applying for FEOGA outlays the estimates referred to in paragraph 6 above, shows that, on the first assumption, the United Kingdom would receive from the Community budget 840 million UA (i.e. 12.5%). This is twice the corresponding percentage in the British estimate.

On the second assumption (60% of non-agricultural expenditure, within the same overall budget), payments in favour of the United Kingdom amount to 1,035 million (about 15.5%). The percentages of these outlays do not vary with the amount of the budget (1).

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(1) On the contrary, as will be seen below (cf. paragraph 17) the volume of the budget exercises a considerable influence on the percentage of contributions to the budget.

As regards the level of the outlays, the two sets of figures show that the net value of transfers from the United Kingdom to the Community budget can vary very appreciably, depending on the assumption adopted. It may be added that to the extent that the volume of the Community budget may exceed revenue from customs duties and levies, it will be financed by the VAT, in respect of which the United Kingdom's contributions will be less than those of certain Member States of the existing Community (cf. paragraph 17).

11. Whatever figures are used, it may be helpful to remember that the concept of net transfers must not be confused with that of charges on the budgets of the Member States. On the basis of the British budget for 1970, for example, the transfer to the Community of 90% of customs duties would deprive this budget of revenue of the order of 450 million UA. But on the other hand, the application of the common agricultural policy to the United Kingdom would be reflected in a cut in its budget expenditure (570 million UA on the basis of the present budget).

12. Finally, as regards the Community budget, it may be useful to recall its order of magnitude as against the budgets of the existing Member States and that of the United Kingdom (in thousands of millions of units of account, 1970):

EEC	: 3.3
The Six Member States	: 105
United Kingdom	: 35

This reminder of the orders of magnitude clearly shows that all the calculations and all the estimates which can be made do in fact fall well within an amount which is limited, as compared with the commitments of the Member States themselves. The impression which may be gained from this is that the actual interest of the various assumptions is rather relative, all the more so in that all the Member States forming part of an enlarged Community would share in a satisfactory economic expansion.

GROWTH OF THE GNP

13. In this connection, reference must be made to the estimated growth in the gross national product in the 10 countries, as it appears in paragraph 25 of the United Kingdom note. This paragraph refers to the projections made by the OECD, and is summarised in a percentage table, in relation to the Community as a whole. The United Kingdom is listed with a share of 17%, slightly in excess of the figure for Italy (16%). The figure for the Federal Republic of Germany is 28.5% and for France 25%.

It may be noted that on the same basis of calculation the current percentage for the United Kingdom is of the order of 19%; but the main question which has to be asked concerns the economic growth of Great Britain in the next 8 years, that of the enlarged Community, and that of Great Britain in an enlarged Community.

Admittedly, the average growth rate of 3.1% per annum given by the OECD has not been achieved by the United Kingdom in recent years. Nevertheless, the mere extrapolation of statistics recorded when that country was passing through a difficult period as regards its external economic balance outside the economic integration movement cannot take into account the accelerating effects of participation.

14. The chief economic objective of the Community is to create improved conditions for a balanced growth in the economy of the member countries by the action of certain phenomena of innovation and structural change. In addition to this there are psychological factors which are by no means negligible and which have consequences often surpassing to a considerable degree those likely to be produced by material or statistical elements alone. This participation in a vast common market cannot fail to have a positive effect on the pace of expansion of a highly industrialised country like Great Britain, with its advanced technology. On the other hand, it can hardly be visualized that a prolonged discrepancy between the expansion rates of the members of one and the same Community would be compatible with the smooth functioning of the latter (1).

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(1) Cf. Opinion of the Commission, dated 1 October 1969, paragraphs 21 to 23, 42 and 43.

With regard to past experience within the present Community, it may be recalled that the projections drawn up in the first medium-term economic programme and revised in the second programme envisaged a Community growth rate of 4.2% for the period 1965-1970; in actual fact, the rate of 5.3% has been achieved. This sustained rate of expansion, the substantial increase in real salaries which has been made possible as a result, the impetus that it has given to trade, both with third countries and within the Community, all illustrate the dynamic effects of integration as they are demonstrated within the Community of the Six.

15. In conclusion, it is essential to note that any variation in the initial estimates is reflected in considerable changes in the economic and budgetary situations, especially over a fairly long period. An increase of 0.5% in the growth rate of a country like the United Kingdom would correspond to a GNP increase of the order of 1,000 million UA for 1978 alone. Such relative orders of magnitude must be emphasised, for they illustrate once more the extent to which a static conception or a projection of existing situations into the future entail the risk of departing from reality.

It may be useful at this stage in the analysis of the United Kingdom document to make some remarks of a general nature in order to elucidate the import of the study carried out and the implications of the results that may be expected from it.

16. First, the assumptions for the coming eight years covered by such a study may be recalled. A non-restrictive indication is given below:

- movements in agricultural prices in the Community and and on the world market;
- changes in agricultural production in the Community, depending particularly on prices;
- changes in agricultural production in Great Britain, particularly in response to price movements and integration in the Community;
- development of agricultural trade and trade in industrial goods as affected by Community preference and in relation to world trade;
- changes in the Community budget, in absolute figures and broken down according to expenditure categories;
- development of the GNP in each Member State of the enlarged Community.

The combination of these assumptions clearly introduces an additional element of uncertainty.

This has led the Commission to refrain from putting forward figures as precise data. Rather, it has endeavoured to indicate in which sense an estimate should be corrected, or the extent to which there would appear to be a lack of consistency between some of these estimates or, finally and most important, at what point the cumulative results of the various assumptions could vary according to variations in the parameters used.

Neither did it seem advisable to put forward "brackets", since in fact these presuppose a real knowledge of the possible lower and upper limits of the changes. If they are too narrow they may, like all statistics, give a false impression of certainty, whereas if they are too wide they simply reflect the impossibility of pinning down a particularly complex and unstable economic reality.

17. An example may be given in this connection. Apart from general considerations, the present study has referred to various corrections that could be made to the United Kingdom estimates and which, when tending in the same direction, could have a considerable effect on the overall result. Reference has been made, moreover, to the problem of the correct assessment of the effects of the Community preference between now and 1978. On the supposition that this preference has a greater effect, these different corrections would bring the percentage share of the United Kingdom's contributions to the Community budget nearer 25% than 30%, on the assumption of a budget of 4,500 million UA as given in the United Kingdom study, which itself estimates the United Kingdom's contribution as 31% of the Community total.

If we introduce at this stage the same variable whose effect on expenditure has already been analysed (1), namely the volume of the budget, the estimate of United Kingdom contributions as a proportion of the

(1) cf. paragraph 10 above.

Community total may once again vary considerably. By adopting, again without claiming to give more than a sample calculation, a figure of 6,700 million for the future volume of the budget, the percentage of United Kingdom contributions decreases further to a final level nearer 20% than 25%.

This example shows the extent to which variations in some factors of the basic calculations may give rise to considerable differences as regards payments into the Community's budget.

By combining the various sample calculations relating to the structure of the Community's budget with the above-mentioned variants in contributions to the budget, amounts in the region of half this sum may be arrived at for net transfers from the United Kingdom (estimated at 1,100 million UA in the United Kingdom study).

Definitive estimates cannot be drawn from any of these sample calculations. The conclusion is almost the inverse: it is the degree of "variability" of the results which is striking.

It should also be noted that, depending on the various assumptions envisaged, the relative volume of payments made by the Member States of a Community of Ten to the Community budget can differ very considerably from that indicated in the United Kingdom document.

Broadly speaking, it must be emphasised that beyond a certain part of the budget - approximately 3,000 million UA - contributions are based on the VAT, i.e. on a proportional part of the GNP of each Member State. Within these 3,000 millions, the preponderant part is made up of customs duties, agricultural levies only accounting for approximately one third. Although customs duties and levies naturally constitute a "ressource propre" in a Community with common arrangements for imports the VAT complement tends to reduce the relative discrepancies between the contributions made by Member States as the budgetary charges increase. Thus the system has an inherent balancing factor.

To sum up, the following findings may be noted: it is natural for customs duties and levies to constitute the initial contribution to the Community budget. Moreover, complementary Community revenue will be obtained from payments made on the basis of the VAT. In itself this factor already has an equalising effect on the total of charges assumed by each country. It may be added that as the gradual transition is made from the customs union to the economic union, the policies financed by the Community budget will diversify, and the United Kingdom in particular may expect to receive an increasing share of the payments made by the Community under these various heads.

18. Thus, as a result of its analysis, the Commission has been led to make general, rather than statistical, assessments. It is true that they are still estimates, and that estimates can only indicate tendencies, express doubts and emphasise possible trends. Although such assessments do not have the apparent exactness of statistical tables, they should at least allow a certain number of conclusions, whether negative or positive, to be drawn.

(i) therefore the studies cannot confirm the disproportion between net transfers from the United Kingdom and those from other Member States as shown in the United Kingdom document;

(ii) normal development of the Community, in conformity with the options already taken, must progressively operate, as regards net transfers, in favour of an economy like the United Kingdom's;

(iii) since it largely ignores the dynamic factors expected from the development and enlargement of the Community, the system of calculation used does not correspond to an overall evaluation of what the situation may be in 1978.

19. One final point must be made. This concerns the usefulness of all efforts aimed at estimating the profits and losses of each Member State of an enlarged Community in eight years' time.

The consequences that integration will have for the economies of the Member States of a Community cannot be evaluated from a static profit and loss account. First of all, because it is even more difficult to produce figures for expected advantages than for possible expenses, if not impossible, because of their general and diffuse nature. The exercise of listing them against one another in a type of balance sheet, starts off from a false basis. Secondly, because of the dynamic nature of the operation, one country's gains are not made at the expense of another, since all must gain as has been the case within the EEC from 1958 to 1970.

20. Thus, calculations more or less favourable towards one party or another lose their significance when seen in the perspective of the dynamic effects that the United Kingdom's accession must have, and which constitute the essential factor of economic integration. Experience gained from the Treaties of Paris of 1952 and Rome of 1958 shows that numerous questions and anxieties expressed at the time have been resolved without any provisions or protocols, simply thanks to the general, accelerating effects of the Common Market. The present Community of Six has achieved high and steady growth rates, has seen regular increases in real wages at the same time as in investments, has become the largest partner in world trade, and plays an increasing role in international economic, and particularly monetary, policies. No one could have calculated in advance during the fifties the extent and pace of these transformations, which everyone was entitled to hope for, and no one is in a position to do so now, with a sufficient margin of credibility, for the future of a Community of Ten. Indeed, 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.

unfair [illegible]

Need [illegible]

GB/33 c/70 (Annex) lcy/PA/cat

In the light of all these considerations, it may therefore be considered that it would be pointless to engage in detailed discussions on hypothetical figures for 1978. Whatever they may be, they are not sufficiently conclusive to serve as the basis for an attempt to draw concrete conclusions about the mechanisms of integration at this juncture.

On the other hand, bearing in mind the general assessments which have been stated, and in the light of past experience, the results of the Commission's analyses do not allow it to conclude that there are obstacles preventing the adoption of such mechanisms subject to the necessary transitional provisions.

Attention must therefore be given without delay to these transitional measures which, due consideration being given to the United Kingdom's present situation, will be required to facilitate the earliest possible participation of its economy in the Common Market.

Thought [illegible].

[illegible] [illegible] [illegible] [illegible]

Sol [illegible] - should not work in [illegible]

[illegible]

Council of Ministers.

2

Ref: A0619

CONFIDENTIAL covering SECRET

Agree A?

PRIME MINISTER

Community Budget

You agreed that we should produce for the Restricted Meeting on 14th November a paper which would set out the questions which need to be considered in deciding what might be an acceptable outcome in Dublin. I have now discussed this with Sir Michael Palliser and Sir Kenneth Couzens, and a paper with which they are in general agreement is attached.

2. I originally proposed that this paper should be handed round for your meeting but not circulated outside No. 10 and the Cabinet Office. As it has come out, I think that it should be circulated in advance - it does not lend itself to easy assimilation on a quick read-through - and as it discusses possibilities and asks questions without (on major matters) suggesting answers, it is not likely to be potentially damaging to our negotiating position. Both Sir Michael Palliser and Sir Kenneth Couzens share my view that it would be useful for Ministers to have such a paper in front of them, so as to help focus the discussion. I hope therefore that you will agree that I should send one A copy to each of the participants at your Restricted Meeting, with an appropriate warning about its sensitivity.

3. I shall be submitting separately, and not for circulation, a note on the means at our disposal for being difficult, if we cannot achieve our objectives at Dublin.

RA

(Robert Armstrong)

9th November 1979

SECRET

COMMUNITY BUDGET AIMS

Note by the Cabinet Office

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1. This note is designed to help Ministers form a view as to what might be a tolerable outcome at the European Council in Dublin on 29/30 November.

2. All the numbers in the paper are quoted in sterling, with equivalents in units of account, converted at the exchange rate used in the Community's draft budget for 1980 of 1.4813 = £1, noted in the margin.

3. In considering figures, there are two complications Ministers will need to have in mind.

4. The first complication is the treatment of monetary compensatory amounts (MCAs). The Commission's reference paper of September (COM(79) 462 Final)
1814 meua estimates our net contribution in 1980 as £1,225 million if MCAs are attributed to
1552 meua the exporter and £1,050 if they are attributed to the importer. We are still maintaining the view that MCAs should be attributed to the exporting country, but in their latest paper the Commission side with most other member states who take the opposite view, and we are unlikely to win the point. The Chancellor of the Exchequer will be writing to his colleagues explaining how this difference could affect the negotiations, but for the purpose of this paper, possible refunds are
1552 meua compared with an assumed net contribution of £1,050 million.

5. The second complication is whether or not we contribute to our own refund. The net gain from any refund we receive will depend on whether, as is the case with the present Financial Mechanism, we are called upon to contribute to our own refund. The Irish and the Italians will try to get exemption as countries with below average GNP, in which case we must try to do the same. But it is not very likely that any of us will succeed. Since our marginal rate of contribution to the budget is 17 per cent, the net benefit we receive from any given refund would then be lower by that amount. In this paper (as in the Commission's latest document) the net figures are used, followed by gross figures in brackets.

6. We are seeking a corrective mechanism to produce "broad balance" between our contributions and our receipts starting in 1980 and lasting as long as the problem lasts. In the Commission's latest paper discussing a range of possible solutions

(COM(79) 620 Final), those which it quantifies would reduce our net
415 meua contributions by amounts ranging from £280 million (£340 million
1075 meua (net) gross) to £725 million (£880 million) i.e. reductions of between
1140-480 meua 30 and 70 per cent. There is no doubt that several member states, including notably the French, have in mind figures at the bottom of this range. The French also appear to be thinking of a corrective which would last for only a year or so. The Germans are hoping that part of the gap between our stated requirements and what the French and others have in mind could be met by the evolution of the future pattern of Community expenditure more in our favour, and this line would suit the Italians too.

7. There are thus three interconnected elements in what might be an acceptable outcome for the United Kingdom. These are:-

I. The amount of the relief as compared with our expected net contribution.

II. The duration of any arrangement.

III. Various ways in which the solution might be phased.

The following paragraphs discuss these in turn.

I. THE MINIMUM ACCEPTABLE REFUND

8. It is not realistic to expect that we can secure a refund which will wholly cover our net contribution. The signs at the moment are that we shall, at best, be offered the removal of the existing constraints on the Financial Mechanism. As compared with the refund of £170 million (£200 million gross) which we expect to get for 1980 this would produce a refund of £350 million and thus reduce our net contribution by only a third. The Prime Minister has already let it be known (to Mr Roy Jenkins and Chancellor Schmidt) that a cut of one half in our refund would not be acceptable. On the other hand, if we could achieve a lasting reduction of three quarters, it would be widely recognised as a major achievement. It is within this area that Ministers may wish to consider what, having regard to the other elements, could be a politically acceptable result.

Why?

No

9. There are certain considerations which could be used to justify an outcome which still left us paying a modest net contribution:

a. We should obviously pay less than the Federal Republic of Germany (net contribution for 1980 estimated at £750 million before allowing for any refund to us). The more appropriate comparison is with France, next to us in the league table of GNP per head although substantially above our own. On the Commission's estimate, France
118 meua will be a net contributor of only £80 million in 1980. To the extent that she will contribute to our refund, her net contribution will go up as ours comes down. If the aim was to produce a net contribution which more or less equalled France we would both be paying about
450 meua £300 million. Would it be acceptable if our net contribution lay somewhere between that of France and Germany? No. - less than France

b. A possible line of argument would be to refer back to the indications we were given at the time of entry that the proportion of the budget spent on the CAP might decline to as little as 40 per cent of the total. If this had in fact happened and the extra within the present budget had been allocated to the Regional and Social Funds then our net
630 meua contribution might have been of the order of £430 million. Such a line of reasoning would suggest a readiness to accept the entry terms (in spite of our poor economic performance) but not the unforeseen and unwelcome rise in the cost of the CAP.

c. We could say that it was reasonable for the United Kingdom to
160 meua regard as a net contribution its share (£110 million) of the administrative costs of running the Community.

10. Apart from the figure, Ministers will wish to be satisfied that, whatever the corrective mechanism, it will operate to reduce our refund in any foreseeable situation in the future. The possibility of the United Kingdom becoming an above average GNP member has already been considered by OD and a line approved. The Commission's latest paper (paragraph 21) offers one possibility for achieving a level of refund which comes close to our objective but only operates on our excess contribution. This is the system of weighting the baseline from which excess gross contributions are estimated (thereby increasing our refund) so as to take account of our below average GNP per head.

Besides being a difficult concept for some other member states to accept, it would not by itself protect us in future years if the gap between our gross contribution and our weighted GNP share were to narrow while our receipts continued to be below the Community average. The only way to avoid this risk is to have a corrective mechanism which takes account of our inadequate receipts as well as our excess contribution i.e. is based on our net position. The Commission's paper makes it clear that this threshold is going to be extremely difficult to cross. If it can be done at all, it would help us if we could agree that any refund in respect of our low receipts would be earmarked for public expenditure consistent with Community policies and eg subject to annual discussion with the Commission. We should want to ensure that the refund so far as possible related to planned rather than additional public expenditure.

II. DURATION OF ANY ARRANGEMENT

11. We have a very strong case for arguing that any corrective mechanism should not be subject to a time limit. The Commission say that our problem is temporary, and some of our partners may well argue for an arrangement for a limited period. But it would be intolerable for the Government (and the Community) to face the prospect of another negotiation on this issue in two or three years' time. The Financial Mechanism was for seven years with a review after five years. A review clause in any arrangement would be acceptable. But should the absence of any time limit be a sticking point or would, say, a five-year arrangement with provision for extension if necessary be an acceptable fall-back?

III. PHASED SOLUTIONS

12. The question whether we can gradually build up to "broad balance" may present itself in several forms:-

a. We may be offered partial relief through the Financial Mechanism with indications that the future pattern of the Community budget will evolve in our favour. If these were vague assertions of the kind which were made at the time of our entry negotiations, we could not regard them as "bankable assurances" and they would not carry conviction with public opinion in the United Kingdom: we could not accept them. On the other hand, specific commitments (such as the Italians are seeking) that the proportion of the budget spent on agricultural support would decline could be helpful to us. Much would depend on the form of the wording. Ministers will wish to consider how far they could accept commitments of this kind as a contribution towards achieving the negotiating objective.

b. Chancellor Schmidt has spoken about settling "principles" in Dublin. If this meant no more than recognition of a United Kingdom problem it would not be acceptable. If however Heads of Government agreed that the United Kingdom net contribution needed to be reduced by a specified percentage and settled the question of duration, leaving the Finance Council (or the following European Council) to decide on methods by which this could be achieved, would that be a possible outcome? Another possibility is that we would be offered the changes in the Financial Mechanism necessary to rectify our excess contributions with an agreement to return to the problem of our inadequate receipts (and no doubt the 1 per cent VAT ceiling and ways of holding down the budgetary cost of the CAP) at the next meeting. In return for any of these understandings we should no doubt be expected to subscribe to statements that the problem could be expected in due course to solve itself through structural changes, that the solution must not call into question the principle of "own resources" and that there was no question of applying the principle of juste retour.

No.

c. Some countries like the Belgians and the Danes might say that because of their own public expenditure problems any agreed level of refund for the United Kingdom could only be reached in stages. This would to some extent be the obverse of the French wish to see any arrangement rapidly phased out, but if the size and duration of the eventual relief we were offered was satisfactory, some phasing need not be ruled out.

ISSUES FOR CONSIDERATION

13. i. In a package dealing satisfactorily with ii. and iii. below, what would be the minimum proportionate reduction in our net contribution on which we would be ready to settle (paragraphs 5 and 6 above)? Could we agree to get there by stages (paragraph 9c.)? If so, what would be the acceptable level for a first stage?

ii. Is it necessary, to ensure a lasting solution, that the mechanism should relate not just to our excess contribution but also to our inadequate receipts (paragraph 7)?

iii. What can we accept on duration (paragraph 8)?

iv. To what extent should we be willing to see our objective partially met by future commitments (paragraph 9a.)?

v. What would be the minimum degree of detail which would have to be settled in Dublin (paragraph 9b.)?

14. The discussions leading up to and including the Dublin meeting will cover all these aspects. Other member states will see a link between eg duration and the amount of the refund. The same will be true for us. It will be the package as a whole which will determine whether what can be negotiated at Dublin constitutes an acceptable settlement or whether we should need to put into operation the contingency plan approved by OD on 24 October.

Cabinet Office

November 1979

EUROPEAN COUNCIL, DUBLIN

29/30 NOVEMBER 1979

INDEX OF BRIEFS

EEC Heads of Governments' Meeting in Dublin
29-30 November 1979

BRIEF ON THE UK ECONOMY

Summary/Points to make

1. GDP fell in the third quarter from the high second quarter level and the short-term prospects are gloomy. Most forecasters expect GDP to fall next year. Longer-term prospects should be brighter.

2. Measures were taken in November, including the raising of the MLR, to bring the money supply under control and the forecast PSBR back to the Budget target.

3. Rate of retail price inflation has accelerated this year, to 17¼% in October over a year earlier.

4. Balance of payments current account was in deficit by more than £2 billion in the first half of 1979, but average deficit has been lower recently. Sterling has strengthened since interest rates went up.

5. Economic strategy gives priority to:-

   i. Effecting long-term, permanent reduction in inflation by firm monetary and fiscal policies;

   ii. Promoting a freer working of the market economy and an economic environment conducive to renewed growth by reducing government intervention in the market and government claims on resources, and by tax reforms to improve incentives.

LIST OF ATTACHMENTS (Revise) (page 8)

Briefs on Arguments

1. North Sea oil and the UK economy
2. North Sea oil prices
3. The UK's pattern of trade (Parts A and B)
4. Commonwealth quotas
5. The nature of Own Resources
6. "Juste retour"
7. Community Budget not an instrument of redistribution
8. Swings and roundabouts
9. Another renegotiation
10. 1% VAT limit
11. The wider effects of Community membership
12. Solution to last as long as the problem
13. CAP : Benefits to UK Farm Sector

Briefs on UK contribution

1. The UK net contribution in 1980 : Tables I-IV
2. The UK net contributions after 1980
3. Technical notes : including tables on UK's budget problems in 1980
4. Country fact sheets

Briefs on Solutions

1. Summary table of options
2, Existing financial mechanism
3. Article 131
4. Action on receipts
5. Expenditure framework
6. A "weighted" financial mechanism
7. Failsafes on the net position
8. GNP per head :market exchange rates and PPPs (Revise)
9. Financing a refund
10. Timing of payments

EHG(D)(79)2 COPY NO. 1

22 November 1979

EUROPEAN COUNCIL, DUBLIN

29/30 NOVEMBER 1979

STEERING BRIEF

Brief by the Foreign and Commonwealth Office

INTRODUCTION

1. This will be the only European Council of the Irish Presidency. It will be dominated by the budget problem, unless meanwhile events in Iran cause a major international crisis (see paragraph 11 below).

2. The timetable of events is at Annex A.

3. The Italians plan two European Councils, in Brussels and Venice, during their Presidency. The date of neither has been settled. The Italians may try to get agreement at Dublin. (Details at Annex B).

AGENDA AND DOCUMENTATION

4. There is no formal agenda; but the Presidency have proposed the following subjects for discussion:

(1) Economic situation in the Community

(2) Budget/Convergence

(3) Employment and Social Policy

(4) Energy (the Germans will want to discuss North Sea oil prices)

/(5)

(5) Three Wise Men

(6) Europe in 1990 (to include "telematique")

(7) Progress towards European Union

(8) Other business (the French have said they will wish to raise sheepmeat and relations with the Parliament).

The order of discussion will be for the Council itself to settle. There is a risk that others may seek to get items 3, 4 and perhaps 6 taken together with 1, thus delaying discussion of budget/convergence. The Prime Minister will want to resist this (see paragraph 10 below on tactics). On the other hand, there is no reason why the Commission paper on the CAP should not be taken with budget/convergence.

5. The following documents are likely to be before the Council:

(1) Economic Situation in the Community

Commission paper

(2) Budget/Convergence

(i) Commission reference paper COM(79)462 on "Budgetary Questions"

(ii) Commission paper COM(79)620 on "Convergence and Budgetary Questions"

~~(iii) ?Covering Presidency/Commission/COREPER paper on issues for decision by the European Council~~

(iv) Commission proposal of 21 November

(v) Commission's 'global communication' on the CAP

~~(3) Employment and Social Policy~~

~~Commission paper~~

/(4)

(4) Energy

Commission paper

(5) Three Wise Men

Report

(6) Europe in 1990

(i) Commission paper COM(79)323 of 14 June 1979

(ii) Supplementary Commission paper on "telematique"

(7) Progress towards European Union

(i) Foreign Ministers' report on European Union 1979

(ii) Commission report on European Union 1979

UK OBJECTIVES

6. Our main objective is to get firm decisions leading to an adequate reduction in the UK net contribution to the Community Budget as from 1980, including agreement on the main lines of a corrective mechanism operating on receipts as well as contributions and lasting as long as the problem; and to ensure that specific directives are issued to appropriate Community bodies for implementing action to follow within an acceptable timescale.

7. Our objectives on other main items are:

(a) to avoid any damaging link between the budget and other issues;

(b) to ensure that the European Council does not endorse action on worksharing going beyond the resolution agreed at the Social Affairs Council on 22 November;

/(c)

(c) to get, with minimum discussion, the Three Wise Men's Report referred to Foreign Ministers for detailed study.

OBJECTIVES OF OTHER GOVERNMENTS

8. All other Member States reluctantly accept that the budget/convergence problem is the most important item on the agenda. But all, especially the French, will want the Council to be seen to have achieved something in other areas as well. On the budget they will, to varying degrees, be seeking a solution that:

(a) concedes as little as possible to the UK and still less to Italy;

(b) does so at least cost to themselves and with the Italians and UK each paying their share;

(c) is consistent with their interpretation of Community principles;

(d) limits concrete decisions to the short term, with a further negotiation to follow in a year or two.

They will also each be on the lookout for any concessions in return to be won from us in other areas of interest to them eg. energy, fish and, in the case of the French, sheepmeat. On energy, most of our partners seek a wider Community role and some form of privileged access to North Sea oil. There is also some concern that North Sea oil may have tended to lead oil prices upwards. Schmidt in particular is likely to raise this. On fish, other Member States, particularly Denmark and France have important interests which they want to safeguard in any

/CFP

CFP settlement and which are in some degree in conflict with declared British aims. As far as employment and social policy is concerned, most of our partners may be willing to consider more specific commitments on worksharing than the UK with its more vulnerable industry.

9. Italian objectives are confused. They may now accept that their problem is not with the level of Italian receipts from the budget (according to the Commission they are now major net beneficiaries). They may continue to press for a better balance in the Community budget - more expenditure on structural (regional, social and agricultural structure) and investment policies (energy, industry, research, transport); but they seem to have dropped the idea of pressing for a switch of resources away from agriculture. They will try to avoid having to pay their share of a solution of the UK budget problem. Thus, while the Prime Minister and Cossiga established the basis for an alliance with the Italians, the way their position has since evolved will make it difficult to realise this in Dublin.

TACTICS

10. It will be essential to get the budget problem properly discussed early on the first day and firm guidance agreed on points which official working groups can then take up overnight. This guidance must cover not only the main points of principle (eg. type of mechanism, duration) but also the scale of action to be taken on the UK problem ie. figures. The two cannot be separated. The more ground made on the first day the better.

/11.

11. Both the gathering Iranian crisis and events in Africa may compete for the European Council's attention at the expense of the budget problem. Events on Iran and the impending IEA and OPEC December Ministerial meetings could be considered under the energy item. The best tactic on Africa would be to get agreement that Foreign Ministers, all of whom will be present, should tackle the subject separately.

12. It will be important to contribute as positively as possible to discussion on other items. Other Heads of Government would welcome a forthcoming attitude by the Prime Minister as a sign of her interest in Community cooperation outside the budget. Moreover they each have domestic political interest in the European Council being seen to have discussed more than just budget/convergence and preferably to have reached decisions which they can report as a success.

SUMMARY OF BRIEFS

ITEMS DEFINITELY FOR DISCUSSION

ECONOMIC SITUATION IN THE COMMUNITY (Brief No 3)

13. This is a general introductory item which usually gives rise to little substantive discussion. It will give an opportunity to make a short presentation of the Government's new package of economic policies and to stress that they are aimed at halting our relative economic decline and are part of a co-ordinated response by the Nine to the problem of rising inflation in the Community, keeping in mind, however, that similar presentations by others could take up valuable time. There will also probably be discussion as usual, either at or in the margins of the Council, of the world economic and monetary situation. In this context the new round of global North/South negotiations proposed by theG77 may come up.

BUDGET/CONVERGENCE (Brief No 4)

14. Relevant documents are: the Commission's reference paper and their two papers on possible solutions. There may also be a Presidency note on "issues for decision by the European Council". A Commission paper on the CAP will probably also be considered under this item.

15. Discussion on our demand for "broad balance" in our net contribution, estimated by the Commission to reach 1552 mEUA in 1980 (importer pays MCAs) 1814 mEUA (exporter pays MCAs), will focus

/on

on the latest Commission paper which points the Council towards a solution which consists of adapting the 1975 Financial Mechanism to give us 520 mEUA net; increased receipts for the UK to spend on coal, transport infrastructure etc. The Prime Minister will want to get the Council to accept that decisions are needed on the scale of action to be taken both on the contributions and the receipts side, the length of time for which any new arrangements should operate and the appropriate machinery to secure corrective action. It will be essential to reach an agreement on the main aspects which cannot be unpicked later, even if the necessary legal instruments are left to be worked out subsequently by Foreign/Finance Ministers.

16. Discussion will also cover Italian demand for more Community expenditure on structural measures (see para 9 above). The Prime Minister will not wish to take the lead in opposing Signor Cossiga, but seek to turn the discussion more towards restraint on CAP expenditure on surpluses. The Commission's paper is helpful on this.

17. It is not in our interests to raise the question of financing until a solution has, in its broad lines, been agreed. But we must expect Italy and Ireland to argue for exemption from any contribution towards our refund. As the other State with lower than average GNP per head, we have in principle the same interest. But this is not likely to be negotiable for Italy and Ireland, still less for us: it would bring the German share of a refund up to 45% and the French share to 35%. We do not want to encourage the Italians and Irish to dig in and hold up agreement on a solution as a whole.

18. We want to avoid any agreement at this stage to raising the 1% VAT ceiling. If others argue that it must be raised to accommodate a solution to the UK budget problem, the Prime Minister could reply that this does not follow provided CAP expenditure is brought under control as the Commission has itself proposed. The Commission CAP paper shows how economies could be achieved. There are other ways too. Agricultural Ministers should be instructed to examine the question urgently. Even if the reduction of CAP expenditure proceeds too slowly, there are other financial procedures which could be devised to deal with our refund without raising the budget total.

19. Our partners will be looking for parallel movement from us on other issues, energy, fisheries, and (in the case of the French) sheepmeat, as the price of a s tisfactory budget solution. Best line is to argue that these are complicated problems in their own right requiring separate consideration. If others have specific problems or requests they could of course be considered, but without prior preparation the European Council should not be expected to go beyond a general expression of goodwill or good intent. Separate briefs are provided on energy, fish and sheepmeat.

EMPLOYMENT AND SOCIAL POLICY (Brief No 6)

20. The Social Affairs Council on 22 November will consider draft Resolutions aimed at giving a degree of Community encouragement to limiting systematic overtime working and other possible worksharing measures, and also on the development of vocational preparation through linked work and training. These

/Resolutions

Resolutions follow the last European Council's call for concrete proposals to be worked out rapidly. Our particular objective is to avoid measures which impose unacceptable burdens on British industry or increase inflation. It is likely that these two Resolutions will be adopted. They may not satisfy the ETUC who will meet Mr Lynch on the eve of the Council but they are the best available compromise between the trade unions' demands and what Governments and employers can accept.

21. Our aim at Dublin will be to ensure that the Presidency conclusions do not commit the Community to going beyond the limited provisions of the Resolutions which we expect to have been passed on 22 November. The European Council need spend little time on this item which can be followed up as necessary in the Social Affairs Council.

22. If the Resolutions are not agreed on 22 November, no lengthy discussion should be necessary in the European Council, which could most usefully ask the Social Affairs Council to consider matters further and report to a future meeting of the European Council.

ENERGY (Brief No 5)

23. The Commission will produce a paper for Dublin on recent energy developments. Discussion is likely to be heavily influenced by events in Iran. There is still work to be done on Strasbourg and Tokyo follow-up and prbably no need for further

/decisions

decisions by the European Council at this stage. But the Council will need to discuss US ideas on a stronger Western reaction to present energy difficulties. Some of our partners have complained about UK energy policy, in particular the pricing of North Sea oil for buyers in the Community, BNOC forward sales and our 1985 import target. We may be pressed to change our policy on the pricing and disposal of North Sea oil or conceivably to reconsider our 1985 import target, in return for a settlement on the budget. This pressure will have to be resisted, but the Prime Minister could make it clear that we expect sales of oil to our partners in the Community, which after all we regard as our natural market, to continue to increase over the next few years as our production increases.

THREE WISE MEN (Brief No 7)

24. At Giscard's initiative the Committee of the Three Wise Men was invited by the December 1978 European Council to look at the working of the Community institutions. Their Report will be formally considered in Dublin and decisions reached on how to handle it. UK interest is to avoid substantive discussion. Probably no difficulty in getting most of its proposals (eg on size of Commission, greater use of majority voting, setting of clearer priorities) remitted to Foreign Ministers for study. But Giscard may try to insist that Report's recommendations affecting procedures of European Council itself are not suitable for such treatment and should be considered by Heads of Government. No objection to publication of Wise Men's Report.

/EUROPE

EUROPE IN 1990 AND "TELEMATIQUE" (Brief No8)

25. The Commission have asked that their Report, submitted to the Strasbourg European Council in June, on structural development prospects until 1990 should be discussed further. It remains short on serious analysis and long on vague platitudes; its thrust is too interventionist. The Commission are submitting a supplementary paper on "telematics" (the convergence of computer and telecommunications technology). Mr Jenkins and Commissioner Davignon want to rouse the Community to this sector of high potential growth. No firm proposals at this stage, but Heads of Government will probably be asked to endorse the importance of this sector and request the Commission to produce a detailed programme of action for consideration by the next European Council. We could agree.

REPORT ON EUROPEAN UNION (Brief No 9)

26. The European Council will have before it a Foreign Ministers' Report (and also one from the Commission) on progress in various areas of Community business during 1979. This is an annual exercise and is part of the follow-up to the Tindemans Report on European Union which the European Council discussed in November 1976. The European Council will want formally to take note of the two reports (which will later be published) but there is no need for general discussion.

SHEEPMEAT (Brief No 10a)

27. The French have said that Giscard will raise sheepmeat under any other business and that experts on sheepmeat should be available in the wings. Our impression is that the French want some kind of settlement at Dublin presumably in the form of

/measures

measures which would allow them to adjust to a freer market in lamb in the light of the European Court decision. It is possible that the UK might find itself isolated, not on the future regime itself, but on French ideas to cushion the transition towards it.

28. The brief explains the tough line which we have taken in negotiations hitherto and the support we have received. It also explains some of the practical and tactical problems involved in concessions eg a temporary voluntary restraint to avoid French intransigence over the budget.

EUROPEAN PARLIAMENT (Brief No 13)

29. The Directly-elected European Parliament is looking for ways to increase its authority, particularly over the Community Budget. For the first time it has this year proposed modifications to CAP guarantee expenditure (on the milk sector). The French are concerned that this may set a dangerous precedent for the future. They have said they wish to raise relations with the Parliament under Other Business. Our objective, if there is a discussion, will be to limit time spent on the subject by having it referred to the Council of Ministers.

ITEMS WHICH MAY COME UP

COMMON AGRICULTURAL POLICY (Brief No 10)

30. The CAP is not on the agenda as such but there will certainly be discussion of CAP expenditure in the budget context. The French will also raise sheepmeat (paragraph 27 above). On CAP expenditure the Commission have prepared a paper which they intend to forward to Heads of Government, with ideas on how to bring agricultural production, particularly of milk and sugar, under control. We do not expect, and do not want, these suggestions to be considered in detail. Any such discussion would be unprepared and there would be no chance of the Council reaching useful conclusions. We welcome and support the Commission's recognition of the need for substantial reduction of growth on CAP expenditure, although we are doubtful about many of the proposals in their paper. The Commission apparently envisage increasing some prices whereas our first priority is to hold them down. Also their proposals for levies on additional production would tend to freeze production patterns. Our preference would be for a general reduction in prices.

31. Generally, though we have a major interest in CAP reform, we do not want to take the lead on it at this meeting. If we give the impression that we are about to launch an assault on the CAP we are likely to prejudice our objectives on the Budget. The most hopeful approach at Dublin is likely to be to encourage proposals, which originally came from the Italians but have been espoused by the Commission, for cutting the CAP Guarantee Section's share of the Community Budget. This could help the

/European

European Council to find a budgetary solution by releasing CAP funds for a rebate to the UK and for providing something for the Italians (eg through the structural funds). Not least to meet the French and Germans all this would have to be within the one per cent VAT ceiling.

FISH (Brief No 11)

32. We wish to avoid coming under pressure to make concessions on fish in context of budget. The Prime Minister could say that the UK seriously seeks CFP settlement and has demonstrated willingness to play a constructive role in achieving one. 29 October Fisheries Council seems to have broken the log-jam on CFP negotiations, enabling a fresh start to be made in run-up to 3/4 December Fisheries Council.

EMS (Brief No 12)

33. There is unlikely to be substantive discussion of the EMS although the Belgians may want to discuss the second stage of the EMS foreseen in the original agreement to set it up. A review of the system's operation was declared completed by the September Finance Council (abruptly because of concern about possible currency speculation if uncertainty persisted).

34. However, there may be pressure on the Prime Minister to make a formal declaration of our intention to join the exchange rate mechanism as a token of our European commitment, which would help other Heads of Government justify to their domestic public opinion any concession to the UK on the budget. It may

/prove

prove necessary formally to repeat the line the Prime Minister has already taken in bilateral meetings, that we are in principle committed to join the mechanism, but we must allow our new economic and monetary policies including the abandonment of exchange controls time to work through. The role of sterling as a petro-currency also gives rise to problems.

ENLARGEMENT (Brief No 15)

35. There are currently no major problems in the enlargement negotiations with Portugal and Spain.

POLITICAL COOPERATION (Brief No 16)

36. No formal discussion planned but as usual current foreign policy topics will come up informally; Rhodesia will be the main one - we shall be looking for support for UK policy; Iran is also bound to be discussed.

DRUG ABUSE BY US TROOPS IN THE FRG (Brief No 17)

37. Schmidt may raise drug taking by US troops in the FRG. The Germans are concerned the abuse may spread to the Bundeswehr and are considering measures to improve border policing. We sympathise with their difficulties (although it is not a serious problem in British Forces Germany) and can support informal concertation among representatives of the Nine in the appropriate fora - eg the UN Commission on Narcotic Drugs, Interpol and the Customs Cooperation Council.

/38.

SCIENTIFIC QUESTIONS (Brief No 18)

38. The Italians may raise in the margins of the Council two subjects of concern to them: (a) their bid for the post of Director General of CERN (European Council for Nuclear Research). On this, the Prime Minister could say that we are still considering this question and will make our views known at the CERN Council in December. (b) The prospects for a Pressurised Water Reactor nuclear safety project called "Super Sara" to be based at Ispra in North Italy. On this the Prime Minister could say we continue to have doubts on financial/technical grounds but, as requested by Italians, are reconsidering.

FOREIGN AND COMMONWEALTH OFFICE

22 November 1979

ANNEX A (Revised)

EUROPEAN COUNCIL, DUBLIN 29/30 NOVEMBER 1979

Provisional Programme

The Prime Minister and the Secretary of state will stay at Dublin Castle. The programme will be as follows:

Thursday 29 November

1300	Phoenix Park	Lunch hosted by President Hillery for Heads of Government, Foreign Ministers, Mr Jenkins and M Ortoli.
	Dublin Castle	Lunch for other delegation members in the "State Drawing Room".
1500	Dublin Castle	Formal session of the Council (press filming will be allowed before the session opens).
2000	Iveagh House	Dinner hosted by Prime Minister Lynch for Heads of Government and Mr Jenkins.
	Iveagh House	Separate dinner hosted by Foreign Minister O'Kennedy for Foreign Ministers and M Ortoli.
	Iveagh House	Both dinners will be followed by informal discussions.
	Dublin Castle	Dinner for other delegation members.
Late Evening	Dublin Castle	British delegation meeting.

/Friday

Friday 30 November

0930	Dublin Castle	Council session resumes (group photo will be taken before this session). This session will be followed by the Presidency Press Conference.
1300	Dublin Castle	Buffet lunch for members of European Council in the "Round Room".
	Dublin Castle	Separate lunch for other delegation members in the "State Drawing Room".

Note: Contingency provision has been made for the Council to run on late into the afternoon.

ANNEX B (Revised)

EUROPEAN COUNCILS UNDER THE ITALIAN PRESIDENCY
(JANUARY - JUNE 1980)

The Italians proposed two European Councils during their Presidency, one in Brussels on 27/28 March and the other in Venice on 12/13 June, shortly before the Economic Summit on 22/23 June. We objected to both dates; the first clashed with Anglo/German talks and the second with the King of Spain's proposed State visit. We suggested (with the Germans) 31 March/1 April for the first Council and all have accepted this, except the French, who have not yet replied. There is still some doubt as to whether the Spanish State Visit will take place, and it has been recommended that 12/13 June should be accepted if these dates are acceptable to all the others.

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EHG (D) (79)3
20 November 1979

COPY NO. 1

EUROPEAN COUNCIL, DUBLIN
29/30 NOVEMBER 1979

ECONOMIC SITUATION IN THE COMMUNITY AND WORLDWIDE
Brief by H M Treasury

OBJECTIVE

1. To seek an agreed view of the problems facing us, stressing that HMG's policies are part of a co-ordinated response to rising Community inflation.

POINTS TO MAKE

2. (i) Prospects for growth, inflation and unemployment sombre. Most recent oil price developments imply some further deterioration.

(ii) Notable unanimity within Community about need to control inflation. But ability to translate this common approadh into greater convergence of performance ill-served by perverse transfers of resources between members.

(iii) Efforts to squeeze out inflation in the UK and restore the basis for growth require lower public expenditure. And that includes our EEC budget contribution.

(iv) US moving into recession. But, apart from the UK, growth in the Community and elsewhere should continue, if at a lower level.

(v) Community's reaction to G77 proposals for global negotiations under North - South dialogue should be constructive but cautious. We must insist on certain conditions.

BACKGROUND (All information useable: brief details on recent developments in members states are a Annex A)

3. A summary of the latest Treasury World Economic Prospects forecast is attached. It was based on an expected increase in oil prices of 40 per cent in 1979 and a further 20 per cent next year. But the oil markets are once again in disarray; prices are leapfrogging and the OPEC price ceiling set in June has been breached.

4. GNP growth in the OECD area is expected to weaken substantially: from 4 per cent in 1978 to 2¾ per cent this year and 1 per cent in 1980. The need to contain inflation prevents most countries from stimulating demand to offset the impending US recession, which could be quite severe by post-war standards. Community growth is expected to be rather higher than in the OECD as a whole, falling from around 3 per cent this year to around 2 per cent in 1980. Relatively strong recent growth in Germany is likely to slow down as inflation bites into real incomes; growth in France and Italy has become sluggish after buoyancy earlier in the year.

5. The upturn in inflation, which pre-dated the increase in oil prices, continues to gather pace. In the main industrial countries, inflation could average nearly 10 per cent in 1980, compared with 7 per cent in 1978. The year-on-year Community inflation rate is now running at over 11 per cent, one-third higher than at the end of last year. The differential between the lowest OECD inflation rate (Germany) and the highest (Italy) could widen markedly next year, reflecting varying degrees of success in preventing higher oil prices feeding through into the general price level. A number of EEC countries have some form of wage indexation. This exacerbates the problem of containment; Italy is especially vulnerable. In general, though, there is better hope of avoiding a wage explosion than in 1974-75; wage pressure has so far been moderate in the US, Germany and Japan.

6. In 1974, there were divergent responses to the oil price increase. The large disparities in inflation and current balances which ensued contributed to currency instability. This year, policy reactions have been more uniform. Most governments are choosing to tighten policy to contain the inflationary impact of higher oil prices.

7. The UK's commitments to lower Government borrowing and the stabilsation of public expenditure are essential components of the policy of squeezing out inflation and improving economic performance. Our EEC Budget contribution must be cut as part of these commitments.

8. Recent monetary measures in the US and the UK show the determination of both governments to tackle inflation. Elsewhere, interest rates have been increasing in all the main industrial countries and many of the smaller ones. Rates do not seem to have increased further than is justified by inflationary expectations. It is known, though, that the German government was unhappy about the Bundesbank's action in increasing rates last month.

9. The OECD area is now expected to have a current account deficit of over $30 billion in 1979 and 1980. The improved pattern of current balances is likely to prevail. Japan could still be in deficit next year, and the US could be close to balance. Despite sizeable deficits in Belgium, the Netherlands and Denmark , the Community had a record combined surplus last year. But a small deficit is expected for this year and next. The surpluses of Germany, France and Italy are shrinking any may disappear.

10. The position of the LDC's will deteriorate sharply. Debt rescheduling or other rescue operations are likely to increase. But there is no serious threat to the private banking system and the international institutions have ample funds if countries would overcome their reluctance to turn to them.

11. The UN General Assembly is expected to accept proposals of the G77 for a new round of global negotiations to be launched next year under the North - South dialogue. The round would

extend to "major issues in the fields of raw materials, energy, trade, development, money and finance. We have argued that there should be no duplication with existing N/S discussions; that specific issues should be delegated to appropriate international bodies; and that there should be no artificial negotiating linkage between separate issues. There could be pressure from other member states to adopt a softer line. We should resist this. The West should continue to be cautious about these negotiations. In present circumstances we have little to give on points of concern to the LDC's. We favour informal discussions with the oil producing countries: but any discussion of energy linked to wider N/S issues would be at best sterile and at worst dangerous.

H M TREASURY

20 November 1979

ANNEX A

SUMMARY NOTES ON THE ECONOMIES OF MEMBER STATES.

Germany

The economy is starting to ease back after relatively fast, investment - led, growth. Inflation rate has more than doubled since end of last year, reflecting almost exclusive reliance on the price mechanism to curb demand for oil. Wages have not responded, but there is some concern about the level of next year's settlements. The 1980 Budget marks a return to the long standing commitment to reduce the government deficit as a proportion of GNP.

France

Government has said it is steering a middle course between deflation and inflation. Budget deficit (low by EEC standards) likely to increase next year. Policy is oriented toward structural reform (eg rationalising the social security system). Prices are increasing at about the average rate for the Community. EMS membership has led to a further deterioration in competitiveness; the current account is worsening.

Italy

Growing public sector deficit has produced very fast money supply growth. New Government's ability to restrain deficit by implementing any serious reforms is questionable. It has failed in its attempts to adjust the wage indexation system. Italy now seems to be in the grip of a wage price spiral. The current account is deteriorating despite buoyant exports.

Belgium

Growth is heavily export dependent and has recently been much below the EEC average. Unemployment is a major political issue, but attempts to cut it have collided with the objectives of reducing the endemically buoyant public deficit and maintaining a stable currency. Resort to foreign borrowing has become necessary to finance the deficit for the first time since 1970.

The Netherlands

Despite relatively low inflation, the high degree of indexation in the economy has been cause for concern. Attempts to modify it have generated serious labour unrest. Public expenditure has continued to rise and budget deficit has been stabilised only by an increased burden of taxation.

Denmark

The current account deficit could exceed £1¼ billion in 1979 (over 4 per cent of GNP) and the growth of foreign indebtedness is worrying the Government. Inflation is some way above the Community average and a two-month pay and prices freeze has been introduced until the end of the year.

Ireland

The Government is having to scale down its optimistic economic targets. There is a major question mark over whether a high rate of economic growth can co-exist with the constraints imposed by a growing current account deficit and rapidly accelerating inflation.

Luxembourg

The economy has been fairly buoyant, with unemployment falling. Tax revenue has exceeded expectations and public sector transactions continue to yield a surplus.

ANNEX B

WORLD ECONOMIC PROSPECTS

TABLE 1 GNP/GDP GROWTH

% Change

	1978	1979	1980
US	4.4	1.6	- 0.1
Canada	3.4	2.6	1.7
Japan	5.6	5.7	2.6
Germany	3.4	4.3	2.7
France	3.3	2.7	2.6
Italy	2.6	4.0	1.8
UK[1.]	2.7	1.0	- 2.0
Major 7 OECD	4.1	2.8	1.0
Belgium	1.6	2.6	2.3
Netherlands	2.5	3.1	2.8
Denmark[2.]	1.0	2.3	0.8
Ireland[2.]	6.1	3.0	3.6
Luxembourg[3.]	3.2	2.5	2.0

TABLE 2 INFLATION RATES

	1978	1979	1980
US	7.7	10.8	9.8
Canada	8.9	8.8	8.0
Japan	3.9	4.1	9.3
Germany	2.6	4.6	5.2
France	9.2	10.4	11.3
Italy	12.4	15.1	15.7
UK[1.]	8.6	13.5	16.3
Major 7 OECD	6.9	9.1	9.8
Belgium	4.5	4.2	5.7
Netherlands	4.1	4.5	5.7
Denmark[2.]	10.1	9.8	11.3
Ireland[2.]	7.6	13.0	13.0
Luxembourg[3.]	3.1	4.5	6.5

TABLE 3 Current account balance $ billion

	1978	1979	1980
US	- 13.9	- 4.9	1.3
Canada	- 5.0	- 5.9	- 5.4
Japan	16.7	- 5.0	- 1.2
Germany	8.8	- 0.4	1.5
France	3.8	0.5	- 1.6
Italy	6.4	3.4	0.8
UK[1.]	2.0	- 5.5	- 3.8
Major 7	17.3	- 17.9	- 8.4
Begium	- 0.4	- 0.9	- 2.3
Netherlands	- 1.1	- 0.7	0.2
Denmark[2.]	- 1.5	- 2.7	- 2.9
Ireland[2.]	- 0.3	- 1.4	- 1.8
Luxembourg[3.]	n.a	n.a	n.a
TOTAL OECD	8.6	- 28.8	- 27.5
LDC's	- 25.4	- 34.5	- 39.2
OPEC	1.5	50.0	40.0

1. Industry Act forecast
2. OECD forecast
3. Commission forecast

CONFIDENTIAL

Ref A

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(79) 681 final

Brussels, 21st November 1979

THE ECONOMIC SITUATION IN THE COMMUNITY

(Communication by the Commission to the European Council meeting in Dublin, 29-30 November 1979)

COM(79) 681 final

CONFIDENTIAL

The Economic Situation in the Community

In addition to the European economies' own problems, the rise in the price of oil and the recessionary tendencies developing in other industrialised countries allow only modest objectives for the Community as a whole to be looked for : real GDP growth decelerating from 3 % in 1979 to 2 % in 1980; price inflation rising to 9 % in 1980 on average, with deceleration in the course of the year; a swing in the balance of payments current account from the surplus in 1978 to deficits in both 1979 and 1980; and a renewed rise in unemployment in 1980, after the relative success in arresting its increase in 1979.

This prospect can hardly be considered satisfactory, even if better than the performance recorded by the Community economy following the 1973 oil price shock.

Further, the realising of this modest outcome requires that economic policies conform with certain fundamental principles :

(i) in a first phase of policy incomes have to be constrained so that consumers absorb the increased cost of energy and secondary increases in inflation are avoided; meanwhile monetary policy should be kept strict, and budgetary policy should at this stage provide only very limited compensation for the effects of the oil price rise;

(ii) as and when certain positive results are assured as regards inflation, then policy could eventually in the course of 1980 be adjusted into a more actively supportive posture, notably if investment and consumption were also found to be weakening significantly;

(iii) energy policy must in any case be strengthened in all its aspects, since without achieving a sharp change in past relationships between oil imports and economic growth, there is little prospect for the latter to progress.

These guidelines aim at eliminating the risks of an inflationary skid and at finding, as quickly as possible, room for manoeuvre for higher growth and employment. Experience shows, in effect, that in an inflationary context

.../...

global measures intended to spark growth and thus improve employment are only palliatives, leading inevitably and quickly to the adoption of measures of contrary effect. Moreover, despite the prospect of a pause in 1980 in the process of improvement of employment levels, it remains opportune, so as to make that pause shorter and less painful, to agree on a vigorous effort to master inflation, an essential prior condition for an employment-support policy. In parallel, specific labour-market action should be developed.

In relation to these points of reference, the following recent trends, or policy developments, may be observed.

The risks are increasing that the growth rate for 1980 may be lower than 2 %. The production expectations of industrialists have begun to weaken in some countries where they have until recently been strong (Germany), and have deteriorated very substantially in some others (UK, Ireland). Further oil price rises are now threatened again, which may well go beyond the technical assumptions underlying the Commission's October forecasts.

Prices are continuing to rise at an average monthly rate close to 1 %, latest indices confirming the divergent development of consumer prices (+0.1 % in Germany, +2.6 % in Italy in September). Both for Italy and the United Kingdom the Commission expects that it will have to revise upwards its price forecasts for 1980.

Trends in income bargaining show a mixed performance in relation to the recommended policy of not making income increases to compensate for the oil price rise. In quite a number of countries the rise in the price of oil seems to have been effectively borne by consumers without a secondary spill-over into incomes. But this is not the case in some other countries : the indexation of public sector salaries has just been made more fast-acting in Italy, and settlements in the United Kingdom are being made across a very wide range of percentage increases.

In public finance policy most countries are pursuing the cautious line portrayed by the data in Table 1. In some countries, notably Denmark and Belgium whose currencies have been "divergent" in the European Monetary

... / ...

System, measures are being prepared which should lower the deficits for 1980 by comparison with those indicated in the Table. In Italy, however, the budgetary policy foreseen for 1980 seems, despite inflationary pressures and the size of the public deficit as a share of GDP, to be expansionary rather than restrictive.

A general rise has since been seen in interest rates. This development is worrying. On the one hand, in a situation where the business climate has started to deteriorate, it is important to maintain, to the greatest possible degree, the confidence of economic agents; on the other hand, the rise in interest rates follows unavoidably from a reinforced control of the money supply, designed to choke off inflation. A satisfactory compromise between these two imperatives must be reached. Further progress in the co-ordination of monetary policies within the Community, particularly policies for the control of monetary aggregates and interest rates, could contribute to the achievement of this aim.

To ensure a convergence of economic performances within the Community, and to realise the adjustments of policy that are, or may become necessary to attain the objectives mentioned to maintain the stability of the European Monetary System, the Commission suggests the following policy attitude :

- to strengthen coordination of member countries' economic and monetary policies; such strengthening, notably in the area of interest-rate policies, would in addition make it easier for the Member States to pursue a common attitude with regard to the dollar;

  to consolidate the first successes which are being registered in policies to control money supply and unduly large public deficits;

  to avoid the danger that some countries diverge substantially from the desirable trend. Given the damaging consequences for economic prospects for the whole Community and for the stability of the European Monetary System which could result from such a divergence, this risk must be taken into account by all the member countries together.

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Table 1 Main economic aggregates 1978-80

	GDP volume (percentage increase)			GDP prices (percentage increase)		
	1978	1979	1980	1978	1979	1980
DK	0,9	1,8	3/4	9,7	8,0	9
D	3,2	4,3	3	3,9	3,9	4 1/4
F	3,3	2,9	2 1/4	9,9	9,6	8 3/4
IRL	6,1	2,8	3	11,3	12,1	13
I	2,6	4,3	2 1/4	13,3	14,3	14 3/4
NL	2,4	2,6	2 1/4	5,3	4,3	7
B	2,5	3,0	2 1/2	4,6	4,2	6 3/4
L	3,2	2,5	2	3,2	5,4	6 1/2
UK	3,7	0,3	-1	10,2	13,8	15 1/2
EC	3,1	3,1	2	7,8	8,3	9

	Balance of payments, current accounts (EUA '000 mill)			Unemployment rate (percentage of civilian working population)		
	1978	1979	1980	1978	1979	1980
DK	-1,2	-1,8	-2,0	6,6	5,8	6,1
D	7,4	-0,9	-3,1	3,9	3,4	3,4
F	2,9	0,3	-0,8	5,0	5,9	6,8
IRL	-0,2	-0,9	-1,0	8,7	7,9	7,8
I	4,9	3,5	3,5	7,1	7,7	8,4
NL	-0,7	-0,3	0	4,2	4,3	4,3
B	-1,2	-1,4	-1,9	8,3	8,7	8,8
L	0,5	0,5	0,6	0,8	0,8	0,9
UK	1,6	-2,3	-0,4	5,7	5,6	6,6
EC	14,0	-3,3	-5,2	5,5	5,6	6,2

	Public finance, general government net borrowing (1) (percentages of GDP)			Money supply (3) (percentage change)		
	1978	1979	1980	1978	1979	1980
DK	-0,5	-1,0	-2,0	6,7	9,0	8 1/2
D	-2,7	-3,1	-2,8	11,0	7,0	6 1/2
F	-2,3	-1,7	-1,7	12,3	12,5	11
IRL (2)	-10,8	-15,8	-7,3	28,7	21,0	16
I	-10,6	-11,5	-11,4	22,8	17,8	16 1/2
NL	-2,0	-2,3	-2,0	4,2	8,1	8 3/4
B	-6,3	-7,2	-7,4	9,5	9,1	10 3/4
L	+2,8	+1,8	+1,0			
UK	-3,9	-3,1	-2,4	13,7	12,5	11 1/2
EC	-4,0	-4,0	-3,9	12,7	10,9	10 1/2

Source : Commission, Annual Economic Review 1979/80 (COM(79)568 final), 18th October 1979

(1) national accounts definitions, excluding loans and participations
(2) 1979 and 1980 figures reflect distortions in government financial transactions due to the 1979 postal strike
(3) M2 for DK, F, I, NL, B/L; M3 for D, IRL, UK

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COMMISSION OF THE EUROPEAN COMMUNITIES

COM(79) 620 final

Brussels, 31st October 1979

EHG(D)(79)4

REF A.

CONVERGENCE AND BUDGETARY QUESTIONS

(Communication from the Commission to the Council)

CONVERGENCE AND BUDGETARY QUESTIONS

I. INTRODUCTION

1. At the European Council in Strasbourg in June 1979 Member States were invited, as a result of the discussion on convergence and budgetary questions, to circulate their opinions and requests on these issues after a reference paper had been produced by the Commission. The Commission's reference paper (COM(79)462) was transmitted to the Council of Ministers on 12 September. The present paper takes account of the ensuing discussions in the Council and of "opinions and requests" which have been received in written form, and especially those from the Delegations of Ireland, Italy and the United Kingdom.

2. The Commission believes that at this stage in the discussion of convergence and budgetary issues it is important that Member States should be able to consider the advantages and disadvantages attached to a wide range of possible approaches. The Commission naturally intends to exercise its prerogative to make a proposal. This will be put forward at the moment it judges the best chosen in order to contribute to a resolution of the serious difficulties which at present threaten the cohesion of the Community.

3. In considering the position of those Member States who have circulated their views, the Commission believes that a more balanced development of policies will provide a better balance of expenditure within the Community budget and the long term resolution of these matters. In the medium term it will be necessary to continue to correct the spending priorities within the Community budget, in respect of which certain ideas have been put forward by the Italian Delegation. Finally there is the short term question of the position of Member States in respect of the budget, where the issue concerns essentially one Member State, the United Kingdom. This paper deals essentially with the medium and short term issues which have been raised.

4. From the outset the Commission wishes to stress the fundamental principle that in considering approaches to these problems neither the legal framework of the Community nor the Community's policies should be called into question. In this context the Commission draws the Council's attention to the overall framework, which was outlined in the Reference Document, against which these matters need to be seen. It does so since decisions which may be taken by the Community in order to deal with problems which have been raised by Member States will need as far as possible to be judged by the degree to which they are compatible with this framework. The basic elements are that:

(i) The Community budget is only one aspect of Community membership. Other factors such as the advantages of a single market, of private and public capital flows across the Community, and of the common commercial policy are harder to quantify but are basic to membership of the Community. Moreover it should be recognised that not all policies are of equal benefit to all Member States and that the advantages or disadvantages of Community membership must necessarily be seen as a whole.

(ii) The budget is the expression of certain Community policies. It is not to be judged essentially in the light of the position of each Member State but by the effectiveness with which its expenditure ensures that these policies operate to the benefit of the Community as a whole.

(iii) While agriculture takes up the major portion of budgetary expenditure this is because it represents the single integrated policy hitherto managed at Community level. In practice the budgetary incidence of the policy is less significant than its wider economic consequences. Moreover budgetary expenditure on the CAP in Member States can give a misleading impression of benefit. For example interventions and restitution payments do not necessarily benefit a particular Member State but the market price throughout the Community: thus the rate and scale of budgetary support is more significant than the place where it occurs. It does however favour those Member States in which agricultural production is relatively important. At the same time, insofar as the policy assures the stability of markets and the availability of food supplies to consumers at reasonable prices, it represents an economic benefit and a degree of security to those Member States whose degree of agricultural self-sufficiency is relatively low.

(iv) The approach of Member States to the Community should not be one of calculating the cost or benefit to themselves of the Community budget. Such an approach leads directly to the notion of "juste retour" which would make even more complex the creation of new policies if they had to be judged mainly in terms of their effect on the financial position of Member States.

5. The Commission is mindful of the need both to eliminate distortions in certain existing policies and to develop policies which will lead to balanced growth through the Community, in conformity with the objectives of the Treaty. Its overall approach to these questions is designed to achieve results on these lines.

6. Any measures which may be taken in the light of these difficulties have to be seen in the context of the present limitations on own resources. The moment at which own resources will be exhausted depends essentially on the rate of expenditure on agriculture. This issue is more fully discussed in Section V below.

II. THE BUDGETARY PROBLEM

7. The UK Delegation has stated its problem in respect of the Community budget in the following terms. The size of the UKs net deficit is such that action by the Community in respect of it is required. Since the UK has a GNP per head below the Community average a solution should be found to ensure that this Member State is at least in "broad balance" in respect of its financing and receipts from the budget. The solution should apply immediately - i.e. to the 1980 budget - and should last as long as the problem continues to exist. To this end some form of corrective mechanism is indispensable. The mechanism should operate on both the UKs low receipts as well as on her excessive contributions.

8. The Commission's reference document forecast a net deficit for the UK in 1980 of some 1550 MEUA (MCAs being attributed to importing Member States). In considering the approach proposed by the UK to rectify the deficit the Council needs to bear in mind that the fundamental features affecting the UKs position are capable of improvement in the medium term. For example the UKs imports from the EEC as a percentage of her total imports have risen by some 10% since she joined the Community. It is reasonable to suppose that a continuation of this trend will lead to a reduction in the UKs share of customs duties and levies. Second, as the Community budget increases, so will the proportionate share which is at present financed by VAT. This will in turn bring the UKs share in financing the budget closer to her share of Community GNP. Third, on the expenditure side of the budget, a determined effort by the Community to eliminate certain problems associated with the CAP and in particular reduce proportionate expenditure on dairy products and sugar could produce a better balance within the Community budget.

The cumulative impact of these factors will only be gradual and it is difficult to judge at what point they will become significant. They will however facilitate an improvement in the budgetary situation of the UK as regards both the financing and the expenditure of the budget. It follows that measures to be taken at the present time need only have a temporary character.

9. Before considering ways in which the position of the UK in respect of the Community budget might be improved through the further application of financial mechanisms, it is worth considering whether a rapid development of structural policies within the Community financial instruments as at present conceived would have a significant impact on the budgetary problem of the United Kingdom. An examination of this point was undertaken by the Commission at the request of Member States during discussions of the Reference Document. Calculations show that on the assumption that the distribution of these instruments' expenditure remains constant, even if the Community's structural funds were increased by a sum of 5000 MEUA in the preliminary draft budget for 1980, the UKs net deficit would only be reduced to some 1200 MEUA, i.e. a reduction of 350 MEUA. On the other hand, the net surplus of Ireland would be increased by some 330 MEUA, and that of Italy by about 970 MEUA.

10. The possibility of developing as may be deemed appropriate new policies needs to be considered. Such policies could have a particular relevance to the situation of the UK in respect of the Community budget. For example the interest subsidy arrangements in the framework of the EMS could be developed to enable the Community to help the UK - when it joins - to combat certain economic weaknesses noticeable in her economic performance in recent decades, such as the low levels of investment linked to problems of industrial decline. But the greater the financial scope of such policies, the more directly would they raise the question of the exhaustion of the Community's own resources.

III. FINANCIAL MECHANISM

11. Description: The starting point for an examination of the action which the Community might take in respect of the UKs budgetary problem is logically the existing Financial Mechanism. The aim of the Mechanism, which was established in 1976, was to correct a disproportionate burden in the financing of the Community budget. The details of this Mechanism are shown in Annex I.

The Commission's Reference Document has shown that under present conditions, the net payment to the UK from the Mechanism in respect of 1980 would be no more than 250 MEUA if there were to be a balance of payments deficit, and nothing if there were a balance of payments surplus.

12. One possibility would be to remove some or all of the restrictions limiting the payments which would otherwise be made under the Financial Mechanism.

13. The most important restriction is the one which provides that if there is a balance of payments surplus the calculation of the excess contribution must be related solely to the VAT payments. A calculation on this basis would not give the UK a payment in respect of 1980, nor probably for several years after 1980.

14. If this restriction were to be removed the Mechanism would operate in favour of the UK whether or not it had a balance of payments surplus. The payment would continue to be restricted, however, by two other limitations:

(a) the tranche system which provides that only a part of the excess contribution is reimbursed;

(b) the ceiling of 3% of the budget.

If the tranche system were to be modified or abolished, the net payment would rise from 250 MEUA - 520 MEUA depending on the degree of modification involved. Payment would however be restricted to 405 MEUA net unless the 3% ceiling were also removed. The maximum which the UK could therefore receive in respect of 1980 would be 520 MEUA net (630 MEUA gross).

15. The Mechanism is also governed by the following criteria for qualification:

(a) The per capita GNP of the Member State must be less than 85% of the Community average.

(b) The growth rate of per capita GNP of the Member State must be less than 120% of the Community average.

(c) The Member State's total contribution to the budget must be 110% of what it would have been if the budget had been financed on a GNP basis.

The UK has suggested that these criteria too should be made less rigorous. In present circumstances, however, it is unlikely that they would disqualify the United Kingdom from a repayment, at least before the enlargement of the Community.

16. Appreciation: The Financial Mechanism was developed to deal with a particular situation. A case could be made out for the removal of the constraints in paragraphs 13 - 14 above on the grounds that the UKs budgetary imbalance has become considerably greater than that foreseen when the Mechanism was first set up

IV. NEW MECHANISMS

17. It is possible to envisage a number of new mechanisms which could operate either separately, or together with a Financial Mechanism where some or all of the constraints had been removed.

(a) A Mechanism to compensate for increases in contributions

18. Description: It could be held that the problem of the UKs excessive share in financing the budget is due to the sharp increase which will take place in this share from 1979 to 1980 (from 17.58% to 20.49%). An increase of this kind imposes an abnormal burden on the United Kingdom, given that as is indicated in Section II to this note the relative share of the United Kingdom in financing the budget should over a period stabilise at a level below that forecast for 1980.

19. It would be possible to correct the burden by taking into account the quite special situation of the UK through a new ad hoc mechanism which would compensate for any UK contribution of full own resources - these remaining payable in full - which went beyond a pre-determined percentage increase in a given year. As an order of magnitude as to its financial effects, such a system would reduce the UK share in financing the budget by some 390 MEUA net (around 500 MEUA gross) in 1980 if no percentage increase over 1979 were allowed.

20. Appreciation: The advantage of such a Mechanism would be that it would be addressing itself to what can be held to be a temporary situation while leaving a Member State in the situation of the UK a strong incentive to help develop Community policies.

(b) A "weighted" Financial Mechanism

21. Description: At present the Financial Mechanism compares a Member State's share in financing the budget with its share in Community GNP. Thus the "excess contribution" of a Member State is the difference between the total contribution actually made to the budget (duties, levies and VAT) and the contribution which would have been made, had it been limited to a Member State's share of total Community GNP. In this way relative GNP shares are taken to imply relative ability to bear Community taxation. But in the case where two Member States have the same share of total Community GNP but one has a lower per capita GNP, it could be held that the latter has the lower ability to bear Community taxation. Account could be taken of this principle by weighting the relative GNP of a Member State eligible for the Financial Mechanism by its relative GNP per head (with GNP measured either by current exchange rates or by purchasing power parities). For example, if a Member State has a GNP per head equal to 75% of the Community average, its "excess contribution" could be calculated as the excess of its relative revenue share going beyond 75% of its GNP share, thereby significantly improving the extent of any refund under the Financial Mechanism, although it would be important that, as in the case of the existing Financial Mechanism, the payment should not exceed the amount of a Member State's VAT contribution. At present exchange rates[1] a mechanism of this kind would produce a payment to the UK of around 1100 MEUA net (1300 MEUA gross) if the limitations referred to in paragraphs 13 and 14 were removed.

22. Appreciation: As regards the possible adjustment to the basis of the mechanism outlined in paragraph 21 it could be argued that it would be preferable to adapt however radically the existing Mechanism, as opposed to creating a new one, in a context where the Community was politically ready to adjust the situation of a Member State in respect of the budget.

23. On the other hand certain disadvantages as regards weighting the Financial Mechanism need to be borne in mind. The first concerns the possible implications for the Community of introducing a mechanism based

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[1] At present exchange rates the UKs relative GNP per head is 76% of the Community average. At purchasing power parities it is 90%. A payment to the UK based on purchasing power parities would amount to some 750 MEUA net (900 MEUA gross).

on GNP per head to deal with the net problem of a Member State, at a time when the Community is proceeding towards an enlargement through the inclusion of three states with a GNP per head considerably below the Community average. For example the scope of such arrangements could become wide in other cases where net contributors to the budget had below average GNP. The second issue is the implication for financing the budget of introducing the concept of contributions related to GNP per head in order to solve a problem of net deficit.

(c) Mechanisms to reduce possible disparities in budgetary expenditure

24. Description: As described in paragraph 7 above, the UK has proposed that the Community should adopt a Mechanism which will act effectively on the UKs net position in respect of the Community budget. The British Government state that the removal of restrictions on the Financial Mechanism alone does not meet the greater part of the problem of the UKs net deficit, and that any solution restricted to the existing Financial Mechanism would have to involve amendment to compensate for the low level of Community expenditure within the UK. One approach put forward by the UK and based on the principle of compensating for a low share in Community expenditure is that of a Mechanism "designed to remedy the fact that the UKs receipts from Community expenditure are low in relation to the Community average and in relation to the UKs share of Community GNP". It is suggested that a new Mechanism could in principle be devised to bring the UKs receipts per head into line with the Community average receipts per head from the Community budget; or that the UKs share of receipts could be brought into line with her share of Community GNP.

25. The Reference Document identified the shortfall in UK receipts in comparison with the UKs GNP share at around 850 MEUA. Mechanisms of the kind advocated by the UK can be devised to make up all or part of the deficiency.

26. An alternative approach suggested by the UK would be to fix a limit to her total net contribution. There are various ways in which this could be expressed. For example as regards a Member State with below average GNP:

(i) the net contribution might not exceed a fixed proportion of the gross contribution; or

(ii) the gross payments should not exceed a fixed percentage of its share in Community expenditure; or

(iii) the net deficit might be limited to a certain proportion of the GNP of a Member State.

27. Appreciation: The larger part of the current UK deficit is reflected in a deficient share of the expenditure side of the budget. A Mechanism which deals directly with this problem has the advantage of simplicity. Moreover if it complements Mechanisms designed to reduce the burden of an excessive share in financing the Community budget, the interplay of the two can be adapted to a wide range of situations. The Commission believes however that the following considerations have considerable force:

(i) Mechanisms on the expenditure side of the budget raise even more directly than do other mechanisms the problem of "juste retour" to which the Community has always resolutely been opposed. It is clear that no financial solution adopted by the Community should put a Member State in a position where it feels completely safeguarded from the financial consequences of policies which it has taken part in creating, or where it is indifferent towards the development of new Community policies. These considerations apply with particular force to any net Mechanism.

(ii) There are problems within the Community over the definition of Community expenditure and its attribution.

(iii) Mechanisms on the expenditure side involve a more radical departure than Mechanisms designed to correct budgetary financing. They would need to contribute to the Community's overall aim of convergence by being linked directly to certain Community objectives. If not they would in effect amount to payments designed to compensate for apparent shortcomings in the operation of Community policies, rather than as part of the policies themselves.

V. FINANCIAL ASPECTS

28. Solutions to the problems posed in this paper have to be seen against the possibilities for the Community budget to finance them.

29. The Community is already approaching the ceiling of 1% of VAT and, as already stated, the Commission will shortly be making a proposal for an increase in the Community's own resources to meet this situation. But given the procedures of both the Council and the parliaments of Member States it is

very possible that such new own resources will not be available for the next two years. In the near future, therefore, the task of attaining a better balance of expenditure will have to be undertaken within the existing limits of the Community's financial resources. How much can be achieved depends crucially on the evolution of agricultural expenditure.

30. If the proposals which the Commission will make in the near future in order to establish a better balance in markets in structural surplus are accepted, the rate of growth of agricultural expenditure will be substantially slowed down. Even so apart from the shift in emphasis indicated in Section VIII below, in 1981 the resources available within the 1% ceiling for structural and investment policies are likely only to meet payments that will be necessary to cover commitments already entered into. Any further substantial expansion of structural policies will be conditioned by the time at which additional own resources are made available.

31. Any solution which involved a payment from the Community budget to the United Kingdom under one or more of the Mechanisms described above would increase budgetary expenditure. The payment would normally be financed by all Member States (including the United Kingdom) at the marginal - i.e. VAT - rate of their budget contributions unless the present 1% ceiling of VAT had been passed and additional resources, other than an increase in the VAT ceiling, had been introduced. On an assumption that VAT key forecast for 1980 is also the key for the year in which the payment is made, this would mean that the payment would be financed, whatever its size, in the following proportions:

Belgium	4.54%	Italy	10.90%
Denmark	2.62%	Luxembourg	0.20%
Germany	32.80%	Netherlands	6.05%
France	24.67%	United Kingdom	17.36%
Ireland	0.86%		

32. Although the Commission takes the view that all the policies of the Community should be financed by all Member States, certain delegations, in particular that of Italy, have indicated that the less prosperous Member States should not have to bear the extra financial burden of correcting the net budgetary situation of a member of the Community. If this were to be the case in respect of Ireland and Italy, and if any agreed payment to the UK was not to be reduced by the UK itself contributing to the cost, the remaining six Member States would contribute to the payment in the following proportions:

Belgium	6.41%	France	34.81%
Denmark	3.70%	Luxembourg	0.28%
Germany	46.26%	Netherlands	8.54%

VI. LEGAL ASPECTS

33. The existing Financial Mechanism is based on a Council Regulation grounded in Article 235. This incorporated the agreement reached at the European Council and involved consultation with the European Parliament.

34. Certain legal considerations need to be taken into account when it comes to proposals either to amend the existing Financial Mechanism or to set up new mechanisms. Article 235 could remain the basis of such actions. However:

(i) The use of Article 235 must contribute "to the realisation of the objectives of the Community" and not the contrary. Furthermore it can only be applied where the Treaty has not elsewhere provided the necessary powers for the action proposed. Certainly, convergence of the economies of Member States can be considered one of the objectives of the Treaty particularly if its basic dispositions are considered generally and in the light of the preamble to the Treaty. Indeed the existing Financial Mechanism was set up within this context. The lack of necessary powers was also taken into account when Article 235 was chosen as its basis in an attempt to deal with "a situation incompatible with the correct functioning of the Community".

(ii) As was the case with the Financial Mechanism, care needs to be taken that any new measures do not conflict with the "acquis communautaire". New measures need to accompany instruments designed to promote convergence or to conduct common policies, not to undermine them. The alternative would be to risk introducing distorted procedures or even incoherence in Community policy-making. For this reason the Regulation setting up the Financial Mechanism takes care not to treat own resources collected on the territory of Member States as national contributions, and makes a distinction between customs duties and lévies on the one hand, and VAT on the other in order to measure the degree to which a Member State is entitled to benefits under the Mechanism.

(iii) As regards the system of own resources, this has been created by an action which amounts to an extension of the Treaty. The own resources are therefore a fundamental element of the "acquis communautaire". Thus any mechanism created with the object of modifying, even temporarily, the financial incidence on the economy of a Member State of the own resources system must, in correcting any unforeseen effects of the system, not have the result of undermining its objectives. If this were not the case, there would be a risk of infringing the Decision of 1970. In the same way Community preference, and particularly the system of agricultural levies and restitutions forms another part of the Community acquis and helps to develop trade within the Community.

35. In the light of these considerations, it may be concluded that in principle the correction of any abnormal effects flowing from the application of intruments of Community law (e.g. own resources or rules for the operation of common policies) should take the form of making the appropriate adjustments to the instruments concerned. It follows that any corrective mechanisms should be envisaged as temporary pending the necessary adjustments to the Community instruments.

36. It might be asked whether, in view of the present budgetary constraints facing the Community, mechanisms operating outside the budget by means of financial transfers between Member States, on the analogy of the initial stages of the implementation of the Decision of 1970 and of the Accession Treaty, could be employed. The Commission's view is against this possibility. . The main objection is that any unforeseen effects arising from patterns of receipts and expenditure by the Community are the responsibility of the Community in the same way as the policies which give rise to them. Nor should the difficulties be ignored which would arise from any financial mechanism that was outside the control of the budgetary authority (the Council and the European Parliament) and intended to compensate for a net situation produced by the operations of the budget.

37. A further consideration is whether a settlement by Member States could be reached on the basis of an agreement outside the Treaty. The Commission's view is also against this consideration. The reason is that if the conditions for the use of Article 235 of the Treaty can be satisfied, then the Treaty itself imposes an obligation on Member States to make use of it.

VII. WIDER CONVERGENCE QUESTIONS

38. In the document containing its opinions and concrete requests, the Italian Delegation has put forward two propositions.

39. The first proposition is that a new balance should be struck in agricultural expenditure, in order to reduce the imbalance perceived by the Italian Government between priorities accorded to northern and southern products within the CAP. To this end it is proposed that support for the dairy sector should be reduced in countries producing surpluses; the marketing and processing of Italian fruit and vegetables should be encouraged; and that there should be appropriate compensation for the impact of tariff concessions on Mediterranean agricultural products. At the same time measures should be taken to encourage the development in Italy of agricultural products of which she is a net importer, in the interest of reducing the import burden on her balance of payments.

40. The second proposition is that expenditure in respect of structural and investment policies should be increased with quantified objectives over a given period. It is suggested by way of example that 25% of budget might be devoted to structural policies and 5% to general investment policies by 1982.

VIII. COMMON AGRICULTURAL POLICY

41. The Commission has examined carefully the points put forward by the Italian Government. As regards a new internal balance of agricultural expenditure, the Commission stresses that a recognition of the importance of Mediterranean production has led the Community to adopt in recent years useful measures for the direct or indirect support of the incomes of the producers concerned. During the years 1975-80 FEOGA guarantee expenditure will have developed for these products to a comparable degree with expenditure relative to other products. Indeed in certain cases, for example, processed fruit and vegetables the evolution will be even greater. In this context the Commission would underline the changes and adaptations which have been made to the market organisations of Mediterranean products such as olive oil, fresh fruits and vegetables, and other products.

42. The Commission recalls that the Common Agricultural Policy is based on the concept of Community preference. Nonetheless, as regards products

in respect of which Italy is a net importer the Commission recalls the assistance which is given by the market organisation for cereals and particularly for maize and hard wheat of which Italy is a major producer. Furthermore:

(i) As regards meat, special aids are in force for beef in order to assist production in the Italian regions. Moreover as regards sheepmeat and beef, the Commission presented in March this year new proposals on agricultural structures which included special measures for developing beef cattle and sheep production in Italy. The Commission will make a major effort to ensure the rapid adoption of these measures by the Council.

(ii) In respect of other products of special interest to Italy, the Commission is intensively studying the need for formulating new measures for marketing and transformation. It should be borne in mind that any measures would need particularly to take account of the forthcoming enlargement of the Community.

43. At the same time the Commission, like the Italian government, takes the view that a new balance within the FEOGA cannot be brought about exclusively by increasing expenditure in favour of Mediterranean products. Expenditure in a certain number of other sectors now needs to be controlled. For example:

(i) The Commission considers that the Community must take drastic measures to reestablish a structural balance in the dairy market, and that it must take care that imbalances which are currently appearing in other markets do not assume the dimensions of that of the dairy market. If the present situation continues the Community will rapidly have to face budgetary problems which will be insurmountable.

(ii) In the above context, the Commission will shortly be making certain proposals particularly in respect of dairy products and sugar within the limits of maintaining a tolerable social situation in the agricultural sector.

(iii) The Commission will also be taking certain actions which lie within its own competence in the direction of reducing agricultural expenditure.

To the extent that the Council is ready to go along with the Commission's proposals, these initiatives should make a considerable contribution towards reducing the imbalances identified in the Italian paper.

44. As regards the guidelines which are needed in the structural field to bring about a better balance of expenditure the pre-occupations expressed by the Italian government are very close to those of the Commission. It should be noted that as regards agricultural structures the level of the FEOGA guidance fund has been fixed at 3600 MEUA for the period 1980-85, that is to say 720 MEUA per year in comparison with the former ceiling of 325 MEUA. These resources will reinforce the programme of common actions designed to improve agricultural structures and certain other socio-structural measures within the framework of the "Mediterranean package". Moreover the Commission has put forward to the Council proposals for a number of radical changes to the structural policy of the Community which has hitherto been followed in respect of agriculture which will facilitate a shift in the balance of Community resources in favour in particular of Italy. It intends to study all possible means of ensuring that the disbursement of financial resources which should result from these modifications takes place at an increasing pace.

45. The Commission is convinced that if the Council accepts its proposals Community funds will be better placed to contribute to the elimination of structural imbalances particularly by means of ad hoc measures whose objective would be to deal with the problems of the least favoured regions and least favoured areas of agricultural production such as are to be found in certain parts of Ireland and Italy.

IX. THE DEVELOPMENT OF STRUCTURAL POLICIES

46. The Irish, Italian and British Delegations have all raised the question of the overall structure of the Community budget. Their preoccupations correspond closely to those of the Commission as was made clear in the Commission's latest three-year forecast presented with the 1980 preliminary draft budget.

47. The Commission's overall policy has for long been based on the twin objectives of the development of Community policies, particularly those in the structural field, and the better control of agricultural expenditure. Some of the long term overall objectives which the Commission believes right

for the Community are clearly only possible in the framework of an expanded Community budget.

48. So far as the immediate future is concerned, the draft budget for 1980 proposed significant increases in resources for social and regional policy. The Commission hopes that the budgetary authority will maintain the major part of these proposed increases as concrete evidence of a political will within the Community to improve the expenditure balance of the budget. For its part the Commission will continue not only to make the most effective use of available resources by ensuring a further concentration of the Community's structural funds on priority objectives, but will also seek to increase the volume of resources for structural and investment problems. At the same time the Commission will pursue vigorously its aim of correcting agricultural surpluses and of bringing under greater control the expenditure to which they give rise. But a significant movement in the direction of more balanced Community expenditure can only take place if there is a decision to increase the resources available for financing the budget.

Annex I

General description of the financial mechanism

1. On a reasoned application from a Member State, submitted not later than 30 June, the Commission assesses the facts of the situation, having established that the following conditions are met simultaneously:

(a) the per capita gross national product (GNP) of the Member State is less than 85% of the average per capita GNP for the Community (moving average of the three years preceding the current financial year at current market exchange rates);

(b) the growth rate of the per capita GNP in real terms of the Member State is less than 120% of the average rate for the Community (moving average of the previous three years);

(c) the total payments made by the Member State to the Budget of the Communities for the financial year in progress, pursuant to the Decision of 21 April 1970, exceed by more than 10% the amount it would have had to pay if the part of the Budget covered by the aforementioned Decision (i.e. customs duties, agricultural levies, VAT or GNP-based contributions) were financed by the Member States on the basis of the proportion of their GNP to the total GNP of the Member States. The figures relating to the GNP refer to the financial year in progress and are thus estimates.

2. However, where the balance of current payments of the Member State, as calculated at current market exchange rates from a moving average of the three years preceding the financial year in progress, shows a surplus, the total payments by the Member State (total customs duties, agricultural levies and resources from VAT or GNP-based contributions) are not taken into consideration, but only its VAT or GNP payments. The condition set out at point 1(c) is thus met where these payments exceed by more than 10% the amount the Member State would have had to pay (to finance the expenditure not covered by customs duties and agricultural levies) on the basis of the proportion of its GNP to the total GNP of the Member States, these figures being estimates relating to the financial year in progress.

3. The excess amount referred to at point 1(c) (or at point 2) is divided into tranches equal to 5% of the amount which the Member State would have had to pay on the basis of its GNP. The payment is determined as follows:

Tranches	Payment
from 1% to 5%	nil
from 5,0001% to 10%	50%
from 10,0001% to 15%	60%
from 15,0001% to 20%	70%
from 20,0001% to 25%	80%
from 25,0001% to 30%	90%
above 30%	100%

4. The payment, as calculated under point 3, may not exceed the smaller of the following two amounts:

(a) the amount of the deficit for the Member State in question between its payments to the Community Budget and the payments to it from the Budget(1). This balance is determined without taking account of payments made through this mechanism.

Payments received by the Member State include payments made on its behalf by other Member States in the form of monetary compensatory amounts(2).

All the payments referred to above relate to the financial year in progress and are therefore estimates.

(b) the amount of the VAT or GNP-based contributions made by the Member State to the Budget for the financial year in progress.

The total amount of the payment (or payments, if several Member States receive them) may not exceed the greater of the following two amounts:

250 m EUA; or 3% of the expenditure chargeable to the financial year in progress.

Should the total amount of the payments exceed that ceiling, the payments are reduced proportionally for the Member State(s) concerned.

5. At the request of the Member State concerned, an advance equal to 75% of the provisional amount is paid at the beginning of the following year. When the Commission has the final data at its disposal, it calculates the final amount of the payment.

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(1) Where the Member State concerned registers a surplus, this mechanism is not applicable.
(2) Article 2a of Regulation No 974/71.

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(79) 462 final

Brussels, 12th September 1979

REFERENCE 'B'

REFERENCE PAPER ON BUDGETARY QUESTIONS

(Communication from the Commission to the Council)

1. INTRODUCTION

In the light of the discussion on convergence which the European Council had at its meeting in Strasbourg in June 1979, the Council requested the Commission "to submit to the Council a reference paper describing the financial consequence of applying the budgetary system on the situation in each Member State, especially in 1979 and 1980. The study will have to take into account the economic, financial and social effects of each Member State's participation in the Community and the Community nature of the components contributing to the formation of own resources. For 1980, it will take account of the agricultural prices for the 1979/1980 marketing year.

The Commission will at the same time examine the conditions under which the corrective mechanism decided on in 1975 can play its part in 1980 and the extent to which it fulfils the objectives assigned to it.

The Commission will submit its study to the Council so as to enable the Member States to give their opinions and present their requests in concrete form. In the light of the debate and of any guidelines which may emerge from the Council, the Commission will present proposals sufficiently early to enable decisions to be taken at the next meeting of the European Council."

2. In the light of the request of the European Council this paper is in three main parts:

- an analysis of the expenditure and receipts of the Community budget, which includes observations on the nature of own resources
- an examination of the operations of the Financial Mechanism
- certain considerations on the economic, financial and social aspects of participation in the Community.

3. In presenting this reference paper, the Commission wishes to draw the attention of the Council to a number of fundamental aspects of the Community against which the application of the budgetary system on each Member State needs to be seen.

4. First, the Community in itself comprises a number of policies which cannot readily be quantified in financial terms. The advantages of belonging to a single market, the benefits conferred by the Common Commercial Policy, and the political strength which flows from membership of an organization moving steadily towards greater integration are among the more important elements in this respect. Moreover, economic convergence in the Community should be seen not only from a budgetary aspect, if only because the Community budget represents at present only a small proportion of the GNP of the Community. It is also necessary to take into account, for example, the advantages offered by the flow of private capital across the Community which is in itself assisted by an improvement in economic structures. Factors of this kind have indeed led an increasing number of European countries to seek to join the Community since its original creation with six Member States. Moreover countries joining the Community have had to recognize, as did the original founding members, that not all policies are of equal benefit to all Member States and that the advantages or disadvantages of Community membership must necessarily be seen as a whole.

5. Second, the interdependence of the Community's achievements should be borne in mind. The creation of the internal customs union and the contribution which the Community has made to liberal trading policies would not have been possible without the establishment of a vigorous Community agricultural policy. In the same way the Community's social and regional policies have been introduced to correct the effects of the concentration of developments in certain areas which exist despite the economic expansion to which the Community has greatly contributed, thus asserting a solidarity among Member States which is required to diminish the regional and social inequities which can be identified at a Community level. The Commission believes strongly in the value of these policies.

6. Third, in considering the Community budget, the figures cannot in themselves be seen as reflecting the true economic cost and advantage of membership of the Community to a Member State. The Community budget is the financial expression of common policies which comprise expenditure, Community competences in certain sectors, and decisions taken regularly in respect of them by Member States. In this context the budget should not be judged in the light of the position of each Member State, but mainly of the effectiveness with which it ensures the conduct of common policies to the benefit of the entire Community. The Commission recently emphasised this point in the document on convergence which it sent to the European Council in March of this year. The Commission wishes to stress again that the Community instruments which are financed within the budget or through loans have been set up to serve specific policies.

7. The Commission further emphasizes that even if at present the Community budget has a weak redistributive effect it should, as it increases, progressively promote convergence between the economies of the Member States.

8. The considerations in paragraph 6 above apply with particular force to the Common Agricultural Policy. In fact, the main interventions of the Guarantee Section are subordinated to the general objective of maintaining prices for agricultural products on the Community's internal market at a stable level in accordance with Article 39 of the EEC Treaty. The economic consequences of such expenditure are not limited to the country in which it occurs. For example, if a quantity of agricultural produce is removed from the market in a Member State by intervention for public storage, or by export with the benefit of Community refunds, such action supports the market price both in that Member State and throughout the Community. It follows that the budgetary incidences of the agricultural price and market policy are less significant than its wider economic consequences. The latter are necessarily difficult to quantify. However, it may be said that, insofar as the interventions of the agricultural policy succeed in supporting prices at the level necessary to maintain a fair standard of living for the agricultural community, they result in a transfer of income to the agricultural sector from other sectors of the Community economy, and therefore in favour of Member States in which agricultural production is relatively important. The agricultural policy, through its maintenance of the agricultural labour force, is also playing an important role in a period of high unemployment. On the other hand, insofar as the policy assures the stability of markets and the availability of food supplies to consumers at reasonable prices, it

represents an economic benefit and a degree of security for those Member States whose degree of agricultural self-sufficiency is relatively low. This benefit, though difficult to measure, is no less real, as was demonstrated in the period of shortages on world agricultural markets in 1974-75.

9 Finally, the Commission notes that the terms of the request from the European Council required it to concentrate its study on the situation of individual Member States in relation to the Community budget. The Commission stresses that, apart from the above-mentioned difficulties in quantifying this relationship, it takes the view that the expansion of existing and the introduction of new policies as the need arises would be gravely hampered if the notion of "juste retour" were to become the accepted way for Member States to judge them. The Commission believes strongly that the terms of the request of the European Council cannot be allowed to lead to an evaluation of the Community which is confined to a simple analysis of cost and benefit of the budget for each Member State.

Furthermore, calculations based on "juste retour" have even less meaning when it is taken into account that on the one hand certain budgetary expenditure results from Community obligations taken over following the accession of certain Member States (for example the sugar protocol or N.Z. butter*) and in the context of the Communities general commercial relations with third countries ; and that on the other hand certain expenditure connected with Community policies has not so far been included in the Community budget, but is financed on national budget on different keys (e.g. EDF, food aid in cereals).

II. ANALYSIS OF EXPENDITURE AND RECEIPTS OF THE COMMUNITY BUDGET

10 In the light of the above considerations this section seeks to analyse by Member State the main features of expenditure and receipts in respect of the Community budget based on tables which will be found at Annex I. These tables record both actual budgetary receipts for the years 1976-78, and forecast receipts and expenditure for 1979 and 1980.

It should be borne in mind that:

(a) The projections for 1979 and 1980 are based on an analysis of significant categories of expenditure in each Member State for the years 1976-78 particularly with the aim of eliminating any anomalies. Nonetheless the resulting expenditure figures in Member States should be regarded essentially as orders of magnitude rather than precise budgetary estimates.

(b) The forecasting of figures for each Member State in the way which has been attempted presents particular difficulties. The Commission has accordingly set out in some detail in a separate document the method which it has used for this exercise.

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*For 1979 the budgetary cost for these two items has been estimated at 650 MEUA.

The tables at Annex I:

(a) comprise figures representing estimated percentage shares of expenditure in Member States and estimated actual expenditure for 1979 and 1980 (Tables 1-4).

(b) show the development of customs duties and agricultural levies from 1976 to 1980, and estimates for VAT payments for 1978-80. They also show the percentage shares of each Member State and the relationship between those shares and their shares of Community GNP (Tables 7-9). Table 10 shows for 1976-80 the shares and forecast shares of each Member State in financing the budget as a whole compared with its share in Community gross national product. Adjustments have been made to take account in 1978 and 1979 of the effects of Article 131 of the Act of Accession.

11 It should be noted that the report does not include calculations in respect of the budget of the ECSC due to the fact that a different method of financing this budget is used.

A. ANALYSIS OF EXPENDITURE

12 The Commission has grouped the different types of expenditure from the Community budget into six main categories. The resulting forecast expenditure by Member State is presented in the annexes in terms of both percentages and in absolute amounts. The following concerns the main separate categories of expenditure within the Community budget.

(i) FEOGA Guarantee Section

This section represents by far the biggest category of expenditure within the Community budget, amounting for 1979 and 1980 to some 70% of the total. This is due to the relatively low degree of development of other policies. The Common Agricultural Policy is a highly developed policy based on Community solidarity and it has taken over virtually all the financial consequences of the regularisation of agricultural markets. The geographical distribution of its expenditure therefore determines to an important extent the pattern of total budgetary expenditure in Member States. Whereas some

25% of the expenditure takes place in Germany, 20% in France and 16-17% in Italy, in 1980 only about 8% will take place in the United Kingdom[1]. However these figures need to be judged essentially in the light of the considerations advanced in paragraph 8. The relatively low level of expenditure in the United Kingdom reflects the share of United Kingdom agricultural production in the Community (some 10-11% of those products subject to a system of common prices under the CAP), and is also influenced by the generally deficit nature of the United Kingdom market and, until recently, high negative MCA's, both of which limit intervention expenditure. It should be noted that in conformity with the Council Regulation governing the operation of the financial mechanism, negative MCA's paid in the exporting country have been treated as if they had been spent in the importing country. (However, tables on pages 14-15 show the different results which are produced depending on how the MCA's are attributed). But over the past few months the importance of MCA's in trade between the United Kingdom and the rest of the Community has been considerably reduced due to devaluations of the green pound and to a strengthening of sterling. So long as the current situation is maintained (United Kingdom MCA's of under 3.5%) then the attribution of MCA's will be of little practical significance.

(ii) Structural Funds

This category of expenditure represents some 12% of the budget and covers the social fund, the FEOGA guidance section, the regional development fund, and the 200 MEUA interest rebates allotted for Italy and Ireland over five years within the EMS. In general the distribution of expenditure from these funds corresponds to the relative needs in respect of the policies concerned as between the Member States of the Community. Thus Italy is by far the biggest recipient from these funds taken as a whole (32-33%) followed by the United Kingdom (21%). Moreover Ireland, which represents only some 0.6% of Community GDP, receives some 10% of this expenditure on structures. Expenditure in all other Member States is less than their share of Community GDP, amounting to less than half in the case of Germany and the Netherlands.

(iii) Other Intervention Payments

These have been growing fast in recent years but still represent only some 2% of total expenditure, covering research, energy and industry. Moreover their economic significance for individual Member States is more difficult to

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(1) The expenditure figures in Tables 1-4 are based on the budget of 1979 and the preliminary draft budget for 1980. These figures will be updated as necessary through the normal budgetary procedures. One effect of the updating which should be noted in the present context is the further diminution of United Kingdom MCA's.

evaluate. For example, the results of research benefit the Community as a whole and not just the Member State in which the expenditure takes place. Some 27% of this expenditure is forecast to be made in Italy and some 12-13% in the United Kingdom, although this proportion will increase over the next few years principally as a result of a build up of expenditure on the JET.

(iv) Reimbursements

Three categories of reimbursement representing some 5% of budgetary expenditure can be calculated precisely in respect of Member States. These are the automatic reimbursement of 10% of customs duties and agricultural levies to cover the cost of collection; the repayment to the United Kingdom of its contribution to the interest rebate scheme within the EMS; and the financial mechanism. (However latest forecasts indicate that the Financial Mechanism will not now come into play in respect of 1979, although it may operate for the first time in 1981 in respect of 1980)[1]. The share of Italy in these reimbursements is relatively small (11-12%) whereas it is substantially and rapidly increasing for the United Kingdom (1979: 27%, 1980: 34%).

(v) Administrative Expenses

Despite the difficulty of satisfactorily attributing these expenses to individual Member States, the Commission has nonetheless attributed some 90% of them representing some 6% of total budgetary expenditure.

(vi) Expenditure in respect of third countries

This currently represents some 5-7% of the budget and covers essentially co-operation expenditure in respect of developing countries including food aid (without restitution). This expenditure has not however been

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[1] In this context see also paragraph 27.

divided between Member States since the principal beneficiaries are outside the Community. For example food aid, whose market value is recorded as having been spent in the Member State which furnished the product, gives no more advantage to the country concerned than a commercial export of the same product. As regards investment projects the indirect economic benefit which Member States receive would be extremely difficult to quantify.

General Considerations

13 The above presentation of expenditure from the Community budget should be seen in the light of the following comments:

(a) Delays in payments.
As regards those parts of the budget divided between commitments and payments credits, a significant gap between the use by Member States of commitments credits as opposed to those for payments is quite normal. The former represent a coverage of part of the total cost of operations which are finalised over several years, while the latter reflect the actual expenditure taking place year by year. However the gap between commitment and payment does vary between Member States. This is due to two principal reasons.

Firstly, the social and structural situation is not identical in each Member State and national policies often vary greatly. This means that certain Community instruments respond in differing degree to the true needs of each Member State and that the capacity of Member States to take up the available payments credits varies accordingly. Secondly, the institutional and administrative arrangements in some Member States can also be a factor of delay.

These factors lead for example to greater delays in the take up payments credits on the part of Italy (although this is less the case in respect of the regional fund) than on that of the United Kingdom, where the situation appears to be normal. There are also certain delays in the case of France. However given the relatively small proportion of the Community budget which is represented by the structural funds, delays in respect of the use of payments credits do not significantly affect the position of the Member States concerned as regards the overall application of the Community budget.

The Commission is nonetheless aware of the political importance, as regards the general impact of the structural funds, of avoiding cumulative delays over the years in the use of available payments credits. This whole matter is currently under study within the services of the Commission.

(b) Development of Commitments.

At the same time it is important in considering the levels of payments to take into account the volume of commitements which have been made or are forecast in respect of the structural funds (Tables 5 and 6). The figures make clear that the volume of commitments is considerably greater in absolute figures thatn the volume of payments and that the commitments are developing considerably from one year to the next. This is the result of significant increases in these credits in recent budgets.

The percentage figures also show that these funds benefit essentially those Member States within the Community which have the lowest gross national product per head. Nearly 70% of this expenditure is forecast to go to Ireland, Italy and the United Kingdom in 1979 and 1980.

14 The expenditure figures demonstrate that the division of expenditure among Member States is relatively stable as regards the majority of them. The changes from 1979 to 1980 do not exceed 10% and are therefore relatively minor. The only exception is the United Kingdom whose relative share of expenditure falls from 13.5% to 10.3%, i.e. a reduction of 25%. This change is due largely to the reduction of monetary compensatory amounts referred to in paragraph 12(1).

Community Loans

15 Full account also needs to be taken of the element represented by loans and their contribution to economic development within Member States as well as to the Community's financial operations. A table (Table 11 and 11b) gives the volume of loans from Community sources to Member States for 1976-78. Loans are clearly not in the same category as transfers

from the Community budget. But given the constantly increasing loan activities of the Community and the EIB it seems likely that despite the charges incurred through them, loans will produce a growing flow of capital to the countries which benefit from them especially Italy and the UK.

The balance of payments benefits and their contribution to economic development are also significant if difficult to quantify.

B. ANALYSIS OF BUDGETARY RECEIPTS AND THE NATURE OF OWN RESOURCES

16 The Council Decision of 21 April 1970 on the replacement of financial contributions from Member States by the Community's own resources provided that the Communities shall be allocated resources of their own in order to ensure that their budget is in balance. The own resources were to consist of customs duties and agricultural levies, supplemented by financial contributions which were to be replaced by payments based on VAT. Thus the customs duties and agricultural levies constitute resources which belong to the Community as a result of its basic characteristic as an integrated commercial area; and while the different national administrations are for reasons of administrative convenience asked to collect the resources, they cannot be said to belong in any sense to any particular Member State. The same Decision of 1970 placed limits on the variation which could take place from one year to the other in the relative shares of all Member States in financing the budget up to the end of 1977. Articles 130-132 of the Act of Accession also put limitations on the amount to be paid by Denmark, Ireland and the United Kingdom until 1979. In fact therefore it is not until 1980 that the Community's own resources will be paid in full by each Member State without modification.

17 Because the Community is a customs union and has a common agricultural policy, some duties and levies are collected at the periphery on goods which are finally consumed in another Member State. Where this happens the customs duties and agricultural levies collected by the Member States at the place of import overstate its real contribution to the Community budget, and the contribution of the Member State which consumes the goods is understated. For example a significant proportion of goods imported into Germany from outside the Community and consumed in Germany have the relevant customs duties and agricultural levies collected at Rotterdam or Antwerp. The burden of the duties falls on Germany but the transfer to the Community is shown as having been made by the Netherlands or Belgium. On the

other hand the United Kingdom imports directly from third countries and also consumes the great majority of its imports; therefore the customs duties and agricultural levies which it transfers to the Community represent a reasonably accurate measure of trade movements which actually take place between the United Kingdom and third countries.

18 In view of the significant increase which has taken place in industrial and agricultural trade among the six original members of the Community since its creation it is worth examining whether a similar evolution can be identified in the case of the new Member States and with a consequent effect on contributions to the budget in levies and customs duties. The share of external trade of Ireland and Denmark which is directed to the Community has regularly increased and is around the level (or above in the case of Ireland) of the Community average. As regards the United Kingdom, imports from the EEC as a percentage of the United Kingdom's total imports have risen from around 34% in 1972 to 35% in 1976, and to 43% in the first three quarters of 1978. This has not however led to a consequent decline in for example the proportion of Community customs duties originating in the United Kingdom over recent years. These duties, which are substantially more important than agricultural levies as an own resource have in fact shown a steady increase since 1976. The high proportionate level of these duties has been due to the United Kingdom's rate of imports in proportion to her GNP and to her continuing volume of imports from third countries. However with progress in Community integration, a growing part of the external trade of the United Kingdom will take place with its Community partners and the result should be a relative reduction in the United Kingdom's share of financing the budget.

19 Although customs duties and agricultural levies belong automatically to the Community and there are uncertainties about their financial impact on the Member States, they have been attributed throughout this paper to the Member State in which they were collected. This is in conformity with the Decision of 1978 which provided that they should be considered as contributions by the Member States in the application of the "relative share" method of financing the Community budget which ended on 31 December 1977. Moreover the Community's financial mechanism (see III below) provides that they should be included in the assessment of whether or not a Member State is bearing a disproportionate burden in the financing of the budget.

20. In 1979 six Member States have replaced the financial contributions related to their share of Community GNP which are made in order to balance the budget by payments related to the application of a Community rate (not to exceed 1%) to a uniform VAT basis of assessment. It is expected that in 1980 all Member States will be paying to the Community on the basis of customs duties, agricultural levies and VAT.

21. The financial consequences of VAT payments are clearer than those of the levies and the duties. VAT is a tax on consumption within each Member State and the transfers to the Community are therefore a more accurate measure of the financial consequences for each Member State of this method of financing the Community budget than are customs duties and levies. But the VAT contribution does not necessarily reflect a Member State's ability to pay. This is because the share of value added (i.e. the VAT tax base) in the GNP of a Member State is influenced by the level of investment and the balance of trade, because investment and exports are not included in the tax base although imports are included. Member States with at any given time a low investment rate and/or a balance of trade deficit have a high VAT tax base in relation to their GNP shares and vice versa.

Evolution of Receipts from Member States

22. The share of each Member State in the financing of the Community budget for the years 1976 to 1980, by comparison with its GNP share, is shown in Table 10. It will be seen that the shares have changed considerably over the years because of the phasing out of the limitations in the method of financing up to the end of 1977, and of the application of Article 131 of the Treaty of Accession in 1978 and 1979[1]. Only the shares for 1980 are free of restraints and

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(1) Under this Article the United Kingdom and Ireland received payments, outside the budget and financed by the other Member States, of 481 MEUA and 18 MEUA respectively for 1978. The payments for 1979 are expected to be about 410 MEUA and 3 MEUA respectively.

can be taken as a guide for the future. However, in order to present comparable figures for more than one year table 10A has been constructed which shows what the shares would have been from 1978 to 1980 if Article 131 had not been applied and if all Member States had been contributing to the budget on the basis of VAT.

This table could be expected to show the effects on shares of Member States of increases in the size of the budget. As the budget increases the proportion financed by VAT increases, because additional expenditure is financed solely by VAT. If customs duties and agricultural levies remained relatively constant, and if exchange rates were stable, one could therefore expect that the overall shares of Member States (Belgium/Luxembourg,Italy,Netherlands, United Kingdom) whose VAT is less than their customs duties/ agricultural levies share would decrease, that the overall shares of Member States in the reverse position (France) would increase, and that those whose customs duties/agricultural levies share is broadly equal to their VAT share (Denmark, Germany and Ireland) would remain in the same position.

23. Table 10A confirms this expectation, after allowing for currency movements, except in the case of the United Kingdom whose share is not forecast to fall as could have been expected. This is because the United Kingdom is the only Member State whose share of customs duties and agricultural levies has risen steadily between 1976 and 1980; this has more than offset the benefit which could otherwise have been expected from a lower VAT share.

24. All the tables in this paper have been constructed for the years 1976 to 1978 on the basis of converting payments to the budget, in national money, into European Units of Account at the average exchange rates for the years in question. For 1979 the rates used are those of 1 February 1978 (used for the 1979 budget)and for 1980 they are those of 1 February 1979 (used for the 1980 budget).

25. It is important to note that the figures for 1979 and 1980 will be different if there are significant changes in the relative values of national money. For example, the rise in the value of the pound sterling increases the share of the United Kingdom in financing the budget but increases also its share in Community GNP. Over a period of years these increases will be broadly self-compensating

and will not significantly affect the gap between GNP share and budget share. But in 1979 (and to some extent in 1980) the increase in budget share will be less than the increase in GNP share and the gap will become narrower. This is because of the method of paying the VAT element which is fixed in EUA in the year in question and corrected in national money in the following year. Table 10B shows, as an illustration, the effect on the forecast shares if the average exchange rates for August 1979 were to be the average rates for the whole year.

C. BALANCE OF BUDGETARY RECEIPTS AND EXPENDITURE

26. The tables below summarise percentage budgetary receipts as shown in Table 10 and expenditure in Member States in respect of categories I-V for the years 1979 and 1980. As regards 1979 the receipts take account of extra-budgetary payments under Article 131. It should be noted that the net balances which have been calculated are forecasts based on a method which means that they cannot be compared with figures which the Commission has earlier produced for previous years on the basis of actual monetary transfers. The tables should therefore be seen as showing a trend for 1979-80, rather than as indicating absolute balances.

27. The following observations may be made in respect of the three Member States with below average GDP in the Community:

(i) Italy's share of Community expenditure in categories I-V is 17.9% for 1979 and 17.3% for 1980. This compares with forecast receipts from Italy of around 12%. Given a share of Community GNP of 14% this indicates that Italy's share of expenditure is more than 3% above her GNP share, while her payments to the budget are some 2% below. The positive balances forecast for Italy in 1979 and 1980 contrast with her position in 1978 when, in cash terms, she was a net contributor, having been a net beneficiary in previous years. The situation in 1978 arose mainly because that year Italy's contribution to the budget increased sharply because of the end of the "relative share" system of financing which had previously held down her total payments; at the same time expenditure in Italy from the structural funds actually fell slightly. In 1979 on the other hand, Italy started to make VAT payments to the budget instead of GNP contributions; since the Italian VAT share in 1979 is forecast as 10.5% as against a GNP forecast of 14.3%, this change benefits Italy to the extent of about 250 MEUA; also, although customs duties are expected to increase by about 50 MEUA, agricultural levies are forecast to fall by about 150 MEUA. There is thus a reduction in payments by Italy to the receipts side of the budget of about 350 MEUA. On the expenditure side Italy is expected to benefit from a series of improvements, the most important of which are the new FEOGA provisions concerning olive oil and processed fruit an vegetables (some 350 MEUA), forecast increases in the general level of payments from the structural funds of at least 150 MEUA and the interest rebate scheme instituted in the framework of the European Monetary System (133 MEUA).

(ii) The share of the United Kingdom in the same categories of Community expenditure is forecast at 13.5% in 1979 and 10.3% in 1980, compared with a forecast share of financing the budget of 17.6% in 1979 and 20.5% in 1980. This compares with a share of Community GNP of about 16%, so that the United Kingdom's forecast percentage of the expenditure is more than 2% below her GNP share in 1979, falling to more than 5% below in 1980; while United Kingdom financing rises from 1.6% above her GNP share in 1979 to over 4% in 1980. The reduction in the MCA's means that her share of expenditure from the budget will diminish in 1980 since increases in expenditure from other parts of the budget will not match the foreseeable decline in the MCA's. Moreover from 1980 on the cessation of extra-budgetary payments in the context of Article 131, which amount to more than 400 MEUA in the forecast for 1979 will effect even more the budgetary situation of the United Kingdom.

The United Kingdom's forecast deficit for 1980 is attributable in respect of roughly one half to financing the budget in excess of her GNP share, and in respect of around one half to a below average share of expenditure. The main factor of imbalance is the expenditure under the FEOGA guarantee section which accounts for some 70% of the preliminary draft budget for 1980, and of which the United Kingdom is forecast to receive only 7.6%.

The forecast United Kingdom net deficit of 1552 MEUA for 1980 includes a forecast payment to the United Kingdom of 68 MEUA in respect of 1979 through the Financial Mechanism (see however paragraph 29 below). It should be borne in mind that the budget for 1981 may include a further payment through the Mechanism in respect of 1980 (see paragraph 30).

(iii) Ireland's share of Community expenditure is forecast at 3.6% in 1979 and 3.8% in 1980, compared with forecast receipts from Ireland of 0.75% and 0.90%. Her share of Community GNP is forecast at 0.67%. Thus although her share in financing is rather above her GNP share, this is offset by her share in expenditure, which is considerably higher.

III. FINANCIAL MECHANISM

28. At the Summit meeting in Dublin in March 1975, a correcting mechanism was agreed which preserves intact the own resources system but gives, on the expenditure side of the budget, a payment to a Member State which is in a certain economic situation and which makes a disproportionate contribution to Community financing. The economic situation is measured in terms of the relationship of national wealth to the Community average and whether or not the national economy is growing faster than the average Community rate of growth - i.e. whether convergence of economies is in progress. The disproportionate burden is measured in terms of the relationship between the total contribution to the budget (customs duties, agricultural levies and VAT) and the contribution which would have been made if it had been calculated on the basis of the share of the GNP of a Member State in the total GNP of the Community. If the conditions of an unacceptable economic situation and a disproportionate contribution to Community financing are met, a payment is made which compensates for part of the disproportionate contribution. The payment is limited to the amount of the VAT contribution or to the net transfers of the Member State to the budget, whichever is the lower. Moreover if a Member State has a balance of payments surplus, the whole calculation is related only to its VAT contribution; and the total payment to one or more Member State cannot exceed 3% of the budget. A full description of the Financial Mechanism is given at Annex II to this document.

29. The Financial Mechanism did not apply in 1976, 1977 or 1978 because no Member State fulfilled the conditions. Particularly, Ireland did not make net transfers to the Community budget; Italy's budget share has not exceeded 110% of its GNP share; and the United Kingdom's budget share, after taking account of the Article 131 adjustments, was also less than 110% of its GNP share. In 1979, however, forecasts made in May indicated that the United Kingdom would fulfil the criteria and an amount of 68 MEUA was provisionally entered in the preliminary draft budget for 1980 as a compensating payment to the United Kingdom. (Since the United Kingdom has to contribute to this expenditure the net benefit would have been reduced to about 56 MEUA.) However, the United Kingdom published on 3 September revised balance of payments figures which indicate that there was a surplus calculated as a moving average for the years 1976, 1977 and 1978 (as a result in part of the growing revenues from North Sea oil). The calculation of the financial mechanism in respect of 1979 has therefore now to be made in relation to the VAT payments only. It is also necessary to take account of the rise in the value of sterling which increases the United Kingdom's share of Community GNP. The Commission's view is now that because of these factors there will be no payment from the financial mechanism due to the United Kingdom in respect of 1979 (i.e. from the 1980 Budget).

30. As regards 1980 (when Article 131 ceases to apply) the United Kingdom may qualify for payment in the 1981 Budget of about 300 MEUA (net 250 MEUA) if the pound sterling stays around its present level. However because of the balance of payments criteria within the financial mechanism a payment of this size can only be made if the United Kingdom has a balance of payments deficit calculated as a moving average for the three years 1977-79. If there is a balance of payments surplus for this period, there will be no payment. As regards the Italian position over the period under review, only in 1978 will Italy's contribution to the Community budget have been marginally in excess of her share of Community GDP. Italy's contributions for both 1979 and 1980 are forecast at rather more than 2% below her share of Community GDP.

31. The Financial Mechanism as proposed by the Commission and as agreed at the European Council in 1975 was conceived in order partially to correct an imbalance in contributions made to the Community to the extent that the situation of the contributing Member State conformed to certain criteria. One of the key elements was that the correction would be a partial one, as is demonstrated by the tranche system on which payments are calculated. The final discussions in the European Council at Dublin introduced certain supplementary conditions, such as the limit of 3% of the budget and the balance of payments limit.

32. The principle of partial repayments is illustrated by the forecast for 1980. If the whole of the British contribution exceeding 110% of the British share of the Community GNP which is foreseen for 1980 could be subject to repayment, this would be of the order of 630 MEUA (net benefit 520 MEUA) instead of the payment of some 300 MEUA (250 MEUA net) which is currently foreseeable provided that the balance of payments criterion is met. If the limit of 3% of the budget were to be applied the amount of the payments would be reduced to about 480 MEUA (net 400 MEUA) if, as is likely, no other Member State were to benefit in the same year.

33. It should be noted that a further increase in the rate of exchange for the pound sterling which could reduce the difference between the British share in financing the budget and Britain's share of Community GNP (see paragraph 29 above) would reduce the possibilities of future recourse to the Financial Mechanism. However with the further likely movements in the sterling rate it is not possible at this stage to make any reliable judgements on this point.

34. The above considerations show that the application of the Financial Mechanism has so far been too limited to judge its scope and effectiveness. Among the economic criteria which have to be met if the Mechanism is to operate, the two limitations introduced into the regulation concerning the ceiling of 3% of the budget and restricting payments in the case of a balance of payments surplus may severely further restrict its effects. This is particularly the case in respect of the second of these conditions.

IV. THE ECONOMIC, FINANCIAL AND SOCIAL ASPECTS OF MEMBER STATES' PARTICIPATION IN THE COMMUNITY

35. The progressive creation of the Common Market has had very beneficial effects on each of its constituent economies. In the six original Member States it has assisted a general improvement in the standard of living; steady growth, resulting at least in part from the development of intra- Community trade (from 5% of Community GDP in 1958 to about 12% in 1978); greater specialisation through a better distribution of productive resources; and economies of scale which have led to great increases in productivity and a wider choice for consumers. Moreover the existence of the Common Market has brought about a fundamental change in the way of life of those Member States whose activities were in 1958 still largely devoted to agriculture.

36. The accession to the Community of Denmark, Ireland and the United Kingdom coincided with the crisis of 1973. It is therefore difficult to draw clear lessons from the ensuing brief and troubled period. It is however certain that those three Member States broadly benefited from their membership of the Common Market.

37. The Community has thus been largely responsible for the exceptional economic advance which the countries of Europe have seen. But dispite this progress regional problems continue to exist. Greater efforts including financial solidarity, will be necessary to bring about further progress in this domain. Such efforts would be to the benefit of the entire Community.

38. Action has been taken over many years at the national level with the aim of correcting regional imbalances. Moreover a Community regional policy has been initiated and is being progressively developed. In addition to the regional development fund there are other budgetary and financial instruments, such as the operations of the ECSC and the EIB, which are designed to tackle the problems of underdeveloped or declining regions. However despite a rapid growth in recent years the Community's own funds such as the regional and social funds, and the FEOGA Guidance Section still have financial resources which are too limited

39. The introduction of Community policies may not always have a beneficial impact on the structurally weaker parts of the Community. The need to take into account the regional consequences of the application of Community policies was emphasised as recently as the beginning of 1979, in a Resolution of the Council of 6 February[1] in which the Council noted the intention of the Commission to take more systematic account of regional implications, and in particular the consequences for employment in the initiation and in the conduct of policies. The Council further expressed its intention to take account itself of these implications when it took decisions in respect of Community policies.

40. The need to pay greater attention to the regional consequences of certain Community policies was emphasised by certain Member States during the discussions on convergence which preceded the meeting of the European Council at Strasbourg. Reference was also made to the effects of the common agricultural policy, and to the Community's budgetary policy.

41. Despite the importance of agricultural expenditure as shown by the earlier analysis it must be emphasised that the benefits and costs resulting from the operation of the market mechanisms of the agricultural policy cannot be measured simply by a budgetary assessment of the distribution of expenditure from the Guarantee Section. The distribution of this expenditure between Member States is determined by a complex series of factors. These include the size of the agricultural production and the degree of self-sufficiency of different Member States; the pattern of trade within the Community; the location from which agricultural exports to third countries take place; and different types of production in different Member States as well as their market organisations. The incidence of budgetary expenditure is therefore no valuable indicator of the economic consequences of the policy. It should also be borne in mind that the Common Agricultural Policy has different economic and employment effects within Member States of the Community depending on differences in structures and the volume of production, and the rate of consumption.

42. As regards common policies in respect of agricultural structures the responsibility is shared with Member States. These policies take account of the particular nature of agricultural activity and increasingly of the particular needs and characteristics in the agricultural domain of particular regions. The Community has recently taken a series of decisions on structural measures which will particularly help the Mediterranean regions. It is intended that a total of about 200 MEUA per year of additional resources should be committed from the guidance section of the FEOGA over the next five years in respect of these regions. Thus whereas from 1973-77 about 15% of the FEOGA guidance section was devoted to the poorest regions of the Mezzogiorno, western Ireland and southern France, in 1979-82 these regions should account for about 42% of the guidance section.

At the same time it should be borne in mind that expenditure from the guidance section on structures represents only some 5% of the expenditure from the guarantee section. Moreover the results of these structural measures can be seen only in the medium and long term. Their effectiveness is closely linked with the degree of growth in the regions concerned which, assisted by other Community policies such as social and regional policies, can create new employment.

43. As regards income within the agricultural sector, the agriculture policy has had positive effects. Nonetheless disparities of income within the agricultural sector remain considerable. These are in part due to disparities between receipts from different types of production and differences in structure. At present three-quarters of the farm holdings within the Community represent only a quarter of Community agricultural production. On the other hand, the Mediterranean regions of the Community have levels of income well below those in other parts of the Community and while they cover only some 17% of agricultural land they support some 30% of those in the Community employed in agriculture. The system of price support has not in itself reduced these disparities but first steps have already been taken in the shape of structural measures.

44. The Commission underlines the necessity of continued efforts to reduce income disparities. At the same time, the Commission again emphasizes the need to correct certain features of the Common Agricultural Policy and in particular the need to reduce and finally eliminate the structural surpluses, the budgetary cost of whose disposal at present weighs more heavily on the economies of certain Member States. The effects of this policy will affect the share of FEOGA expenditure in the budget and therefore the geographical distribution of expenditure among Member States.

3. The economic and financial effects of operations of the budget within individual Member States of the Community need to be assessed with great prudence. . The Commission has already drawn attention to the fact that figures relating to the geographical distribution of budgetary operations, both in respect of receipts and of payments, can produce a distorted picture of economic realities.

40. It should be borne in mind that while the Community budget comprises in itself a considerable volume of financial resources, it constitutes only a small proportion of the gross product of the Community. This proportion represents 0.8% in 1979 whereas public expenditures approach 50% of the national product of Member States. It would however be wrong to conclude that the financial operations of the Community have no significant impact on Member States. For example, as regards Ireland, net budgetary transfers represented some 3.5% of GNP in 1978. The impact is thus particularly noteworthy for certain of the smaller economies and indeed for all Member States in certain sectors of intervention.

Table : Total appropriations for payments, and financing by each Member State in 1979.

Sector	B	DK	G D	F F	IRL	I	L	N	U.K. UK	Sub-total	Other	Total
	1	2	3	4	5	6	7	8	9	10	11	12
A. As a percentage												
1. Expenditure broken down into Categories I-V (1)												
(a) (2)	9,3	4,2	21,8	17,5	3,6	17,9	2,0	10,2	13,5	100		
(b) (3)	9,5	6,0	22,8	19,3	5,2	15,18	2,1	11,3	8,0	100		
2. Financing, including Article 131 (see Table 10)	6,63	2,51	30,63	20,00	0,75	12,11	0,14	9,60	17,58	100		
3. Balance (1)-(2)												
(a)	+ 2,6	+1,7	-8,8	-2,5	+2,8	+5,8	+1,9	+0,6	-4,1	0		
(b)	+ 2,8	+3,5	-7,8	-0,7	+4,4	+3,7	+2,0	+1,7	-9,6	0		
B. In m EUA												
1. Expenditure broken down into Categories I-V												
(a)	1.209	551	2.837	2.285	463	2.333	269	1.323	1.764	13.034		
(b)	1.239	782	2.974	2.517	676	2.060	269	1.480	1.037	13.034		
2. Financing, including Article 131	871	327	3.992	2.607	98	1.579	18	1.251	2.291	13.034		
3. Balance (1)-(2)												
(a)	+338	+224	-1155	-322	+365	+754	+251	+72	-527	0		
(b)	+368	+455	-1012	- 90	+578	+481	+251	+229	-1254	0		
C. Not included in calculations	Bel	Dk.	G.	F	Irl				UK.			
Chiefly expenditure not broken down (4) (Category VI)											683	
D. Grand total (for reference)												13.717

(1) I - EAGGF Guarantee Section; II - Improvement of agricultural structures; III - Other intervention appropriations, broken down; IV - Refunds; V - Operating expenditure, part broken down.

(2) Expenditure under the EAGGF Guarantee Section - part of monetary compensatory amounts (MCAs) but not pursuant to Article 2a of Regulation 974/71.

(3) Taking into account Article 2a of Regulation 974/71 whereby exporting Member States pay certain MCAs granted by the UK or Italy on their imports. Estimate based on the following assumptions:
- trade in agricultural products between the UK and Italy, and therefore the proportion of trade involving intra-MCAs, will be negligible;
- in 1979 and 1980 the proportion of UK and Italian intra-MCAs going to the various exporting countries will be the same as in 1978.

(4) Expenditure not broken down (Category VI) and a very small proportion of operating expenditure.

Table : Total appropriations for payments, and financing by each Member State in 1980

Sector	B	DK	D	F	IRL	I	L	N	UK	Sub-total	Other	Total
	1	2	3	4	5	6	7	8	9	10	11	12
A. As a percentage												
1. Expenditure broken down into Categories I-V (1)												
(a) (2)	9,6	4,3	22,8	19,2	3,8	17,3	2,0	10,7	10,3	100		
(b) (3)	9,7	4,9	23,2	19,9	4,3	16,3	2,1	11,1	8,5	100		
2. Financing, including Article 131 (see Table 10)	6,07	2,42	30,12	19,99	0,90	11,52	0,13	8,36	20,49	100		
3. Balance (1)-(2)												
(a)	+3,5	+1,9	-7,3	-0,8	+2,9	+5,8	+1,9	+2,3	-10,2	0		
(b)	+3,6	+2,5	-6,9	-0,1	+3,4	+4,8	+2,0	+2,7	-12,0	0		
B. In m EUA												
1. Expenditure broken down into Categories I-V												
(a)	1.460	651	3.471	2.917	573	2.621	312	1.629	1.561	15.195		
(b)	1.472	738	3.530	3.018	650	2.484	312	1.692	1.299	15.195		
2. Financing, including Article 131	922	368	4.578	3.037	137	1.750	20	1.270	3.113	15.195		
3. Balance (1)-(2)												
(a)	+538	+283	-1107	-120	+436	+871	+292	+359	-1552	0		
(b)	+550	+370	-1048	- 19	+513	+734	+292	+422	-1814	0		
C. Not included in calculations	Bel	Dk	G	F	IRL.	Italy	Lux	Holl	U.K.			
Chiefly expenditure not broken down (4) (Category VI)											1.118	
D. Grand total (for reference)												16.313

(1) I - EAGGF Guarantee Section; II - Improvement of agricultural structures; III - Other intervention appropriations, broken down; IV - Refunds; V - Operating expenditure, part broken down.

(2) Expenditure under the EAGGF Guarantee Section - part of monetary compensatory amounts (MCAs) but not pursuant to Article 2a of Regulation 974/71.

(3) Taking into account Article 2a of Regulation 974/71 whereby exporting Member States pay certain MCAs granted by the UK or Italy on their imports. Estimate based on the following assumptions:
- trade in agricultural products between the UK and Italy, and therefore the proportion of trade involving intra-MCAs, will be negligible;
- in 1979 and 1980 the proportion of UK and Italian intra-MCAs going to the various exporting countries will be the same as in 1978.

(4) Expenditure not broken down (Category VI) and a very small proportion of operating expenditure.

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REFERENCE C

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(79) 680 final

Brussels, 21 November 1979

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CONVERGENCE AND BUDGETARY QUESTIONS

(Communication to the European Council – Dublin, 29 and 30 November 1979)

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ANNEX I: REVENUE AND EXPENDITURE

Table 1: Breakdown of expenditure by Member State in 1979 - Total appropriations for payments - in %

SECTOR	B	DK	D	F	IRL	I	L	N	UK	Sub-total	Miscel-laneous	TOTAL
	1	2	3	4	5	6	7	8	9	10	11	12
I. EAGGF Guarantee												
1. Common organization of markets	6,5	5,6	27	23	3,5	16	0,25	13	5,2	100	-	100
2. MCAs												
3. Total (1) + (2)	6,0	5,1	24,4	19,6	3,0	17,2	0,23	12,2	12,3	100	-	100
II. Improvement of structures												
1. Social Fund	3	3	15	18	8	25	-	3	25	100	-	100
2. EAGGF Guidance (including Chapter 86)	1,7	4,0	27,2	20,1	6,3	17,1	0,3	3,9	19,4	100		100
3. ERDF	1,4	1,2	8,0	16,9	7,0	36,9	0,09	1,6	27,0	100	-	100
4. EMS interest rate subsidies					33,3	66,7				100		100
5. Total (1) to (4)	1,8	2,4	14,3	16,0	10,4	31,5	0,1	2,4	21,1	100		100
III. Other intervention credits broken down												
1. Research and investment	13,6	1,3	21,6	10,5	0,4	31,5	0,2	9,9	11,0	100	-	100
2. Energy	1,1	0,9	23,7	33,8	1,7	9,3	-	10,3	19,2	100	-	100
3. Industry	8	0,2	18	23	0,3	27,5	-	11	12	100	-	100
4. Total (1) to (3)	11,4	1,3	21,8	14,8	0,7	27,3	0,2	9,8	12,7	100		100
IV. Reimbursements	8	2	26	13	0,9	12	0,05	11	27	100		100
V. Administration - part broken down	64,2	0,1	1,7	0,9	0,4	1,0	30,3	0,6	0,4	99,6	0,4	100
VI. Not broken down											100	100
VII. GRAND TOTAL	8,8	4,0	20,6	16,7	3,4	17,0	2,0	9,6	12,9	95,0	5,0	100

Table 2: Breakdown of expenditure by Member State in 1980 - Total appropriations for payments - in %

SECTOR	B	DK	D	F	IRL	I	L	N	UK	Sub-total	Miscel-laneous	TOTAL
	1	2	3	4	5	6	7	8	9	10	11	12
I. EAGGF Guarantee												
1. Common organization of markets	6,6	5,5	27,4	23,0	3,5	15,5	0,25	12,8	5,5	100	-	100
2. MCAs												
3. Total (1) + (2)	6,5	5,3	26,3	21,7	3,4	16,1	0,24	12,9	7,6	100	-	100
II. Improvement of structures												
1. Social Fund	3	3	15	18	8	25	-	3	25	100	-	100
2. EAGGF Guidance (including Chapter 86)	2,2	2,3	20,0	22,3	7,2	27,1	0,3	3,3	15,1	100	-	100
3. ERDF	1,4	1,2	6,0	16,9	7,0	36,9	0,09	1,6	27,0	100	-	100
4. EMS interest rate subsidies					33,3	66,7				100	-	100
5. Total (1) to (4)	1,9	1,9	11,8	16,4	10,5	34,5	0,1	2,2	20,7	100	-	100
III. Other intervention credits broken down												
1. Research and investment	13,9	1,4	21,1	10,5	0,5	32,7	0,3	9,8	9,8	100	-	100
2. Energy	1,1	0,9	23,7	33,8	1,7	9,3	-	10,3	19,2	100	-	100
3. Industry	8	0,2	18	23	0,3	27,5	-	11	12	100	-	100
4. Total (1) to (3)	10,6	1,1	21,5	16,8	0,9	26,8	0,2	9,9	12,2	100	-	100
IV. Reimbursements	7	2	23	12,5	0,8	11	0,05	9,5	34 (1)	100	-	100
V. Administration - part broken down	63,9	0,1	1,7	1,0	0,4	1,0	30,3	0,6	0,5	99,5	0,5	100
VI. Not broken down											100	100
VII. GRAND TOTAL	8,9	4,0	21,3	17,9	3,5	16,1	1,9	10,0	9,6	93,2	6,8	100

(1) These percentages are based on the preliminary draft budget for 1980. The reimbursement percentage for the United Kingdom should allow for a reduction of 68 m EUA since it is now clear that the Financial Mechanism will not operate in 1980 in respect of 1979.

Table 3: Breakdown of expenditure by Member State in 1979 - Total appropriations for payments - in m EUA

SECTOR	B	DK	D	F	IRL	I	L	N	UK	Sub-total	Miscel-laneous	TOTAL
	1	2	3	4	5	6	7	8	9	10	11	12
I. EAGGF Guarantee												
1. Common organization of markets	570	491	2.365	2.018	307	1.404	22	1.140	456	8.773	-	8.773
2. MCAs	+ 5	-	- 28	- 139	- 26	+ 244	-	+ 30	+ 723	809	-	809
3. Total (1) + (2)	575	491	2.337	1.879	281	1.648	22	1.170	1.179	9.582		9.582
II. Improvement of structures												
1. Social Fund	16	16	79	95	42	132	-	16	132	528	-	528
2. EAGGF Guidance (including Chapter 86)	7,2	17,0	117,5	86,7	27,2	73,5	1,3	16,9	83,7	431	-	431
3. ERDF	6,7	5,8	38,6	81,4	33,8	178,0	0,44	7,6	130,6	483	-	483
4. EMS interest rate subsidies					66,7	133,3				200	-	200
5. Total (1) to (4)	30	39	235	263	170	517	1,8	40	346	1.642	-	1.642
III. Other intervention credits broken down												
1. Research and investment	30	3	46,5	23	1	68	0,5	21	24	217	-	217
2. Energy	0,5	0,5	12	16	1	5	-	5	10	30	-	30
3. Industry	0,3	0	0,7	0,9	0	1,1	-	0,3	0,5	4	-	4
4. Total (1) to (3)	31	3,5	59	40	2	74	0,5	26,5	34,5	271		271
IV. Reimbursements	56	16,5	192	96	6,5	86	0,4	82	202	737		737
V. Administration - part broken down	517	1	14	7	3	8	244	5	3	802	4	806
VI. Not broken down											679	679
VII. GRAND TOTAL	1.209	551	2.837	2.285	463	2.333	269	1.323	1.764	13.034	683	13.717

Table 4: Breakdown of expenditure by Member State in 1980 - Total appropriations for payments - in m EUA

SECTOR	B	DK	D	F	IRL	I	L	N	UK	Sub-total	Miscel-laneous	TOTAL
	1	2	3	4	5	6	7	8	9	10	11	12
I. EAGGF Guarantee												
1. Common organization of markets	717	597	2.975	2.495	380	1.683	27	1.390	597	10.861	-	10.861
2. MCAs	+ 12	-	- 16	- 47	-	+ 131	-	+ 68	+ 260	408	-	408
3. Total (1) + (2)	729	597	2.959	2.448	380	1.814	27	1.458	857	11.269	-	11.269
II. Improvement of structures												
1. Social Fund	16,5	16,5	82,5	99	44	137,5	-	16,5	137,5	550	-	550
2. EAGGF Guidance (including Chapter 86)	7,5	8,1	69,7	77,5	25,0	94,2	1,2	12,1	52,7	348	-	348
3. ERDF	8,3	7,2	48	101	42	221	0,5	9,5	162	600	-	600
4. EMS interest rate subsidies					66,7	133,3				200		200
5. Total (1) to (4)	32	32	200	278	178	586	1,7	38	352	1.698		1.698
III. Other intervention credits broken down												
1. Research and investment	43	4	65	32	1,5	100	1	30	30	307	-	307
2. Energy	1	1	24	34	2	9,5	-	10,5	20	102	-	102
3. Industry	3,5	0,1	7,7	9,9	0,1	11,8	-	4,7	5,2	43	-	43
4. Total (1) to (3)	48	5	97	76	4	121	1	45	55	452		452
IV. Reimbursements	58	16	199	106	7	90,5	0,4	82	292 (1)	851		851
V. Administration - part broken down	593	1	16	9	4	9	282	6	5	925	5	930
VI. Not broken down											1.113	1.113
VII. GRAND TOTAL	1.460	651	3.471	2.917	573	2.621	312	1.629	1.561	15.195	1.118	16.313

(1) These figures are based on the preliminary draft budget for 1980. In respect of the reimbursement figure for the United Kingdom, 58 m EUA should be subtracted since it is now clear that the Financial Mechanism will not operate in 1980 in respect of 1979.

TABLE 5: Total appropriations for commitments out of the aggregate for "Structural improvements" by Member State for 1979

SECTOR	D	DK	B	F	IRL	I	L	N	UK	Sub-total	Other	TOTAL
	1	2	3	4	5	6	7	8	9	10	11	12
I. In m EUA												
1. Social Fund	15	15	77	123	61,5	269	-	15,5	192	768	-	768
2. EAGGF-Guidance Section (incl. Chapter 86)	15,5	18,4	121,2	123,7	29,6	179,3	0,8	21,7	58,8	569	-	569
3. ERDF	12,5	10,8	54,0	151,7	58,1	354,5	0,81	14,2	243,3	900	-	900
4. EMS interest subsidies					66,7	133,3				200		200
5. Total	43,0	44,2	252,2	398,4	215,9	936,1	1,6	51,4	494,1	2.437		2.437
II. %												
1. Social Fund	2	2	10	16	8	35	-	2	25	100	-	100
2. EAGGF-Guidance Section (incl. Chapter 86)	2,7	3,2	21,3	21,7	5,2	31,5	0,2	3,8	10,4	100	-	100
3. ERDF	1,4	1,2	6,0	16,86	6,46	39,39	0,09	1,58	27,03	100	-	100
4. EMS interest subsidies					33,3	66,7				100		100
5. Total	1,8	1,8	10,3	16,3	8,9	38,4	0,1	2,1	20,3	100	-	100

TABLE 6: **Total appropriations for commitments out of the aggregate for "Structural improvements" by Member State for 1980**

SECTOR	B	DK	D	F	IRL	I	L	N	UK	Sub-total	Other	TOTAL
	1	2	3	4	5	6	7	8	9	10	11	12
I. In m EUA												
1. Social Fund	20	20	100	160	80	350	-	20	250	1.000	-	1.000
2. EAGGF-Guidance Section (incl. Chapter 86)	10	11	89	120	39	149	1,5	15,5	72	507	-	507
3. ERDF	15,9	13,7	68,4	192,2	73,6	449,1	1,0	18,0	308,1	1.140	-	1.140
4. EMS interest subsidies					66,7	133,3				200		200
5. Total	46	45	258	472	259	1.081	2,5	53,3	630	2.847	-	2.847
II. %												
1. Social Fund	2	2	10	16	8	35	-	2	25	100	-	100
2. EAGGF-Guidance Section (incl. Chapter 86)	2,1	2,3	17,6	23,6	7,6	29,3	0,3	3,1	14,1	100	-	100
3. ERDF	1,39	1,20	6,00	16,56	6,46	39,39	0,09	1,58	27,03	100	-	100
4. EMS interest subsidies					33,3	66,7				100		100
5. Total	1,6	1,6	9,0	16,6	9,1	38,0	0,09	1,9	22,1	100	-	100

TABLE 7: TRENDS IN CUSTOMS DUTIES

	BLEU	DK	D	F	IRL	I	NL	UK	Total
1976									
m EUA	284,2	140,5	1288,1	654,8	40,6	407,5	395,6	980,2	4191,5
%	6,8	3,4	30,7	15,6	1,0	9,7	9,4	23,4	100,0
% GNP	4,98	2,88	31,49	24,77	0,58	13,26	6,37	15,67	100,0
1977									
m EUA	307,5	134,0	1378,8	669,6	42,4	426,1	441,5	1059,0	4458,9
%	6,9	3,0	30,9	15,0	1,0	9,6	9,9	23,7	100,0
% GNP	5,11	2,84	32,14	23,88	0,59	13,43	6,68	15,33	100,0
1978									
m EUA	299,2	107,9	1376,0	649,5	46,7	400,8	444,3	1066,5	4390,9
%	6,8	2,5	31,3	14,8	1,1	9,1	10,1	24,3	100,0
% GNP	5,10	2,82	32,22	23,88	0,62	13,16	6,62	15,58	100,0
1979									
m EUA	322,6	118,9	1445,8	718,1	50,0	451,3	448,7	1190,1	4745,5
%	6,8	2,5	30,5	15,1	1,0	9,5	9,5	25,1	100,0
% GNP	4,87	2,81	30,70	23,69	0,67	14,25	6,31	16,70	100,0
1980									
m EUA	341,5	125,0	1535,0	775,0	60,0	450,0	477,0	1370,0	5133,5
%	6,7	2,4	29,9	15,1	1,1	8,8	9,3	26,7	100,0
% GNP	4,87	2,84	30,92	24,36	0,67	13,94	6,36	16,04	100,00

TABLE 8: TRENDS IN AGRICULTURAL LEVIES
(including sugar levies)

	BLEU	DK	D	F	IRL	I	NL	UK	Total
1976									
m EUA	149,8	18,2	254,8	116,7	8,2	220,3	322,5	82,8	1.173,3
%	12,8	1,6	21,7	9,9	0,7	18,8	27,5	7,0	100,0
% GNP	4,98	2,88	31,49	24,77	0,58	13,26	6,37	15,67	100,0
1977									
m EUA	265,3	31,9	447,7	178,8	16,3	480,7	449,8	267,2	2.137,7
%	12,4	1,5	20,9	8,4	0,8	22,5	21,0	12,5	100,0
% GNP	5,11	2,84	32,14	23,88	0,59	13,43	6,68	15,33	100,0
1978									
m EUA	204,4	29,1	434,0	259,7	8,7	553,8	428,5	361,0	2.279,2
%	9,0	1,3	19,0	11,4	0,4	24,3	18,8	15,8	100,0
% GNP	5,10	2,82	32,22	23,88	0,62	13,16	6,62	15,58	100,0
1979									
m EUA	239,0	46,5	468,3	239,1	14,7	409,9	371,3	377,0	2.165,8
%	11,0	2,2	21,6	11,1	0,7	18,9	17,1	17,4	100,0
% GNP	4,87	2,81	30,70	23,69	0,67	14,25	6,31	16,70	100,0
1980									
m EUA	242,4	35,3	453,1	288,6	9,9	454,8	341,1	416,9	2.242,1
%	10,8	1,6	20,2	12,9	0,4	20,3	15,2	18,6	100,0
% GNP	4,87	2,84	30,92	24,36	0,67	13,94	6,36	16,04	100,0

Table 9: V A T Estimates

		B	DK	D	F	IR	I	L.	N	UK	TOTAL
1978	Payment (MEUA)	275,6	147,6	1.735,9	1.330,8	40,5	566,0	11,7	340,6	881,0	5.329,7
	%	5,17	2,77	32,57	24,97	0,76	10,62	0,22	6,39	16,53	100,00
	% GNP	4,86	2,82	32,22	23,88	0,62	13,16	0,24	6,62	15,58	100,00
1979	Payment (MEUA)	306,9	172,5	2.165,9	1.600,6	51,4	697,5	14,0	422,2	1.211,4	6.642,4
	%	4,62	2,60	32,61	24,10	0,77	10,50	0,21	6,35	18,24	100,00
	% GNP	4,64	2,81	30,70	23,69	0,67	14,25	0,23	6,31	16,70	100,00
1980	Payment (MEUA)	398,1	230,1	2.875,4	2.163,2	75,2	955,5	17,7	530,9	1.521,8	8.767,9
	%	4,54	2,62	32,80	24,67	0,86	10,90	0,20	6,05	17,36	100,00
	% GNP	4,64	2,84	30,92	24,36	0,67	13,94	0,23	6,36	16,04	100,00

Note : These are all macro-economic estimates modified by information obtained from the individual Member States. The rates of exchange used are those of the Budget for the year in question i.e. 1978 Budget 1.2.77 : 1979 Budget 1.2.78. 1980 Budget 1.2.79

Table 10

Share of the Member States in financing the Budget and in the Community's GNP

	B	DK	D	F	IRL	I	L	NL	UK	Total
1976										
% of the Budget	7,40	2,26	35,13	22,01	0,34	11,34	0,18	10.60	10,74	100,00
% of GNP	4,77	2,88	31,49	24,77	0,58	13,26	0,21	6,37	15,67	100,00
1977										
% of the Budget	7,69	2,57	35,60	20,01	0,39	10,33	0,18	11,02	12,22	100,00
% of GNP	4,90	2,84	32,14	23,88	0,59	13,43	0,21	6,68	15,33	100,00
1978 (2)										
% of the Budget	6,46	2,29	31,14	19,29	0,58	14,45	0,12	10,31	15,36	100,00
% of GNP	4,86	2,82	32,22	23,88	0,62	13,16	0,24	6,62	15,58	100,00
1979 (1)(2)										
% of the Budget	6,68	2,51	30,63	20,00	0,75	12,11	0,14	9,60	17,58	100,00
% of GNP	4,64	2,81	30,70	23,69	0,67	14,25	0,23	6,31	16,70	100,00
1980 (1)										
% of the Budget	6,07	2,42	30,12	19,99	0,90	11,52	0,13	8,36	20,49	100,00
% of GNP	4,64	2,84	30,92	24,36	0,67	13,94	0,23	6,36	16,04	100,00

(1) The rates of exchange used are those of the budgetary estimates in the previous year, i.e. 1979 Budget 1.2.1978: 1980 Budget 1.2.1979.

(2) With Article 131.

Shares of the Member States in the financing of the Budget and in the Community's GNP

Assuming that Article 131 did not apply and that all Member States paid VAT.

	1978		1979 (1)		1980 (1)	
	% of the Budget	% of the GNP	% of the Budget	% of the GNP	% of the Budget	% of the GNP
Belgium	6,48	4,86	6,40	4,64	6,07	4,64
Denmark	2,37	2,82	2,49	2,81	2,42	2,84
Germany	29,55	32,22	30,10	30,70	30,12	30,92
France	18,66	23,88	18,87	23,69	19,99	24,36
Ireland	0,80	0,62	0,86	0,67	0,90	0,67
Italy	12,67	13,16	11,50	14,25	11,52	13,94
Luxembourg	0,13	0,24	0,13	0,23	0,13	0,23
Netherlands	10,11	6,62	9,16	6,31	8,36	6,36
United Kingdom	19,23	15,58	20,49	16,70	20,49	16,04
	100,00	100,00	100,00	100,00	100,00	100,00

(1) Rate used for budget estimating, i.e. that of 1 February 1978 for 1979 and that of 1 February 1979 for 1980.

TABLE 10 B

Shares of Member States in financing the Budget and in Community GNP

For 1979 assuming that the average exchange rates for August 1979 will be equal to the average rates for the whole year.

	1979		
	% of the present Budget	% of the Budget No Art. 131; all MS paying VAT	% GNP
BELGIUM	6,74	6,47	4,76
DENMARK	2,39	2,37	2,56
GERMANY	31,40	30,87	32,77
FRANCE	19,51 –	18,38	22,39
IRELAND	0,73	0,84	0,66
ITALY	11,20	10,59	12,36
LUXEMBOURG	0,14	0,13	0,24
NETHERLANDS	9,64	9,20	6,41
UNITED-KINGDOM	18,25 –	21,15	17,85
	100,00	100,00	100,00

Note In this table the first and third columns should be compared with the 1979 columns in Table 10. The second and third columns should be compared with the 1979 columns in Table 10 A.

ANNEX II: THE FINANCIAL MECHANISM

General description of the financial mechanism

1. On a reasoned application from a Member State, submitted not later than 30 June, the Commission assesses the facts of the situation, having established that the following conditions are met simultaneously:

(a) the per capita gross national product (GNP) of the Member State is less than 85% of the average per capita GNP for the Community (moving average of the three years preceding the current financial year at current market exchange rates);

(b) the growth rate of the per capita GNP in real terms of the Member State is less than 120% of the average rate for the Community (moving average of the previous three years);

(c) the total payments made by the Member State to the Budget of the Communities for the financial year in progress, pursuant to the Decision of 21 April 1970, exceed by more than 10% the amount it would have had to pay if the part of the Budget covered by the aforementioned Decision (i.e. customs duties, agricultural levies, VAT or GNP-based contributions) were financed by the Member States on the basis of the proportion of their GNP to the total GNP of the Member States. The figures relating to the GNP refer to the financial year in progress and are thus estimates.

2. However, where the balance of current payments of the Member State, as calculated at current market exchange rates from a moving average of the three years preceding the financial year in progress, shows a surplus, the total payments by the Member State (total customs duties, agricultural levies and resources from VAT or GNP-based contributions) are not taken into consideration, but only its VAT or GNP payments. The condition set out at point 1(c) is thus met where these payments exceed by more than 10% the amount the Member State would have had to pay (to finance the expenditure not covered by customs duties and agricultural levies) on the basis of the proportion of its GNP to the total GNP of the Member States, these figures being estimates relating to the financial year in progress.

3. The excess amount referred to at point 1(c) (or at point 2) is divided into tranches equal to 5% of the amount which the Member State would have had to pay on the basis of its GNP. The payment is determined as follows:

Tranches	Payment
from 1% to 5%	nil
from 5,0001% to 10%	50%
from 10,0001% to 15%	60%
from 15,0001% to 20%	70%
from 20,0001% to 25%	80%
from 25,0001% to 30%	90%
above 30%	100%

4. The payment, as calculated under point 3, may not exceed the smaller of the following two amounts:

(a) the amount of the deficit for the Member State in question between its payments to the Community Budget and the payments to it from the Budget(1). This balance is determined without taking account of payments made through this mechanism.

Payments received by the Member State include payments made on its behalf by other Member States in the form of monetary compensatory amounts(2).

All the payments referred to above relate to the financial year in progress and are therefore estimates.

(b) the amount of the VAT or GNP-based contributions made by the Member State to the Budget for the financial year in progress.

The total amount of the payment (or payments, if several Member States receive them) may not exceed the greater of the following two amounts:

250 m EUA; or 3% of the expenditure chargeable to the financial year in progress.

Should the total amount of the payments exceed that ceiling, the payments are reduced proportionally for the Member State(s) concerned.

5. At the request of the Member State concerned, an advance equal to 75% of the provisional amount is paid at the beginning of the following year. When the Commission has the final data at its disposal, it calculates the final amount of the payment.

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(1) Where the Member State concerned registers a surplus, this mechanism is not applicable.
(2) Article 2a of Regulation No 974/71.

27.7.79

Table 14

LOANS GRANTED BY THE COMMUNITY'S FINANCIAL INSTRUMENTS

Breakdown by country, 1976-78 (gross sums in million EUA)

		TOTAL	D	F	I	NL	B	L	UK	DK	IRL
EIB	1976	1 086,6	110,8	60,1	382,6	30,4	17,9		417,6	9,1	57,4
	1977	1 352,5	28,4	296,5	425,7	-,-	-,-	-,-	489,5	32,7	79,7
	1978	1 966,6	45,5	359,3	845,1	-,-	62,2		430,7	106,3	117,5
ECSC	1976	1 063,8	186,9	133,2	147,7	38,6	37,4		519,3	-,-	0,7
	1977	741,5	115,5	174,5	173,6	0,5	15,8	0,6	260,3	0,5	0,2
	1978	798,-	140,-	127,-	127,-	43,-	75,-		273,-	13,-	-,-
EURATOM	1976	-,-	-,-	-,-	-,-	-,-	-,-	-,-	-,-	-,-	-,-
	1977	96,1	74,9	21,2	-,-	-,-	-,-	-,-	-,-	-,-	-,-
	1978	70,3	34,4	-,-	35,9	-,-	-,-	-,-	-,-	-,-	-,-
Community loans	1976	1 152,-	-,-	-,-	886,-	-,-	-,-	-,-	-,-	-,-	266,-
	1977	442,-	-,-	-,-	442,-	-,-	-,-	-,-	-,-	-,-	-,-
	1978	-,-	-,-	-,-	-,-	-,-	-,-	-,-	-,-	-,-	-,-
Total	1976	3 301,8	297,7	193,3	1 416,3	69,-	55,3		936,9	9,1	324,1
	1977	2 632,1	218,8	492,2	1 041,3	0,5	15,8	0,6	749,8	33,2	79,9
	1978	2 834,9	219,9	486,3	1 008,-	43,-	137,2		703,7	119,3	117,5

CONFIDENTIAL

REFERENCE D

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(79) 690 final

Brussels, 22 November 1979

The Common Agricultural Policy: the urgent need for a better equilibrium

(Communication to the European Council - Dublin, 29 and 30 November 1979)

COM(79) 690 final

CONFIDENTIAL

The Common Agricultural Policy: the urgent need for a better equilibrium

1. A year ago the European Council discussed the future development of the Common Agricultural Policy. The Commission had submitted its views in document COM(78) 700 of 29 November 1978, stating in particular that

> "The Common Agricultural Policy is and always has been a cornerstone in the construction of the Community...
> In recent years the application of the Common Agricultural Policy has met with serious difficulties...First, the imbalance between supply and demand in several major agricultural markets is worsening. Secondly, incomes disparities within the agricultural sector remain substantial. Thirdly, monetary upheavals have disrupted the common agricultural market."

2. Since then the Community has successfully launched the European Monetary System. The common agricultural market has consequently benefitted from greater exchange rate stability. Monetary compensatory amounts - which generate artificial distortions in competition - are now about half of last year's levels. On the other hand, the difficulties which result from serious market imbalances in certain sectors - particularly milk - still remain. These specific difficulties reflect adversely on the real advantages of the agricultural policy generally and cause problems for the budget. It is therefore necessary to tackle them in the interest of sustaining the policy for the 1980s.

3. The Commission has just submitted to the Council of Ministers a further package of measures with this essential objective: to strengthen and not to attack the Common Agricultural Policy but to adapt it so that it is not undermined by a failure to deal with the known specific problems. These problems must be tackled in any event but a solution to them can also help to reduce the pressures on the Community's budget and, in particular, to avoid the difficulties associated with the ceiling imposed by income from own resources. The package would lead to a substantial cut - of the order of 1 000 million UCE in a full year - in Community expenditure and should avoid the Community quickly exhausting its own resources. In addition, the Commission itself is seeking

savings through rigorous management of existing policies. The new measures would also permit a larger proportion of budgetary spending to be devoted to the improvement of structures and to general investment purposes, including a better balance between the Guarantee and Guidance Sections of the European Agricultural Guidance and Guarantee Fund.

4. In making its proposals the Commission has been guided by the following principles:

   - high priority must be given to bringing balance to agricultural markets, especially for milk and sugar. This should be done by increasing internal consumption inside and outside the Community where this is feasible; and by restraining production
   - for products in structural surplus, the cost of getting rid of future increases in production must fall on producers themselves
   - unbearable income effects for small and medium-sized producers with no alternative types of production must be alleviated. The Commission is undertaking immediately a further examination of the situation of these producers
   - available resources for the restructuring and development of agriculture should be concentrated on poorer farms and less developed regions.

5. The Commission's proposals include three main elements:

   a) a milk package involving a new approach to co-responsibility which would comprise a basic co-responsibility levy and a supplementary levy related to the costs of new surplus disposal. The existing premiums for conversion to other lines of production would continue. The Commission also notes that a more coherent policy for animal and vegetable fats and proteins may be needed particularly in the context of enlargement;

   b) a new sugar régime with reduced quotas;

   c) adaptations in the common market organizations for beef, processed fruit and vegetables, starch and rye.

.../...

6. These actions should ensure that the milk budget will not increase and justifiable savings will be made elsewhere.

7. These proposals must be seen in relation to the Community's action programme for Mediterranean regions and to the Commission's recent proposals on policy with regard to agricultural structures (COM(79) 122 of 19 March 1979). These structural measures aim to concentrate resources on poorer farms and less developed regions which will be of particular importance to certain Member States including Italy and Ireland. The Commission also envisages accelerating the implementation of some parts of the Mediterranean action programme (afforestation, irrigation).

8. If these measures are not taken, the Community's own resources will soon be exhausted by the agricultural budget. Other more drastic measures adversely affecting the CAP would then be necessary.

The Commission, therefore, invites the European Council to endorse the broad objectives in paragraph 4 and to ensure that early decisions are taken on the new proposals, with a view to alleviating the budget and to strengthening the Common Agricultural Policy.

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EHG(D)(79)4 COPY NO

23 November 1979

EUROPEAN COUNCIL, DUBLIN

29-30 NOVEMBER

THE BUDGET/CONVERGENCE: TACTICS

Brief by H M Treasury

1. The structure of the discussion of this item which we would like is:-

   a. Prime Minister's opening statement;

   b. agreement that we should get 520/630 meua by reform of the Financial Mechanism;

   c. discussion of, and agreement on, other possibilities to supplement b. so as to solve our problem.

2. An opening statement. It is likely that the Prime Minister will be expected to make an opening statement on the agenda item about the UK contribution to the Community Budget. The object of such a statement might be to direct discussion towards solutions; and to achieve as much acceptance as possible that changes which eliminate only one-third of our net contribution are nowhere near enough.

3. For that purpose the statement might avoid going too far into the general arguments against us (North Sea oil, juste retour, trade orientation etc). It might instead reiterate the desire of the UK Government to put our relationship with the Community onto a sound, durable footing, referring to what the Prime Minister said about this at Strasbourg. It might say that the present scale of our contribution was however an inequity which no British Government could accept and which no other Head of Government would accept in a comparable situation. The Community itself had recognised in 1970 and 1975 (preamble to Dublin Mechanism) that such a situation would be a threat to the Community itself. And the danger to the Community and to ourselves was made worse by the state of the UK economy. Opprotunities to avoid or rectify this situation had been missed in 1970 and 1975. It must be put right now.

4. We were grateful to our partners for the degree of recognition of our problem they had already shown. Nevertheless one-third or one half solutions were not enough. A one-third refund would leave our contribution in the area of that of Germany and a multiple of that of France. This could not be right. It must be reasonable, in the situation of our economy, that we should at least pay no more than France, which had been in a position of broad balance over recent years.

5. The statement might then say that we welcomed the wide acceptance which seemed to exist of the need to reform the present Financial Mechanism so as to yield us between 520 and 630 meua, according to whether we contributed to our own refund. We hoped that could be speedily agreed. But it could be only a first step and a partial solution. It would be essential to look at other possibilities. Some of these could be specified.

6. The statement might conclude by proposing that discussion concentrate on solutions.

7. The 520/630 meua. The objective might then be to try to secure agreement as speedily as possible to removal of the restrictions etc from the Financial Mechanism so as to give us the maximum possible (520/630 meua). One way of doing this would be to instruct officials to submit proposals for amending the Mechanism so that, so long as we were below Community average GNP per head we could count on paying no more than our GNP share. That would enforce removal not only of the critical conditions:-

i. balance of payments deficit;

ii. tranche system;

iii. 3% ceiling

but also the merely dangerous ones (eg GDP per head below 85% of average, growth rate less than 120% of average etc). Any less precise direction could expose us to wrangles about these restrictions. If there is doubt, the Prime Minister may wish to read out a list of the restrictions she wants removed.

8. Argument may develop on whether all Community members are to finance the reformed Mechanism. That is what the present Mechanism provides. Our best tactic may be to leave it to the Italians and Irish to argue for exemption. If they succeed, we too ought to be exempted from paying for our refund, and should say so. The reformed Mechanism would then be worth £400m to us, not £350m. However we do not want dispute about this to delay agreement on the revision of the Mechanism. If necessary the question of who pays might be left open - but then the presumption would be against the Irish, Italians and ourselves.

9. Further contributions to solving our problem. The next objective will be more difficult to achieve: securing discussion of additional possibilities to help us beyond the reformed Mechanism. At this point the Prime Minister might refer to 3 possible areas which have been discussed in the Commission papers:-

i. improved receipts for the UK;

ii. a framework for future expenditure on lines proposed by Italy, intended to change the balance of budget spending;

iii. application of weighting to the improved Financial Mechanism, so as to treat our GNP for that purpose as reduced by the fraction which our GNP per head bears to Community average GNP per head (producing roughly 12% instead of 16%).

10. Of these the first is far away the most promising. The second is minor and uncertain. The third has been widely opposed, though it could yield what we need. The Prime Minister could argue that they are all communautaire, reflecting the now established principle of special protection in the budget for members which are less strong economically.

11. The important point on receipts is that any action ought to be on a substantial scale to meet our problem. Taken action of the 100/200 meua variety would not be enough. We should argue that the UK can be distinguished because it is a net contributor, its receipts are way below Community average and so is its GNP per head. A country meeting all 3 conditions ought to have a special arrangement to bring its receipts up to Community average, or up to its GNP share (the latter is strictly more logical, because we affect the average). We would clearly prefer an unconditional mechanism, but need not rule out some link to existing UK public expenditure of a structural or investment character.

12. If discussion of receipts (which the latest Commission paper choses to call "expenditure") gets that far, the question who pays will probably arise again. Italy and Ireland would have an every stronger case for exemption. So then would we. But this might fortify the determination of others to stick to universal payment for the improved 1975 mechanism.

13. It is not possible to foresee now in any detail how a discussion on receipts (or eg on the Italian plan for guiding expenditure) might develop. If enough were offered on receipts to make up, with the reformed Mechanism, an acceptable solution, well and good. If however:-

i. the reaction were totally negative, or

ii. a small amount were offered under the receipts heading, or

iii. there were a proposal for some further study or Committee,

then (in all these circumstances) the Prime Minister might wish to seek a further early meeting of the European Council. Any study under iii. would have to report to that.

H M TREASURY
23 November 1979

EHG(D)(79) 4a
23 November 1979

COPY NO 1

EUROPEAN COUNCIL, DUBLIN

29-30 NOVEMBER 1979

THE BUDGET/CONVERGENCE

Brief by HM Treasury

1. This brief and the attached notes deal with the main arguments and possible solutions. Tactics are considered in a separate brief.

Objective

2. To put the relationship of the UK to its partners in the EEC on a firm and lasting basis by producing an acceptable level of present and prospective contributions.

Main Argument

3. Unacceptable that UK should contribute more to Community than those who are growing faster and who are already richer.

Counter Arguments

4. These are dealt with in the separate notes attached, and summarised below :

a. North Sea Oil Means the UK Can Afford to Pay

i. Oil alone does not make a country rich, and our oil is not enough to transform either our own economic performance overnight - or play a significant part in the determination of the world price.

ii. If we tried to protect oil resources in the same way that other countries have tried to protect agricultural supplies, we should be seeking arrangements under which we could sell UK oil to the Community at prices several times higher than world levels.

b. <u>UK Should Import Less in Total and More From the Community</u>

i. There is no direct action we can take within Community rules.

ii. Further development of our trade with the EEC will take time and will not solve the problem of our contribution - which is one of receipts as well as payments - in the foreseeable future.

c. <u>Juste Retour</u>

i. We are not suggesting that irrespective of circumstances countries should receive back what they put in. But other, stronger, countries are already getting back as much and more than they contribute.

ii. As the Community has developed it has recognised the need to develop policies which give advantages to the less strong.

iii. On this principle we could claim net benefits from the Budget. But we should be content to achieve broad balance, taking one year with the next, like France.

d. <u>UK is Arguing that the Budget Should Become an Instrument for Redistribution</u>

i. The present budget <u>is</u> redistributive - from the UK to others on a huge scale.

ii. It is the inequity of this which we have to set right.

2.

e. Another Renegotiation

As the Commission's second solutions paper (21 November) points out, 1970 assurances still not fulfilled:

"Should an unacceptable situation arise ... the very survival of the Community would demand that the institutions find equitable solutions."

f. 1% VAT Limit

i. The UK is not asking for expansion of Budget or more new Community expenditure.

ii. UK problem should be dealt with on its merits, separately from the question of the 1% limit.

iii. The ideas now being canvassed for changes in the CAP share of the Budget could leave more headroom.

g. Wider Effects of Membership

i. There are mutual benefits - eg political benefits - in which all countries have shared.

ii. But there are also costs which have borne heavily on the UK. The CAP imposes an additional non budgetary burden on the UK of £ several hundred million because we are a net food importer.

iii. On balance, non budgetary transfers are a considerable extra cost to the UK from membership of the EEC.

The UK Net Contribution

i. Without correction the UK net contribution in 1980 will

- exceed Germany's by 40% (MCAs attributed to importer)
  France's by 13 times (MCAs attributed to importer)

ii. After 1980 it could get further out of line without effective action.

Solutions

5. There will be three papers from the Commission : a background Reference Document of 12 September and two papers (31 October and 21 November) suggesting solutions. The attached table summarises the possibilities drawing on these documents. Separate notes comment on them in more detail.

a. The Existing Financial Mechanism

If it is not possible to reach agreement on a simple comprehensive mechanism the most promising approach would be to build on the proposals in the Commission's second solutions paper. The foundation would be the existing financial mechanism with the removal of :

i. the existing balance of payments constraint
ii. the tranche system
iii. the 3% ceiling

This would give 520 meua net (£350m) in 1980. It would not be robust for later years unless other restrictions, especially the 85% of GDP constraint are also removed. (This would disqualify us after enlargement). Not enough on its own. It only deals with the contribution side. But a good starting point.

b. Enhanced Receipts

Ideally we would like an automatic receipts mechanism under which UK receipts would be brought nearer to the Community average. If this is not obtainable we could make use of the suggestion in the Commission's second solutions paper of a special temporary measure providing increased expenditure which would benefit the UK, in sectors like coal exploitation, transport infrastructure, agricultural improvement and interest rebates if the UK joined the EMS. Putting the EMS on one side :

i. the relevant NCB expenditure is around £560m a year

ii. agricultural improvement schemes not already financed by the Community amount to £140m a year.

iii. Expenditure on roads will be about £1 bn in a year.

Since the Commission have indicated that these are only examples, a fourth category might be regional and social expenditure, some of which could be applied in Northern Ireland.

Provided the money financed existing expenditure plans this proposal could produce large sums and is a better springboard than we might have expected. It would be important not to make it temporary (3 or 4 years) as the Commission at present suggest. But a review after some suitable period would not be unreasonable. Combined with an unrestricted financial mechanism action to bring our receipts in line with our GDP share could produce 1240 meua (£830m), and would be robust in future years.

c. Expenditure Framework

The Italians earlier suggested budgetary guidelines under which structural funds would take 25% of the total, and the Commission have included in their second solutions paper suggestions of a broadly similar kind. We support the idea of changing the proportions, but would like to see this achieved by savings on agriculture within the present ceiling. On its own, action on the overall structure of the budget will not produce a predictable or adequate return soon enough but it is desirable in the longer run to achieve a redistribution of expenditure and is worth pursuing as well as measures to relieve our immediate problem.

d. Weighted Financial Mechanism

This is a way of getting the unrestricted financial mechanism to yield more than 520 meua. It takes account of our relatively low GNP per head. Other countries, especially Germany, reacted adversely when it was mentioned in the first Commission solutions paper; it has been dropped in the second. It is not fully robust because it is confined to contributions. It might have a role.

e. Failsafe on the Net Position

It might also be possible to add something - if only as a failsafe - by restricting the UK net contribution to that of another country such as France. This would not be a popular idea. It could not be done directly but the result might be achieved by an agreement on the lines that no less prosperous country should make a net contribution which, relative to GNP, exceeds that of any more prosperous country. If France was a net contributor this would produce for the UK almost 1500 meua (£1 bn). But if France was a net recipient we should be restricted to the German net contribution - worth in 1980 about 800 meua.

f. Article 131

One Commission proposal is effectively to extend Article 131 for another year. This would limit the UK share of UK contributions to the 1979 level. It acts on the same problem as the financial mechanism but produces less money. Because of this it is difficult to combine with the financial mechanism. It is difficult to extend, does nothing on receipts and is therefore not robust. The Commission second paper more or less dismisses it.

6.

Financing

6. Financing arrangements are subsidiary to solutions. It is for others to decide how they share out the burden. There are two issues :-

i. should a refund be financed inside or outside the Budget?

ii. who should contribute and how much?

The precedents are inconclusive, but the Financial Mechanism is inside the Budget and financed by all. Financing inside the Budget in the normal way might encounter the 1% ceiling, while an extra-budgetary arrangement would involve time-consuming ratification. The best solution might be financing within the Budget through levies scored as "negative expenditure". If the less prosperous were exempt the brunt would fall either on France and Germany, or on the smaller countries with large receipts. There could be different financing arrangements for different components of a composite solution.

HM Treasury
23 November 1979

BACKGROUND NOTE

The present situation

1. GDP recovered in the second quarter but preliminary estimates on the output measure suggest a fall in the third quarter largely as a result of strikes, to about the level for the second half of 1978. Consumer spending rose substantially in the second quarter ahead of the Budget tax changes, but preliminary estimates indicate a fall-back in the third quarter. Private investment was lower in the second and third quarters of 1979 than in the previous two quarters and a cyclical downturn may have begun. Exports of goods and services were only slightly higher on average in the first ten months of the year, compared with the same period a year ago, while imports rose substantially. Industrial production in the third quarter was 2½% below the second quarter, mainly reflecting the engineering disputes in August and September. The downward trend in unemployment appears to have ended. The number registered unemployed in November (seasonally adjusted, excluding school leavers), was 1,282 thousand (5.3 per cent). Notified vacancies unfilled fell for the fifth successive month to 234,000.

2. Average earnings rose by 14½% in the 12 months to September, but this figure has been distorted by the impact of disputes in the engineering industry. The underlying increase over the year is estimated at 15-16%. The rate of retail price inflation has accelerated this year. The index rose by 17¼% in the 12 months to October. This figure includes an increase of slightly more than 3% due to the Budget tax changes. The tax and price index rose by 14¾% over the year to October.

3. The visible trade deficit increased from £0.4 billion in the second half of 1978 to £2.8 billion in the first half of 1979; the surplus on invisibles fell from £1.3 billion to £0.4 billion, reflecting both higher EEC payments, and a smaller surplus on the transactions of the private sector and public corporations. For the first ten months of 1979, the balance of payments current account deficit is estimated at £2½ billion. North Sea oil is estimated to be contributing some £7 billion to the current balance of payments and the UK is expected to become a net exporters of oil next year. The exchange rate for sterling eased in September and October, but has risen again since and is now some 10% above the average level for 1977 and 1978.

GOVERNMENT ECONOMIC POLICIES

Main objectives

4. The two main objectives of the Government's economic strategy are to reduce inflation by strict adherence to firm monetary and fiscal policies and to improve the supply side by restoring a flexible and competitive market economy.

Monetary policy, interest rates and PSBR

5. On November 15, the Government extended its commitment to a target growth in the money supply of 7-11% at an annual rate to cover the period to October 1980. MLR was raised to 17%, and the supplementary special deposits scheme was extended for six months. The Government is bringing its fiscal stance into line with its monetary policy. At the same time as MLR was raised, it was announced that Petroleum Revenue Tax payments would be advanced by two months in order to bring the forecast PSBR back

to the Budget estimate of £8.3 billion (4½% of GDP) in 1979-80. For future years the PSBR will be set at levels consistent with monetary policy, so that all the burden of adjustment to slower monetary growth does not fall on the private sector through higher interest rates.

Public expenditure

6. Public spending should be determined by what the nation can afford. The Government will give priority to spending on law and order and defence. Spending on the health service will be maintained. For 1979-80 cuts in planned expenditure have been announced, which together with savings of £1 billion by the cash limits policy and £1 billion sales of assets amount to some £3½ billion. The previous Government's plans for public expenditure in 1980-81 have been reined back and spending is to be held constant at the level for the current year.

Taxation

7. The Budget switched the burden of taxation with a £4½ billion reduction in direct taxes in a full year and a £4¾ billion increase in indirect taxes.

The market economy

8. Income tax has been cut to improve incentives. The frontiers of the public sector are being rolled back; regulations which have outlived their usefulness (eg exchange controls) or which have produced severe distortions with little lasting benefit (controls on pay, prices, dividends), have been dismantled.

Pay

9. The Government does not intend to interfere in pay negotiations or to set general limits or norms. Its fiscal and monetary policies set the financial framework for pay bargaining.

PROSPECTS

Industry Act forecast, November 1979

10. The latest official forecast indicates a fall in the level of GDP of 2% in 1980 after a 1% rise in 1979. The rate of increase in retail prices is projected to decline to 14% per annum by the fourth quarter of 1980. A current account balance of payments deficit of £2 billion is forecast for 1980. The forecasts are subject to a wide margin of error in both directions.

Prospects gloomier now

11. GDP growth in the first half of 1979 was higher than expected at the time of the Budget, but trading performance and the current account were worse. Earnings increases were also higher. Prospects for growth of world trade are now worse and this will affect the UK. The latest forecasts by outside bodies also show GDP falling in 1980.

12. The Government's measures will take time to have their full effect, but there is no viable alternative strategy to achieve soundly-based economic growth without inflation.

EB Division
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26 November 1979

TABLE 3 : EFFECT OF FINANCING UK REFUND (through normal VAT key)

meua

Country	% share cost	GROSS REFUND TO UK OF:- 1814	1552	1000	630
All countries contribute					
UK NET REFUND	17.4	+1499	+1283	+ 826	+ 521
Germany	32.8	- 595	- 509	- 328	- 207
France	24.7	- 447	- 383	- 247	- 155
Italy	10.9	- 198	- 169	- 109	- 69
Netherlands	6.1	- 110	- 94	- 60	- 38
Belgium	4.5	- 82	- 70	- 45	- 29
Denmark	2.6	- 47	- 41	- 26	- 17
Ireland	0.9	- 16	- 13	- 9	- 5
Luxembourg	0.2	- 4	- 3	- 2	- 1
Less prosperous excluded					
UK NET REFUND	-	+1814	+1552	+1000	+ 630
Germany	46.3	- 839	- 718	- 463	- 291
France	34.8	- 631	- 540	- 348	- 219
Italy	-	-	-	-	-
Netherlands	8.5	- 155	- 132	- 85	- 54
Belgium	6.4	- 116	- 99	- 64	- 40
Denmark	3.7	- 67	- 58	- 37	- 23
Ireland	-	-	-	-	-
Luxembourg	0.28	- 5	- 4	- 3	- 2

TABLE 2 : NET CONTRIBUTIONS IN 1980 : ALL COUNTRIES CONTRIBUTE TO UK REFUND

eua per head and as % of GNP

Country	BEFORE FINANCIAL MECHANISM		AFTER UK REFUND (GROSS) OF:							
			1814		1552		1000		630	
	eua per head	as % GNP	eua per head	as % GNP	eua per head	as % GNP	eua per head	as % GNP	eua per head	as % GNP
Exporter benefits										
UK	-32.5	-0.59	- 5.6	-0.10	- 9.5	-0.17	-17.7	-0.32	-23.2	-0.42
Germany	-17.1	-0.18	-26.8	-0.28	-25.4	-0.26	-22.4	-0.23	-20.5	-0.21
France	- 0.4	-	- 8.7	-0.10	- 7.5	-0.08	- 5.0	-0.06	- 3.3	-0.04
Italy	+13.1	+0.27	+ 9.6	+0.20	+10.1	+0.21	+11.1	+0.23	+11.9	+0.25
Netherlands	+30.1	+0.34	+22.2	+0.25	+23.4	+0.27	+25.8	+0.30	+27.4	+0.31
Belgium	+55.7	+0.62	+47.4	+0.52	+48.6	+0.54	+51.2	+0.57	+52.8	+0.58
Denmark	+72.2	+0.68	+63.0	+0.59	+64.2	+0.60	+67.1	+0.63	+68.9	+0.65
Ireland	+157.7	+4.00	+152.8	+3.85	+153.7	+3.88	+154.9	+3.91	+156.2	+3.94
Luxembourg	+817.9	+6.64	+806.7	+6.55	+809.5	+6.57	+812.3	+6.59	+815.1	+6.61
Importer benefits										
UK	-27.8	-0.50	- 0.9	-0.01	- 4.8	-0.09	-13.0	-0.24	-18.5	-0.33
Germany	-18.1	-0.19	-27.8	-0.29	-26.4	-0.27	-23.4	-0.24	-21.4	-0.22
France	- 2.2	-0.03	-10.6	-0.12	- 9.4	-0.11	- 6.9	- 0.08	- 5.2	-0.06
Italy	+15.5	+0.32	+12.0	+0.25	+12.5	+0.26	+13.6	+0.28	+14.3	+0.30
Netherlands	+25.6	+0.29	+17.7	+0.20	+18.9	+0.22	+21.3	+0.24	+22.9	+0.26
Belgium	+54.5	+0.60	+46.2	+0.51	+47.4	+0.52	+49.9	+0.55	+51.6	+0.57
Denmark	+55.2	+0.52	+46.0	+0.43	+47.2	+0.44	+50.1	+0.47	+51.9	+0.49
Ireland	+134.0	+3.38	+129.1	+3.25	+130.0	+3.28	+131.3	+3.31	+132.5	+3.34
Luxembourg	+817.9	+6.64	+806.7	+6.55	+809.5	+6.57	+812.3	+6.59	+815.1	+6.61

TABLE 4 : EFFECT OF FINANCING UK REFUND(through normal VAT key)

EUA per head/As % GNP

Country	GROSS REFUND TO UK OF :-							
	1814		1552		1000		630	
	eua per head	As % GNP	eua per head	As % GNP	eua per head	As % GNP	eua per head	As % GNP
All countries contribute								
UK net refund	26.8	+0.49	23.0	+0.42	14.8	+0.27	9.3	+0.17
Germany	-9.7	-0.10	-8.3	-0.09	-5.3	-0.06	-3.4	-0 03
France	-8.4	-0.10	-7.2	-0.08	-4.6	-0.05	-2.9	-0.03
Italy	-3.5	-0.07	-3.0	-0.06	-1.9	-0.04	-1.2	-0.03
Netherlands	-7.8	-0.09	-6.7	-0.08	-4.3	-0.05	-2.7	-0.03
Belgium	-8.3	-0.09	-7.1	-0.08	-4.6	-0.05	-2.9	-0.03
Denmark	-9.2	-0.09	-8.0	-0.08	-5.1	-0.05	-3.3	-0.03
Ireland	-4.9	-0.10	-4.0	-0.10	-2.8	-0.07	-1.5	-0.04
Luxembourg	-11.2	-0.09	-8.4	-0.07	-5.6	-0.05	-3.5	-0.03
Less prosperous excluded								
UK net refund	32.5	+0.59	27.8	+0.50	17.9	+0.30	11.3	+0.20
Germany	-13.7	-0.14	-11.7	-0.12	-7.6	-0.08	-4.7	-0.05
France	-11.8	-0.13	-10.1	-0.11	-6.5	-0.07	-4.1	-0.05
Italy	-	-	-	-	-	-	-	-
Netherlands	-11.0	-0.13	- 9.4	-0.11	-6.1	-0.07	-3.8	-0.04
Belgium	-11.8	-0.13	-10.1	-0.11	-6.5	-0.07	-4.1	-0.05
Denmark	-13.1	-0.12	-11.3	-0.11	-7.2	-0.07	-4.5	-0.04
Ireland	-	-	-	-	-	-	-	-
Luxembourg	-14.2	-0.12	-12.2	-0.10	-7.8	-0.06	-4.9	-0.04

UK NET CONTRIBUTION IN 1980

Table 1 attached shows net contributions of member states after making gross refunds to the UK of 630 meua and 1552 meua, assuming all members (including UK) contribute to financing the refund according to their VAT shares. Table 2 shows the cost to each member state of financing these refunds.

Before UK refund

Importer pays MCAs : UK net contribution is 40 per cent greater than Germany's 13 times French

Exporter pays MCAs : UK's net contribution is 73 per cent greater than Germany's, 95 times French.

After 630 meua refund (eg from unrestricted financial mechanism)

Importer pays MCAs : UK second largest net contributor. Contribution 75 per cent German, still nearly 4 times French.

Exporter pays MCAs : UK still largest net contributor. Contribution 3 per cent above German, over 7 times greater than French.

After 1552 meua refund (full refund, importer pays MCAs)

Importer pays MCAs : UK third largest net contributor. Contribution less than 20 per cent German, just over half the French.

Exporter pays MCAs : UK second largest contributor. Net contribution a third of German, and still over 30 per cent more than the French.

TABLE 1 : Net contributions in 1980 *

meua

Country	Net contribution before Financial Mechanism	Net contribution after 1552 refund	Net contribution after 630 refund
Exporter pays			
UK	-1814	- 532 (2)	-1294 (1)
Germany	-1048	-1557 (1)	-1254 (2)
France	- 19	- 402 (3)	- 174 (3)
Italy	+ 734	+ 565	+ 665
Netherlands	+ 422	+ 328	+ 384
Belgium	+ 550	+ 480	+ 521
Denmark	+ 370	+ 329	+ 353
Ireland	+ 513	+ 500	+ 508
Luxembourg	+ 292	+ 289	+ 291
Importer pays			
UK	-1552.	- 269 (3)	-1031 (2)
Germany	-1107	-1616 (1)	-1313 (1)
France	- 120.	- 503 (2)	- 275 (3)
Italy	- 871	+ 702	+ 802
Netherlands	+ 359	+ 265	+ 321
Belgium	+ 538	+ 468	+ 509
Denmark	+ 283	+ 242	+ 266
Ireland	+ 436	+ 423	+ 431
Luxembourg	+ 292	+ 289	+ 291

*Based on estimates in Commission Reference Paper

TABLE 2 : Cost of financing UK refund

	% share cost	Refund of: 630 meua	1552 meua	1814 meua
UK	17.4	521	1282	1499
Germany	32.8	-207	-509	-595
France	24.7	-155	-383	-448
Italy	10.9	- 69	-169	-198
Netherlands	6.1	-38	-94	-111
Belgium	4.5	-29	-70	- 82
Denmark	2.6	-16	-41	-47
Ireland	0.9	-5	-13	-16
Luxembourg	0.2	-1	-3	-4

TABLE 1. NET CONTRIBUTIONS IN 1980 : ALL COUNTRIES CONTRIBUTE TO UK REFUND

meua

Country	BEFORE FINANCIAL MECHANISM	AFTER UK REFUND (GROSS) OF:			
		1814	1552	1000	630
Exporter benefits					
UK	-1814	-315	-531	-988	-1293
Germany	-1048	-1643	-1557	-1376	-1255
France	-19	-466	-402	-266	-174
Italy	+734	+536	+565	+625	+665
Netherlands	+422	+312	+328	+362	+384
Belgium	+550	+468	+480	+505	+521
Denmark	+370	+323	+329	+344	+353
Ireland	+513	+497	+500	+504	+508
Luxembourg	+292	+288	+289	+290	+291
Importer benefits					
UK	-1552	-53	-269	-726	-1031
Germany	-1107	-1702	-1616	-1435	-1314
France	-120	-567	-503	-367	-275
Italy	+871	+672	+702	+762	+802
Netherlands	+359	+249	+265	+299	+321
Belgium	+538	+456	+468	+493	+509
Denmark	+283	+236	+242	+257	+266
Ireland	+436	+420	+423	+427	+431
Luxembourg	+292	+288	+289	+290	+291

UK NET CONTRIBUTIONS AFTER 1980

There is nothing in prospect to prevent our contribution getting even further out of line. In our view existing Commission projections and proposals imply that UK net contribution will rise in real and nominal terms in the foreseeable future (up to 1983). Further changes in the pattern of our trade may reduce gap between UK's GNP share andits share of contributions (though this is not certain if our overall imports grow relatively rapidly). But this would be more than outweighed by a continued growth in CAP spending, as in present propsals.

UK's Budget problem 1980

The table shows the difference between UK's forecast contributions and receipts and what theywould be if they were in line with its GNP share.

	meua	% total
Net contribution	1550	100
Excess contributions:	680	44
agricultural levies	55	3
customs duties	515	33
VAT	110	7
Deficient receipts	870	56
CAP	950	61
Structural funds	-100	-6
Other	20	1

Based on reference paper forecasts

"Rotterdam" effect: Where one member state pays import duties on goods that are immediately re-exported to another member. A major reason why own resource contributions may sometimes not reflect real economic burdens on member states. Does not apply to UK. Department of Trade estimates for 1977 show that UK re-exports to EEC, at £550 million, much less than EEC re-exports to us (£1440 million).

Monetary compensatory amounts (MCAs)

Size of MCAs depends on relationship between Green currency and market rates of exchange. UK MCA percentage is currently 9 per cent.

"Importer pays" (Commission and other member states preferred basis) MCAs treated as import subsidy and score as budgetary receipt. Non-budgetary costs of CAP correspondingly higher. UK net budgetary contribution is 1552 meua in 1980 on this basis.

Exporter pays (UK preferred basis). MCAs score as export subsidy. UK net budgetary contribution higher (1814 meua); non-budgetary costs of CAP lower. This convention corresponds with how payments actually made for UK and Italian MCAs.

GDP per head as % of EEC average

1978	at market exchange rates	at purchasing power parities
Denmark	143.7	118.8
Germany	136.7	118.5
Belgium	128.9	108.9
Luxembourg	125.8	110.1
Netherlands	123.1	107.7
France	116.1	113.5
UK	72.6	91.8
Italy	60.2	72.2
Ireland	49.6	62.3

Source: Commission supplementary information (SEC(79)1578)
Data 1960-78 tables 4 and 5

Exchange rates

European unit of account is a basket made up of fixed quantities of EEC currencies. On 20 November, rates were as follows:

Country	1 unit of account equalled	1 unit of domestic currency equalled
UK	£0.65	1.55 eua
Germany	DM2.48	0.40
France	FF5.83	0.17
Italy	L1160	0.0009
Belgium	BF40.27	0.025
Netherlands	2.77	0.36
Denmark	7.34	0.14
Ireland	£0.67	1.49
US	$1.41	0.71

By convention budget forecasts for 1980 assume exchange rates as at February 1979. The rate for sterling then was £1 = 1.49 eua (ie 1eua=0.67). Since then sterling has appreciated nearly 4 per cent against the eua. Changes in other rates reflect the EMS realignment, and are smaller.

THE UK'S BUDGET PROBLEM IN 1980

UK GNP share 16%; UK GNP per head as % EEC average approx.75%

Contributions	meua	EUA per head	UK as % EEC total	UK per head as % EEC per head
Agricultural levies	417	7.5	18.6	87.2
Customs duties	1370	24.5	26.7	123.7
VAT	1522	27.3	17.4	80.8
Other*	-196	-3.5	-3.5	100.0
Total contributions	3113	55.8	20.5	95.2
Receipts				
CAP Guarantee	857	15.4	7.6	35.4
Structural Funds	352	6.3	20.7	96.9
Investment, Energy and Industry	55	1.0	12.2	58.8
Other	297	5.3	16.7	77.9
Total receipts (incuding MCAs)	1561	28.0	10.3	47.8
Total receipts (excluding MCAs)	1299	23.3	8.5	39.8

*matching unallocated expenditure and Article 131

CHANGE TO UK BUDGETARY CONTRIBUTIONS

IF

A. Payments and Receipts in line with GNP share

	meua	As % net contribution	
		exporter pays (1814)	importer pays (1552)
Excess contribution	676	37.3	43.6
Deficient receipts			
exporter benefits MCAs	1138	62.7	
importer benefits MCAs	876		56.4

B. Payments and Receipts per head in line with EEC average

Contributions shortfall	158	-8.7	-10.2
Deficient receipts			
exporter benefits MCAs	1972	108.7	
importer benefits MCAs	1710		110.2

	UK	Germany	France	Italy	Netherlands	BLEU	Denmark	Ireland	EEC(9)
<u>COMMON AGRICULTURAL POLICY</u>	(NB: STERLING NOT UNITS OF ACCOUNT : MAFF ESTIMATES FOR 1978)								
Exporter benefits MCAs									
Budget flows	-673	-122	+41	-344*	+241	+33	+408	+343	
Non-budget flows	-110	-434	+575	-588*	+605	-54	+275	+184	
Total	-783	-556	+616	-932*	+846	-21	+683	+527	
Importer benefits MCAs									
Budget flows	-197	-237	-150	-65*	+122	+4	+249	+203	
Non-budget flows	-586	-319	+766	-867*	+724	-25	+434	+324	
Total	-783	-556	+616	-932*	+846	-21	+683	+527	
<u>TRADE WITH EEC(9)</u>									
% imports from EEC(9)									
total 1972	31.6	53.9	56.0	49.2	62.3	71.1	45.9	69.3	52.2
1978	38.0	50.1	51.4	44.7	57.4	69.0	49.4	73.4	50.8
manufactures 1972	37.1	63.1	72.4	68.3	80.1	79.8	53.3	81.2	64.7
(SITC 5-8) 1978	44.3	57.3	67.3	66.4	73.8	77.4	54.4	78.2	62.2
food 1972	32.4	55.7	41.2	49.7	47.6	69.1	24.3	47.3	46.7
(SITC 0,1) 1978	42.9	56.8	47.1	58.3	47.1	74.0	36.8	71.4	52.9
<u>TRADE WITH UK</u>									
Exports to UK									
as % total exports	-	6.3	7.7	9.3	8.0	5.9	15.1	48.6	6.3
as % total UK imports	-	10.8	7.6	4.7	5.3	3.7	2.3	3.5	38.0
Imports from UK									
as % total imports	-	4.4	5.9	4.0	7.1	9.1	14.3	67.3	5.7
as % total UK exports	-	9.0	6.5	3.3	5.1	5.9	2.5	5.6	37.8

* 1979 figures for Italy likely to be much more favourable

	UK	Germany	France	Italy	Netherlands	Belgium	Denmark	Ireland	Luxembourg
INCOME									
GNP as % EEC(9) : 1978	15.6	32.2	23.9	13.2	6.6	4.9	2.8	0.6	0.2
forecast 1980	16.0	30.9	24.4	13.9	6.4	4.6	2.8	0.7	0.2
GNP per head as % EEC(9):1978	7	2	6	8	5	3	1	9	4
at market exchange rates	72.6	136.7	116.1	60.2	123.1	128.9	143.7	49.6	125.8
at purchasing power parities	91.8	118.5	113.5	72.2	107.7	108.9	118.8	62.3	110.1
BUDGETARY : 1980									
Net contribution : MEUA									
exporter benefits MCAs	-1814	-1048	-19	+734	+422	+550	+370	+513	+292
importer benefits MCAs	-1552	-1107	-120	+871	+359	+538	+283	+436	+292
Gross contributions : as % EEC(9)									
levies	18.6	20.2	12.9	20.3	15.2	10.8*	1.6	0.4	n.a
duties	26.7	29.9	15.1	8.8	9.3	6.7*	2.4	1.1	n.a
VAT	17.4	32.8	24.7	10.9	6.1	4.5	2.6	0.9	0.2
Total	20.5	30.1	20.0	11.5	8.4	6.1	2.4	0.9	0.13
Gross receipts : as % EEC(9) (Importer benefits MCAs)									
CAP guarantee	7.6	26.3	21.7	16.1	12.9	6.5	5.3	3.4	0.24
Structural	20.7	11.8	16.4	34.5	2.2	1.9	1.9	10.5	0.1
Investment/Energy/Industry	12.2	21.5	16.8	26.8	9.9	10.6	1.1	0.9	0.2
Total**	10.3	23.2	19.9	16.3	11.1	9.7	4.9	4.3	2.1

*BLEU = Belgium and Luxembourg

** as % allocated Budget

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OPTIONS (References are to Commission solutions papers 31 October (A) and 21 November (B)

All figures are on importer benefits MCAs basis

Mechanisms	Net refund in 1980 meua	£m*	Comments
Objective			
Broad balance (as long as below EEC average GDP per head)	1550	1000	Simple mechanism on net contribution would be cast-iron. But will be resisted as departure from Community principles ("juste retour") and because insulates UK from effects of budgetary expansion.
MECHANISMS DISCUSSED IN COMMISSION PAPERS			
Gross contributions mechanisms			Excessive contributions less than half the problem. Not robust in face of increased expenditure from which UK make no net gain.
Existing mechanism (A, 11-15, B, 12-14)			
1. balance of payments surplus	-	-	Produced nothing so far. BOP criterion irrelevant. "Community instrument" so good starting point.
2. balance of payments deficit	250	170	Will get this anyhow.
Amended financial mechanism			
1. remove tranche system	405	270	Recommended by Commission in both papers.
2. and remove 3 per cent ceiling	520	350	Not completely robust. Payments still subject to conditions: : GDP per head less than 85% average : growth rate less than 120% average : total contribution must exceed 110% of what contribution would be if proportional to GNP. and limitations: refund not to exceed VAT payments and unabated net contribution [sets effective ceiling of about 1500 meua in 1980.] Could be combined with other mechanisms/measures.

* Assuming £1=1.50 eua

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A new mechanism to compensate for increases in contributions (A 18-19. B, 11)			
No increase in UK's share of gross contributions between 1979 and 1980	390	260	Extension of current Article 131 arrangements which expire this year. Dismissed as inadequate in second Commission paper (B). Temporary and ad hoc though could be extended. Corrects same problems as financial mechanism. Difficult to combine two to yield additional sum.
A weighted financial mechanism (A, 21-23)			
GNP share weighted by ratio of GNP per head to EEC average			Use of GNP per head smacks of "progressivity"; wider application could be expensive after enlargement. Dismissed in A and dropped in B. Effective but unpopular.
1. GNP per head at market exchange rate, ie 76% weight	1100	730	Size of weight would be affected by sharp movements in market exchange rates. 3-year averaging for GNP per head would be desirable (cf for qualifying criterion).
2. GNP per head at purchasing power parities ie 90% weight	750	500	Essential to confine use of PPP to weighting or remove 85% qualifying criterion from existing mechanism.
Gross receipts mechanisms (A, 24-25)			Deficient receipts more than half the UK's problem. Receipts mechanisms criticised inA, not mentioned in B. Radical, open to charge of "juste retour". Annual allocations not resulting from mechanism more acceptable, if tied to specific Community policies (B,15). Robust, if combined with amended mechnanisms on gross contributions side.

OPTIONS : Figures on exporter-benefits MCAs basis

Mechanism	Net refund in 1980 meua	Net refund in 1980 £m
Objective		
Broad balance	1814	1210

Gross contributions mechanisms

as in main table

Gross receipts mechanisms

	meua	£m
Refund to bring		
1. UK share of receipts in line with GNP share	940	630
2. UK receipts per head in line with EEC average receipts per head	1620	1080
OR		
Refund could defray some proportion of shortfall in UK receipts eg make good two-thirds gap between receipts and GNP share	610	410
OR make good 80 per cent gap between receipts per head and EEC average	1300	860

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NORTH SEA OIL AND THE UK ECONOMY

North Sea oil is an undoubted benefit to the UK. But the additional income from oil and gas is fully reflected in our estimated GNP (as with Dutch gas). Energy is only one resource. Mexico is not rich, nor Japan poor, because the first has oil and the second does not. Income per head is best broad measure of relative prosperity.

Oil alone will not make the UK rich by EEC standards, even if oil prices continue to rise. North Sea reserves are fairly small relative to the size of UK economy. Oil and gas production will contribute little more than 2 per cent to GNP in 1979. Even in the mid 80s - the years of peak production - less than 5 per cent of GNP is likely to be due to North Sea activities (cf agriculture).

Nor are we shielded from developments in world oil markets. Even when we are self-sufficient, shall still need to export and import to obtain supplies of different quality oils - and because of contractual positions of North Sea producers, will still be affected by world shortages. As a major trading nation, stand to lose from effect of energy crises on world economy and world trade.

North Sea is direct benefit to balance of payments. But the case for reducing our net budgetary contribution rests on the inequity of the real income transfers involved, not on the state of our balance of payments. And oil and gas do not guarantee a surplus. Current account deficit of £3 billion this year, despite contribution from North Sea activities of over £8 billion (Industry Act forecast).

Oil may be mixed blessing. Its status as a petro-currency has unavoidably pushed sterling to levels which create problems for the UK's manufacturing base. One reason for our continued poor performance on current account. Resulting structural problems must be faced when oil production declines later this century.

NORTH SEA OIL PRICES

It is not true, as some member states allege, that BNOC raised its prices ahead of OPEC in the recent round of price increases. BNOC's announcement on 6 November followed announcements by other producers of comparable grades of crude - Libya, Algeria, Nigeria and the Norwegian oil company Ekofisk. /BNOC's rise was effective from 1 November, five days earlier than the Nigerian rise. But Libyan and Algerian price rises were effective in October./

Preferential pricing

We cannot consider preferential pricing for the Community. It would add a further non-budgetary cost to our budget problem. Other members are not expected to sell the products of their natural resources to the Community at below world prices. The CAP embodies the opposite principle. The security of supply argument is at least as strong for energy as for agriculture. Conservation considerations are strongly against preferential pricing. US experience shows disadvantages of cheap oil for home market.

It would be administrative nightmare. How could we prevent low priced North Sea oil being onsold at world market price?

Preferential access for EEC

About half our production is exported, and over half of these exports already go to our Community partners. To try and direct more oil to the Community (as distinct from our informal guideline) would provoke justified complaints from other countries.

THE UK'S PATTERN OF TRADE

Do not accept that the UK has only itself to blame for its present budgetary problem or that it could solve it for itself by changing its pattern of imports.

First, this ignores the fact that nearly two-thirds of the UK's net budget contribution results from its low level of receipts from the Community budget.

Second, any suggestion that we are not "playing the Community game" is quite without foundation. We observe the doctrines of "Community preference" and "own resources" to the letter. Our scrupulous implementation of "Community preference" gives Community exporters a competitive advantage in the UK market. What more do our Community partners expect the British Government to do? The Community is dedicated to removing restrictions on international trade under Article 110 of the Treaty. Surely we are not being asked to introduce national regulations in contravention of that Article?

Third, it is true that UK imports are a higher proportion of GDP than some other Community countries, though not of course as high as some of the smaller member states (UK imports amounted to 25.5 per cent of GDP in 1978, against a Community average of 23.4 per cent). But there is no reason why it should be penalized for this. The Community is dedicated to expanding world trade, not to national autarky.

Finally, a very substantial reorientation of UK trade has already occurred. Between 1973 and 1978 the share of UK imports coming from the Community rose from 32.8 per cent to 38.06 per cent. This is a marked shift, and runs counter to trends elsewhere in the Community.

/French have laboured this argument as a debating point. But its substance for them is related to New Zealand lamb and butter quotas and the quotas for Commonwealth sugar./

COMMONWEALTH QUOTAS

Lamb

The EEC's 20 per cent external tariff is bound in GATT, and new import restrictions could only be applied with the agreement of New Zealand.

Butter

New Zealand access provisions expire at the end of 1980 and therefore need to be renegotiated.

Sugar

ACP countries have a perpetual right under the Lomé convention to send 1.2 million tonnes at prices within the range of those paid to Community producers.

NATURE OF OWN RESOURCES : CUSTOMS DUTIES AND AGRICULTURAL LEVIES AS A NATIONAL CONTRIBUTION

The 1975 financial mechanism treated Community "own resources" collected nationally as part of the national contribution. There is no question of challenging the own resources system now, any more than there was when the Community agreed to the Dublin mechanism. What we are saying is that the operation of the own resources system in practice is producing results which run counter to the Community's wider aims.

THE JUSTE RETOUR

Has been argued that, by claiming "broad balance" we are seeking a "juste retour". We do not argue that, as a matter of principle, every member state should get out of the Budget exactly what it puts in - though in practice, Commission forecasts show that next year 6 or 7 out of 9 members will get a juste retour or better.

The original objection to the "juste retour" was that it would have impeded the development of the Community in its early stages. This is no longer relevant. Community policies are endangered, not by the "juste retour" but by the serious budgetary anomaly to which they have given rise.

An increasingly important theme in the development of new Community policies has been that those members that are less strong economically should get some protection and structural assistance in the Community budget. Examples include the orientation of the Regional Fund towards those countries and EMS interest rate subsidies. The 1975 financial mechanism was designed to protect a member state with below average GNP per head from an excessive budget contribution. Our claim for broad balance is part of this development, not the "juste retour".

We are not trying to turn the budget into a redistributive machine. If we were, we would be arguing that a country in the UK's economic position should be a net recipient. Our claim is more modest. We would be quite happy with a position like that of France, which has sometimes been a net contributor and sometimes a net beneficiary, both on a small scale.

COMMUNITY BUDGET NOT AN INSTRUMENT OF REDISTRIBUTION

We are not seeking to turn the Budget into a redistributive machine. If we were, we would not be asking for broad balance but to be net beneficiary.

But in fact, the present Budget is redistributive - at the UK's expense. This is both inequitable and at odds with the clear trend in Community policies towards correcting the structural problems of those members who are economically less strong.

SWINGS AND ROUNDABOUTS

The UK would be very happy to play the same game of Community swings and roundabouts as the French. But that is not in prospect. There is no way at present that the UK can become a net beneficiary from the budget, through the development of Community policies. This will be so as long as the CAP continues to dominate the budget. Experience has shown that it is swings all the way for us.

ANOTHER RENEGOTIATION

UK rejects allegation that its demands are unacceptable because they are tantamount to another "renegotiation".

At the time of our accession we pointed out to the original Six that if the prevailing trends in Community expenditure were to continue the UK would before long emerge as the largest net contributor to the Budget. Our prospective partners contested this, arguing that planned changes in the balance of Community expenditure would prevent this happening.

But as further reassurance they endorsed a paper prepared by the Commission which said "should an unacceptable situation arise ... the very survival of the Community would demand that the institutions find equitable solutions" (GB/33/70 dated 13.11.70).

The restructuring of the Community budget envisaged at that time has not occurred. The Community continues to spend 70 per cent of a rapidly growing budget on various forms of agricultural support, as against the 40 per cent to 60 per cent mentioned in 1970.

The unacceptable situation has inevitably arisen. The Community recognised the problem in 1975, but the solution it found has proved totally inadequate. It is no use saying that the UK cannot return to the issue. We can and we will, so long as the assurances we received in 1970 remain unfulfilled.

THE 1 PER CENT VAT LIMIT

We are against raising the 1 per cent VAT limit to accommodate further wasteful expenditure on agricultural surpluses. But that involves new expenditure. What we are considering here is reallocating existing financial burdens.

A solution to the UK's problem must be reached on its own merits. Financing that solution must not be hampered by appealing to a limit which is fully appropriate as a brake on new expenditure, but quite inappropriate when it comes to reallocating the burden of existing expenditure.

Gundelach proposals designed to save up to 1 billion eua on CAP in 1981 to keep within 1 per cent VAT limit announced in last few days.

WIDER EFFECTS OF COMMUNITY MEMBERSHIP

The UK's budgetary contribution reflects only part of the cost of the CAP to us. Widely recognised that CAP transfers resources between member states both inside and outside the budget. Non-budgetary flows arise because intra EEC trade in agricultural products is conducted at managed prices above world levels. UK estimates of non-budgetary costs for UK in 1978 have been circulated by the Commission:

	1978 £ million
Importer benefits MCAs	586
Exporter benefits MCAs	110

Has been argued that UK should have derived its principal benefit from membership on the industrial side, in form of faster rate of growth. Takes time to realise these benefits. Our policies are directed towards improving industrial performance - but they will take all the longer to work, if impeded by a perverse transfer of resources through the Community budget.

Undoubtedly have been wider economic benefits outside the budget as well. Has been a great increase in trade - in both directions - between UK and rest of EEC. But all members have benefitted. Cannot compensate the UK for the transfer of resources through the budget and the CAP.

SOLUTION MUST LAST AS LONG AS THE PROBLEM

A one year solution is not enough. It must lastas long as the problem.

There are long term changes that will help - a further reorientation in UK trade sources, changes in the structure of Community spending. But they will take time.,

Much depends on Community action to curb CAP expenditure. During the UK's accession negotiations, Commission predicted that CAP spending would take only 40 per cent of the Budget by the end of the transitional period. Still very far from that.

That is why we need a solution bearing on both receipts and expenditure. We cannot rely on these changes to happen quickly - or even to happen at all.

A time limit is quite unacceptable. The Community may be faced with the same problem again in a few years time. That would be in no-one's interest.

/We may be able to accept a review clause, as in the 1975 Financial Mechanism./

RECEIPTS FROM THE CAP IN MEMBER STATES

The Danes and the French may argue that net transfers through the Community Budget are misleading as an indication of the benefits that member states derive from the CAP:

i. The Danes argue that all Community farmers benefit from the price support mechanisms of the CAP and that the benefits of the Community expenditure involved should be allocated between member states in proportion to their shares in total Community production and not according to where it arises;

ii. The French argue that it is receipts per head of the farming population or per farm that capture the benefits of the CAP, not total receipts per country or receipts per head of the population.

Both arguments are irrelevant to the question at issue since they focus on the transfers between EEC farmers and consumers and not between countries.

UK farmers of course do benefit from the CAP - as the table attached illustrates. But the UK farm sector is not the same as the UK. British farmers receive transfers not only from consumers elsewhere in the EEC, but from UK consumers as well. Equally, there is a transfer of income from UK consumers to farmers elsewhere in the Community. Since the UK is a net importer of agricultural products transfers from UK consumers to other European farmers far exceed transfers from consumers elsewhere in the Community to our farmers. That is why the CAP causes a net resource transfer from the UK to other member states.

These transfers take both budgetary and non-budgetary forms. We have focussed on the former though the UK is a substantial loser on the latter too (see Arguments No 11). The French and Danish arguments confuse budgetary and non-budgetary effects, and for this reason too are irrelevant to the present debate.

1978 CAP RECEIPTS (EUAs)

	Per Head of Population		Per Head population engaged in Agriculture, Forestry and Fishing		Per Farm of over 1 Hectare	
Belgium	58.6	(63.0)	4670	(5020)	5784	(6219)
Lux	63.3	(63.3)	2811	(2811)	4865	(4865)
Denmark	117.6	(161.2)	2751	(3772)	4821	(6610)
Germany	39.8	(42.6)	1474	(1579)	2843	(3044)
France	28.4	(33.8)	748	(890)	1317	(1568)
Ireland	112.1	(177.8)	1519	(2411)	1379	(2188)
Italy	21.1	(13.8)	380	(247)	583	(379)
Netherlands	79.9	(92.8)	3842	(2464)	8105	(9418)
UK	21.3	(8.6)	1807	(725)	4561	(1832)

Figures outside brackets on an "importer pays" MCAs basis.

Figures within brackets on an "exporter pays" MCAs basis.

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Refund to bring:			
1. UK share of receipts in line with GNP share	720	480	In combination with amended financial mechanism would yield: -1240 meua (£830m) or
2. UK receipts per head in line with EEC average receipts per head	1400	930	1920 meua (£1280m): above our forecast VAT payments in 1980.
OR			
Refund could defray some proportion of shortfall in UK receipts,			Not mentioned by Commission
eg make good two-thirds gap between receipts share and GNP share.	470	310	In combination with amended financial mechanism would yield: - 990 meua (£660m)
Net mechanisms (A, 26)			Criticised in A, dropped in B. Likely to prove quite unnegotiable alone: might be used as failsafe in combination with other mechanisms.
1. net contribution not to exceed a fixed proportion of gross 2. gross contributions not to exceed fixed percentage of UK's share in receipts 3. net deficit to be limited to certain proportion of GNP			Depending on how fixed proportions defined, could be made to yield almost anything. Refund could prove very sensitive to minor changes in forecasts and whether or not MCAs are included.
4. net contribution as % GNP not to exceed that of any more prosperous country.			Not mentioned by Commission. Only relative.

OTHER OPTIONS IN COMMISSION PAPERS

Structure of the Budget (B,6)	
Expenditure on structures and investment should take rising proportion of budget	Italian proposal, recommended by Commission. Inadequate on its own.

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29.

Increased payments for UK under specific Community policies (B,15)

	meua	£m (existing UK programmes)	
1. Assistance for coal exploitation	840	(560)	Recommended by Commission. In combination with amended financial mechanism, most promising line of approach.
2. Transport infra structure	1450	(966)	
3. Agricultural improvement	210	(140)	
4. Interest rebates - if UK joins EMS	200 meua maximum	n.a	Value depends on financing existing programmes on sufficient scale, over required time period. Commission proposals "temporary and ad hoc".

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THE EXISTING FINANCIAL MECHANISM

1. The present financial mechanism was set up in 1975 and was the principal outcome of the 1974-75 "renegotiation". It was designed expressly to correct a situation in which "A member state's economy .. is forced to bear a disproportionate burden in the financingof the Community budget", thereby creating "conditions incompatible with the proper functioning of the Community".

2. The mechanism refunds to a member state part of its excess gross contribution, ie the amount by which its share in Community revenues (including customs duties and agricultural levies) exceeds its share in Community GNP. The qualifying conditions were designed to ensure that only the UK ever benefitted; in fact, it has yet to do so. This is because the transitonal arrangements have so far limited the UK's gross contribution to a level below that at which it would qualify.

3. In 1980, the UK should qualify for a refund of around £175 million net. But for the existing financial mechanism to provide worthwhile and assured relief it would have to be stripped of several of the conditions and restrictions that it at present contains (effect on 1980 refund shown in brackets):

i. the balance of payments condition,under which a member state only qualifies for a worthwhile refund if its balance of payments has been in cumulative deficit over the three previous years (0 to 250 meua);

ii. the tranche system, under which the excess contribution is refunded only in part, not in full (250 to 405 meua); an

iii. the 3 per cent limit, which restricts any refund to 3 per cent of the total budget (405 to 520 meua).

4. For the UK to be sure of qualifying in an enlarged Community, it would also be desirable to amend the qualifying criteria:

i. by raising the GNP per head criterion from 85 per cent to 100 per cent of the Community average; and,

ii. by removing the condition that a member state's growth rate should be less than 120 per cent of the Community average.

5. The Commission's second solutions paper considers removing the conditions in paragraph 3 above, but not those in paragraph 4.

6. The mechanism is financed through the Community budget. The UK therefore contributes to its own refund, and the refunds quoted above are net. Any amended version would probable be financed in the same way.

ARTICLE 131

1. Article 131 refunds to the acceding Member States a diminishing proportion of their total gross contribution. It expires in 1979. The refunds are financed outside the Budget, but according to the usual VAT key.

2. The Commission (and the French) have suggested that it might be appropriate to solve what they regard as a temporary problem by extending this arrangement for another year or two in the UK's case - by limiting the UK's share of total gross contributions in 1980 to its 1979 level. This would yield a refund of 390 meua.

3. This is objectionable because:

a. inadequate. Would produce less than the revised financial mechanism (390 meua against 520 meua according to Commission figures);

b. Would imply that the solution was temporary;

c. A revised Financial Mechanism and an Article 131 solution would logically be mutually exclusive;

d. Could revive arguments over implementation of Article 131 (Germans challenege our interpretation of Council compromise in way it applies to 1979);

e. Second Commission paper (21 November) states preference for Financial Mechanism over Article 131 arrangement.

4. But, if a pretext were being sought for a further payment to the UK over and above that through the revised Financial Mechanism and if no more satisfactory way could be found, such a payment could be described as relating to the transitional arrangements in Articles 130-131. But it would be essential for Heads of Government to state explicitly that it was <u>additional</u> to the revised Financial Mechanism (see (c) above).

ACTION ON RECEIPTS

Deficient receipts is larger part of UK's budget problem. In 1980, UK's share of Community expenditure expected to be only 10.3 per cent (8½ per cent on exporter-benefits MCAs); compared with 16 per cent GNP share. UK receipts per head less than half Community average.

Coupled with unrestricted financial mechanism, action to bring UK receipts fully in line with its GNP share could yield £830 million (1240 meua), even if UK contributed to its own refund. Other possibilities are shown in the summary table. Dual mechanism would be robust.

Action tied to existing Community policies - as recommended by Commission - stands most chance of being acceptable to other members.

Value to us depends on added receipts financing <u>existing</u> UK public expenditure. Should be possible to do this within areas suggested in the latest Commission paper:-

i. <u>Assistance for exploitation of coal resources</u>

NCB's annual investment in new mines, major reconstruction, plant and machinery and continuing capital expenditure is about £560 million (840 meua). Possibility of Community scheme to aid coal production is already under discussion (Secretary of State for Energy wrote to Commissioner Brunner on 4 October).

ii. <u>Agricultural improvement schemes</u>

UK capital grants to agriculture about £160 million (240 meua) a year, of which £20 million is already financed by the Community. Could lead to demands for similar treatment by other member states.

iii. <u>Transport infrastructure</u>

Total public expenditure on motorways, other roads and public transport investment will be nearly £1 billion (1500 meua).

Commission also mention EMS interest rate subsidies. To be eligible we should need to join the EMS. Subsidies are limited to 200 meua a year: Italy and Ireland are also eligible for them.

Other possible areas - not mentioned by Commission - include capital expenditure on schools, hospitals and community health services, and Northern Ireland.

A possible method of implementing action on receipts is by setting up special tranche of Regional Fund - or a completely new Fund - which would benefit the UK alone. Three conditions would together single out UK for special treatment:

- below average GNP per head
- net contributor
- receipts per head less then two-thirds average

(to guard against Italy - whose receipts per head are slightly below EEC average - becoming net contributor again).

Commission's proposals on receipts are advanced as "special temporary and ad hoc". But action on receipts - as on contributions - should last as long as the problem.

ADDITIONAL RECEIPTS : READY RECKONERS

The summary table of options shows that a refund of 1700 meua (gross) and 1400 meua (net) would be needed to bring UK receipts per head up to the Community average. Unlike many of the figures in the table, this is not a Commission estimate, though it is based on Commission forecasts and estimates.

The assumptions on which the calculation rests are:

Allocated EEC Budget in 1980	:	15195 meua
UK receipts (importer benefits MCAs)	:	1561 meua
UK population share	:	21.5%
Receipts in line with population share	:	3266 meua
Shortfall	:	1705 meua (gross)
Net refund (if UK contributes at 17½%)	:	1405 meua

Equivalently, the calculation can be done in terms of receipts per head:

EEC receipts per head	:	58.6
UK receipts per head	:	28
Shortfall in receipts per head	:	30.6
UK population	:	55.8
Shortfall	:	1707 meua
Net refund (if UK contributes)	:	1408 meua

Budgetary figures come from the reference paper: population estimates are from European Economy (July 1979) and are consistent with the figuring in Commission papers. Estimates should only be taken as a rough guide. In any formal arrangement, receipts will need defining very precisely: inclusion or exclusion of administrative expenditure or aid may be controversial.

There are two ways of scaling down the total refund. Additional receipts may be designed:

Either to bridge a proportion of the shortfall between UK and EEC receipts per head

Or to bring UK receipts per head up to a proportion of the EEC average.

The attached tables provide a ready reckoner for both formulae, and display the two methods of calculation on both importer and exporter benefits MCAs.

The calculation on the final page of the summary options table (showing the figures on an exporter benefits MCAs basis only) uses the first method of calculation. It is also the simplest of the two. The UK refund on any assumption, can be obtained by multiplying the sum to be obtained from bringing UK receipts per head up to the EEC average by the required proportion; so the net refund, if 80 per cent of shortfall were to be made good, would be 80 per cent of 1400, ie 1120.

To avoid ambiguity, references to "partial" receipts mechanisms should specify both the relevant proportion, and the refund to be expected.

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RECEIPTS MECHANISMS : READY RECKONER

Importer benefits MCAs

Additional receipts -

1. to bridge all or part of the gap between UK receipts per head and EEC average

% gap	Gross refund (millions units of account)	Net Refund (millions units of account)	Net Refund £m
100	1705	1405	940
.95	1620	1335	890
.90	1535	1265	845
.80	1365	1125	750
.75	1280	1055	705
.70	1195	985	655
.60	1025	845	565
.50	850	705	470
.40	680	560	375

Method of calculation : x(3266 - 1561) where x = % gap

2. to bring UK receipts per head up to some proportion of EEC average

% EEC average	Gross refund (millions units of account)	Net refund (millions units of account)	Net refund £m
100	1705	1405	940
.95	1540	1270	845
.90	1380	1140	760
.80	1050	870	580
.75	890	735	490
.70	725	600	400
.60	400	330	220
.50	70	60	40

Method of calculation x(3266) - 1561, where x = % EEC average

1561 Actual UK receipts
3266 UK receipts, if receipts per head in line with EEC average

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RECEIPTS MECHANISMS : READY RECKONER

Exporter benefits MCAs

Additional receipts -

1. to bridge all or part of the gap between UK receipts per head and EEC average

% gap	Gross Refund	Net Refund	Net Refund
	millions units of account		£m
1.0	1970	1620	1080
.95	1870	1540	1025
.9	1775	1460	975
.8	1575	1300	865
.75	1475	1215	810
.7	1380	1140	760
.6	1180	975	650
.5	985	810	540
.4	790	650	435

Method of calculation : x(3266 - 1299) where x = % gap

2. to bring UK receipts per head up to some proportion of EEC average

% EEC average	Gross Refund	Net Refund	Net Refund
	millions units of account		£m
1.0	1970	1620	1080
.95	1805	1490	990
.9	1640	1350	900
.8	1315	1085	720
.75	1150	950	630
.7	990	815	549
.6	660	545	365
.5	335	275	185
.4	7	6	4

Method of calculation : x(3266) - 1299

1299 Actual UK receipts (exporter benefits MCAs)
3266 UK receipts i[illegible]receipts per head in line with EEC average

EXPENDITURE FRAMEWORK

Commission second solutions paper invites Council to "endorse the principle that to achieve better balance between Community policies, rate of increase in expenditure on structural and general investment policies should from 1980 onwards be significantly greater than rate of increase in size of Community budget". (Paragraph 4). Also recommends that Commission be directed to monitor implementation of this principle. This is response to Italian suggestions on budget.

The Italians have suggested budgetary guidelines in which structural funds would take 25 per cent total budget and investment funds would take 5 per cent. Structural funds include FEOGA guidance (agricultural structure), Regional and Social Funds, EMS interest rate subsidies. Commission have produced illustrative calculations, but on assumption that FEOGA guarantee expenditure is not reduced. Restructuring therefore involves expansion in total size of budget.

UK share of structural funds exceeds our VAT share so we stand to gain from any expansion. Even better if matching reductions in CAP spending.

Our marginal contribution to expenditure is now over 17 per cent but if the present Financial Mechansim were reformed that could come down to 16 per cent. So any expenditure which yields is more than 16 per cent of Community share would be a plus, anything which yields less a minus eg:-

Regional Fund	27%
Social Fund	25%
FEOGA guidance	15%
FEOGA guarantee	9%

For example if CAP guarantee expenditure for 1980 were reduced by 10 per cent then without raising total Community expenditure this could allow expenditure on the regional and social funds to rise by 80 per cent. The net benefit from this (very dogmatic) switch could be 190 meua (£125m) but this would depend on the method used to cut the CAP expenditure (for example if a milk levy was used our net gain would be very much small). Generally, switching expenditure away from the CAP could reduce our net contributions but there are uncertainties and difficulties in guaranteeing that expenditure items curbed are the ones from which we do not benefit, that the expenditure is switched into areas from which we do benefit and that the process can be conducted without conflict with other UK objectives.

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A WEIGHTED FINANCIAL MECHANISM

A way of making existing mechanism yield more than 630 meua (gross), 520 meua (net): could be as much as 1100meua (net).

Unrestricted financial mechanism would bring UK gross contributions share in line with GNP share (at market exchange rates). Weighting GNP share by GNP per head is a way of bringing gross contributions share down even more, to around 12½ per cent (ie GNP per head, .76 x GNP share .16) if GNP defined at market exchange rates, or 14½ per cent with GNP per head at purchasing power parities. Technical variations in formula could produce other results, as desired.

Suggested in first Commission paper, but met hostile receiption from othermembers, and dropped in second. Introduces "progressivity" into Community policies, new principle which could be very expensive if applied more widely after enlargement.

Not robust. Does nothing on receipts side.

FAILSAFES ON THE NET POSITION

Mechanisms operating directly on the UK's net position were briefly mentioned in the Commission first solutions paper, but dropped in the second. Ideal for us. Address problem directly but meet implacable opposition from Commission and other members because allegedly embody the "juste retour". More real complaint is that protect UK from budgetary consequences of new policies (though protection is only complete if net is limited to zero for all time).

May be useful to include "failsafe" provision which limits UK's net position <u>relative</u> to other Community members. Not open to above objections. Most promising is rule that "no less prosperous country who is net contributor should contribute larger proportion of GNP than any more prosperous country who is also a net contributor" (or should not exceed it by more than x per cent).

In a year when France was net contributor (as 1980), would limit UK's net contribution to below French; but it would offer much less protection in a year when France was a net recipient. Limiting UK net contribution as per cent GNP to French position could produce refund of nearly 1500 meua (gross) in 1980, but only about 800 meua if limited by German position.

Help to guard against extremes of unfairness. But usefulness in limiting absolute size of UK contribution depends on what happens everyone else. For use only in addition to other measures.

GNP PER HEAD : PURCHASING POWER PARITIES AND MARKET EXCHANGE RATES

(See country fact sheets for full 1978 figures)

In any mechanism, GNP per head may be used

i. as a qualifying criterion

and/or ii. to determine the size of refund eg by weighting the UK's GNP share to calculate benchmark contributions.

One qualification for the existing mechanism is that GNP per head, at market exchange rates, averaged over three years, should be less than 85 per cent of the Community average.

Other member states may argue that GNP per head should be calculated at purchasing power parities, rather than market exchange rates, as a way of restricting the UK's refund.

The problem for the UK is that at purchasing power parities (PPPs) GNP per head is much closer to the Community average than at market exchange rates and would be virtually at the average in an enlarged Community. We resisted use of PPPs in EMS negotiations because it might have undermined our claim to be treated as "less prosperous".

GNP per head as % EEC average : 1978

	EEC(9)	EEC(12)
market exchange rates	72.6	81.5
PPPs	91.8	98.8

If UK real growth continues to be about 2 per cent a year less than EEC(12), GNP per head may be only 89 per cent of the EEC(12) average even at PPPs, by the date of full enlargement in 1983. (The accession of Greece in 1981 will only make a trivial difference to the comparison.)

The advantage of PPPs measures of GNP is that they are much less susceptible to the effect of sharp movements in exchangerates than GNP at market rates.

Qualifying criterion

If GNP per head is defined at PPPs, the 85 per cent restriction must be removed. If this is done, the risk in conceding PPPs is relatively small. UK no more likely to rise above EEC average at PPPs than at market exchange rates.

If market exchange rates are used, it is important to retain the three-year averaging provision in present financial mechanism, to guard against risk of disqualification from sharp appreciation of sterling.

Calculating the size of refund

If GNP shares were weighted to take account of UK's relatively low per capita income, use of PPPs rather than market exchange rates would reduce our entitlement. We are much better off at PPPs. Even if all flows (budgetary, GNP etc) were converted using PPPs, refund from a weighted mechanism is less using GNP per head at PPPs than at market exchange rates.

But refunds from a weighted mechanism, even using GNP per head at PPPs, would be higher than from an unweighted mechanism, like the present one.

Conclusion

As long as 85 per cent restriction in present mechanism is lifted, risk of disqualification as result of using PPPs is small. Should not volunteer use of PPPs, and can resist its use as unconventional But may be worth conceding as price of a weighted mechanism.

EHG (D) (79) 4 A.

FINANCING A UK REFUND

Two key issues: Should financing be inside or outside budget
: Should UK (and/or other less prosperous countries) contribute

Inside or outside budget?

Existing mechanism is financed inside the budget through normal VAT key. We contribute to our own refund. Both Commission papers favour financing inside budget. Other members likely to favour this, partly in hope of using 1 per cent VAT ceiling to limit size of UK refund.

Ordinarily, we would prefer financing inside budget, with refund to compensate for our own contribution. Would mean minimum Parliamentary processes in other member states before payments made.

1 per cent VAT ceiling is real problem. May be room within 1 per cent ceiling in 1980 but refund in respect of 1980 may not be paid in full in that year. Ceiling highly likely to be reached in 1981.

May want to argue for financing outside budget. Two possibilities:

1. arrangement outside Community framework - in effect new Treaty. Time-consuming.

2. levy on member states to finance corrective mechanism, entered as "negative" expenditure in member states contributing. Best option.

Financing outside budget may be easier in case of receipts mechanism than amended financial mechanism (because existing arrangements).

Distribution of financing burden

Distribution could be (1) on basis of VAT shares, or
(2) by levy which bore disproportionately on member states with above average receipts.

GNP PER HEAD : PURCHASING POWER PARITIES AND MARKET EXCHANGE RATES

Some members may argue that GNP per head at purchasing power parities (PPP) is best measure of relative prosperity.

Present financial mechanism uses GNP per head at market exchange rates averaged over three years, to iron out exchange rate and other fluctuations.

Calculations involving national transfers across the exchanges always use market exchange rates. Use of PPP in new mechanism would be highly unconventional - probably without precedent in EEC or any other international body.

In any mechanism GNP per head can be used:

1. as a qualifying criterion, and

2. to determine the size of refund eg by weighting UK's GNP share to calculate benchmark contribution.

If PPP were conceded, reference point would have to be Community average not, as now, 85 per cent average. At PPP GNP per head is over 90 per cent Community average, and would be nearly 100 per cent average in an enlarged Community.

Less prosperous could also be excluded from financing, though this would be strongly resisted by the rest.

In dual mechanism (amended financial mechanism plus enhanced receipts) two parts could be financed differently, eg contributions by (1) and receipts by (2).

Levy on above average receipts would place financing burden on smaller member states:

	Receipts per head as % EEC average 1980
Belgium, Luxembourg, Ireland, Denmark	more than double
Netherlands	nearly double
Germany, France, Italy	75-100% average
UK	less than half

Precise distribution according to receipts per head liable to severe problems in defining and allocating receipts eg expenditure on administration.

Should UK contribute?

Existing financial mechanism will be cited in support of us doing so. Financing through normal budget does not necessarily mean we should contribute. EMS interest rate subsidies is possible precedent; refund is made to UK to compensate for our contribution to the subsidies.

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FINANCING SHARES

	Through normal VAT key All contribute	% total cost Less prosperous excluded
Germany	32.80	46.26
France	24.67	34.81
UK	17.36	-
Italy	10.90	-
Netherlands	6.05	8.54
Belgium	4.54	6.41
Denmark	2.62	3.70
Ireland	0.86	-
Luxembourg	0.20	0.28

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TIMING OF PAYMENTS

1. There are two precedents:

a. Refunds under Article 131 (the transitional arrangements) are paid quarterly in arrears; and,

b. Refunds under the Financial Mechanisms are paid out of the Community Budget for the following year, ¾ in the first quarter (ie the <u>last</u> quarter of the preceding UK fiscal year) and the remainder when the Community's accounts are settled later in the year.

2. The aim should be to secure payments arrangements at least as favourable as those under the Financial Mechanism. Article 131 arrangements would provide relief sooner. But it might prove more difficult to argue that refunds paid from the same Budget should not count as UK receipts when calculating its receipts deficiency. If so, Article 131 arrangements might reduce the refund payable under a receipts mechanism.

EHG(D)(79)5 Revise COPY NO 1

27 NOVEMBER 1979

EUROPEAN COUNCIL, DUBLIN

29/30 NOVEMBER 1979

ENERGY

Brief by the Department of Energy

OBJECTIVE

1. To avoid linkage between the budget and energy.

POINTS TO MAKE

COMMISSION PAPER (ANNEX D)

2. Commission's paper is useful survey of energy scene and outlook since Strasbourg and Tokyo; reaffirms conclusions and broad priorities outlined there; remains essential to keep developing situation under close review and to sustain follow-up action. Helpful for Council conclusions to reflect this. [If necessary] Energy Council is considering the further actions proposed by the Commission (summarised in para 15 of their paper). Until their examination is completed, premature for European Council formally to endorse the proposals; but European Council might wish to emphasise importance of these decisions and encourage early decisions.

IEA MINISTERIAL MEETING

3. Have agreed US proposal for an IEA Ministerial meeting in December. Important that its results strengthen the hand of the more moderate members of OPEC at the Caracas meeting and beyond. We should therefore emphasise continuing IEA efforts to restrain demand and make best use of scarce resources and avoid giving the

impression of a panic reaction to events in Iran.

OIL IMPORT TARGETS

4. Community's commitment to oil import targets broken down between member states is very important: to convince the oil producers that we are in earnest about saving oil, and to bolster the resolve of the US and Japan, in particular, to adopt sensible energy policies.

5. The UK has made a major contribution to this exercise by accepting a target of net imports of 12 mt for 1980 and net exports of 5 mt for 1985. This involves allowing other Member States to take into account in their own targets 29 mt extra oil for 1980 and 46 mt for 1985, within the agreed Community limit of the 1978 level of 472 m tons. (For Defensive Use if Necessary) If UK net exports are higher than 5 mt in 1985, and our partners simply increased their imports by that amount, the value of our commitment to oil saving would be in doubt. Vital underlying issue is seriousness of our efforts to restrain domestic consumption, to which UK fully subscribed.

REGISTER OF OIL IMPORTS

6. Wait to see how this works before deciding whether other measures are required. Confused spot market is a symptom. Main need is to tackle the cause - the underlying imbalance between supply and demand.

CONTACTS WITH PRODUCERS AND PRESIDENCY CONCLUSIONS

7. European Council should reaffirm its belief in long term advantages of contacts between consumers and producers. EEC/Gulf dialogue may be a useful opportunity for contact. Hope this will be reflected in the Presidency's conclusions.

8. More generally, Presidency's conclusions might underline the importance that the Council attach to energy matters.

Conclusions should reaffirm commitment to energy conservation and development of other energy sources such as nuclear, coal, and in the long term, new sources. Should also reaffirm need for cooperation with other industrialised states in existing institutions.

LINKAGE BETWEEN THE BUDGET AND UK ENERGY POLICY

9. Our case on the budget stands on its own. We share with our partners an interest in securing access to adequate supplies of energy, and will play our full part in discussions to that end. Even when we produce as much oil as we use we shall need to export and import oil to ensure supplies of the varying qualities we need. We are not shielded from developments in the world oil market. We suffer from world energy shortages and economic and trade recession.

COAL (DEFENSIVE)

10. The UK is well aware of the role that coal can play. That is why David Howell wrote to Commissioner Brunner. We will do our best with our partners to take discussion of a Community coal policy forward.

NORTH SEA OIL - EXPORTS AND PRICES (DEFENSIVE)

11. (Speaking notes and background, including figures, on exports of North Sea oil are at Annexes A and B. A note on how we should help the Community in a subcrisis and crisis is at Annex C). About half our production is exported, and over half these exports - 28 per cent of total production - goes to our Community partners. Western Europe is natural outlet for North Sea oil. To seek to direct more oil to the Community (as distinct from our informal guideline that oil exports go to EEC and IEA) would provoke justified complaints from other countries.

12. It is sometimes suggested that North Sea oil should be sold at less than the market price for term contracts. UK consumers do not receive North Sea oil at preferential prices; we cannot consider such arrangements for the Community. We do not have powers to fix North Sea prices, If we sought to do so, we would produce:

(a) a reaction likely to diminish our production and exploration effort in the North Sea - to no-one's benefit;

(b) a dual market system with all the disadvantages and distortions recognised at Tokyo in respect of US policies; and

(c) profits to the first purchaser, of lower priced oil which, in conditions short of total market control, would be more likely to benefit trader than consumer.

Other member states are not expected to sell the products of their natural resources to the Community at below world prices. See no reason why energy should be differently treated. North Sea oil does not lead the world market; it follows prices set by other producers of similar high quality crude. The recent announcement of price increases by North Sea producers followed announcements of rises by Algeria, Libya and Nigeria. They and other major North Sea producers do not sell on the spot market or at spot prices. This shows commendable restraint.

?

BNOC DISPOSALS (IF RAISED)

13. BNOC's direct sales to Community countries are relatively small. This is because when BNOC entered the market in 1978 oil was plentiful and most Community buyers preferred to stay with

their traditional suppliers. Now that supplies are short, potential buyers find BNOC fully committed for the whole of next year and for some time beyond. There has been no discrimination against our Community partners - they simply failed to take their opportunity.

BNOC/BP CONTRACT (IF RAISED)

14. Understand that this contract subject of comment in 'Le Figaro' 24 November, was not an export, but sale to Total for refining in their UK refinery. BNOC were ready to renew but Total could not agree terms within the deadline. Consequently the oil was sold elsewhere.

DEPLETION POLICY (DEFENSIVE)

15. Production has developed rapidly since the first licences were issued in 1964. Would aggravate the problems facing both ourselves and the Community, when our production turns down in the late 1980's if we used up out limited hydrocarbon resources too rapidly. Impossible to estimate with certainty what our future production will be. Our published forecasts take no account of decisions on gas flaring. We made a significant contribution to easing the oil supply situation this year by allowing our production to go ahead without flaring restrictions. This increased North Sea oil production by 7 - 8 m tonnes. But this was a waste of resources which we cound not, in the interests of the UK and the Community, allow to continue.

BNOC FORWARD SALES (DEFENSIVE)

16. The Government decided that BNOC should make a substantial contribution to reducing the PSBR. BNOC proposed and the Government accepted that this should be provided by their obtaining, as part of their normal commercial business, advance payments for

a minor part of their deliveries for the coming year. The detailed arrangements are a matter for BNOC and the companies concerned. Not a precedent for OPEC whose decisions will depend on their assessment of their own interests.

ECE (IF RAISED)

17. Not against East-West High Level Meeting at some stage and on the right conditions. Suggest that the Community should discuss this again next year when we can better judge how willing Eastern countries might be to discuss matter of concern to the West.

POSSIBLE MEETING OF SUMMIT ENERGY MINISTERS (IF RAISED)

18. We need to be careful about institutionalising the Summit which does not include all members of the Community. We should concentrate first on making as much progress as possible at the December IEA meeting and keep the situation under close review. Can later consider the need for any further meeting.

ENERGY OVERLORD (IF RAISED)

19. Energy is indeed important, but seems desirable to follow Community's normal procedures for dealing with it, through Presidency and other institutions. [If necessary] Idea could be examined by Energy Council if others wished, but frankly doubt whether it is a practical possibility.

BACKGROUND

IEA MINISTERIAL MEETING

1. The US have put forward ideas on how the demand limitation efforts of the IEA could be strengthened, based on establishment of national 1980 targets to be monitored regularly and possibly revised downwards, if the supply situation warranted it. These ideas are being examined by official working groups in advance of a December ministerial meeting. Though not an IEA member France may be involved, and we would welcome it.

OIL IMPORT TARGETS

2. Agreement has been reached in the Community on national targets for 1985. UK target of net exports of 5 m tonnes. This allows the remaining 8 collectively to exceed their import level of 1978 by 46 m tonnes in 1985 without exceeding the Community's imports of 472 m tonnes in 1978. Agreement is near on 1980 national targets with a UK target of 12 m tonnes net imports. The Germans have said that they do not believe that the UK is flexible enough in this exercise, claiming that their decision at Tokyo was based on an assumption of UK net exports of 23 m tonnes in 1985. We did not commit ourselves to this forecast at Tokyo or at Strasbourg. We made it clear at the meeting of Summit Energy Ministers on 26 September that if UK net exports exceeded 5 m tonnes in 1985 this would be a matter for UK and would not affect the individual national targets of other member states. This was an essential feature of the understanding reached then with the Americans and cannot be unpicked now. Moreover a commitment to export in excess of

5 m tonnes would limit the Government's freedom of action in decisions to be taken shortly on depletion policy. The French have criticised implied reduction in UK production forecasts underlying our 1980 target, and have suggested that increased North Sea production could provide a margin of security within the 472 m tonnes Community total, with individual national targets being revised downwards. (The Germans made a similar suggestion on 1985 targets). There has been no support for this idea from other Member States who are against changing the 1980 figures.

REGISTER OF OIL IMPORTS

3. This was the other main practical measure decided upon in Tokyo and Strasbourg. Community has adopted a regulation setting up the register in parallel with IEA register, dealing initially only with crude. The French have pressed for a register for products. Community aimed to take a decision on this before the end of 1979, but in practice this will not now be possible. The European Council should not get involved in discussion of an expanded register.

LINKAGE BETWEEN THE BUDGET AND UK ENERGY POLICY

4. Our partners suspect us of adopting a selfish attitude towards our energy resources. The Germans, in particular, have criticised us for allowing North Sea prices to rise while Saudi Arabia, for example, sticks to the price it accepted at the June OPEC meeting. Others may endeavour to link concessions to us on the budget with moves by us to help them over energy. For tactical reasons we may wish not to sound too negative at

Dublin - but the helpful gestures which we could make are severely limited because of the importance of UK security of supply and for the reasons set out in the Points to Make. Our resources are such that supplies of oil from the UK Continental Shelf must of necessity always be small in relation to our partners levels of consumption. It is important, therefore, not to raise unrealistic expectations.

COAL

5. Discussion of proposals to support coal production and consumption have been under way in the Community for many months. The Energy Council has agreed to reach a decision in December on continuation of the coking coal aid scheme. We would like to see a scheme for supporting coal production since we would be likely to be net beneficiaries. But we recognise that we shall only get this in a package including consumption aid. Mr Howell wrote to Commissioner Brunner suggesting a fund to support coal production (250 meua per annum).

DEPLETION AND GAS FLARING

6. A report by officials which awaits consideration by E Committee recommends a more conservative depletion policy both for economic reasons and to maintain a higher security of supply over a longer period. Restrictions on flaring of gas in the Brent field which reduce oil production there by about one third were announced on 29 October, and are likely to be maintained or even increased during 1980. There is a decisive economic case for restrictions. We should probably have strengthened rather than relaxed restrictions earlier in the year if there had been no supply crisis.

BNOC FORWARD SALES

7. BNOC is selling forward oil from 1980/81 to assist the PSBR in 1979/80. The sum raised could reach £600m although public statements so far have referred to £500m. Detailed terms are a matter between BNOC and the purchasers.

ECE

8. Senior Energy Advisers of the Economic Commission for Europe (ECE : both eastern and western Europe) met in Geneva at the end of October. The Russians have proposed a High Level Meeting (ministerial level) on energy. The Germans, French, and Scandinavians favour such a meeting; the Americans are sceptical. We want to ensure that the Soviet Union and its allies are prepared to enter into a genuine exchange of information on energy reserves, supply and demand before committing ourselves to such a meeting; and to avoid a final decision before the CSCE review conference in Madrid in November 1980. Immediate aim to avoid any European Council commitment to a High Level Meeting.

POSSIBLE MEETING OF SUMMIT ENERGY MINISTERS

9. President Giscard d'Estaing has suggested a spring meeting of Summit Energy Ministers (who met in Paris on 26 September to discuss Tokyo follow up). While not ruling out this possibility we should approach the suggestion with caution. It risks institutionalising the Summit; annoying the non-Summit members; and undermining the work of the Community and the IEA.

ENERGY OVERLORD

10. Germans may mention an idea, raised by Schmidt in Dublin on 15/16 October, that energy is too important to be left to rotating Presidency, and needs the continuity of an Energy Overlord or supremo, not necessarily an EEC Commissioner. Has

not been formally raised in Energy Council and would need very careful consideration. We can see difficulties if this implied detailed Community intervention in rather than coordination of national policies. It could lead to an attempt to get control over UK North Sea policies.

ANNEX A

SPEAKING NOTE FOR THE PRIME MINISTER'S USE
AT THE DUBLIN SUMMIT

1. We are glad to see our Community partners sharing, on an increasing scale this year, in the benefits of UKCS oil production. Exports of North Sea oil to our Community partners in the first nine months of this year were 97% up on the same period last year and represented 28% of our production. Community companies have a stake in ten of the oilfields in development or production and have built or made a substantial contribution towards nineteen of the thirty three major oil and gas platform structures so far ordered for the UKCS. Our transition from being a net importer to a net exporter of oil has put 46 million tonnes of oil at the disposal of the Community as a contribution to their agreement on import targets for 1985.

2. I expect sales of oil to our partners in the Community, which after all we regard as our natural market, to continue to increase over the next few years as our production increases.

(COMMERCIAL IN CONFIDENCE)

BACKGROUND

ANNEX B

NORTH SEA OIL EXPORTS TO THE COMMUNITY

1. The attached table gives details of exports of UK oil to the Community. Most supplies are through the majors who adjust these to optimise their position worldwide. The majors through their trading companies buy from BNOC, so there is an indirect supply by BNOC to the Community. In cutting back external sales in 1979 BNOC had particular regard to the known destination of purchases by the majors and tried to avoid impact on EEC.

2. BNOC's direct sales to the Community are small (about 1 m tonnes in 1979, all to Germany), although they supplied a further 7 m tonnes to France, Germany and Holland through exchanges with BP. The direct sales to Germany will rise slightly next year, those to BP affiliates in France, Germany and Holland will (if the Principles of Understanding with BP form the basis of the final contract) be met directly by BP Trading, who will have access to a considerably increased volume of oil from BNOC. We cannot, however, say which of their affiliates BP may favour. Nor can we say with certainty what the pattern of UKCS oil sales will be in 1980. While it seems likely that the volume of sales to the Community will increase as production increases, this cannot be guaranteed.

3. The so-called BNOC]BP contract (which was the subject of an article in Le Figaro on 24 November) was one of several evergreen contracts falling due for termination/renewal on 31 December. The contract was actually with Total (GB) for use in their UK refinery.

4. On 28 September as part of their forward sales strategy, BNOC gave notice of termination but said that 'Notice is given with the object of providing an opportunity for a review and restructuring of our existing sale and we hope and expect that this will result in the continuation of our commercial relationship, though possibly in a modified form, from 1 January 1980 onwards'. Total were resistant to the concept of forward payment and on 18 October BNOC asked for a decision in principle within the next few days if an agreement was to be reached. Total did not give this (very grudging) agreement until 31 Ictober, by which time BNOC were committed elsewhere. BNOC had expected that during 1980 they might have had some 1.5 m tonnes uncommitted which could have been used to meet the needs of Total (o.5 m tonnes) and others, but the BP deal has taken up this potential surplus.

EXPORTS OF UKCS OIL TO EEC

(Millions of tonnes)

	1977	1978	Jan-Sept.1979
Belgium	0.1	0.4	0.1
Denmark	1.0	2.2	2.3
France	1.6	1.7	1.9
Germany (FRG)	3.0	5.2	6.8
Italy	-	-	0.3
Netherlands	3.4	2.3	5.0
	9.1	11.8	16.4
Total Exports	15.6	23.9	28.9
Total Disposals	37.3	52.3	57.7

(thousands of tonnes)

	Jan - Sept. 1978	Jan - Sept. 1979
Belgium	344	104
Denmark	1532	2314
France	1205	1884
Germany (FRG)	3505	6823
Italy	-	285
Netherlands	1721	4991
Ireland	-	-
Total EEC	8307	16401
Total Exports	16932	28877
UK use	20325	28803
Production	37257	57680

UK ASSISTANCE TO THE COMMUNITY IN AN OIL SUB-CRISIS AND CRISIS (MAY BE USED)

In a Sub Crisis

1. In the oil sub crisis earlier this year the UK fully contributed to the arrangements for detailed data reporting and for international consultation which are now well developed in the EEC, as in the IEA. As a result the Community was able to monitor the supply situation as the basis for the required policy responses.

2. During the 1979 shortages the UK has maintained a high level of exports - about 50% of UKCS production - almost entirely to our EEC and IEA partners. We followed gas flaring policies which at some economic cost enabled additional oil to be produced at the height of the supply difficulties; although we cannot commit ourselves always to be able to do this.

DEFENSIVE

3. We would not preclude that at a time of sub crisis we may be able to help our Community partners with some additional oil. But what precisely may be possible could only be decided in the light of the circumstances at the time. We cannot make detailed commitments at this stage.

In a full scale crisis

4. In a full scale crisis the UK would honour its obligations under the EEC oil sharing scheme, which supplements that of the IEA. (A description of both schemes is attached).

5. Because the EEC scheme is based on a country's capacity to substitute other forms of energy (eg coal) for fuel oil burned in power stations the UK is very likely to be a contributor rather

than a beneficiary under the scheme. [Not for use : In practice we may be able to limit this commitment].

6. Under the IEA scheme, as major indigenous producers, we are also likely (but not certain) to be called upon to share our available oil, and some of our Community partners may well benefit from this. We are thus twice committed to help the Community in a full scale oil crisis.

EEC AND IEA OIL SHARING SCHEMES

EEC EMERGENCY OIL SHARING ARRANGEMENTS

Council decision 77/706 provides that where oil supply difficulties occur in the Community the Commission may set targets for reducing consumption of petroleum products in 3 stages.

Stage 1

Member States will reduce consumption of all petroleum products by a maximum of 10% for a maximum of 2 months.

Stage 2

After 2 months there may be uniform demand restraint of non-substitutable products (eg motor spirit) and a differential reduction of substitutable products (ie fuel oil) having regard to a country's ability to use other products instead of fuel oil. Countries able to save greater than average amount of fuel oil would have an obligation to allocate the excess to the Community. The UK's obligation is not expected to exceed 50,000 tonnes a month.

Stage 3

If available oil supplies to the Community fell by over 10% the Commission may propose larger differential reductions and allocations would take place as in Stage 2. The operation of Stages 2 and 3 are dependent upon a qualified majority vote by the Council.

IEA EMERGENCY OIL SHARING ARRANGEMENTS

When the IEA Group as a whole or any Participating Country suffers a reduction in oil supplies exceeding 7% of that consumed in a base period the IEA oil-sharing scheme can be activated.

If the Group as a whole suffers a shortfall exceeding 7% each country is given a Supply Right based upon its normal consumption. Where its Available Supplies of oil exceed its Supply Right it has an obligation to allocate the excess to the Group. Where its Available Supplies are less than its Supply Right it receives an allocation from the Group of the difference.

If one or more countries suffer a shortfall exceeding 7% but the Group as a whole is not so affected, those countries not suffering the shortfall of over 7% would allocate oil to the affected countries in proportion to their share of the Group's normal consumption.

(ANNEX D)

GR 2330

FRAME ENERGY
DESKBY 230900Z
FM UKREP BRUSSELS 221743Z NOV 79
TO IMMEDIATE FCO
TELEGRAM NUMBER 6288 OF 22 NOVEMBER

MIPT

EUROPEAN COUNCIL: ENERGY

1. FOLLOWING IS THE TEXT OF THE COMMISSION'S PAPER ON ENERGY.

BEGINS:-

INTRODUCTION.

1. THE LATEST EVENTS IN IRAN HAVE RENEWED THE THREAT TO THE FRAGILE BALANCE BETWEEN OIL SUPPLY AND DEMAND WHICH OCCURRED IN MID 1979. IN SPITE OF THE RESTORATION OF OIL STOCKS WHICH HAS TAKEN PLACE, THE COMMUNITY REMAINS HIGHLY VULNERABLE TO RENEWED INTERRUPTIONS AND RESTRICTIONS OF SUPPLY. IN THESE CIRCUMSTANCES THE COMMISSION BELIEVES THAT THE BEST THE COMMUNITY CAN DO IS TO MAINTAIN SOLIDARITY AND PURSUE RESOLUTELY THE POLICIES LAID DOWN BY THE EUROPEAN COUNCIL AT STRASBOURG. FURTHER MEASURES OF PRACTICAL ACTION ARE REQUIRED.

IMPLEMENTATION OF EXISTING OBJECTIVES.

2. WHEREAS SUCCESSIVE EUROPEAN COUNCILS HAVE URGED STRONGER MEASURES TO SAVE ENERGY, PARTICULARLY OIL, AND TO ENSURE A GREATER CONTRIBUTION TO COMMUNITY SUPPLIES FROM COAL AND NUCLEAR SOURCES, THE RESPONSE, IN TERMS OF COMMUNITY AND NATIONAL ACTION AND OF ACTUAL RESULTS, HAS NOT BEEN FULLY SATISFACTORY.

/3

3. FOLLOWING THE AGREEMENT BY THE STRASBOURG EUROPEAN COUNCIL TO MAINTAIN COMMUNITY (NEXT TWO WORDS UNDERLINED) OIL IMPORTS BETWEEN 1980 AND 1985 AT AN ANNUAL LEVEL NOT HIGHER THAN THAT FOR 1978, MEMBER STATES HAVE SINCE AGREED ON A NATIONAL ALLOCATION OF THE OBJECTIVE FOR 1985. BASIC AGREEMENT HAS ALSO BEEN ACHIEVED ON NATIONAL OBJECTIVES FOR 1980.

4. THE EUROPEAN COUNCIL AT PARIS AGREED ON A COMMUNITY OBJECTIVE FOR (NEXT TWO WORDS UNDERLINED) OIL CONSUMPTION OF 500 M TONNES IN 1979. ALTHOUGH FOR THE WHOLE YEAR, THIS OBJECTIVE WILL BE EXCEEDED, BY THE END OF THE YEAR COMMUNITY CONSUMPTION SHOULD BE REDUCED TO A DAILY RATE EQUIVALENT TO 500 M TONNES.

5. THE COMMUNITY HAS UNDERTAKEN SEVERAL MEASURES TO IMPROVE THE (NEXT FOUR WORDS UNDERLINED) TRANSPARENCY OF THE OIL MARKET. THE OPERATION OF A REGISTER FOR CRUDE OIL TRANSACTIONS WITHIN THE COMMUNITY HAS NOW BEEN AGREED. IN ADDITION, THE COMMISSION HAS BEEN EXAMINING THE TRANSACTIONS IN THE ROTTERDAM AND MEDITERRANEAN SPOT MARKETS. THE COMMISSION IS WORKING URGENTLY ON THE EXTENSION OF THE REGISTER TO INCLUDE OIL PRODUCTS, AND IS STUDYING THE ESTABLISHMENT OF AN OIL EXCHANGE AND A SYSTEM FOR THE CERTIFICATION OF CRUDE OIL PRICES.

6. THE TARGETS FOR (NEXT WORD UNDERLINED) COAL PRODUCTION AND CONSUMPTION FOR 1985 WILL NOT BE MET, IN SPITE OF THE RECOGNIZED NEED TO BE ABLE TO USE MORE COAL AS OIL BECOMES SCARCER. COAL CONSUMPTION AND PRODUCTION IN THE COMMUNITY HAVE DECLINED SINCE 1973.

7. THE STRASBOURG EUROPEAN COUNCIL STRONGLY REAFFIRMED THE IMPORTANCE OF (TWO WORDS UNDERLINED) NUCLEAR ENERGY FOR CONTINUED ECONOMIC GROWTH. BUT FOR VARIOUS REASONS, MEMBER STATES HAVE BEEN UNABLE TO BUILD SUFFICIENT NUCLEAR POWER STATIONS FOR OPERATIONS IN THE 1980S. THE RATE OF CONSTRUCTION OF NEW NUCLEAR CAPACITY WILL HAVE TO BE MARKEDLY INCREASED IF NUCLEAR IS TO MAKE MORE THAN A MODEST CONTRIBUTION TO OUR ENERGY SUPPLIES IN THE 1980S AND BEYOND.

/NEW

NEW DECISIONS REQUIRED.

8. PRESENT PRESSURES ON THE OIL MARKET WILL NOT BE EASED UNTIL DEMAND IS BROUGHT BETTER UNDER CONTROL. (TWO WORDS UNDERLINED) ENERGY SAVING MUST THEREFORE HAVE THE HIGHEST PRIORITY AS THE QUICKEST AND CHEAPEST MEANS OF CONTRIBUTING TO A RESTORATION OF THE BALANCE BETWEEN SUPPLY AND DEMAND. HOWEVER, THE ENERGY SAVING PROGRAMMES OF MEMBER STATES HAVE NOT BEEN OF UNIFORM INTENSITY. THE COMMUNITY SHOULD THEREFORE AGREE AS SOON AS POSSIBLE ON A MINIMUM PROGRAMME OF ENERGY SAVING IN EACH COUNTRY TO TAKE EFFECT IN 1980, REPRESENTING A BROAD EQUIVALENCE OF EFFORT AND ADEQUATE TO ACHIEVE OUR OIL IMPORT TARGETS. THE COMMISSION CONSIDERS THAT WITH WIDER USE OF BEST PRACTICE IN ENERGY SAVING EQUIPMENT AND IN DESIGN, ENERGY SAVINGS BY 1990 COULD BE 100 M TOE P.A. IN EXCESS OF MEMBER STATES' FORECASTS. TO AVOID A NEW SCRAMBLE FOR OIL AND EVEN HIGHER RESULTING PRICES, IT IS CLEAR THAT HARDER AND MORE DIRECT MEASURES TO RESTRICT OIL CONSUMPTION SHOULD BE READY FOR INTRODUCTION IN THE EVENT OF A FURTHER OIL SHORTAGE SUCH AS OCCURRED IN EARLY 1979.

9. THE COMMISSION URGES THAT AGREEMENT BE REACHED ON ITS PROPOSALS TO GIVE FINANCIAL AID FOR THE CONSUMPTION AND PRODUCTION OF (WORD UNDERLINED) COAL IN THE COMMUNITY. THESE CONCERN THE CONSTRUCTION, MODERNISATION AND CONVERSION OF COAL BURNING POWER STATIONS, EXTRA FINANCIAL AID FOR DEMONSTRATIONS PROJECTS IN THE FIELD OF COAL LIQUEFACTION AND GASIFICATION, THE PRODUCTION OF COKING COAL AND INVESTMENT IN NEW PRODUCTION CAPACITY. TOGETHER THEY INVOLVE COMMUNITY EXPENDITURE IN EXCESS OF 150 M EUA P.A.

10. COMMUNITY AND NATIONAL ACTION MUST AIM AT REVERSING THE SLIPPAGE IN (WORD UNDERLINED) NUCLEAR PROGRAMMES. MORE PUBLIC DEBATE IS NECESSARY TO RESOLVE DOUBTS ABOUT NUCLEAR POWER IN THOSE COUNTRIES WHERE POLICY IS STILL IN QUESTION, AND TO PAVE THE WAY FOR FIRM GOVERNMENT DECISIONS. IN THOSE COUNTRIES WHERE NUCLEAR PROGRAMMES HAV BEEN DELAYED, TECHNICAL, FINANCIAL AND POLITICAL EFFORTS SHOULD BE CONCENTRATED TO RESTORE A SATISFACTORY RATE OF CONSTRUCTION AND COMMISSIONING.

THE

THE HARRISBURG INCIDENT IN THE USA HAS DEMONSTRATED THE NEED FOR THE HIGHEST POSSIBLE STANDARDS OF CERTIFICATION, TRAINING AND SURVEILLANCE OF OPERATORS, ALTHOUGH THE INHERENT SAFETY OF CURRENT REACTOR DESIGN HAS NOT BEEN CALLED INTO QUESTION. IN VIEW OF THE IMPORTANCE OF THE SAFETY OF NUCLEAR OPERATIONS, THE COMMISSION URGES ACCEPTANCE OF THE PROPOSED FOUR-YEAR RESARCH PROGRAMME OF THE JOINT RESEARCH CENTRE. IN ADDITION TO WORK ON NEW ENERGY SOURCES AND THE HIGH FLUX REACTOR, THIS COVERS EXPENDITURE OF ABOUT 320 M EUA ON NUCLEAR SAFETY AND FUEL CYCLE. THE COMMISSION ALSO ASKS FOR EARLY AGREEMENT ON THE PROPOSED SECOND PROGRAMME FOR RESEARCH INTO CONTROLLED THERMONUCLEAR FUSION, COSTING ABOUT 220 M EUA.

INTERNATIONAL RELATIONS.

11. ENERGY PROBLEMS AFFECT ALL COUNTRIES IN THE WORLD. THE COMMUNITY CANNOT, THEREFORE, SOLVE ITS PROBLEMS IN ISOLATION. PRACTICAL MEASURES BY THE COMMUNITY WILL INCREASINGLY NEED TO BE MATCHED BY OR COORDINATED WITH PARALLEL ACTION BY THE OTHER INDUSTRIALISED COUNTRIES. MOREOVER, NO LASTING SOLUTION TO WORLD-WIDE PROBLEM CAN BE ACHIEVED WITHOUT CLOSER UNDERSTANDING AND COOPERATION BETWEEN THE INDUSTRIALISED, THE OIL PRODUCING AND THE NON-OIL DEVELOPING COUNTRIES.

12. INCREASED EFFORTS BY THE COMMUNITY TOWARDS THE BETTER USE OF SCARCE ENERGY RESOURCES WILL ENCOURAGE OIL EXPORTING COUNTRIES, AS MEMBERS OF THE WORLD COMMUNITY, TO MANAGE THEIR RESOURCES IN SUCH A WAY AS TO PROMOTE BOTH THEIR OWN DEVELOPMENT AND THE BROADER ECONOMIC STABILITY OF THE WORLD AT LARGE. THE COMMISSION HOPES THAT THE OPEC COUNTRIES WILL RECOGNIZE THIS ESSENTIAL IDENTITY OF INTERESTS AT THEIR FORTHCOMING MEETING AT CARACAS.

13. THE COMMUNITY SHOULD DEFINE ITS ATTITUDE ON WAYS AND MEANS TO PROMOTE DISSCUSION ON ENERGY WITH OIL PRODUCTING COUNTRIES, IN CONCERT WITH OTHER INDUSTRIAL AND DEVELOPING COUNTRIES, WITH THE OBJECT OF ADOPTING POLICIES IN BOTH CONSUMER AND PRODUCER COUNTRIES WHICH ENABLE THE WORLD TO EFFECT THE TRANSITION AWAY FROM OIL WITHOUT GROSS ECONOMIC DAMAGE.

/1990

1990 OBJECTIVES.

14. AS AN IMPORTANT PART OF THE LONGER-TERM CONVERGENCE OF ENERGY POLICY WITHIN THE COMMUNITY, AGREEMENT SHOULD BE REACHED ON POLICY GOALS FOR 1990, PARTICULARLY CONCERNING: THE EXTENSION TO 1990 OF THE LIMIT ON COMMUNITY OIL IMPORTS, THE GENERATION OF AT LEAST 70 PER CENT OF ELECTRICITY FROM COAL AND NUCLEAR SOURCES, THE FURTHER REDUCTION OF THE RATIO BETWEEN GROWTH IN ENERGY DEMAND AND ECONOMIC GROWTH: AND THE ADOPTION OF COMMON PRINCIPLES FOR ENERGY PRICING POLICIES IN ALL MEMBER STATES.

CONCLUSION.

15. THE COMMISSION RECOMMENDS THAT THE EUROPEAN COUNCIL SHOUDL AGR ON THE LINES OF ACTION OUTLINED ABOVE AND, ON THE BASIS OF COMMIS- SION PROPOSALS, REQUEST THE COUNCIL OF MINISTERS:

(I) TO AGREE ON A SUPPLEMENTARY PROGRAMME OF ENERGY SAVING, REPRESENTING BROAD EQUIVALENCE OF EFFORTS IN ALL MEMBER STATES, AND STRENGTHENED MEASURES FOR THE REDUCTION OF CONSUMPTION IN THE EVENT OF A SHORTAGE:

(II) TO GIVE COMMUNITY FINANCIAL SUPPORT FOR MEASURES TO INCREASE COAL CONSUMPTION AND PRODUCTION:

(III) TO FACILITATE THE REMOVAL OF OBSTACLES TO THE CONSTRUCTIO OF NEW NUCLEAR CAPACITY:

(IV) TO ESTABLISH CLOSER CONTACT AND COOPERATION BETWEEN THE INDUSTRIALISED COUNTRIES, THE PRODUCING COUNTRIES AND THE NON-OIL DEVELOPING COUNTRIES:

(V) TO SET NEW POLICY GOALS FOR 1990.

ENDS

FCO ADVANCE TO:

FCO - MISS BROWN FALL

CAB - FRANKLIN

D/EN - D LE B JONES WHALEY

BUTLER (ADVANCED AS REQUESTED)

FRAME ENERGY

ES & SD

EID (1)

EHG(D)(79)6 (Revise) COPY NO 1

26 November 1979

EUROPEAN COUNCIL, DUBLIN

29/30 NOVEMBER 1979

EMPLOYMENT AND SOCIAL POLICY

Brief by Department of Employment

OBJECTIVE

1. To ensure that the Presidency's conclusions do not commit the Community to action on limiting overtime or a shorter working week beyond what was agreed at the Social Affairs Council on 22 November 1979.

POINTS TO MAKE

2. Social Affairs and Finance Councils have gone as far as they can in endorsing Community action on the reorganisation of working time. This is primarily an issue for Industry to regulate according to collective bargaining or other national practice. We attach importance to the dialogue of the Social Partners between themselves. And of them both with governments and the Commission. The Commission should help keep that dialogue going. The overall consideration is to keep up the competitivity of the Community. That way leads to higher productivity and more jobs. Socially desirable changes have to be paid for. Not in the Community interest to see a breach with the unions, but we should not jeopardise the control of inflation, future economic prosperity and

job prospects by going further than the resolution agreed.

ALTERNANCE TRAINING (ie sandwich course training)

3. We welcome the results achieved. It is a realistic resolution, and sets the course for a flexible Community approach. It does not lay down rigid guidelines which would be inappropriate and recognises national practices. Proper education and training provision needs to be provided by all our governments. But all face pressures on their resources which are limited. [If raised] We have misgivings about looking to the Social Fund to support this form of training. The Fund is already undertaking about as much as it can manage. But we have agreed that its limited use for pilot projects may be considered.

BACKGROUND

4. The Social Affairs Council

The Social Affairs Council met on 22 November. It reached agreement on Resolutions on Work Sharing and Training "in Alternance". Both items arose from the last meetings of the Council on 15 May and are linked also to the European Council's meeting of 21/22 June which took note of a Commission Communication on Work Sharing and asked that "concrete proposals be worked out rapidly."

5. Work Sharing

The Community has for two years or more been discussing ways of reorgnising working time to provide more jobs by sharing the available work. The issue is strongly favoured by the ETUC, as part of their pressure for a shorter working week. Employers and Governments, with the exception of the Belgian Government, (which has already made concessions at national level) have been generally resisting. However, the Commission were invited to bring forward proposals covering:-

- annual duration of work
- restriction of systematic overtime
- the development of vocational training and alternance (sandwich course training)
- flexible retirement arrangements
- part-time voluntary work
- temporary work
- shift work

It was evident that some other member states as well as the UK were opposed to the promotion of binding instruments in this area. The present resolution was a weaker proposal though still objectionable in that it assumed that Work Sharing measures should be introduced, that limits (undefined) should be applied to the systematic use of overtime and that it failed sufficiently to have regard to the autonomy of industry and the need to settle such matters through the collective bargaining process. The Final Resolution agreed by the Social Affairs Council is less dogmatic about the advantages of work sharing and the types of measure that could be adopted and is a reasonable compromise. The Council could not have said less without risking a breach with the unions.

6. Even so, the ETUC when they see Mr Lynch for the usual eve of summit meeting with the President are likely to say that the Council's action is inadequate. The ETUC are arranging a week of ("educational action") beforehand and Mr Wim Kok, the ETUC President will point to the results of this.

Training in Alternance

7. The Commission's proposal, to improve the employment opportunities of young people proposes the encouragement of systems of training based

on alternating periods of employment with educational or training activity, with the intention of assisting transition from school to work and, in general, breaking down barriers between education/training and employment. The Government is currently reviewing education and training for 16-18 year olds and sees scope for the development of alternance training if it can be applied on a voluntary and flexible basis. The resolution as agreed by the Social Affairs Council meets our requirements in this regard. We were not in favour of the use of the Social Fund to support this form of training. It has already many more calls than it has resources to meet. But, along with other member states (France and Italy) who also opposed the use of the Social Fund, we agreed to a formula which would allow limited involvement of the Fund in supporting pilot or demonstration projects.

Department of Employment

November 1979

EMG(D)(79)7 COPY NO 1

21 November 1979

EUROPEAN COUNCIL, DUBLIN
29/30 NOVEMBER, 1979

THREE WISE MEN

Brief by Foreign and Commonwealth Office

OBJECTIVE

1. Avoid substantive discussion so as to leave enough time for the budget.

POINTS TO MAKE

Three Wise Men's Report: Handling

2. Have not had time to study Report in detail, but should prove a useful document. Congratulate Wise Men. Foreign Ministers should study and report to next European Council.

Foreign Ministers should not discuss proposals relating to European Council (if raised)

3. Agree that decisions on this should remain with Heads of State/Government. But useful, and in line with Wise Men's own recommendation on preparation for European Council, for Foreign Ministers to clear the ground.

Publication

4. No objection to publication.

Reduction in number of Commissioners (if raised)

5. Understand arguments for smaller Commission (efficiency, cohesion, etc) but such a change would be major departure which needs careful consideration; premature to give firm view.

/Membership

Membership of next Commission (if raised)

6. No need to consider yet; need to form a view first on size of Commission.

Community Priorities (if raised)

7. Agree that Commission should begin work on preparing their recommendations to the European Council on priorities for Community work. Naturally without prejudice to our position on substance.

Responsibility for follow up to Wise Men's Report (if raised)

8. Can agree that present Irish Presidency should continue taking the lead on follow-up.

Attendance by President of European Council at the Parliament (if raised)

9. Decision premature. Prefer to consider this question in context of Wise Men's other proposals on improving relations between Council and Parliament.

/BACKGROUND

BACKGROUND

References:

A Three Wise Men's Terms of Reference

B Summary of Three Wise Men's Report

Mandate of Three Wise Men

10. At Giscard's initiative the Committee was invited by the December 1978 European Council to look at ways of improving the operation of the Community's institutions, with regard particularly to the prospect of enlargement; and to make proposals which could be implemented swiftly, without Treaty amendment.

Handling of the Report and publicity

11. The Report was distributed at the 20 November Foreign Affairs Council by the Presidency. Mr Lynch is expected to suggest that

(i) the Report should be referred to Foreign Ministers for study with a view to preparing discussions by the March European Council;

(ii) copies should go to the Heads of other Community institutions, eg. Parliament, Court (copies will already have gone to Mr Jenkins and Mr Ortoli, who attend the European Council);

(iii) the Commission should be invited to begin work on preparing their recommendations to the European Council on priorities for the Community as the Report suggests (see paragraph 13(ii)(e) below;

(iv) the Report should be published; and

(v) the European Council should give a steer to Foreign Ministers on the themes to which it attaches greatest importance, eg. the primacy of the European Council.

/12.

12. Giscard may try to bounce the meeting into taking decisions on one or two aspects affecting the European Council, and argue that Foreign Ministers should not discuss any recommendations on the European Council. While this would preserve the prerogative of the Heads of State/Government it could lead to time-wasting discussion. The Foreign Ministers could usefully clear the ground.

<u>Substance of Report</u>

13. The Wise Men's own summary of their report is at [B]. The main points are:

(i) <u>Aims of Report</u>:

(a) not to modify institutional balance but suggest practical ways of improving the functioning of each institution to create the best possible administrative conditions for overcoming existing difficulties.

(ii) <u>European Council</u>

(a) This is the effective source of political guidance in the Community.

(b) The European Council should adopt before 1981, in collaboration with the Commission, priorities for the Community as a whole.

(c) The European Council should be integrated as far as possible within the normal framework of inter-institutional relations.

(d) There should be limited agendas, limited attendance, full preparation and follow-up, early circulation of documents. Presidency responsibility for drafting accurate conclusions.

(e) Giscard's idea of a longer-term (eg. 2 year) Presidency for the European Council is rejected.

/(iii)

(iii) Council of Ministers

(a) The machinery is becoming clogged.

(b) Clearer definition and more efficient execution of the responsibilities of the Presidency are essential.

(c) The Presidency should be free to lighten its own load by entrusting particular dossiers to other members of the European Council, Council of Ministers or subordinate organs. [It may be suggested that the Irish should assume responsibility for co-ordinating follow-up to the Three Wise Men's Report]

(d) Other options, eg. "troika" formula, are rejected.

(e) Council must be free to concentrate on political issues.

(f) Greater use of majority voting.

(g) There should be greater co-ordination of Community activities at all levels; the Council of Foreign Ministers should play a central role.

(h) The Presidency must ensure good relations with the Parliament; and the Commission's contribution is vital to the Council's good functioning.

(iv) Commission

(a) Exercise of role and responsibilities should be more effective.

(b) Report endorses recommendation of SPIERENBURG Committee (see paragraphs 11 and 12 below) - only one Commissioner per Member State after enlargement, etc.

(c) The President of the Commission's authority must be reinforced. He must be chosen six months before the Commission's renewal, must be consulted on the selection

/of

of Commissioners and have the last word on the allocation of portfolios.

(d) The Commission should set up at the start of its term of office a general programme (which can be revised at least once a year) in harmony with the priorities defined by the European Council (see paragraph 13(ii)(e) above).

(e) It should participate actively in the work of the Council which should delegate implementation of policies to the Commission.

(v) <u>European Parliament</u>

(a) Must be closer contacts between Parliament and Commission.

(b) Commission and Council should take Parliament's Resolutions more seriously.

(c) The implementation of the "conciliation procedure" (between Council and Parliament on acts with "appreciable financial consequences") should be improved.

(d) The President of the European Council should appear once every six months before the Parliament.

(e) There should be balanced relations between Commission, Council and Parliament.

(vi) <u>Other</u>

(a) Any system of a <u>"two-speed" Europe</u> must be rejected.

(b) Use of <u>national languages</u> cannot be limited systematically and by compulsion but essential that pragmatic arrangements are found to reduce number of interpreters at meetings.

/(vii)

(vii) Conclusions

(a) In the face of a difficult period for Europe in the next few years the Member States must maintain their solidarity and counter the pressures for protectionism.

(b) The first and greatest task for the Community is the maintenance and consolidation of the acquis.

(c) Solidarity between the Member States must be given practical expression to help survive immediate dangers and lay foundations for longer term progress.

SPIERENBURG COMMITTEE AND SIZE OF NEXT COMMISSION

14. Commission Review Body chaired by Ambassador Spierenburg reported to Commission on 24 September. Principal recommendations were: one Commissioner per Member State following enlargement; reduction in number of portfolios and of Directorates General; reduction in power of Cabinets; series of staff changes aimed at improving management flexibility, career structure, operational effectiveness of Commission etc. Commission must now decide what follow-up action it proposes. No role for Council yet.

15. Commission following enlargement would normally number 11, (at present 13). Spierenburg recommends 12. Streamlined Commission likely to be more efficient; but UK (like France, FRG and Italy) would lose a second Commissioner. Ministers have not yet taken firm view of UK's best interests. Schmidt may argue for reduction. Giscard has supported smaller Commission in the past but might change his mind. Cossiga probably disposed to retain two Commissioners, but might be prepared to agree reduction, at a price. No advantage in HMG taking firm line at this early stage: if we give up a Commissioner we too might expect to extract something in return.

/MEMBERSHIP

MEMBERSHIP OF NEXT COMMISSION

16. There may be discussion of the composition of the next Commission, and in particular who should be President, due to take office at the beginning of 1981. GUNDELACH (Danish, current Vice-President, Agriculture) VAN DER STEE (Dutch Minister of Agriculture) THORN (Luxembourg, ex Prime Minister currently Foreign Minister) and TINDEMANS (Belgian, ex-Prime Minister) have all been mentioned already, eg. in Press speculation, as possible candidates for Presidency. Final choice will have to take into account decision on size of Commission in context of Three Wise Men/Spierenburg Reports, apart from other political factors.

FOREIGN AND COMMONWEALTH OFFICE

21 November 1979

TERMS OF REFERENCE FOR THE 'COMMITTEE OF WISE MEN'

As a follow-up to the proposal made by the President of the French Republic, the European Council has agreed to call upon a number of eminent persons with special knowledge of European affairs to give thought to such affairs.

The Committee thus formed is made up of the following persons:

Mr Barend Biesheuvel
Mr Edmund Dell
Mr Robert Marjolin

The European Council invites the Committee to consider the adjustments to the machinery and procedures of the institutions which are required for the proper operation of the Communities on the basis of and in compliance with the Treaties, including their institutional arrangements, and for progress towards European union. It emphasises the interest it attaches to having available specific proposals in this connection which may be implemented swiftly and which take into account experience to date and the prospective enlargement to 12.

The European Council requests the Committee to report back on its conclusions when the Council meets in October 1979.

December 1978

SUMMARY

REF B

EHG(D)(79)7

We have prepared this summary solely for the convenience of readers of our report. It is not a part of the report.

Barend BIESHEUVEL
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The European Council has asked us to make proposals on adjustments to the machinery and procedures of the Community institutions. We are well aware that the most fundamental causes of weakness in the functioning of the Community do not arise from mechanisms and procedures. The latter play, in fact, only a secondary role. The more serious obstacles are the economic difficulties and divergences of interests and views among the Member States.

The Community is likely to find itself facing real and fundamental problems in the coming years. Moreover, the number of Member States is to be increased during the same period. We must at least ensure that the institutions, rather than aggravating the difficulties by their inefficiency and the dispersion of effort, provide all the conditions for tackling them with the maximum chance of success.

We have tried not so much to fix new detailed rules for the functioning of a Community of Twelve as to propose practical adjustments which can be made here and now to the activities of Community institutions. If these recommendations are adopted, we believe they will result in the new members entering a Community that is more dynamic, more efficient and better prepared to receive them.

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Due credit must be given to the Community's achievements. The greater part of the Treaties has already been implemented. Co-operation among Member States has been extended well beyond the letter of the Treaties. But the Community faces difficulties in building new common policies, often without precise Treaty guidelines. Moreover, the multiplication of the Community's tasks and their growing diversity have considerably increased the "lourdeur" of the Community's institutional apparatus. The latter has become both more complex and less efficient.

Our proposal is to improve the functioning of the apparatus by means of the definition of priorities and the clear identification of responsibilities. In our report we have deliberately set aside any kind of ideological approach. The intention is not to modify the institutional balance. Instead we suggest practical ways of improving the functioning of each institution.

The creation of the European Council was in itself a pragmatic response to the Community's institutional difficulties. It has become an effective source of political guidance in the Community.

The task is to find the right balance between freedom and discipline in the European Council's proceedings. The operational solutions already developed to this end should be reaffirmed and reinforced: limited agendas, limited attendance, coherent preparation and follow-up, early circulation of documents, Presidency responsibility for drafting clear and accurate conclusions. We have examined the idea of a longer-term Presidency for the European Council and it seems to us that it would present real difficulties in the present state of the Community.

There is considerable scope for improvement in the European Council's relations with the Treaty institutions. Our specific suggestions for preserving the role of the Council of Ministers, strengthening the Commission in its collaboration with Heads of Government, and establishing direct relations between the European

Council and Parliament, are designed to integrate the European Council so far as possible within the normal framework of inter-institutional relations. To make full use of its potential for political guidance, we propose that the European Council should adopt before 1981, in collaboration with the Commission, a master plan of priorities indicating the main tasks and directions for progress for the Community as a whole. This master plan must be precise and practical, a declaration of intent rather than a pious hope.

The European Council is responsible for reviewing the whole range of Member States' common action, whether it has a strictly Community character or not - as is the case notably for Political Co-operation. It has, therefore, a certain choice among the procedures to be used particularly for new actions. Priority must be given to the application of Article 235. But if it appears impracticable to apply this procedure, action in common by other methods which allow the Community to make progress should not be ruled out a priori.

The Council of Ministers in its various formations, and the associated machinery, are producing results which do not match up to the amount of effort deployed. The burden of work is becoming impossible to handle and the efforts of the various subordinate bodies and of the specialized formations of the Council are insufficiently co-ordinated. To tackle these problems, the clearer definition and more efficient execution of the responsibilities of the Presidency seem to us essential. Each Presidency should establish its work programme, respecting the priorities defined by the European Council, and should report on the execution of the programme at the end of its term. The authority of the Presidency in enforcing procedures, and in establishing the agenda, should be clearly recognized. The Presidency should be free to lighten its own load by entrusting particular dossiers to other members of the European Council, the Council of Ministers or subordinate organs. Other options, such as a change in the rotation of the Presidency and the "troika" formula, are rejected.

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The Council itself must be free to concentrate on the genuinely political issues. This means making wider use of delegation to the Commission; and giving more room for manoeuvre to the Committee of Permanent Representatives and the lower-level bodies. We do not recommend altering the status of Permanent Representatives. Procedures for taking decisions must be as economical as possible. The "Luxembourg Compromise" has become a fact of life in the Community. Each State must be the judge of where its very important interests lie. But if all States feel sure they will not be overruled on matters involving such interests for them, they should all accept voting as the normal practice in all cases where the Treaty does not impose unanimity and no very important interests are involved.

The working groups below COREPER should not, as too often happens, be left to their own devices. The Presidency, helped by the Council Secretariat and in liaison with the Commission, has special responsibility for co-ordinating their work within the framework of agreed priorities and for avoiding unnecessary delays.

Horizontal co-ordination is also essential to counteract the fragmentation and dispersion of Community activities. While it cannot retrieve the dominant position it held in the early years, the Council of Foreign Ministers should continue to play a central role. Certain specialized Councils might hold less frequent meetings.

National administrations can make a further, very significant contribution to the proper functioning of the Communities. Co-ordination of Community affairs is carried out by very different methods from one capital to another. We do not seek to impose a single stock model on practices which have been shaped by tradition and on structures which are often highly diverse. But it is vital that the capacity should exist in all Member States to produce, in good time, instructions which are both considered and coherent. The Permanent Representative can play

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a helpful role in this respect.

Finally, the Council does not operate in isolation. The Commission makes a contribution which is vital for its good functioning, and the Presidency should look after the quality of its relations with the Parliament.

The role and authority of the Commission have declined in recent years. The exercise of its right of initiative and its role as guardian of the Treaties, together with its management and implementing tasks, need to be made more effective and adapted to current circumstances. The number of Commissioners in the enlarged Community should be limited to twelve - one per Member State. The number of Directorates-General should be reduced and brought in line with that of Commissioners. The college of Commissioners should be more homogeneous and should act more as a collective body. Co-ordination between departments should be strengthened and the central services - budget, personnel, administration - grouped under the authority of the President. The President of the Commission's authority must be reinforced within the institution of which he is the head. He should be chosen by the European Council six months before the renewal of the Commission. He should be consulted by Governments on the selection of Members of the Commission, and should have the last word on the allocation of portfolios.

It is essential that the Commission should maintain an active role in the Community. It represents the interests of Europe as a whole and not a compromise between different points of view. It should set up at the start of its term of office a general programme which can be revised at least once a year, in harmony with priorities defined by the European Council. It should organize the application of its resources on the basis of this programme, taking account of the capacity of the Council machine. The production and handling of "harmonization" proposals need careful planning. The Commission should consult States, where necessary, at a high political level and should avoid repeated low-level consultations on the policy aspects of its drafts.

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It should participate actively in the work of the Council, modifying its proposals and suggesting compromises.

The Council, for its part, must delegate more of the implementation of new policies to the Commission. Ways must be found, for example by the development of stock formulae and political understandings between the institutions, to eliminate the obstacles which have blocked certain delegations in the past.

This report makes no claim to pronounce on the process of evolution which the European Parliament may go through following its election by direct universal suffrage. But we can suggest certain adjustments which are necessary in relations between the Parliament and the other institutions. In this context, closer contacts must be developed between the Parliament and the Commission. The latter must present its programme to the Parliament for debate. It must work out with the Parliament a six-monthly programme for consultative work. Above all, the Commission must make a more serious response to the Parliament's Resolutions. The Council, too, should take these Resolutions more seriously. It is up to the Presidency to draw them to Member States' attention and to develop personal contacts with the Parliament. The institutions should try to agree on practical improvements to tackle the difficulties arising in the implementation of the "conciliation" procedure. Finally, the President of the European Council should appear once every six months before the Parliament, so as to achieve a direct dialogue at the highest level between the two organs. In the interests of the Community, balanced relations need to be maintained between the three points of the Commission-Council-Parliament triangle.

The Court of Justice has presented suggestions itself for resolving its problems. Solutions should be found by discussion between the institutions. The same applies to the Court of Auditors. The Economic and Social Committee faces more serious difficulties. In these times of crisis, the Community needs an efficient mechanism for consultation with the social partners. We make some

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suggestions for reaffirming the Economic and Social Committee's role in socio-economic consultations in the Community, and also for increasing the effectiveness of the Tripartite Conference, the Standing Committee on Employment and the Joint Committee system.

In this whole study, we have taken account of the prospective enlargement of the Community to twelve members. Our technical proposals designed to improve the transparency, coherence and efficiency of the Community institutions are based on experience of a Community of nine members, but they can do much to ease the functioning of a Community of Twelve.

However, enlargement will not add only to the "lourdeur" of the institutions. It will also extend the range of differing circumstances and interests among Member States. Any system of a "two-speed" Europe which created differences of status between Member States must in our view be rejected. Differentiated solutions for the application to Member States of policies decided in common may however prove useful in some cases, as they have in the present-day Community. Certain safeguards should be applied whenever they are used.

The Community of Twelve will have nine official languages. Any attempt to limit systematically and by compulsion the use of any national language would be unjust as well as politically impractical. But the costs and complications will be on a scale to make it essential that pragmatic arrangements are found allowing the number of interpreters to be reduced according to the nature of each meeting.

We have also reflected on the problems likely to face Europe in the next few years. This period will be a difficult one for Europe. Everything points to a relatively low rate of economic growth, accompanied and aggravated by monetary disturbances and difficulties in the energy market. The unemployment problem will lead to social and polticial tensions. The prospects for the Community's future, and for progress towards European Union, will depend on how it copes with this continuing crisis. The

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Community's Member States must maintain their solidarity both in the active sense - i.e. mutual aid - and in the passive sense of abstaining wherever possible from action likely to cause problems for other members. Much resolve and political intelligence will be needed to counter the pressures for protectionism which are bound to arise both in the enlarged Community's internal trade and in its dealings with the outside world.

The priorities which the Community sets itself in dealing with these challenges must be flexible enough to allow adjustment to changing circumstances. They must be based on a realistic appreciation of the scope for Community action. The first and greatest task is the maintenance and consolidation of the acquis, with any adjustments that modern conditions may demand. In dealings with the outside world the Community and its Member States must act in the most united way possible both on the economic and on the political front. The solidarity between States must be given practical expression, whether it be in joint action to face up to the energy crisis, in mutual aid for other emergencies, or in the development of efforts for greater monetary stability such as are reflected in the European Monetary System. Priorities of this kind should help the Community not only to survive the immediate dangers, but also to lay the practical foundations for progress in the longer term.

OCTOBER 1979

EHG(D)(79)8 Revise COPY NO. 1

27 November 1979

EUROPEAN COUNCIL, DUBLIN

29/30 NOVEMBER 1979

EUROPE IN 1990 AND "TELEMATICS"

Brief by the Foreign and Commonwealth Office

OBJECTIVE

1. To agree that Community should focus on "telematics".

POINTS TO MAKE

2. Agree that information technology is a vital industry. We share the Commission's concern that Community industries should be helped to face the 80s. Glad that a proper balance will be struck between national and Community activities. Important however that any proposals which might result from the Commission's initiative should take account of political, industrial and social practicalities and the resources available. Accordingly agree to participate actively in more detailed discussions with the Commission.

3. Doubtful about value of interventionist approach of "Europe in the 1990s". Much of its analysis questionable. Too general. Remain to be convinced of the need for such intervention.

/BACKGROUND

References:

A : Commission paper on "Structural changes in the 1980s" (COM(79)323 Final)

B : Commission paper on European Society and the Data Technologies (COM(79)683 Final)

4. The electronics industry in the 1980s will be concerned primarily with information technology: telematics is the shorthand for the increasing convergence of computer and telecommunications technology. It embraces the major sectors of the electronics industry including computers (information generation, processing, storage and retrieval) and communications (transmission and distribution) and is a major growth industry. Its application extends to office automation, electronic mail, electronic fund transfer, satellite communications and the provision of data-base services.

5. At Dublin the Commission is expected to press for a high level political commitment for a Community policy on telematics. They argue that one is needed to act as a catalyst for the broader development of the infrastructure of supply and distribution industries in the telematics sector (components, computers, telecommunications, data processing etc); and as a means of preparing management and workforces throughout the Community for the new economic and social investment which these technical investment will engender.

6. No detailed proposals will be made at Dublin. Instead the Commission will seek agreement that action in this area is needed and that a strategic concept should be developed. They argue that:

(a) this is an important activity for Europe and something needs to be done to co-ordinate national efforts.

/(b)

(b) The Commission has an interest in the establishment of norms and standards in the infrastructure industries, in the educational, training and employment aspects of the impact of the new technology, and in the non-tariff barriers (fiscal, copyright and language) to the development of the market and should seek to pull these interests together.

(c) That the Commission should work up a detailed programme of action with the aim of reporting back to the next Summit.

7. (Not for disclosure). The Commission seem unlikely to propose measures which will require significant further Community resources; instead they will be relying largely on the continuation or expansion of existing national programmes. This approach is likely to benefit those nations - especially the French - which are already committing large sums of Government money to the development of their information industries and which may seek to impose their national standards as European norms. For the Commission initiative to benefit the UK industrially, a more concentrated and probably increased commitment to our national industrial support measures in this sector will be required, coupled to a determination to influence the Commission's attitude.

8. The Commission have asked that their Report, submitted to the Strasbourg European Council in June, on structural development prospects until 1990 should be discussed further. Analysis of labour supply trends helpful, and a number of useful points, eg. the need to increase public awareness of the implications of new technology, have been incorporated in the telematics paper. In general, however, approach gives insufficient consideration to the role of the market in bringing about structural change. However, telematics is likely to be the main feature of discussion of this issue at Dublin.

FOREIGN AND COMMONWEALTH OFFICE
27 November 1979

CONFIDENTIAL

EHG(D)(79) 8

REF A

COM(79) 323 final
Bruxelles, le 14 June 1979

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COMMISSION
DES
COMMUNAUTES EUROPEENNES

Secrétariat général

CONFIDENTIEL VERTRAULICH CONFIDENTIAL RISERVATISSIMO VERTROUWELIJK FORTROLIGT

STRUCTURAL CHANGES IN THE 1980s

(Communication to the European Council - Strasbourg, 21 and 22 June 1979)

COM(79) 323 final

CONFIDENTIAL

I. <u>STRUCTURAL CHANGE IN THE 1980s</u>

Structural change in the 1980s will be determined by Europe's ability to loosen the constraints resulting from the energy shortage and to cope with the corresponding excessive outside dependence.

By 1990, the Community's energy consumption will probably have increased by at least half as much as that in 1979, assuming average growth. It is true that alternative energy sources should, if present predictions prove well-founded, account for a larger share of energy supplies. Even so, the Community would still be able to cover only half of its energy needs from internal sources and would have to import at least 500 million tonnes of crude oil.

Over the same priod, unless there were far-reaching change in American policy, world demand for oil would be growing at a rate so high that by 1990 it could be covered fully only if the OPEC's present production were doubled.

As a result of this situation, the Community faces a physical constraint, an export constraint, and a financial constraint.

A. <u>The physical constraint</u> arises from the fact that it is unlikely that oil production can be doubled in the next 10 years and, consequently, from the risk of restrictions and interruptions in the supply of oil. This constraint necessitates three types of action:

1. In the first place, measures must be put into effect which meet the urgency of the situation: New energy sources must be tapped and energy savings must be achieved both in industry and in the home; in both fields, prompt and lasting action is required on a scale far exceeding that at present planned. The necessary investment means that Europe must be prepared to pay an even greater price for energy in the immediate future, but the cost/benefit analysis must take account of the long-term upward movement in energy costs and of the gains in terms of security yielded by the reduced outside dependence. Within this context the authorities will have to work out financial and technical targets more carefully and more systematically, thus enabling the implementation of projects some of which will lie beyond individual initiative and require that investment be guided. The Community must now begin to lay down specific guidelines, supervise their implementation, and increase the financing for alternative sources of energy, i.e. those represented by the coal and nuclear industries.

2. Secondly it will be necessary to increase Community mining and energy investment in the producing states; the decline in this type of investment in the 1970s may lead to major difficulties for Europe in the 80s. New discoveries no long cover new needs; accessible deposits must be located and the resources needed for working them must be found.

3. Lastly, vigorous action is required at an international level to induce other consumer states, especially the United States, to pursue policies as strict as those implemented in the Community: it will also be necessary to take certain action in common, particularly in the field of energy technology, and also to develop a dialogue with the producer states so as to ensure reliable supplies.

B. The Community is by tradition open to the outside world, where it sends a major proportion (1/4) of its industrial production. The oil "levy" which it has had to pay since 1974 implies an additional need to export. But in the 1980s, Europe will have to cope:

- with a probable increase in the real cost of energy, i.e. with a steadily increasing need to export more;

- and with keener competition from new states, but especially from the United States and from Japan which, like the Community, will also have to export more. Moreover, these two countries have competitive advantages (strong internal markets, technology, higher productivity or lower production costs) which Europe sometimes lacks.

If the Community is to cope with these export constraints, certain measures will be essential. These can be summarized as:

1. The Community must face its absolute obligation to be competitive through productivity, continuous adaptation to market requirements, and constant modernisation of industrial plants: by refusing to adapt to outside competition, will the Community not only be forced out of third world markets, where others are all too eager to take its place, but also lose ground within its frontiers and become progressively impoverished.

2. <u>Industrial modernisation</u> will enable the European economy to adapt to new circumstances; the high energy-consuming industries and the construction industry must be adapted to reduce their dependence on energy, the structures of old industries, exposed to international competition, will have to be reorganized if their future is to be secure; new forms of energy, backing new techniques, will create new needs; if industry is to export more, as it must, there must be more emphasis on those new sectors which consume relatively little energy and raw materials, use mainly skilled manpower, and are strong in technical innovation.

3. Technological development will be a necessity; it enables industries to adapt continuously to markets, thus ensuring outlets for their products, and is fundamental if the Community is to maintain its independence in certain essential fields in the face of American and Japanese competition.

But there is growing resistance to technological development in Europe because its effects on unemployment are unevenly recognised. The redundancies resulting from innovation are easier to see than the new jobs engendered, many of them in the services industries.

Major technological developments will take place over the coming decade to transform conditions of production and sale in many cases. Such developments are already perceptible in the United States and Japan. Just as the introduction of computers had a profound effect in the 1960s, so in the 1980s will telecommunications, micro-electronics and "telematique" bring major changes. These developments will also affect the high technology industries: for example the introduction of micro-processors will lead to great reductions in the cost of computers and a considerable extension of their use. Technological changes seem likely to proceed faster in the Community's main competitors, thus posing investment or organization problems for the high technology industries in Europe.

4. An open policy to non-member countries is a fundamental choice which is imperative. The Community's objective must be to reduce its present dependence by achieving maximum security in its external relations.

For example, the Community needs to implement a comprehensive and active policy to help finance the development of the developing countries; these countries are suppliers of raw materials and energy, export markets and an essential factor in Europe's security.

This open policy towards third countries will not leave the Community defenceless. On the contrary,

- the Community will have to oppose trade practices and currency movements which distort competition to its disadvantage;
- or be ready to use, as do the United States and Japan, legitimate safeguards to deal with exports from certain third countries or multinational companies operating within their territory.

C. <u>The financial constraint</u> derives from the fact that relative energy prices will continue to rise given that there is in any case bound to be a sellers' market. For Member States already obliged to export, this constraint will have the following consequences:

1. It will expose the Community to more inflation and will inhibit growth, affecting by the same token price stabilization policies and policies to reduce unemployment.

- The directly price-increasing effect will be more and more noticeable because of "threshold effects", future price increases will have a more than proportionate incidence on growth and prices;
- as the oil bill grows the danger of balance of payments deficits will increase; this could well lead to stop-go policies detrimental to sound growth, and to deflationary measures which will aggravate employment problems;
- in these conditions it will be more difficult to achieve the adjustment needed, especially in the industrial field; the major changes in the past, such as the rural exodus in the 1960s, show that adaptation can be achieved smoothly only in an economy which is steadily expanding and creating new jobs.

2. This financial constraint gives rise to an essential objective: growth with a low consumption of energy. The growth rate of the economy must be separated from the rate of growth of energy consumption. The Commission will shortly be submitting a report on this fundamental question to the Council.

II. THE MAIN CONSEQUENCES FOR ECONOMIC AND SOCIAL POLICY

The task to be undertaken is a vast one, but the stakes are correspondingly high. Europe is capable of achieving it: it has all the required human, technological and financial resources.

But Europe will succeed only if it overcomes the major problems one by one and resolves the contradictions facing its policies.

These contradictions essentially concern the employment problems; the external constraints necessitate the rapid modernisation of the economy, while limiting the potential for growth and thus affecting policies designed to reduce unemployment.

A. The employment objective

1. The situation will be aggravated in the 1980's by population trends. Notwithstanding some variations across the states and regions, total population will grow little between 1980 and 1990 (0.2% a year, compared with 0.7% a year from 1950 to 1975) then stabilize and even, in the Federal Republic for example start to decline.

The population of working age will develop in the opposite way. It will increase by 0.9% a year, i.e. about a million people, until 1985. Thereafter the rate will diminish gradually, by 1995 yielding a stabilization of the working age population.

These trends will have three important consequences:

(a) At the economic level, they imply a rise in the average age of the population which by the end of the 1980's will affect the dynamism of the economy, labour mobility and Europe's power. By the year 2000, the population of Europe will represent only 4% of world population, compared with 6.5% in 1975.

(b) This ageing of the population will also mean an increased burden on public expenditure.

(c) The population trends increase the hazards attached to the policies now being considered to deal with a temporary labour surplus (holding back productivity, adjusting working hours, raising the school-leaving age, etc.) They will come up against two problems:

- The first is the competitivity requirement, which implies stabilizing wage costs;
- The second will arise when the trends change direction around 1985. The measures now adopted to mop up part of the excess labour supply could, in some five to seven years, make it more difficult to solve the problem of a labour shortage.

The long-term population trends merit discussion by the European Council at a later date. In the immediate future, they will represent a factor further aggravating the employment situation.

B. The solution : improved growth

It is vital that we achieve growth which is healthy, lasting, and, necessarily, economical of energy, in order to guarantee the dynamism of the market, restore the confidence necessary for higher investment, and enable indispensable structural changes to be made smoothly:

1. Any discussion of future growth must be based on the assumption that the Community can count on a continuous supply of energy. But it is clear that even if this problem were solved, the basic conditions of growth would still be changed by the trend of oil prices; massive resource transfers will result firstly from oil imports, secondly from increased investment expenditure as a percentage of GNP, and thirdly from increased public expenditure to ensure the required adjustments and transitions. As a result:

   - consumption will increase more slowly, and real incomes will remain steady;

   - it will be impossible to achieve very high growth rates, comparable to those of the 1960's for example.

2. Since 1974, growth has been weaker in Europe than in the rest of the industrialized world; this is probably because growth has been hampered by external constraints and particularly those resulting from oil prices on the one hand and by monetary instability on the other. But the example of other countries shows that Europe is not exploiting its growth potential to the full: further growth could be achieved if energy consumption were reduced and certain activities stimulated. The development of concerted action at Community level would also enhance the usefulness of national policies and improve the results, in terms of growth, that each one can be expected to show.

3. Growth, then, must be <u>without inflation</u> if competitivity is to be maintained. This means rigorous economic policies to ensure the control of prices, a restriction on the rise in real wages, and currency stability, i.e. the external balance.

The introduction of the EMS is an essential step in paving the way for reasonable policies. To protect the EMS and to broaden its effects, the Community must endeavour, in agreement with its partners as regards, inter alia, economic discipline, to rebuild the international monetary order whose collapse has been the source of many of our present difficulties.

4. Even if the Community manages to achieve healthier growth, it is unlikely, given the exceptionally abundant supply of new labour until 1985 and the industrial reconstruction in train in certain sectors, to be in a position to solve the employment problem entirely, without back-up policies. It is in this context that we need to look at the current debate on issues such as adjustments to working time and the value of manual labour. Moreover some useful but non-commercial activities are bound to develop as society progresses. This new demand for cultural activities, organised leisure, environmental protection, and so on could supply new scope for employment.

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5. Whatever happens, steps must be taken to ensure that the labour supply adjusts to necessary industrial and technological developments. If not, successful growth is very unlikely to be achieved. In view of the scale and suddenness of the expected changes, a special effort will have to be made in the areas of adult education and retraining, geographical mobility of labour, and policies to deal with specific problems such as unemployment among young people.

C. A means: Investment

Sustained and non-inflationary growth is required to meet both the need arising from external constraints for competitivity and increased exports and at the same time the essential objective of creating new jobs to bring unemployment down. In view of the underlying contradictions between these two requirements, growth must be based on increased investment.

Increased investment is the common denominator underlying all the solutions to structural, growth and employment problems. Public or private investment will be required in order to loosen the energy constraint, modernise the economy, increase production capacity and develop research and innovation. It will ensure faster growth without inflation. In all these fields, and especially that of energy, there are obvious needs, which will be among the factors stimulating growth throughout this period and which will create new, better-qualified jobs which constitute the only lasting solution to the unemployment problem.

It is therefore essential to halt and reverse the present trend since 1973 of diminishing investment as a percentage of gross national product. A general economic background conducive to investment must be created, with stable prices and currencies, tax incentives, better co-ordinated and larger scale investment in equipment, and the consolidation of the single Community market, which is essential to industrial development.

In respect of the above considerations, the deliberate encouragement of technological development through fiscal and other measures will be imperative. This means that the Community should actively consider how a Communitywide market could best be developed. In some key areas Member States and the Community need now to see whether joint objectives can be set and to explore what actions can complement the initiatives which are already being undertaken in the public and private sectors.

D. A requirement: the maintenance of the economic and social balance.

This transformation will call for a considerable effort: considerable but not impossible. There is no reason why Europe should resign itself to unemployment. But the effort cannot succeed unless the groups and individuals involved in social, economic and political life come to understand the importance of certain priorities, and commit themselves unreservedly to the task in hand.

(a) The Community must take full advantage of its independence and strength in certain areas: for example it must maintain the asset of a powerful agricultural sector, based on a strong Common Agricultural Policy better adapted to market needs.

But growing rifts may begin to appear between industries directly subject to external competition and industries that are to some extent protected. A balance will have to be struck between these different economic sectors, and care will have to be taken to ensure that the burden on society of energy constraint and industrial modernization is fairly shared out.

(b) The need for greater solidarity in the face of underemployment, the increased share of investment in public budgets and the burden of an ageing population in the 1990's, give rise to questions about the role of the authorities and the conditions for financing their action.

But it looks as though taxation is now as high as it can tolerably be; thought must therefore be given to improving the allocation of public expenditure in line with priorities. Such thought could concentrate on the possibility of devoting a larger share of available resources to creating jobs.

(c) The Community provides an ideal framework for assessing these problems and analysing these developments so as to identify priorities that are not always easy to apprehend at national level.

Widespread agreement on aims and priorities will be essential in the 1980's. Everything possible must be done to reach such agreement. For example, it would not be acceptable to constrain the growth of real incomes if most of the burden were borne by a particular fraction of the population. The efforts and the sacrifices called for are not intolerable in themselves; they would become so if they were not shared out fairly enough.

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Four conclusions may be drawn from this analysis:

1. The energy problem is the most important problem facing Europe. The measures required to deal with it must be taken quickly. If they are not the European economy will run the risk of structural collapse.

2. The constraints arising as a result of Europe's excessive dependence on energy call for a rapid rise in investment, and the restriction of consumption and thus of the growth of real incomes. Europe has entered a decade of rigour and vigilance in the conduct of economic policy. This rigour and vigilance will be accepted only if accompanied by more social justice and if the burden is fairly shared out.

3. A comprehensive analysis of the nature of international relations is required. They are changing in unstable and unpredictable ways. In order to contain these changes and to give greater security to the Community's external relations, structures and mechanisms will have to be established to ensure that the economic and monetary decisions of the industrialized countries are consistent with one another: In addition, it will be necessary to enter into a dialogue and even into quasi-contractual relations with the developing countries.

4. The authorities will have a decisive role in deciding how best to use limited means and resources in the face of contradictory priorities, how to channel investment towards the most important sectors and to facilitate the transformation resulting from energy problems, how to conduct economic policies that really do ensure healthier growth in spite of the constraints to which they are subject. The role of the authorities will change. They will have to reconcile the need to give firms all the scope for initiative they require in order to adjust continuously to the market, with the need to achieve certain basic aims that require their intervention and their support. More particularly in the industrial field, the Commission will have to provide data on the adaptations necessary, on developments made possible by innovation and on the consolidation of strong sectors. The Community will have a vital part to play in ensuring that programmes which are implemented are compatible and that the Community market, which could be adversely affected by increasing intervention by the state in economic life, remains coherent.

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EHG(D)(79) 8 Copy No 1

23 November 1979

EUROPEAN COUNCIL, DUBLIN
29/30 NOVEMBER 1979

NOTE BY FOREIGN AND COMMONWEALTH OFFICE

Attached is a Commission paper on telematics which has now been received. It should be added to the Brief No 8 as Ref B.

Foreign and Commonwealth Office
23 November 1979

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(79) 683 final

Brussels, 22nd November 1979

EUROPEAN SOCIETY AND THE DATA TECHNOLOGIES: TOWARDS A COMMUNITY RESPONSE

(Communication for European Council session,
Dublin, 29/30 November 1979)

COM(79) 683 final

DRA[hole] TRANSLATION

A

EUROPEAN SOCIETY AND THE DATA TECHNOLOGIES: TOWARDS A COMMUNITY RESPONSE

I.1. In face of the radical changes which are rocking Europe, and are posing particularly thorny social, economic and political problems, it is essential to establish whether the European Community is taking all the opportunities afforded it to promote the smooth development and ongoing adjustment of our society.

The swift rise of informatics, data banks, telecommunications and micro-electronics and their convergence upon an integrated system already coming to be known as "telematics" is an eminently suitable subject for Community attention and Community action.

This complex of industries is a high-growth sector—over 15% a year. As such, it must contribute to the industrial and tertiary redeployment of a Community that has been in a state of crisis for five years.

The sector is one of strategic importance, since not only is it developing faster and faster but its development has a direct bearing on the competitive capacity of many other branches of activity concerned by data processing and automation.

This being so, the data technologies are a determining factor in the world position of European industry.

.../...

And by their impact on everyday life their irruption is causing anxiety and is making it vital to adapt our data equipment. This is therefore very much a field where action by States and by industries will have its effectiveness enhanced if a Community strategy emerges—something that calls for a stimulus the European Council can impart.

I.2. Is it really possible to ensure that Community action can have a beneficial multiplier effect on the operations of States and companies?

In the first place the data technology market is a world market in which the Community has to meet both an American challenge based on the huge continent-wide United States market and a Japanese one based on the combined operation of the industrialists and the public authorities.*

Our responses to these challenges are national ones—good and competent responses certainly, but limited in their effectiveness by our small-scale markets and industrial structures—or else intercontinental cooperation arrangements which unless operated on an equal footing consign European industry to the role of mere sub-contractor or captive supplier.

In the second place market size is essential given the importance of economies of scale. Now in fact the EEC does have a continent-wide market matching the American one in size.

In the third place, since these technologies are all set to form an integrated system based moreover on micro-electronics, it is necessary to proceed in step in each of the system's components if there is not to develop either a dependence involving structural timelags or an assortment of bottlenecks. Now most of these components—infrastructure, satellites, network interconnection, standards, research and public orders for pilot installations—cannot reach European market scale unless the Community promotes a strategy for the whole sector.

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*See annex.

In the fourth place the EEC market provides the European companies with a springboard for a vigorous drive on the world market. Thanks to its links with the ACP and Mediterranean countries, the Community can give valuable support to its industrialists' operations.

Detailed discussions the Commission has had in recent months direct with industrialists and Government departments, including more particularly the telecommunications services, have convinced it that the public and private operators on whom the development of new services and products is primarily incumbent are awaiting a clear sign from the Community before framing their own medium-term strategies.

II. A strategy of this kind, then, is highly desirable and needed as soon as possible: it remains to establish whether the Community can produce one. Obviously there can be no question of a common policy centrally managed by the Commission, but on the other hand a more pragmatic approach without a clearly-defined perspective would not do the job.

A policy focused wholly on research would not take account of the difficulty of conducting an effective low-cost operation necessarily involving all the industrialists and all the Government departments for every project.

Nor can there be any question of artificial standardisation whereby those who have already made a start would forfeit the benefits of what they have done. What is wanted is an overall strategy aimed at securing for the European industry a substantial slice of the world market, say one-third in 1990, by close, ongoing, restructured Community-level concertation between the

.../...

States, the industry and the trade unions, each in so far as directly concerns it.

The strategy would set out to do six things:

(a) <u>To get rid of resistances to innovation</u>

. by making it clearer that employment can benefit if the necessary decisions are taken at the different levels in the Community, and will certainly suffer if they are not;

. by pursuing the education and training policies needed for innovation;

. by ensuring that there is no encroachment on private life and individual liberties.

(b) <u>To create the market</u>

To create a homogeneous European public market for the new data services and products, there should be Council decisions:

. requiring the telecommunications departments to develop the new services and overall network (spoken word, written word, data) on a harmonized basis;

. ensuring that public purchasers of hardware imposed common standards on their suppliers.

(c) To develop the basic micro-electronic technology that will enable the whole of European industry to be competitive in the 1980s—failing that, European industry will be dependent on outsiders for its "raw material."

.../...

(d) To set up data banks capable of being competitive at world level.

(e) To turn to account the advantage of the Community as such as the first user of data techniques and first supplier of data to try out and perfect:

an all-purposes interinstitutional network connecting the Community Institutions and the capitals of the Nine Member States;

the extension of the existing Community Euronet-Diane project to other data banks and other users.

(f) To effect coordination of the Member States' positions so that Europe can play its proper part in the organizations dealing with telecommunications and space matters. Decisions of universal import must not be imposed on Europe without regard for Europe's own interests: to ensure this in the space field there must be European coordination of Europe's requirements (number, launchings, choice of orbits, determination of uses).

III. The European Council is asked to acknowledge that the Community can and should bring into being as speedily as possible an integrated corpus of telecommunications and data production, processing and transmission—a vital means to expansion and a framework for human progress.

So many sectors and so many disciplines being involved, the European Council requests the Commission to spell out more fully the main lines of this strategic approach, in order that it may

.../...

act in 1980 and thus afford the European data technology industries the chance to achieve the aim of supplying one-third of the world market in 1990.

B

	'000 mn EUA in world market	World market growth rate	Market share 1977			Production share 1977		
			EEC	Japan	USA	EEC	Japan	USA
Telecommunications	26.6 (1977)	7%	29%*	12%	33%*	*c.27%	3%	30%
Computer systems	53.3 (1978)	17%	26%	15%	42%	c.25%	c.15%	44%
Integrated circuits	3.3 (1978)	25%	19%	23%	54%	10%	20%	70%
Data banks	2 (1978)	22%	25%			15%		

*Western Europe
**+ Canada

EHG(D)(79)9 COPY NO 1

21 November 1979

EUROPEAN COUNCIL, DUBLIN
29/30 NOVEMBER 1979

PROGRESS TOWARDS EUROPEAN UNION

Brief by Foreign and Commonwealth Office

OBJECTIVE

1. To have the European Union Reports noted without discussion.

POINTS TO MAKE

2. No comment on Foreign Ministers and Commission reports on European Union. Assume they will be published as in previous years.

BACKGROUND

References:

A - November 1976 Declaration of Heads of Government

B - Foreign Ministers Report on Progress towards European Union 1979

C - Commission Report on Progress towards European Union 1979 [to be attached]

3. When the European Council adopted its Declaration winding up work on the Tindemans Report in November 1976 it asked that Foreign Ministers and the Commission report back to Heads of Government annually on progress towards European Union. The European Council will be invited formally to take note of both reports.

/ 4.

4. The Council's report is anodyne and will have been approved by Member States before the European Council. Although it possibly lays undue emphasis on the European Monetary System it uses the language of the Presidency conclusions after the June 1979 European Council which set it up.

5. There is no need to comment on the Commission's report, which is produced on their own responsibility and reflects their own distinctive views.

Foreign and Commonwealth Office

21 November 1979

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M.I.P.T.: EUROPEAN COUNCIL THE HAGUE 29/30 NOVEMBER 1976

1. FOLLOWING IS TEXT OF EUROPEAN COUNCIL STATEMENT ON TINDEMANS
REPORT:
BEGINS
1. THE EUROPEAN COUNCIL EXAMINED THE REPORT ON EUROPEAN UNION
SUBMITTED TO IT BY MR TINDEMANS AT ITS REQUEST. IT HEARD AN ACCOUNT
GIVEN BY THE CHAIRMAN OF THE WORK CARRIED OUT, AND APPROVED THE
GENERAL LINES OF THE COMMENTS BY THE MINISTERS FOR FOREIGN AFFAIRS
ON THE VARIOUS CHAPTERS OF THE REPORT.

2. THE EUROPEAN COUNCIL INDICATED ITS VERY GREAT INTEREST IN THE
ANALYSES AND PROPOSALS PUT FORWARD BY MR TINDEMANS. IT SHARED THE
VIEWS EXPRESSED BY THE BELGIAN PRIME MINISTER ON THE NEED TO BUILD
EUROPEAN UNION BY STRENGTHENING THE PRACTICAL SOLIDARITY OF THE 9
MEMBER STATES AND THEIR PEOPLES, BOTH INTERNALLY AND IN THEIR
RELATIONS WITH THE OUTSIDE WORLD, AND GRADUALLY TO PROVIDE THE
UNION WITH THE INSTRUMENTS AND INSTITUTIONS NECESSARY FOR ITS
OPERATION. IT CONSIDERED THAT EUROPEAN UNION SHOULD MAKE ITSELF
FELT EFFECTIVELY IN THE DAILY LIFE OF INDIVIDUALS BY ASSISTING IN THE
PROTECTION OF THEIR RIGHTS AND THE IMPROVEMENT OF THE CIRCUMSTANCES
OF THEIR LIFE.

3. ON THIS OCCASION THE EUROPEAN COUNCIL HAD A WIDE-RANGING
DISCUSSION OF THE PRINCIPLES WHICH MUST UNDERLIE THE CONSTRUCTION
OF EUROPEAN UNION OVER THE COMING YEARS. EUROPEAN UNION WILL BE
BUILT PROGRESSIVELY BY CONSOLIDATING AND DEVELOPING WHAT HAS BEEN

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ACHIEVED WITHIN THE COMMUNITY," WITH THE EXISTING TREATIES FORMING A BASIS FOR NEW POLICIES. THE ACHIEVEMENT OF ECONOMIC AND MONETARY UNION IS BASIC TO THE CONSOLIDATION OF COMMUNITY SOLIDARITY AND THE ESTABLISHMENT OF EUROPEAN UNION". PRIORITY IMPORTANCE MUST BE GIVEN TO COMBATING INFLATION AND UNEMPLOYMENT AND TO DRAWING UP COMMON ENERGY AND RESEARCH POLICIES AND A GENUINE REGIONAL AND SOCIAL POLICY FOR THE COMMUNITY.

4. THE CONSTRUCTION OF EUROPE MUST ALSO MAKE THE BEST USE OF POSSIBILITIES FOR CO-OPERATION BETWEEN THE 9 GOVERNMENTS IN THOSE AREAS WHERE THE MEMBER STATES ARE PREPARED TO EXERCISE THEIR SOVEREIGNTY IN A PROGRESSIVELY CONVERGENT MANNER. THIS FORM OF CO-OPERATION IN THE FIELD OF FOREIGN POLICY MUST LEAD TO THE SEARCH FOR A COMMON EXTERNAL POLICY.

5. IN THE LIGHT OF FUTURE DEVELOPMENTS AS DEFINED BY THE REPORT ON EUROPEAN UNION, THE HEADS OF GOVERNMENT, WITH THE INTENTION OF ESTABLISHING A COMPREHENSIVE AND COHERENT COMMON POLITICAL APPROACH, REAFFIRM THEIR DESIRE TO INCREASE THE AUTHORITY AND EFFICIENCY OF THE COMMUNITY INSTITUTIONS, AS WELL AS THE SUPPORT OF THE PEOPLES FOR THEM, AND CONFIRM THE ROLE OF THE EUROPEAN COUNCIL AS A DRIVING FORCE.

6. ON THE BASIS OF THE CONCLUSIONS REACHED BY THE MINISTERS FOR FOREIGN AFFAIRS, THE EUROPEAN COUNCIL INVITES THEM, AND THE COMMISSION IN
THE SECTORS FOR WHICH IT IS COMPETENT, TO REPORT TO IT ONCE A YEAR ON THE RESULTS OBTAINED AND THE PROGRESS WHICH CAN BE ACHIEVED IN THE SHORT-TERM IN THE VARIOUS SECTORS OF THE UNION, THUS TRANSLATING INTO REALITY THE COMMON CONCEPTION OF EUROPEAN UNION.

ENDS.

2. PLEASE ADVANCE TO SHEPHERD AND GREY EID(I).

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Brussels, 23 November 1979

REPORT

on European Union
from the Ministers for Foreign Affairs
to the European Council

This report by the Ministers for Foreign Affairs, the third of its kind, will be on the same lines as its predecessors, that is to say that in this report the Ministers for Foreign Affairs do not wish to take stock of Community activity as a whole, but much rather to highlight the decisions and significant achievements regarding the aims pursued, which are to result in European Union. What are these aims? The European Council of 29 and 30 November 1976 outlined them itself:

- the strengthening of the practical solidarity of the nine Member States and their peoples, both internally and in their external relations;

- providing European Union progressively with the instruments and institutions necessary for its action. Union should also be reflected in everyday life.

.../...

I

The Ministers for Foreign Affairs would like to direct particular attention to major developments such as the first direct elections to the European Assembly, the launching of the European Monetary System and the signature of the Treaty of Accession of Greece to the European Communities. Notwithstanding the challenges with which the Community has been faced as a result of the world energy crisis, the Community has made important progress.

1. The election of members to the European Parliament held from 7 to 10 June 1979 is a token of an already advanced stage in European Union and of the participation of the peoples of the Member States in the construction of Europe. It is not simply a technical transition from one method of designating the members of the European Parliament to another method, but also an event the importance of which cannot be under-estimated in view of the great hope it offers. By their participation in this election the peoples of the Member States have expressed their hope and their resolve to advance, effectively and logically, the construction of Europe. This call must not be left unanswered.

.../...

2. The entry into force of the European Monetary System is one of the cornerstones of this effective and logical construction. Although the prime objective of the European Monetary System is to establish increased monetary stability in the Community, it cannot be confined to that. It must also form a basic part of a wide-ranging strategy and of policies aimed at increased growth in stable conditions, a gradual return to full employment, the harmonization of living standards, a better adjustment of industry to meet the challenges offered by the present-day economy and the reduction of regional disparities within the Community. The system is designed to facilitate the convergence of economic development and will therefore certainly assist in giving fresh impetus to the process of European Union.

In addition to specific provisions (Regulation on interest subsidies) adopted or to be adopted under the European Monetary System, with a view to reducing regional disparities, and the creation of a new Community instrument (the ORTOLI facility), the Community has at its disposal a new Regulation on the Regional Fund. The originality of this instrument is that it permits specific intervention by the Community aimed at mitigating the local repercussions and combatting the structural effects of particularly serious events in certain regions.

.../...

3. The challenge that concerns the Community in the energy field and the way in which the Community faces this challenge will have a far-reaching effect on its future. It is for this reason that the Community has stepped up its efforts to combat the energy crisis in order to achieve the following objectives:

- more moderate and rational use of oil as a non-renewable natural resource;

- continuing economic growth no longer reliant on an increase in oil consumption but based on the development of other energy resources;

- ensure that the most-needy developing countries will also have the energy necessary for their growth.

The European Council meeting in Strasbourg on 21 and 22 June 1979, having considered the need for urgent action in the face of the serious world energy situation affirmed the Community's will to play an exemplary role. It undertook that Community oil imports between 1980 and 1985 would be maintained at an annual level not higher than that for 1978, that transparency of the market would be improved, that the process of redeployment of energy within the Community would be extended and that the policy of energy saving would be strengthened.

4. The strength which the Community needs to meet the many challenges facing it will not be found only by strengthening its internal cohesion but also by opening outwards.

.../...

5. First of all by opening up to welcome those States which have manifested the desire to join the present nine Community States. The signing of the Greek Accession Treaty is a first step along this road. The negotiations now being actively pursued with Portugal and Spain should reach a successful conclusion as quickly as possible.

6. This also involves opening up towards the developing countries, the poorest of which are alarmingly affected by the repercussions of the energy crisis. An indication of this opening is the signing of the new Lomé Convention. It consolidates the achievements of the earlier Convention while introducing a number of new and innovatory features which take into account both the experience gained and the specific requirements of our ACP partners.

7. Finally, the Community must open up to the world at large, and of the many instances which could be given here, the multilateral trade negotiations are worthy of notice. As a result of the constructive efforts made in particular by the Community, a balanced result has been reached which must, however, be implemented in a uniformly correct manner by the signatories.

.../...

II

1. In the course of 1979 the Nine discussed, within the framework of European Political Co-operation, the major political issues of international concern. In this regard the Ministers wish to underline that both through the activities of political co-operation and through the Community's external relations activities, the Europe of the Nine is increasingly regarded by the external world as a coherent entity in world affairs.

2. The agreed procedures for the gradual association of candidate countries with Nine co-ordination within the framework of European Political Co-operation were fully implemented. In the case of Greece, following the signature of the treaties on 28 May last, this process has been intensified and Greece now consults with the Nine (through the Presidency) on all issues discussed in political co-operation. In addition Greece is kept abreast of Nine co-ordination at the United Nations and other international organizations, and at meetings of Ambassadors of the Nine in third countries. Following the second Ministerial meeting in the framework of Spanish accession negotiations held on 18 September last, Spain is kept informed on a regular basis of developments within Nine co-operation. At the appropriate time the Nine will implement similar procedures with regard to Portugal.

3. The Nine attach particular importance to their close co-operation on issues relating to the CSCE process. In addition to consulting regularly on developments related to implementation of the Helsinki Final Act, they have been engaged in extensive preparations for the next CSCE follow-up meeting which will open in Madrid 1980.

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4. As at previous CSCE meetings the Nine intend to make an active contribution to the Madrid meeting. They aim to make it a significant step in the development of East-West relations in Europe, thus giving a fresh impetus to the CSCE process and contributing to the advancement of detente. At Madrid the Nine will press for better implementation of all aspects of the Helsinki Final Act. They will also seek to have the meeting adopt new measures covering all the main areas of the Final Act which will effectively promote further implementation and enlarge the scope of co-operation among the participating States.

5. To this end they are preparing their positions carefully on all the substantive and procedural issues connected with the meeting. Among the proposals they are studying is the French proposal for a European Disarmament Conference. In addition they are engaging in bilateral consultations with other participating States in order to discuss all these questions and to facilitate a greater understanding of each other's objectives for Madrid and for the future of the CSCE process.

6. The Nine have continued to play an active role in the deliberations of the United Nations and its specialized agencies. During the present 34th Session of the General Assembly of the United Nations, the Nine maintained their practice of seeking to concert their views, to express their common attitudes and to adopt common voting positions wherever possible. A general statement on major world issues was made on behalf of the Nine by the Irish Foreign Minister in the General Debate at the beginning of the Session. At the United Nations the Nine have in particular continued their efforts to promote respect for and observance of human rights throughout the world.

7. The Nine consult closely with a view to contributing in a constructive manner to the disarmament process. They participated actively at the first substantive meeting of the Disarmament Commission earlier this year and made important contributions to the formulation of the elements of a comprehensive programme of disarmament, agreed by consensus at the Commission, which will now be referred to the Committee on Disarmament.

8. Six countries of the Nine are members of the new Committee on Disarmament in Geneva. The Nine consult regularly on the issues treated in this important disarmament forum. The Nine maintain a high level of co-ordination on the whole range of disarmament issues which come before the United Nations General Assembly which they regard as an indispensible instrument for facilitating discussion and agreement among the members of the international community in the field of disarmament.

9. The Nine continue to follow clearly developments in the Middle East. On the occasion of the signing of a peace treaty between Egypt and Israel on 26 March, the Nine issued a statement to the effect that they considered the Treaty to constitute a correct application of the principles of Security Council Resolution 242 to Egyptian-Israeli relations. They added that a just and lasting peace in the Middle East can be established only within the framework of a comprehensive settlement. In their statement of 18 June the Nine deplored any action or statement which might constitute an obstacle to the search for peace. They accordingly opposed the Israeli Government's policy of establishing settlements in occupied territories nor could they accept claims by Israel to sovereignty over these territories.

10. In his address to the United Nations General Assembly on behalf of the Nine on 25 September, the Irish Minister for Foreign Affairs endorsed the right of the Palestinian people, within the framework set by a peace settlement, to exercise their right to determine their own future as a people. He further stressed their right, through their representatives, to play their full part in the negotiation of a comprehensive peace settlement.

11. The Nine remain particularly concerned by the unstable situation in Lebanon which they see as related to the problem of the Middle East as a whole. In statements of 18 June and 11 September, the Nine reaffirmed their support for the independence, sovereignty and territorial integrity of Lebanon.

12. After the significant progress achieved at the General Committee in Damascus in December 1978, the Euro-Arab Dialogue has recently suffered a slowing-down of activity as an indirect consequence of political developments in the Middle East. The Nine have expressed their willingness to pursue the Dialogue and they hope that conditions will soon be favourable for a renewal of the Dialogue, which is a unique instrument for co-operation between the Community and the whole of the Arab region.

13. The Nine have continued to co-operate to the fullest extent possible with African countries in promoting their development in a spirit of partnership. They have followed events in Africa closely and they remain convinced that such problems can best be resolved peacefully and through African solutions. The Nine have been particularly concerned about the situation in Southern Africa and they have supported efforts to bring about, through peaceful means, the just solutions that are urgently required to to the problems of the region.

14. Indo-China remains an area of great concern to the Nine. Following the Vietnamese intervention in Cambodia and the subsequent Chinese in Vietnam, the Nine called for the indpendence, territorial integrity and self-determination of both Cambodia and Vietnam to be respected. In the Nine's view the establishment of peace and stability in South East Asia requires an independent Cambodia. In the Nine's view this means a Cambodia with a genuinely representative government, free from any foreign military presence, maintaining friendly relations with all the countries of the region and having the benefit of international assistance for reconstruction.

15. On a number of occasions the Nine have voiced their concern about the problem of the Indo-Chinese refugees and they called for immediate practical measures to deal with it. In adopting concerted positions at the United Nations meeting on South East Asian Refugees in July this year, the Nine stressed the right of people freely to leave and to return to their own countries. They also expressed their determination to contribute to continuing international efforts on behalf of the refugees.

16. The Nine have already taken steps to respond urgently to the desperate needs of the Kampuchean people in the face of widespread famine. At the United Nations Pledging Conference for Kampuchea in New York on 5 November, the Nine pledged a substantial contribution. They indicated that they intend to follow developments in Kampuchea with a view to further assisting in any way they can to relieve the situation.

.../...

17. Relations with the European Parliament, now directly elected, continue to receive the close attention of the Nine in political co-operation. Through the medium of replies to Parliamentary questions, both oral and written, regular colloquies following Ministerial meetings, and the annual report on developments within political co-operation, the Parliament is kept abreast of all issues discussed by the Nine.

.../...

III

An Agreement between the Member States of the European Communities concerning the application of the European Convention on the Suppression of Terrorism is likely to be signed by the Nine during the current Presidency. Moreover, a group of senior officials is continuing its examination of a draft convention dealing with extradition for a broad range of criminal offences in the context of proposals for and "Espace Judiciaire Européen". The Ministers of Justice of the Nine met in April 1979 to consider these proposals and it is expected that they will meet at future dates on this subject. The group of senior officials, taking due account of the progress achieved, feels that the draft convention could be considered by Ministers at a meeting in Spring 1980. In addition Ministers of the Interior or Ministers with similar responsibilities met in Dublin in October as a continuation of their activities in examining practical measures of co-operation dealing with international terrorism.

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EHG(D)(79)10 Revise COPY NO. 1

26 November 1979

EUROPEAN COUNCIL, DUBLIN

29/30 NOVEMBER 1979

THE COMMON AGRICULTURAL POLICY

Brief by: Ministry of Agriculture, Fisheries and Food

Economies on CAP cant substitute for action on budget.

OBJECTIVE

1. To avoid our budget objectives being prejudiced by discussion of the CAP an d resist the argument that economies on the CAP could substitute for action on the budget.

Commission's CAP proposals damaging

2. To avoid being committed to the Commission's principles for changing the CAP; to the Commission proposals based on them, which for both milk and sugar discriminate damagingly against the UK; or (except in the context of a settlement on the budget) to further structural expenditure to benefit Italy and Ireland.

POINTS TO MAKE

Balance of the budget

3. Agree there should be a change in the balance of the budget. But any additional expenditure on structural measures must be found from savings on the CAP and within 1% ceiling.

4. Prepared to consider increased aid for Mediterranean agriculture and increased spending on farm structures, in context of solution to UK budget problem. But must be offset by genuine cuts in other CAP expenditure.

Commission's Four Principles (para 4 of CAP paper)

5. Agree CAP should be reformed, not attacked, and welcome Commission's objective of reducing expenditure. But surprised and alarmed that Commission paper makes no mention of prices. Holding down common support prices must be central feature of CAP strategy.

6. Commission's four principles partly acceptable, partly not. Could not endorse them as they stand, because some of their implications for policy unacceptable or in need of qualification:-

First principle. Agree that priority must be given to getting better balance for milk and sugar. But methods of restraining production must be fair (which Commission's sugar proposals are not) and economically sound (proposal for supplementary levy on dairies which increase milk purchases would penalise efficiency). Aim of increasing consumption outside Community sounds like increasing already excessive export subsidies.

Second principle. Only acceptable if levy to finance surplus disposal falls on all producers without discrimination, whether large or small and irrespective of whether increasing production; and if accompanied by price freeze.

Third principle. Special measures to help small and medium-sized producers would mean discriminating against larger and more efficient, and go against objective of reducing surpluses. Essentially social aid which should not be charge on Community funds.

Fourth principle. Concentration of structural aid on poorest farms and least developed regions would reduce still further UK's meagre receipts from budget. Aims and likely cost of structural policy need careful consideration.

Commission's Proposals (para 5 of CAP paper)

7. Milk package has grave defects. No mention of need to hold down price. Supplementary levy on dairies which increase purchases of milk risks penalising efficient and protecting inefficient. New sugar regime would discriminate unacceptably against UK, whose production in base period for new quotas was held down by bad weather and previous Government's green pound policy. Adaptations in other sectors need careful consideration by Agriculture Council. Commission proposals for structural measures (para 7) are costly and have not yet been discussed in Agriculture Council.

8. [If raised] Do not agree that imports of New Zealand butter should be cut further. Accepted from outset that UK accession should not wreck New Zealand's economy. New Zealand cannot export elsewhere in competition with low-priced Community exports.

Italian proposals

9. Agree there should be a change in the balance of the budget. But if there is to be additional expenditure on structural measures this must be found from savings on the CAP.

10. [If necessary] Prepared to consider increased aid on farm structures, but only if it is cost-effective and is accompanied by genuine cuts in other CAP expenditure. Need for caution on cost of structural schemes in view of enlargement.

BACKGROUND

11. The CAP is likely to arise in discussion in two ways. First, the Commission propose to circulate a paper arguing that savings of 1,000 million ecus annually can be achieved through economies on the CAP, including

i) an increase from 0.5% to 1.5% in the standard milk co-responsibility levy and a new "super levy" (of about 4%) applied to all dairies which increase their milk purchases from farmers above the level of a defined base period;

ii) sharp reductions in national sugar quotas based on production in recent years;

iii) less reliance on intervention for beef;

iv) the elimination of production refunds on starch and a reduction in export restitutions on rye;

v) reduced aid for processed fruit and vegetables.

If adopted these proposals would certainly produce economies and we shall be studying them in detail in preparation for discussion in the Agriculture Council in December. But as they stand they are not acceptable.

12. On milk, it makes no sense to increase the co-responsibility levy and then subsequently (as we know Gundelach intends) to increase the CAP support price. We want to see action which helps both the consumer and the taxpayer; i.e. as a first priority to hold down the support prices to increase consumption and to cut the unit cost of surplus disposal. A "super levy" on increases in production will penalise efficient farmers who are capable of

increasing at the expense of the less efficient, and would be unfair to UK producers who have been held back by the previous Government's green pound policy. The co-responsibility levy as proposed will bite more here than in other countries because our system will enable it to be administered more efficiently. This discrimination against the UK could well be worsened as a result of negotiations in the Agriculture Council where there will be strong pressure from most other Member States for small producers to be exempted. For sugar the Commission plan to cut the quotas by over 1 million tonnes has been worked out in such a way that the UK would be required to take a proportionately greater reduction than any other country.

13. Secondly, the discussion of Italian ideas for changing the balance of the Community Budget and diverting more resources to "structural" objectives will inevitably touch on the CAP. We can support the Italian contention that the CAP share of the total budget should be reduced, provided this is done within the 1% ceiling. But great caution is needed on the idea of a "better balance" within the CAP. The Italians are adept at using the European Council to obtain vague commitments to increased expenditure or protection for Mediterranean products, which inevitably mean bigger UK payments into the budget and/or higher consumer prices. A large package of measures agreed last year, mainly for Italy's benefit, will cost the UK about £250m. All experience shows that, while the increased expenditure is real, the promised savings on "northern" products never materialise. Moreover special schemes for Italy risk having to be extended to the new Member States.

General Background

14. The worst aspect of the CAP for us is its effect on our net contribution to the budget. If we were to achieve broad balance, the need to reform the CAP would be reduced. But we would still want to reduce the trade costs which it imposes on us, to make the policy less protectionist, and to reduce the damage which the cheap export of surpluses does to the Community's trading relationships with other countries.

15. Expenditure on the CAP, which accounts for over 70% of the budget, has been rising by 17% per year on average: by 1980 it will have doubled since 1976 and trebled since 1973 in units of account (in terms of sterling the increase is a lot more). Relevant figures are:

	1978	1979*	1980ø	1981≁ A	1981≁ B
Total budget	12.2	14.5	15.3	20.5	19.1
CAP	9.0	10.8	11.5	14.2	12.5
Increase in CAP cost over previous year	+ 27%	+ 20%	+ 7%	+ 24%	+ 9%
Rate of VAT required for whole budget	0.64%	0.82%	0.76%	1.19%	1.05%

* including supplementary budget at present before Parliament

ø based on draft budget but not including Parliament's amendments

≁ Commission projections, based on two different assumptions for CAP expenditure.

Ministry of Agriculture, Fisheries and Food

26 November 1979

CONFIDENTIAL

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(79) 690 final

Brussels, 22 November 1979

The Common Agricultural Policy: the urgent need for a better equilibrium

(Communication to the European Council - Dublin, 29 and 30 November 1979)

COM(79) 690 final

CONFIDENTIAL

The Common Agricultural Policy: the urgent need for a better equilibrium

1. A year ago the European Council discussed the future development of the Common Agricultural Policy. The Commission had submitted its views in document COM(78) 700 of 29 November 1978, stating in particular that

> "The Common Agricultural Policy is and always has been a cornerstone in the construction of the Community...
> In recent years the application of the Common Agricultural Policy has met with serious difficulties...First, the imbalance between supply and demand in several major agricultural markets is worsening. Secondly, incomes disparities within the agricultural sector remain substantial. Thirdly, monetary upheavals have disrupted the common agricultural market."

2. Since then the Community has successfully launched the European Monetary System. The common agricultural market has consequently benefitted from greater exchange rate stability. Monetary compensatory amounts - which generate artificial distortions in competition - are now about half of last year's levels. On the other hand, the difficulties which result from serious market imbalances in certain sectors - particularly milk - still remain. These specific difficulties reflect adversely on the real advantages of the agricultural policy generally and cause problems for the budget. It is therefore necessary to tackle them in the interest of sustaining the policy for the 1980s.

3. The Commission has just submitted to the Council of Ministers a further package of measures with this essential objective: to strengthen and not to attack the Common Agricultural Policy but to adapt it so that it is not undermined by a failure to deal with the known specific problems. These problems must be tackled in any event but a solution to them can also help to reduce the pressures on the Community's budget and, in particular, to avoid the difficulties associated with the ceiling imposed by income from own resources. The package would lead to a substantial cut - of the order of 1 000 million UCE in a full year - in Community expenditure and should avoid the Community quickly exhausting its own resources. In addition, the Commission itself is seeking

savings through rigorous management of existing policies. The new measures would also permit a larger proportion of budgetary spending to be devoted to the improvement of structures and to general investment purposes, including a better balance between the Guarantee and Guidance Sections of the European Agricultural Guidance and Guarantee Fund.

4. In making its proposals the Commission has been guided by the following principles: No written detail

- high priority must be given to bringing balance to agricultural markets, especially for milk and sugar. This should be done by increasing internal consumption inside and outside the Community where this is feasible; and by restraining production No reduction of price. [illegible] [illegible]

Export subsidies

- for products in structural surplus, the cost of getting rid of future increases in production must fall on producers themselves

Cost

Costs [illegible] producers

[illegible] fall or producers

- unbearable income effects for small and medium-sized producers with no alternative types of production must be alleviated. The Commission is undertaking immediately a further examination of the situation of these producers Diminishing system? [illegible]. Costs should not fall on the CAP?

- available resources for the restructuring and development of agriculture should be concentrated on poorer farms and less developed regions. Italy Ireland

£370 - £430 - 770.

5. The Commission's proposals include three main elements:

a) a milk package involving a new approach to co-responsibility which would comprise a basic co-responsibility levy and a supplementary levy related to the costs of new surplus disposal. The existing premiums for conversion to other lines of production would continue. The Commission also notes that a more coherent policy for animal and vegetable fats and proteins may be needed particularly in the context of enlargement;

b) a new sugar régime with reduced quotas;

c) adaptations in the common market organizations for beef, processed fruit and vegetables, starch and rye.

.../...

Submitted to. M.A.F.F.
Social objectives:

6. These actions should ensure that the milk budget will not increase and justifiable savings will be made elsewhere.

7. These proposals must be seen in relation to the Community's action programme for Mediterranean regions and to the Commission's recent proposals on policy with regard to agricultural structures (COM(79) 122 of 19 March 1979). These structural measures aim to concentrate resources on poorer farms and less developed regions which will be of particular importance to certain Member States including Italy and Ireland. The Commission also envisages accelerating the implementation of some parts of the Mediterranean action programme (afforestation, irrigation).

No 8. If these measures are not taken, the Community's own resources will soon be exhausted by the agricultural budget. Other more drastic measures adversely affecting the CAP would then be necessary. No.

Other measures Yes.

The Commission, therefore, invites the European Council to endorse the broad objectives in paragraph 4 and to ensure that early decisions are taken on the new proposals, with a view to alleviating the budget and to strengthening the Common Agricultural Policy.

Surplus production should be eliminated by holding the price down. Any difficulties caused for individual countries must be borne by them.

France in 1 year led - encourage more strictness:
on milk - steps

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COPY NO 1

EHG(D)(79)10(a)

23 November 1979

EUROPEAN COUNCIL, DUBLIN

29/30 NOVEMBER 1979

SHEEPMEAT

Brief by Ministry of Agriculture, Fisheries and Food

OBJECTIVE

1. To resist any attempts by France to secure concessions in relation to the negotiations for a sheepmeat regime or to her problems over lifting her illegal import barriers.

POINTS TO MAKE

2. We are prepared to negotiate constructively for a sheepmeat regime but any common arrangements must recognise our interests as the Community's largest producer and consumer of sheepmeat.

3. Prepared to consider a light market related regime which continues fully adequate access for New Zealand and gives the UK a fair share of benefits. Cannot accept intervention or new restrictions on third country imports in breach of our GATT commitments.

4. Continued defiance by France of judgement of European Court is completely separate issue.

5. (If French argue that Council must take interim action to support French producers and enable them to comply.) The Treaty permits alternative legal measures of protection so it is open to the French to protect their producers from the immediate effects of free access..

6. (If French raise possibility of voluntary restraint on UK exports.) There is no possibility in practical or legal terms of exercising Government control over the volume of sheepmeat exports. Any attempt to persuade the industry to exercise self-restraint would be regarded by them as conniving at French defiance of Treaty obligations and would have little or no prospect of succeeding. We do not in any case accept that opening French market to UK sheepmeat will undermine French industry.

BACKGROUND.

7. The Treaty of Rome prevents us from arguing that sheepmeat does not need to be brought within the CAP. Discussions on Commission proposals for a common regime have continued and some progress has been made. The French were less insistent at the last Council on a regime based on intervention buying and appeared to have given up their demand for increased protection against imports by unbinding of the tariff (this is bound at 20% under the GATT and there is no realistic way of offering New Zealand adequate compensation for an unbinding). They may however revive these demands. Other Member States remained, broadly speaking, closer to the UK position on the shape of the regime than to France. The UK demand for a fair share of any Community expen-

diture was noted. The UK accounts for over half the consumption and nearly half the production in the EEC, France for only 25% and 30% respectively. Discussions will continue at the Agriculture Council on 10/11 December on the basis of a new Commission paper which is expected shortly. ~~The Minister of Agriculture is having bilateral discussions with the French Minister on 26 November.~~

8. France continues to refuse free access to UK exports of sheepmeat, defying the ruling of the European Court. She claims that she cannot comply until the protection of a Community regime can replace that afforded by her import controls or until the Commission have introduced interim measures to prevent market disruption. This argument is unacceptable since, in the absence of a common regime, France may protect her producers to any degree she wishes, provided she does not choose means which are contrary to the Treaty. In exactly parallel circumstances earlier this year we removed our restrictions on potato imports, accepting the increase in national expenditure which could result.

9. The Commission are taking further proceedings under the Treaty of Rome to secure French compliance with the Court's ruling, but the timetable is such that an interim injunction against the French will not now be made before January.

10. The French are reported to be seeking UK agreement to voluntary restraint on exports to France to enable them to lift their controls without prices falling dramatically. They may

mention that the Dutch restricted potato exports to the UK when we lifted our import controls; this is not true.

11. The Government has no machinery and no legal authority for controlling the volume of exports of sheepmeat. Even if we had, we see no reason for making concessions to the French, who have persisted in defying the Court and excluding our trade and who have consistently argued for the inclusion in a regime of measures which are quite unacceptable to us - notably intervention and unbinding the tariff to permit the imposition of high levies on New Zealand imports. A request to our exporters to respond to a removal of the French import restriction by restraining the level of their sendings of sheepmeat to France would be seen as UK connivance with the illegal French aim of continuing to insulate their sheepmeat market from intra-Community competition and denying ourselves the benefits of free trade under the Treaty. There is no reason why our exporters should respond to such a request except to the extent that they judge it to their own commercial interests not to over-supply the French market. They will be even less likely to consider any restraint with UK market prices so depressed (at present 20p/kilo below the guaranteed price).

12. If it were possible, despite the lack of machinery or legal powers, to give consideration to voluntary restraint on sheepmeat exports for wider purposes, we would also need to consider voluntary restraint on French agricultural exports to the UK, notably of apples which are currently being sent here in large quantities and at low prices. French exports of agricultural produce to the UK are far greater than UK agricultural exports to France.

Ministry of Agriculture, Fisheries and Food
23 November 1979

BRIEF ON SHEEPMEAT FOR EUROPEAN COUNCIL

ADDITIONAL PARAGRAPHS

13. In a bilateral discussion between the Minister of Agriculture and M. Mehaignerie on 26 November, the latter re-opened the idea of unbinding the tariff on imports of fresh sheepmeat and linked this with intervention by the Community to support the sheepmeat market at least until the unbinding had been negotiated with the countries concerned (which could take up to two years). M. Mehaignerie accepted that premiums paid to producers should be the long term basis of support.

14. The inclusion of public intervention in a Community sheepmeat regime has long been sought by the French but totally opposed by us with German support. The introduction of intervention even as a temporary measure is unacceptable. Once Community support of an internal market price through intervention is accepted it would be very difficult, if not impossible, to get away from it. At his Press conference with the Prime Minister, President Giscard referred to Community preference in terms of free trade, the support and fixing of a minimum level of price and an intervention mechanism. Our view however is that Community preference means free trade between member states and a common external tariff, and the latter already exists.

15. The Commission have just tabled new proposals on external arrangements, premiums and storage aids. These proposals are still in draft and are being discussed at technical level following which the Commission say they intend to table proposals to the Agricultural Council. Despite this the French might try to secure some endorsement of the compromise proposals as they stand since what the Commission now envisage for storage aid would allow the French to operate intervention, with a subsidy from Community funds equivalent to the aid given to private traders for storage. Although the trading risk and much of cost would fall on the French Exchequer, the result would be a form of national intervention with Community financial support.

16. The revised premium proposals would still be likely to lead to very high payments to French producers. While they

offer higher support for UK producers than previously proposed this would still mean that the UK was unlikely to do more than break even in resource terms. Moreover there is still no provision to ensure degression of the levels of premiums and rapid alignment to a common premium and a common reference price at the market equilibrium level. Discriminatory premiums would thus be likely to continue for a long period. The Commission proposals also include provision for a ban on imports where a third country supplier exceeds the quantity set under a voluntary restraint agreement. This would breach the GATT binding. Any safeguard action must be consistent with GATT safeguard provisions.

17. It follows that the latest draft Commission proposals are not acceptable to us as they stand and we should avoid any form of endorsement of the approach they embody or any more general commitment to Community support of sheepmeat prices through intervention.

EHG(D)(79) 11 COPY NO. 1

16 November 1979

EUROPEAN COUNCIL, DUBLIN

29/30 NOVEMBER 1979

COMMON FISHERIES POLICY

Brief by Ministry of Agriculture, Fisheries and Food

OBJECTIVE

1. To avoid a substantive discussion on the CFP

POINTS TO MAKE

[If necessary]

2. (i) No need for substantive discussion of CFP. Last Fisheries Council established more constructive atmosphere. Next Fisheries Council will be held on 3/4 December.

(ii) UK determined to seek satisfactory CFP settlement. Has played positive role in preparatory discussions at Official and Ministerial level.

(iii) Hope December Council will maintain and consolidate improvement noted at October Council. This should enable a start to be made to substantive negotiations, particularly on conservation measures which are needed to protect fish stocks increasingly at risk.

BACKGROUND

3. Other member states consider the UK is adopting an obstructive approach on fisheries. There may therefore be pressure, particularly from the French, for a substantive discussion of fisheries in Dublin and some suitable expression of UK "goodwill" in association with progress on the budget. The Presidency has identified two issues of particular concern to member states - UK national conservation measures and UK refusal to ratify third country fishery agreements.

4. A substantive discussion of the CFP at Dublin could cut across the work currently in progress within the Fisheries Council. The 29 October Council established a more constructive approach towards the outstanding problems. A High Level Group of senior officials was set up. This met on 19 November and considered possible proposals on Total Allowable Catches in member states' fishing limits in 1980, and a package of technical conservation measures. In addition, UK Fisheries Ministers have discussed specific problems bilaterally with the Presidency and the Commission on 19th November, Germany (22nd) Denmark (23rd) and France (26th). The next Fisheries Council will meet on 3/4 December when it is hoped further progress will be made

on these difficult and highly technical issues.

5. In the absence of Community measures, the UK has adopted a number of national conservation measures to protect fish stocks within UK fishery limits. These are in accordance with international scientific recommendations, are non-discriminatory and have been adopted in accordance with Community law. A number of these measures are subject to proceedings in the European Court of Justice. The UK considers the measures are fully justified and will continue to enforce them unless they are ruled illegal or a Community conservation regime is adopted. France has protested strongly over the arrest of 3 French trawlers in September for contraventions of measures introduced on 1 July 1979 increasing the minimum permitted mesh for nets used to catch nephrops (scampi). Denmark has protested about the extension of the area off North East Britain (the pout box); in this area fishing with small mesh nets is prohibited to prevent young haddock and whiting being caught as a by-catch in the pout fishing and used for fish meal. The French may seek to use these difficulties as an excuse for a substantive CFP discussion which can then be linked to other issues.

6. The UK has maintained its reserve on the conclusion of EEC fisheries framework agreements with Norway, Sweden, Canada and a number of other third countries. These agreements provide long-term objectives within which annual agreements on reciprocal fishing opportunities will be negotiated. The UK is not prepared to agree these more permanent measures in the absence of progress on internal arrangements. The UK has agreed to

annual interim agreements in 1978 and 1979 to enable fishing to continue in third country waters.

At the October Fisheries Council, particular difficulties arose over the Canadian measure. It was claimed that Canada would not negotiate 1980 arrangements if the framework agreement (which applies only to 1979) was not signed. Germany has a substantial fishery in Canadian waters and protested accordingly. It was subsequently agreed at the meeting with Chancellor Schmidt in Bonn on 31 October, that the UK would ratify the agreement at the Fisheries Council on 3/4 December. The UK reserve on the other, open-ended agreements will be maintained, in the absence of progress on the general CFP regime.

MINISTRY OF AGRICULTURE FISHERIES AND FOOD

16 NOVEMBER 1979

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EHG(D)(79)12 COPY NO. 1

21 November 1979

EUROPEAN COUNCIL, DUBLIN

29/30 November 1979

THE EUROPEAN MONETARY SYSTEM

Brief by HM Treasury

OBJECTIVE

1. If asked, to explain the UK's attitudes to the EMS exchange rate arrangements while avoiding committing us to a specific date for joining them.

POINTS TO MAKE

2. /If appropriate7

(i) In principle committed to joining the EMS exchange rate arrangements when conditions are right;

(ii) we cannot say when this might be. First, we need to see more of the fruits of our economic policies before deciding, including the effect of the abolition of exchange controls;

CONFIDENTIAL

(iii) second, there are particular uncertainties posed by sterling's position as a petrocurrency, when the course of the dollar is erratic.

BACKGROUND

3. The EMS is not on the agenda. It is possible that some Member States may look for a statement by the Prime Minister on our intention to join the exchange rate arrangements as evidence of "good will" in return for a concession on our net contribution to the Community budget.

4. But each of these two things has to be decided on its own merits. The points to make follow what the Prime Minister has said in her bilateral talks with other EEC heads of government. This will not therefore come as a surprise. But the Prime Minister might be asked for some form of words in the European Council conclusions about the Government's intention to join the system at some stage.

5. This would be a pity. It would put the EMS issue back into the area of debate in this country. Nevertheless, the Prime Minister might judge it worthwhile to permit a formula on the lines of the first "Point to Make" to be used if it is asked for (or even to volunteer it), if it appeared that it would buy anything worthwhile.

6. But she would in all circumstances wish to avoid any reference to a time-table within which we might become members

of the exchange rate mechanism. This would be particularly unwise given the uncertainties over the coming months in respect of

(i) the rate of inflation;

(ii) growth of the money supply;

(iii) the effects of removing exchange controls after more than 40 years, consistent with our Treaty obligations;

(iv) the outlook for oil prices and supply, with the consequent effects on sterling.

Second Stage of the EMS

7. When the EMS was set up in December 1978, it was agreed that within two years the system should be consolidated and further developed by the establishment of a European Monetary Fund. At the Foreign Ministers' Council on 20 November, it was suggested that progress on this might be raised at the European Council.

8. Community discussions at official level (in which the UK has been fully involved) on this "second stage" of the EMS have been in progress for some months. But it is clear that neither the Germans nor the French want to pursue the subject urgently, probably for domestic political/electoral reasons.

9. If the subject is raised, the Prime Minister need not take the lead in speaking to it. She could say that the UK will continue to play a full part in these discussions, and on the timetable we are content to go along with any majority view that emerges. The Prime Minister could go along with any proposal that the European Council should ask the Finance Council to expedite the discussions, if there is majority support for such a proposal.

HM Treasury

21 November 1979

EHG(D)(79)13 revise COPY NO. 1

26 November 1979

EUROPEAN COUNCIL, DUBLIN

29/30 NOVEMBER 1979

EUROPEAN PARLIAMENT

Brief by the Foreign and Commonwealth Office

Attached is a revised version of brief EHG(D)(79)13 taking account of the results of the Budget Council on 23 November. The original brief should now be destroyed.

FOREIGN AND COMMONWEALTH OFFICE

26 November 1979

EHG(D)(79)13 Revise
26 November 1979

EUROPEAN COUNCIL, DUBLIN

29/30 NOVEMBER 1979

EUROPEAN PARLIAMENT

Brief by the Foreign and Commonwealth Office

OBJECTIVE

1. To limit time spent on the subject by getting it referred to Council of Ministers.

POINTS TO MAKE (as appropriate)

PARLIAMENT'S PROPOSED MODIFICATIONS TO AGRICULTURAL EXPENDITURE

2. UK not seeking an increase in the influence of the Parliament at the expense of the Council. We were therefore prepared to support those who resisted at the Budget Council on 23 November the Parliament's proposed reduction of 380 mEUA in support for dairy production as well as the provision they proposed for a co-responsibility levy on milk. But we maintain our view that CAP expenditure on milk production is excessive and must be reduced; we will pursue the matter vigorously in other contexts.

3. We believe that existing budgetary procedures and relationship between Council and Parliament should not be disturbed.

PARLIAMENT'S PROPOSALS TO INCREASE THE REGIONAL DEVELOPMENT FUND AND SOCIAL FUND

4. Right to increase these items. Helps to redress budget imbalance, benefits less-favoured areas throughout the Community.

/But

But we accepted Presidency compromise figure of 1015 mEUA in order to reach agreement.

PARLIAMENT'S OWN BUDGET

(i) 1970 Gentlemen's Agreement

5. Council could reasonably have behaved as if it had lapsed, but we were willing to accept majority view.

(ii) Salaries for Members of European Parliament (MEPs)

6. Stick by December 1978 agreement that Member States should pay MEPs' salaries, Parliament pay allowances.

(iii) Site of Parliament

7. Agree final decision on site for unanimous decision of Council: not for Parliament acting unilaterally.

(iv) Powers of Parliament

8. See no need at present for any extension in Parliament's powers.

BACKGROUND

AGRICULTURE, REGIONAL AND SOCIAL FUNDS

9. The Parliament proposed the following modifications to agricultural items in the 1980 budget:

(i) a reduction of 380 mEUA in support for dairy production;

(ii) provision for an increase in the co-responsibility levy on milk.

Both were rejected at the 23 November Budget Council (with Italy and Netherlands voting with the Parliament). It also proposed:

/(iii)

(iii) to reinstate in the budget the 350 mEUA for the Regional Development Fund (RDF) and the 110 mEUA for the Social Fund which the first Budget Council in September agreed to take out.

Compromise figures of 165 mEUA and 50 mEUA respectively were agreed at the Budget Council.

10. At the Foreign Affairs Council on 20 November M. Francois-Poncet said that the French would raise the Council's relations with the European Parliament at the European Council. They are concerned in general with the Parliament's attempts to extend its influence/powers over the Community Budget. They fear in particular that the Parliament's proposed modifications to agricultural expenditure (paragraph 9 above) may set a precedent for an extension of the Parliament's influence over the CAP. At her meeting with President Giscard, the Prime Minister did not commit the UK to voting either way at the Budget Council. After his meeting with Herr Dohnanyi on 22 November, the Lord Privy Seal discussed the matter with the Prime Minister; it was agreed that the Financial Secretary should oppose the Parliament's reduction in milk support, oppose the increase in the co-responsibility levy and support the increase in the Regional/Social Funds. The French are likely to be relieved to have had our support in rejecting the Parliament's cut in support for dairy production.

BUDGET PROCEDURE

11. The Budget Council have to consider the Parliament's proposed modifications (ie. to CAP expenditure) and amendments (non-CAP expenditure) to the draft Budget approved at the first Budget

/Council

Council in September. (The voting rules vary according to the category of expenditure and certain other criteria.) After the Council's votes the draft is returned to the Parliament again. The Parliament has the power to reinstate its original amendments (but not its modifications) but subject to the observance of a maximum rate of increase which provides a ceiling to such expenditure. The Parliament is required to adopt or reject the entire budget within 15 days of having received it, ie. by about 10 December.

SECOND BUDGET COUNCIL AGREEMENT ON MAXIMUM RATE

12. In March 1979 Members of the Council agreed to an informal working arrangement for the Second Budget Council whereby the Council would not return the draft Budget to the Parliament without reaching agreement both on individual Parliamentary amendments and on a ceiling to budgetary expenditure (known as the "maximum rate") at a level sufficient to accommodate those amendments. At the 23 November Budget Council, it was not necessary to resort to this arrangement on the maximum rate because the Council accepted a Presidency compromise which kept the total of amendments within the maximum rate. The compromise yielded a larger RDF than would have been obtainable under the arrangement.

PARLIAMENT'S OWN BUDGET

(i) 1970 Gentlemen's Agreement

13. By a Resolution of 22 April 1970 the Council undertook to make no amendments to the Parliament's administrative Budget; in return the Parliament agreed not to try to change the Council's. The agreement lapsed in 1975 when the Treaty article to which it referred was superseded but neither institution has yet

/made

made substantive use of its new freedom. Other Member States have shown reluctance to change this state of affairs, despite concern over some of the Parliament's proposals for its own budget, eg. staff increases. Ministers agreed that, although we consider the Agreement to have lapsed, we should not insist against a majority view at the Budget Council. In the event, no one challenged the Agreement and the Parliament's budget was therefore left unamended, though at French request the Presidency will approach the Parliament to ask them to withdraw their amendments relating to the seat of the Parliament and to MEPs' salaries as incompatible with legal acts of the Community. The Parliament are unlikely to comply.

(ii) Salaries for MEPs

14. The Parliament has made a token entry for payments of MEPs' salaries. In December 1978 the Member States agreed that MEPs' salaries should be paid by national governments and that the Parliament should pay any allowances.

SITE OF PARLIAMENT

15. Article 216 of the EEC Treaty provides for the Council to determine by common accord the seat of the institutions. The directly-elected Parliament has begun to protest against its preipatetic existence - secretariat in Luxembourg, meetings there and in Strasbourg, Committee meetings in Brussels and elsewhere - and has made a reduced provision for rent as a token of its intent one day to decide on a single site.

POWERS OF THE PARLIAMENT

16. The Parliament's powers are carefully described and circumscribed by the Treaties. Apart from its role in the budgetary procedure (see above) its main power is to dismiss the Commission

/en bloc;

en bloc; otherwise its role is advisory and consultative.

17. Some Member States, eg. the Irish and Dutch, are showing signs of willingness to contemplate changes in the balance of the Council/Parliament relationship in the latter's favour. Following a Council decision in September officials are at the moment examining various aspects of Council/Parliament relations, such as the handling of Parliament Resolutions and the "conciliation procedure" (which provides for Council/Parliament consultation on acts with appreciable financial consequences). The UK has so far taken a reserved line on this exercise, arguing that it will need to be considered in the context of examination of the Three Wise Men's Report (Brief No 7).

18. To increase the Parliament's powers under the Treaties would need Treaty amendment; in the case of the UK, Clause 6(1) of the European Assembly Elections Act 1978 reads:

> "No Treaty which provides for any increase in the powers of the Assembly shall be ratified by the United Kingdom unless it has been approved by an Act of Parliament".

FOREIGN AND COMMONWEALTH OFFICE

26 November 1979

EHG(D)(79)15 COPY NO. 1

20 November 1979

EUROPEAN COUNCIL, DUBLIN

29/30 NOVEMBER 1979

ENLARGEMENT

Brief by the Foreign and Commonwealth Office

OBJECTIVE

1. To reiterate if necessary UK support for enlargement while stressing that prospect of enlargement makes it even more necessary to resolve present problems facing Community.

POINTS TO MAKE

General

2. Firmly support enlargement.

3. Conscious of economic strains enlargement will create in the Community. This makes it even more important to resolve quickly questions such as agricultural spending, budgetary arrangements, fisheries policy and future of Regional and Social Funds.

Timetable

4. Unnecessary delay in Portuguese and Spanish negotiations should be avoided.

[If necessary]

Consequences of enlargement for Mediterranean products

5. Irrespective of enlargement we need to make improvements in the CAP as a whole, especially to cut costs of surpluses. Consequences of enlargement for Mediterranean products could be considered in this framework, but we would need to ensure that any measures agreed upon were cost-effective, and did not lead to a repeat of the mistakes made on Northern products.

ESSENTIAL FACTS

Timetable for Enlargement

(a) Greece

1. Treaty of Accession signed 28 May. Formal entry due 1 January 1981.

(b) Portugal and Spain

Negotiations in train. Entry possibly in 1983.

Prospects for negotiations

2. Portuguese negotiations unlikely to raise major difficulties because Portuguese economy no threat to any existing Member State, although Community could come under pressure to provide substantial aid, both pre- and post- accession.

3. Spanish negotiations likely to be difficult mainly because Spaniards unwilling to remove quickly protection enjoyed by

Spanish industry and because French and Italians worried about Spanish competition in Mediterranean agricultural produce. French deliberately slowed down negotiations during their Presidency. French Presidential elections due in spring 1981 may lead French to cause further delay.

Economic implications

4. New strains will be put on CAP (applicants have large agricultural sectors), Regional and Social Funds, and fisheries policy (Spain has largest fleet in Europe). Three new members will all probably be net recipients from Budget. Budget's size will be increased by 11-14 per cent (assuming policies unchanged).

5. Absorption of three relatively poor new members may act as drag on Community and increase tendencies towards development of two tiers. But scale of problem should not be exaggerated: Spain has per capita GNP close to Italy's and Greece is about on par with Ireland.

Consequences of enlargement for Mediterranean agriculture

6. Italians, to some extent supported by French, are concerned about increased competition in Mediterranean products after enlargement, and would like more support for these products.

/They

They claim that 1978 Commission report on enlargement ("fresco") underestimated size of problem.

7. Separate study of consequences of enlargement for Mediterranean products could lead to expensive schemes in support of Italian and French farmers. We should therefore query need for separate study, but be careful not to antagonise Italians because of need for their support on Budget issue.

Foreign and Commonwealth Office
20 November 1979

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EHG(D)(79)16 COPY NO. 1

21 November 1979

EUROPEAN COUNCIL, DUBLIN
29/30 NOVEMBER 1979

POLITICAL COOPERATION

Brief by Foreign and Commonwealth Office

Briefing on Political Cooperation subjects is provided as follows:

Annex A Rhodesia
Annex B Iran.

Foreign and Commonwealth Office

21 November 1979

CONFIDENTIAL

ANNEX A

RHODESIA

OBJECTIVE

1. To brief partners on the current situation and obtain their support.

POINTS TO MAKE

2. Grateful for support so far given by the Nine.

BACKGROUND

3. The strength of support for the UK attempts to solve the Rhodesia problem varies within the Nine. Some, eg France and Germany, have supported us strongly, whereas others such as Denmark and the Netherlands have been less helpful. However, on 20 November the Foreign Ministers of the Nine agreed to the following statement on Rhodesia:

> "The Foreign Ministers of the Nine warmly welcome the progress made at the Constitutional Conference at Lancaster House. They commend the parties to the negotiations for the spirit of compromise they have shown and they recognise the role played by other African leaders who have encouraged the efforts to achieve a settlement.
>
> The Ministers note the agreement reached on an independence constitution providing for genuine majority rule, and on arrangements for the holding of free and fair elections and for the administration of Rhodesia until these take place.
>
> The Conference has now moved to its final stage - the effort to agree on proposals for a ceasefire.

/The Foreign

The Foreign Ministers of the Nine note that the British Government has put forward proposals to this end. They hope that agreement will quickly be negotiated on the basis of these proposals so that the present destructive conflict will be brought to a speedy end. This would clear the way for elections and bring about the emergence of a free and independent Zimbabwe to take its rightful place as an accepted member of the world community."

ANNEX B

IRAN

OBJECTIVE

1. To maintain the Nine's solidarity with the United States.

POINTS TO MAKE

2. The Nine can make an important contribution in Iran by sticking together to add to the pressure on the Iranian authorities. As well as helping bring the occupation of the Embassy to an early end, the Nine's solidarity is important as it helps reassure the United States and makes it easier for them to maintain their current restraint towards Iran.

BACKGROUND

3. Representatives of the Nine in Tehran have made a number of démarches to the Iranian authorities calling on them to release American hostages and restore their Embassy to the United States Government. On 20 November the Foreign Ministers of the Nine made the following statement on Iran:

> "Ministers of the Nine meeting in Brussels on 20 November considered the latest developments in Iran. They expressed their deep concern at the fact that the Iranian authorities have not fulfilled their obligations under the Vienna Convention and have not given appropriate protection to both the staff and the premises of the American Embassy in Tehran. They have already made their concern known to the Iranian

/authorities

authorities on several occasions through diplomatic channels.

At their meeting today, the Ministers recalled that in 1976 the European Council expressly condemned any attempt to exert pressure on governments by the taking of hostages. They consider that whatever the nature of the dispute between Iran and the United States the continued holding of diplomatic personnel of the Embassy of a foreign State as hostages and the threat to put them on trial is a breach of international law and as such must be rejected by the Governments of the Nine and the international Community as a whole. The Ministers reject this violation of international law and call upon the Iranian Government to release all the hostages."

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EHG(D)(79)17 COPY NO 1

19 NOVEMBER 1979

EUROPEAN COUNCIL, DUBLIN

29-30 NOVEMBER 1979

DRUG TAKING BY US TROOPS IN GERMANY

Brief by Foreign and Commonwealth Office

OBJECTIVE

1. To demonstrate sympathy for the Germans' problem over drug trafficking into the FRG.

POINTS TO MAKE

2. Sympathise with German problem. How do they propose we should tackle it? One possibility would be for the Nine to concert informally in appropriate international fora. We would certainly co-operate.

BACKGROUND

3. The Germans have told us that they are concerned by the rise in drug abuse by US troops stationed in Germany and at the risk of its spreading to the Bundeswehr. They are considering measures to increase medical care and to improve policing of their borders, but consider that it is a problem which they cannot handle alone.

4. There is already considerable international co-operation on the containment of drug trafficking, for example in the European Drugs Co-operation Group ("Pompidou initiative"), Interpol and the Customs Co-operation Council. We should be glad to assist concertation among the Nine in these fora in order to reinforce the measures currently in

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operation and to help the Germans with their difficulties. But we do not think there exists Community machinery which could be of use in combatting the problem.

5. The Germans have not said they consider that drug abuse is a problem amongst British troops stationed in Germany. UK authorities agree that as far as BAOR is concerned we have no serious cause for concern.

6. The Americans tried to raise similar questions in NATO earlier this year, but have not convinced their Allies that NATO offers a suitable forum. The French have made it clear that they will not allow such questions to be discussed in NATO's political consultation machinery.

FOREIGN AND COMMONWEALTH OFFICE

19 NOVEMBER 1979

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EHG(D)(79)18 (REVISE) COPY NO 1

21 NOVEMBER 1979

EUROPEAN COUNCIL, DUBLIN
29/30 NOVEMBER 1979

SCIENTIFIC QUESTIONS

Brief by the Foreign and Commonwealth Office

OBJECTIVE

1. Defensive response to any Italian approaches in the margins on two subjects of concern to them; and to approaches from Mr Jenkins on one of these, the Community's research programme.

POINTS TO MAKE

DIRECTOR GENERAL OF CERN (EUROPEAN ORGANISATION FOR NUCLEAR RESEARCH

2. We are considering the report of the CERN Working Group and the discussions of the Committee of the CERN Council about the choice of the next Director General.

JOINT RESEARCH CENTRE : NUCLEAR SAFETY PROJECT "SUPER SARA"

3. We continue to have doubts about the financial and technical aspects of the project. But we realise its importance to Italy and as you know we are reconsidering our position. We have not yet taken a final view but want to be flexible. Cost-effectiveness is obviously important. It would help if Italy could make an additional host country financial contribution to the installation and operation of the project, as we do for JET. Assume the Research Council will want to come to a decision on 20 December.

(ADDITIONAL MATERIAL FOR USE PRIMARILY WITH MR JENKINS)

4. We value the work of the Joint Research Centre, and have

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no intention of seeking major cutbacks. But we want the programme to be cost-effective.

5. I recognise that Italy is already paying for the "loop" an experimental facility at Super Sara. But given that many EEC countries - not just the UK - have doubts about the project's value, would it not be appropriate for the Italians to make a further offer? We have of course made a sizeable national contribution to the JET fusion programme at Culham, Oxfordshire.

BACKGROUND

DIRECTOR GENERAL OF CERN

6. The Italians have lobbied the Prime Minister and the Foreign Secretary on behalf of Professor Zichichi, who is their candidate for Director Generalship of CERN. CERN is a nuclear research establishment on the Swiss/French border.

7. We have repeatedly told the Italians that we must first consider the report of the CERN Working Group, and the views of CERN's Committee. (Not for use) We shall almost certainly support a German candidate who is far better qualified. But we want to avoid telling the Italians this until after Dublin. They now seem to recognise that the German will prevail, and may in due course lobby for Zichichi to be appointed his no 2.

JOINT RESEARCH CENTRE : NUCLEAR SAFETY PROJECT "SUPER SARA"

8. The Joint Research Centre (JRC) is a Community institution set up under EURATOM to conduct nuclear research.

9. The JRC and Research Council have been considering proposals for a Pressurised Water Reactor nuclear safety project called "Super Sara". This would use the ESSOR reactor at Ispra (N Italy) which is owned by the Community.

There is no other use for the reactor, and if it is not used for Super Sara it will close down.

10. While nuclear safety is important, we doubt whether the project will justify its present cost; in any case we want to cut the JRC budget. At the last Research Council we and the French voiced our strong reservations about the need for the project. The Italians have pressed us to reconsider; in reply, and with the need for solidarity at Dublin in mind, we instructed our Embassy in Rome to hint without commitment at the prospect of a change in our position. The Embassy have put it to the Italians that our task of reconsideration would be eased if they were to make an additional host country contribution to Super Sara (as we do to the Joint European Torus (JET) fusion project at Culham). They have said they cannot; but we believe this is not their final word.

11. The Commission have briefed Mr Jenkins to raise Super Sara and the JRC programme as a whole in the margins of Dublin. On the programme as a whole, where we are isolated in pressing for staff cuts, we can probably accept a compromise package at the 20 December Research Council subject to what happens at Dublin. On Super Sara, Mr Jenkins may argue that Italy, in providing the "loop",is already bearing 12% of Super Sara's cost; and that we only pay 10% of JET's cost as our national contribution. We do in fact pay more if the site and buildings are included in the cost, but a detailed discussion of figures at Dublin seems inadvisable; the points to emphasis to Mr Jenkins are that it is not just the UK which has doubts about Super Sara but that we want to achieve a constructive outcome on 20

December.

FOREIGN AND COMMONWEALTH OFFICE

21 NOVEMBER 1979

END

Filmed at the National Archives (TNA) in London

February 2010