

Part 4

MT

Confidential File

Future Policy towards the EEC.  
The Community Budget

European Policy


Part 1 May 79

Part 4: December 1979

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
<del>12.12.79</del>							
<del>14.12.79</del>							
<del>27.12.79</del>							
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 PART \_\_\_\_\_ 4 \_\_\_\_\_ ends:-

OD(E)(80)3 \_\_\_\_\_ 21.1.80

PART \_\_\_\_\_ 5 \_\_\_\_\_ begins:-

OD(80) 15 \_\_\_\_\_ 22.1.80







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10 DOWNING STREET

From the Private Secretary

18 January 1980

File 8  
European  
Policy

COMMUNITY BUDGET

As you know, the Prime Minister and the Lord Privy Seal agreed on Wednesday that a paper should be prepared for use with Signor Cossiga at the end of the month giving a rather more precise indication of HMG's views on a possible solution to the problem of the British contribution to the Community Budget.

It was envisaged that the paper would set out what is meant by a genuine compromise on the sums involved and would formulate a firmer position on the means by which the present imbalance might be redressed. On the first point, the Prime Minister said that she would be prepared, in discussion with Signor Cossiga, to lower the figure whose recovery she was demanding from £1,000 million to £800 million. There are, of course, a number of different ways in which this concession could be formulated. In the light of a discussion he has had with the Lord Privy Seal during today's visit to Bonn, Mr. Franklin is giving thought to this and to the shape of the paper as a whole. He will of course be discussing his draft with Sir Kenneth Couzens and Lord Bridges.

Clearly, the paper should be considered by OD at its meeting on Friday 25 January. Since the paper flows from a discussion between the Prime Minister and the Lord Privy Seal, it would seem appropriate for the Lord Privy Seal to present it to OD.

I am sending copies of this letter to George Walden (Foreign and Commonwealth Office), John Wiggins (HM Treasury) and Martin Vile (Cabinet Office).

M. O'D. B. ALEXANDER

JR

Michael Richardson, Esq.,  
Lord Privy Seal's Office.

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Ref: A01183

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MR ALEXANDER

MONETARY COMPENSATORY AMOUNTS

You asked for a note on current MCAs. They are fixed weekly, in the United Kingdom's case on the basis of the difference between the market exchange rate for sterling and the representative or "green" rate fixed for CAP purposes. A list of those applying for the week beginning 21 January is attached.

Our MCAs dropped 2.3 percentage points this week because of the appreciation of sterling. If sterling were to stay at its present level until next Tuesday (the end of the reference period for calculating the MCA), the United Kingdom MCA would be abolished with effect from the week beginning 28 January, except for cereals, to which the recent green pound devaluation does not apply until 1 August 1980, and for eggs and poultry (which are linked to cereals).

M. J. VILE

M J VILE

18 January 1980



MCA PERCENTAGES

The MCA percentages for the period beginning 21 January 1980 are as follows:

GERMANY

(a) Milk	+10.8
(b) All other products	+ 9.8

BENELUX

(a) Milk	+ 2.4
(b) All other products	+ 1.9

DENMARK

NIL

IRELAND

NIL

FRANCE

(a) Pigeat, Wine	NIL
(b) All other products	- 3.7

ITALY

(a) Milk & Milk Products and Beef	- 2.3
(b) Wine	- 4.0
(c) All other products	- 7.8

UK

(a) Cereals, Eggs, Poultry, Ovalbumin and Lactalbumin	- 6.6
(b) All other products	- 1.2



18 JAN 1980

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Ref. A01156

PRIME MINISTER

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Cabinet: Community Affairs

The Lord Privy Seal might make a further report on his round of bilateral visits following up the Dublin European Council conclusions on our budget problem. Since last week he has held talks with the Belgians and the Commission. He will be visiting Bonn later in the day.

2. Unless the point is dealt with under the Foreign Affairs item, the Lord Privy Seal might also be invited to report on the decisions reached on Afghanistan in the 15th January Foreign Affairs Council and the associated Political Co-operation meeting. It was agreed that Community supplies should not fill the gap left by the ban on United States agricultural exports to the USSR, that the food aid programme for Afghanistan should be cancelled and that an early decision should be taken on the provision of Community aid for Afghan refugees. The French and Irish opposed any further action to limit subsidised agricultural exports from the Community. Agreement was also reached on a trade regime for Rhodesia.

RA

ROBERT ARMSTRONG

16th January, 1980



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TO IMMEDIATE F C O

TELEGRAM NUMBER 212 OF 15 JANUARY.

INFO IMMEDIATE BRUSSELS, COPENHAGEN, THE HAGUE, ROME, LUXEMBOURG,  
DUBLIN, PARIS AND BONN.



DUBLIN, PARIS AND BONN.

BUDGET/CONVERGENCE: LORD PRIVY SEAL'S DISCUSSIONS WITH THE COMMISSION.

1. THE LORD PRIVY SEAL VISITED BRUSSELS ON MONDAY 14 JANUARY TO DISCUSS THE UK BUDGET PROBLEM. HE PAID SEPARATE CALLS ON COMMISSIONERS TUGENDHAT, ORTOLI, DAVIGNON, HAFERKAMP, GUNDELACH AND JENKINS, EACH CALL LASTING HALF AN HOUR TO THREE QUARTERS OF AN HOUR. THE FOLLOWING PARAGRAPHS SUMMARISE THE DISCUSSIONS. FULLER RECORDS WILL FOLLOW BY BAG.

2. ON TIMETABLE THE MAIN POINT TO EMERGE WAS THAT THE COMMISSION'S PROPOSALS NOW SEEM UNLIKELY TO BE READY BEFORE COSSIGA'S VISIT TO LONDON.

3. THE LORD PRIVY SEAL EXPLAINED TO EACH OF THE COMMISSIONERS OUR PREFERENCE FOR A RECEIPTS MECHANISM AS THE BEST WAY OF INCREASING COMMUNITY EXPENDITURE IN THE UK. HE EMPHASISED THAT SUCH A MECHANISM WOULD :-

(A) BE MORE ECONOMICAL THAN EXPANDING EXISTING COMMUNITY FUNDS AND THUS MORE COMPATIBLE WITH MAINTAINING THE 1 PER CENT LIMIT;

(B) BE SELF-CORRECTING, AS THE STRUCTURE OF THE BUDGET IMPROVED;

(C) BE UNLIKELY TO HAVE REPERCUSSIONS IN THE CONTEXT OF ENLARGEMENT;

(D) WAS COMPATIBLE WITH EXPENDITURE ON COMMUNITY OBJECTIVES IN THE UK.

(E) PROVIDE A SOLUTION TO LAST AS LONG AS THE PROBLEM. THE LORD PRIVY SEAL EMPHASISED THAT THE ITALIAN, DUTCH AND LUXEMBOURG GOVERNMENTS ALL SHARED OUR VIEW ON THE NEED TO DEAL WITH THE UK PROBLEM IN A WAY WHICH WOULD NOT LEAD TO A FURTHER NEGOTIATION IN THREE OR FOUR YEARS' TIME.

3. IN THE DISCUSSION MOST OF THE COMMISSIONERS, WHILE ACKNOWLEDGING THE NEED TO AVOID CONTINUOUS RENEGOTIATION, POINTED TO THE DIFFICULTIES OF SOLUTIONS EXTENDING BEYOND THREE TO FOUR YEARS AND OF AN AUTOMATIC MECHANISM.

4. IN A SHORT DISCUSSION WITH MR TUGENDHAT, THE LATTER SAID THAT A NUMBER OF COMMISSIONERS WOULD ARGUE THAT THE DUBLIN MANDATE DID NOT EXTEND TO A RECEIPTS MECHANISM WHICH THE COMMISSION WERE THEREFORE UNLIKELY TO PUT



THE DUBLIN MANDATE DID NOT EXTEND TO A RECEIPTS MECHANISM WHICH THE COMMISSION WERE THEREFORE UNLIKELY TO PUT FORWARD. HE URGED THE NEED FOR PRECISION FROM THE UK ON THE TYPES OF EXPENDITURE TO BE FINANCED, WHICH SHOULD BE LINKED WITH COMMUNITY OBJECTIVES. HE CONFIRMED THAT THE COMMISSION WERE UNLIKELY TO MAKE AN ISSUE OF ADDITIONALITY IF THE UK DID NOT DO SO.

5. ORTOLI LIKEWISE SAID THAT A SELF-CORRECTING MECHANISM WOULD NOT BE POPULAR; IT WAS TOO LIKE THE "JUSTE" RETOUR. (THE LORD PRIVY SEAL EXPLAINED THAT A MECHANISM COULD BE CALIBRATED TO PRODUCE ANY DESIRED TARGET.) ORTOLI SAID THE COMMISSION HAD NOT DISCUSSED THE QUESTION OF DURATION. IN NOVEMBER THERE HAD BEEN A STRONG FEELING THAT THE SOLUTION SHOULD HAVE A FIXED AND SHORT LIFE-SPAN. IN FURTHER DISCUSSION HE URGED THE NEED FOR THE UK TO SHOW ITS COMMITMENT TO THE COMMUNITY IN THE FUTURE DISCUSSIONS ON FISH, THE CAP, ENERGY, AND BY PARTICIPATION AS EARLY AS POSSIBLE IN THE EMS, THOUGH HE RECOGNISED THAT LAST AUTUMN HAD BEEN TOO EARLY FOR THE LATTER. ALTHOUGH THESE SUBJECTS WERE NOT DIRECTLY LINKED WITH THE BUDGET, THERE WAS A NEED FOR A SENSE THAT PROGRESS WAS BEING MADE ON THEM. ON THE EMS THE LORD PRIVY SEAL SAID THAT WE WERE ANXIOUS TO JOIN AS SOON AS POSSIBLE, BUT THE POSITION WAS COMPLICATED BY THE MAJOR CHANGE OF DIRECTION IN UK ECONOMIC POLICY AND BY THE STATUS OF STERLING AS A PETRO-CURRENCY. ON FISH WE WERE URGING THE ITALIAN PRESIDENCY TO INCREASE THE PACE. BUT A SOLUTION MIGHT TAKE ANOTHER SIX MONTHS AND IT WOULD NOT BE HELPFUL TO LINK IT WITH THE BUDGET AT THE NEXT EUROPEAN COUNCIL.

6. DAVIGNON SAID IT WAS UNLIKELY THAT THE COMMISSION WOULD BE ABLE TO FORM A FINAL VIEW BEFORE COSSIGA'S VISIT TO LONDON. HE WAS DOUBTFUL ABOUT THE PRACTICABILITY OF AN EARLY EUROPEAN COUNCIL. THE NEXT DISCUSSION AT THE EUROPEAN COUNCIL SHOULD BE WELL PREPARED. ALTHOUGH THE FRENCH AND OTHER COUNTRIES, EG BELGIUM, WOULD NOT BE READY TO AGREE ON THE FINAL FIGURE UNTIL THE EUROPEAN COUNCIL ITSELF, THE AIM SHOULD BE TO REACH A CLEAR AGREEMENT ON THE METHOD TO BE APPLIED AND THE AIMS OF IMPLEMENTATION. IT WOULD BE DANGEROUS TO GO TO THE EUROPEAN COUNCIL WITH A VERY LARGE GAP TO BE BRIDGED. HE PROFESSED NOT TO HAVE MADE UP HIS MIND ABOUT A RECEIPTS MECHANISM. HE RECOGNISED THE ADVANTAGES OF A SELF-CORRECTING SOLUTION IN RELATION TO THE DURATION PROBLEM. BUT THERE WAS A FUNDAMENTAL DIVISION OF VIEW WITHIN THE COMMUNITY AS TO WHAT A "TEMPORARY" SOLUTION MEANT. FOR MANY MEMBER STATES THE PROBLEM WAS ONE OF ADAPTATION BY THE UK TO THE COMMUNITY'S



THE PROBLEM WAS ONE OF ADAPTATION BY THE UK TO THE COMMUNITY'S RULES AND THE PERIOD OF ADAPTATION COULD NOT BE EXTENDED INDEFINITELY. HIS CONTACTS IN OTHER CAPITALS MADE HIM CONCERNED THAT THE MECHANISM CONCEPT COULD REOPEN QUESTIONS OF PRINCIPLE WHICH HAD BEEN DORMANT SINCE DUBLIN. THE LORD PRIVY SEAL RESPONDED THAT THE UK HAD ALREADY ADAPTED ITS PATTERNS OF TRADE CONSIDERABLY. ON THE EXPENDITURE SIDE OF THE BUDGET, IT WAS RATHER FOR THE COMMUNITY TO ADAPT TO US.

7. DAVIGNON FURTHER NOTED THAT THE QUESTION OF DURATION WAS LINKED WITH THE PROBLEM OF THE ONE PER CENT VAT LIMIT. WHAT WAS THE UK'S ATTITUDE? WAS THE ONE PER CENT LIMIT TO BE USED SIMPLY AS A LEVER FOR THE ESSENTIAL REFORM OF THE CAP OR AS AN ABSOLUTE LIMIT ON ALL COMMUNITY SPENDING? HE FURTHER ARGUED THAT A MECHANISM MIGHT PUT THE UK IN A POSITION WHERE IT EXAMINED ALL COMMUNITY POLICIES SOLELY FROM THE VIEW OF THEIR NET BUDGETARY BENEFITS. FRANKLIN REPLIED THAT, ON THE CONTRARY, IT WAS THE EXISTENCE OF THE PRESENT BUDGET PROBLEM WHICH PRODUCED THIS ATTITUDE: ONCE IT WAS RESOLVED OUR APPROACH TO OTHER POLICIES MIGHT BE MADE EASIER. DAVIGNON CONCLUDED THAT A MECHANISM WOULD BE DIFFICULT TO NEGOTIATE WITHOUT A WIDER FRAMEWORK COVERING SUCH ISSUES IN OTHER AREAS AS ENERGY, CAP REFORM, AND THE ONE PER CENT LIMIT.

8. HAFERKAMP APPEARED SYMPATHETIC TO THE IDEA OF A DEFINITIVE SOLUTION. HE FAVOURED A SPECIAL ACTION FOR THE UK ON THE EXPENDITURE SIDE OF THE BUDGET: IT WOULD BE DANGEROUS TO TAMPER WITH EXISTING COMMUNITY INSTRUMENTS SUCH AS THE RDF. AT THE SAME TIME THE SOLUTION FOR THE UK SHOULD NOT IMPLY 'JUSTE RETOUR': (THE LORD PRIVY SEAL SAID A RECEIPTS MECHANISM NEED NOT DO SO). THE SOLUTION SHOULD BE SUCH THAT OTHER MEMBER STATES COULD, IN PRINCIPLE, QUALIFY IF THEY WERE IN THE SAME POSITION AS THE UK. FINALLY, HAFERKAMP URGED SEVERAL TIMES THAT PROGRESS ON COMMISSION POLICY PROPOSALS ALREADY ON THE TABLE (EG ON TRANSPORT AND ENVIRONMENT) WAS DESIRABLE, BOTH AS PART OF THE SOLUTION TO THE UK PROBLEM AND TO MEET OTHER MEMBER STATES' INTERESTS.

9. THE LORD PRIVY SEAL'S MEETING WITH GUNDELACH WAS CURTAILED BY HIS APPOINTMENT WITH ROY JENKINS. IN ANSWER TO LORD PRIVY SEAL'S QUERY ABOUT CAP PRICES, GUNDELACH SAID THERE WOULD BE NO ACROSS THE BOARD PRICE INCREASE. IN SOME AREAS INCREASES WERE NECESSARY AND POSSIBLE. THE SURPLUS PRODUCTS (MILK, SUGAR, CEREALS AND BEEF) WERE MORE DIFFICULT. THERE SHOULD BE NO INCREASE FOR SUGAR. HE WAS EXAMINING THE POSSIBILITY OF MAKING AN INCREASE IN THE PRICE OF MILK, BUT NOT FOR BUTTER. THERE SHOULD BE A TOUGH POLICY FOR BEEF AND CEREALS. WE RE-AFFIRMED OUR SUPPORT FOR A PRICE FREEZE FOR SURPLUS PRODUCTS.



FOR BEEF AND CEREALS. WE RE-AFFIRMED OUR SUPPORT FOR A PRICE FREEZE FOR SURPLUS PRODUCTS.

10. IN SUBSEQUENT DISCUSSION WITH FRANKLIN AND BUTLER ON THE BUDGET, GUNDELACH URGED THAT HE ORTOLI AND DAVIGNON SHOULD BE KEPT CLOSELY IN TOUCH WITH BRITISH THINKING. IT WAS RISKY FOR THE PRESIDENT OF THE COMMISSION TO TAKE TOO LARGE A ROLE. HE ACKNOWLEDGED THE CASE FOR A SOLUTION WHICH WOULD BE REASONABLY DURABLE: BUT OTHERS WOULD WANT SOMETHING SHORTER. HE DID NOT FAVOUR AN AUTOMATIC MECHANISM WHICH COULD REOPEN QUESTIONS OF PRINCIPLE AND INCREASE THE RISK THAT OTHERS, NOTABLY ITALY, WOULD PRESS FOR SIMILAR TREATMENT. MOREOVER A MECHANISM WAS UNNECESSARY SINCE THE SIZE OF THE PROBLEM WAS UNLIKELY TO CHANGE MUCH OVER THE NEXT FEW YEARS. BUTLER AND FRANKLIN ARGUED THAT ON THE CONTRARY THE SIZE OF THE PROBLEM WAS UNPREDICTABLE AND COULD BE GREATER OR LESSER THAN PRESENT FORECAST. THEY STRESSED THE NEED FOR A SOLUTION TO LAST AS LONG AS THE PROBLEM, SUBJECT ONLY TO A FURTHER REVIEW OF THE FINANCIAL MECHANISM IN, SAY, 1986.

11. ON FISH GUNDELACH SAID THAT HE ENVISAGED ONE MORE ''WARMING-UP'' COUNCIL. AFTER THAT THERE SHOULD BE SERIOUS NEGOTIATION FIRST ON TOTAL CATCH THEN ON QUOTAS.

12. ROY JENKINS DESCRIBED THE OUTCOME OF THE COMMISSION DISCUSSION ON 9 JANUARY ALONG THE LINES OF OUR TELNO 91 OF THAT DATE. THERE HAD BEEN AN ORIENTATION IN FAVOUR OF AN ARTICLE 235 UMBRELLA SOLUTION TO PROVIDE EXPENDITURE FOR THE UK'S DISADVANTAGED REGIONS. HE HIMSELF PARTICULARLY FAVOURED A NORTHERN IRELAND PACKAGE. EXPENDITURE ON URBAN DECAY WAS ATTRACTIVE IN PRINCIPLE, BUT MIGHT PROVOKE CLAIMS FROM OTHER MEMBER STATES (EG ITALY FOR NAPLES). HE CONFIRMED THAT THE COMMISSION WOULD NOT MAKE HEAVY WEATHER OF ADDITIONALITY. SPECIA 1 MEASURES FOR THE UK SHOULD BE COMBINED WITH OVERALL RESTRUCTURING OF THE BUDGET IN WHICH ITALY WAS ALSO INTERESTED.

13. THE LORD PRIVY SEAL PRESSED THE CASE FOR A RECEIPTS MECHANISM TO LAST AS LONG AS THE PROBLEM. ROY JENKINS SAID THE COMMISSION WOULD NOT PUT FORWARD A RECEIPTS MECHANISM BUT WOULD TRY TO AVOID SAYING ANYTHING WHICH WOULD PREVENT THE UK DOING SO. ON DURATION THERE WAS NO PRACTICAL CHANCE OF AGREEMENT IN THE COMMISSION OR WITH MEMBER STATES TO MORE THAN FOUR YEARS. HE FAVOURED A FOUR YEAR PERIOD WITH AN INTERIM REVIEW AFTER TWO YEARS LINKED WITH PROGRESS ON BUDGET RESTRUCTURING. THIS MIGHT MAKE IT EASIER TO GET A



PERIOD WITH AN INTERIM REVIEW AFTER TWO YEARS LINKED WITH PROGRESS ON BUDGET RESTRUCTURING. THIS MIGHT MAKE IT EASIER TO GET A FURTHER EXTENSION AFTER FOUR YEARS. THE LORD PRIVY SEAL SPOKE STRONGLY AGAINST A TWO OR FOUR YEAR PERIOD. FRANKLIN URGED THAT THE COMMISSION SHOULD NOT CREATE THE IMPRESSION THAT THE PROBLEM WOULD BE SOLVED IN FOUR YEARS. JENKINS REFERRED TO THE NEED TO DEVELOP NEW COMMUNITY POLICIES NOTABLY ON ENERGY AND CONFIRMED THAT THE COMMISSION WERE THINKING ABOUT AN OIL TAX.

FCO ADVANCE TO (ADVANCE COPY RECIPIENTS ONLY) :-

FCO - PS/S OF S PS/LPS PS/PUS LORD BRIDGES HANNAY

CAB - FRANKLIN ELLIOTT WALSH

MAFF- ANDREWS HADLEY

TSY - SIR K COUZENS JORDAN-MOSS MRS HEDLEY-MILLER ASHFORD  
THOMSON

NO 10- ALEXANDER

[ADVANCED AS REQUESTED]

BUTLER

IMMEDIATE

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European  
PolicyMR FRANKLINCABINET OFFICECOMMUNITY BUDGET: LINE FOR BRIEFING ON "ADDITIONALITY"

The Prime Minister has now approved the following text on  
Additionality:-

We are looking for additional Community expenditure in the United Kingdom to reduce our net contribution and thereby to reduce Government expenditure here. There are several areas (transport, infrastructure, energy, regional policy in Northern Ireland and elsewhere) currently involving heavy public expenditure in the United Kingdom where we believe there could be a new or greater role for the use of Community funds.

If pressed: We do not expect any of these ideas, which are currently being explored, to leave to increases in public expenditure in the United Kingdom.

M. O'D. B. ALEXANDER

15 January 1980

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Treasury Chambers, Parliament Street, SW1P 3AG

*Handwritten note:* Kn. Vant 28/1

Rt Hon Peter Walker MBE MP  
 Minister of State  
 Ministry of Agriculture  
 Fisheries & Food  
 Whitehall Place  
 LONDON SW1A 2HH

14 January 1980

*Dear Peter,*

NET UK CONTRIBUTION TO THE EEC BUDGET

In your letter of 5 November you reiterated your doubt whether the net UK contribution to the EEC Budget, together with expenditure under the CAP by the Intervention Board, could together reach as much as £2 billion in 1983/84 if the 1% VAT limit were to be held. I have delayed replying in case developments should occur in the Community on our contribution, on the 1% or on the evolution of expenditure which would make our forecast easier; but that has not yet happened.

You asked whether there was a realistic set of assumptions which could produce a UK contribution to the EEC of £2 billion in 1983/84 with no increase in the 1% VAT ceiling. I think the figures later in this ... letter, and in the Annex, show that there are indeed such assumptions. It follows that publication of the £2 billion figure would not demonstrate that we were assuming that the 1% limit would be raised.

I entirely accept that it is desirable for the Community to keep within its 1% VAT limit and for us to use that limit as a lever to limit agriculture prices and the share of Guarantee Section agricultural expenditure in the budget. If holding the 1% VAT limit did indeed reduce the share of this expenditure in the budget it would reduce both the UK net contribution and the cost of IBAP. But the limit will not begin to bite before our financial year 1981/82. It is difficult to be sure what will be the position on the 1% by 1983/4. However in any event the reduction in the proportion of CAP expenditure in the budget is likely to be slow and would therefore give us only limited relief by 1983/4.

I turn to more detailed calculations.

If the 1% VAT limit were to be sustained, I understand that, compared with the projection of past trends, this is estimated to produce a saving of about £490 million (1979 prices) in the UK's gross contribution to the Community Budget for 1983/4. On the other side, there would be a cut in our receipts from the Community. The extent of this cut would depend on how Community expenditure was reshaped. There are many possible



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ways. For example, expenditure on the non-obligatory structural funds could be reduced in real terms (much of which might simply mean failing to increase them in line with inflation) so as to protect the CAP guarantee and Community administrative and other expenses. In this event, UK receipts in 1983/4 would be reduced by about £735 million, leading to an increase of £245 million in our net contributions. The figures would be:

	<u>Net contribution</u>	(£m, 1979 prices) <u>Net contribution plus IBAP</u>
1980/81	1180	1595
1981/82	1380	1775
1982/83	1690	2085
1983/84	1865	2260

You may say that this is rather extreme. An alternative in which each heading of the budget was reduced in real terms by the percentage necessary to keep expenditure within the 1% limit would reduce our receipts by £220 million in 1983/84, leaving our net contribution at £1350 million. The total, including IBAP at present levels, would be about £1750 million. The figures would be:

	<u>Net contribution</u>	(£m, 1979 prices) <u>Net contribution plus IBAP</u>
1980/81	1065	1485
1981/82	1140	1535
1982/83	1255	1650
1983/84	1350	1745

But such cuts in CAP expenditure could entail further public expenditure on domestic support for agriculture, which could well amount to more than £250 million.

On the other hand, we would clearly prefer the Community to restructure its budget within the 1% limit by curbing expenditure on CAP guarantees and on other items, leaving present forecasts of expenditure on the structural funds intact. On extreme assumptions this could reduce our net contribution in 1983/84 to £1170 million (1979 prices), or £1565 with IBAP expenditure.

If the CAP savings were achieved by cutting CAP prices there could be additional savings on intervention expenditure borne on Programme 3. However, in practice it is even more likely in this case that the CAP savings would entail additional domestic expenditure.

The table in the Annex to this letter summarises these possibilities, which show, as I have said, what could happen within the 1%. However I think our guiding principle has to be this. At this stage we ought not to take credit in these PESC figures either for success in our present negotiation on our net budget contribution; or for success in achieving a restructuring of the budget away from obligatory CAP expenditure and in favour of expenditures which help us. Both are aspects of the same effort. We shall strive for success in both. But until we do succeed,

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we ought to adhere to the figures based on trends of expenditure which have been derived from the Commission's published Triennial estimates and worked out in collaboration with your officials and those of the Intervention Board.

There may be some change in the PESC figures arising out of changes in the exchange rate, but they in no way affect the point at issue.

I am copying this letter to the Prime Minister and other Cabinet colleagues and to Sir Robert Armstrong.

*Yours*

*John Biffen*

JOHN BIFFEN

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UK NET CONTRIBUTION TO COMMUNITY BUDGET ON VARIOUS ASSUMPTIONS

	(£ million, 1979 prices)			
	<u>1980/81</u>	<u>1981/82</u>	<u>1982/83</u>	<u>1983/84</u>
Existing PESC estimates (Including IBAP)	1070 1485	1180 1575	1405 1800	1620 2015
<u>Expenditure constrained to 1 per cent VAT ceiling</u>				
a. Structural Funds cut, CAP and Admin. protected	1180	1380	1690	1865
(Including IBAP)	(1595)	(1775)	(2085)	(2260)
b. Pro rata reduction	1065	1140	1255	1350
(Including IBAP)	(1485)	(1535)	(1650)	(1745)
c. Structural Funds protected, CAP and Admin. cut	1060	1100	1130	1170
(Including IBAP)	(1480)	(1495)	(1525)	(1565)



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cc: Press Office

14 January 1980

Thank you for your letter of 11 January about your proposals to publish a White Paper on developments in the European Communities. We have no objection to the timetable you now propose.

I am copying this letter to John Stevens (Office of the Chancellor of the Duchy of Lancaster) and Peter Moore (Chief Whip's Office).

N. J. SANDERS

E.R. Worsnop, Esq.,  
Foreign and Commonwealth Office.

EB





*fs*  
*Am*

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

14th January, 1980

*Dear Alexander,*

THE EEC BUDGET UK NET CONTRIBUTION

At the Prime Minister's discussion on Tuesday, 8th January with members of the European Parliament she mentioned a receipts mechanism as one of the elements relevant to a solution to the UK's budgetary difficulty.

In the briefing for Dublin one approach to the receipts problem was identified as closing the gap between the UK's receipts and Community average receipts.

The figures derived from this approach would be as follows in respect of 1980 (using Commission figures as the basis):

	<u>Gross</u>	<u>Net</u>
75%	1283 MEUA (£866m)	1058 MEUA (£714m)
80%	1368 MEUA (£924m)	1128 MEUA (£762m)

An alternative approach, which would produce lower figures, would be to bring UK receipts to 75 per cent or 80 per cent of average receipts. The correct calculation for this would, by iteration, take into account the effect on the level of Community average receipts of the payment which increased the UK's receipts, and would be:

	<u>Gross</u>	<u>Net</u>
75%	1065 MEUA (£720m)	880 MEUA (£595m)
80%	1275 MEUA (£860m)	1050 MEUA (£710m)

M. O'D. B. Alexander, Esq.,  
10, Downing Street

/If this





If this effect were not taken into account the figures would be:

	<u>Gross</u>	<u>Net</u>
75%	890 MEUA (£600m)	735 MEUA (£495m)
80%	1055 MEUA (£710m)	870 MEUA (£590m)

I should add that we cannot necessarily assume that receipts enhanced in any of these ways could simply be added to the benefits from the modified Financial Mechanism discussed in Dublin (which in respect of 1980 would have produced 630 MEUA (£425 million) gross, 520 MUEA (£350 million) net. The Financial Mechanism at present contains another restriction, which puts a maximum on refunds under it (Article 3(b)). Broadly speaking, the gross refund is not intended to be used so as to make the member state a net recipient, and specifies this on an "importer benefits" basis. (This provision is in general likely to be helpful to us by disqualifying countries like Italy and Ireland who are usually net beneficiaries from the Budget.) Certainly in respect of 1980 some of the receipts figures rehearsed above would, if added to benefits under a "stripped down" Financial Mechanism, produce a net benefit for us and this might have to be trimmed, unless the provisions in the Mechanism were further modified.

In any case, in offering these calculations the Treasury is not recommending that they should be used publicly: on the contrary it seems best to continue to avoid giving any precise interpretation of the broad order of magnitude which the Prime Minister was, at a private meeting, attaching to one possible element in an acceptable settlement.

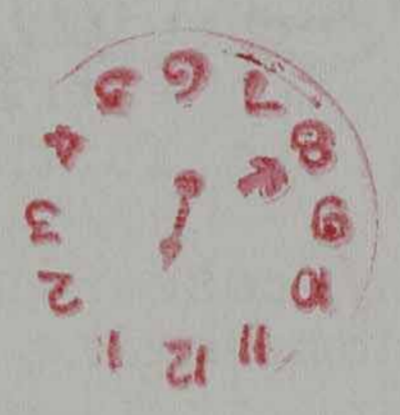
I am sending copies of this letter to Michael Richardson (FCO) and to Michael Franklin (Cabinet Office).

*yours sincerely*

*John Wiggins*

(A.J. WIGGINS)





11 5 JAN 1960





10 DOWNING STREET

Prime Minister -

(1)

You agreed with the Lord Privy Seal yesterday that thought should be given to the language we use on the 'no-additionality' point ~~about~~ in relation to measures taken to reduce our net contribution. Would you be content with something on the lines of the attached?

As amended  
mi.  
Paul - 1/1





COMMUNITY BUDGET: LINE FOR BRIEFING ON "ADDITIONALITY"

We are looking for ~~additional~~ <sup>more</sup> Community expenditure in the United Kingdom to reduce our net contribution and ~~to help with the Government's~~ <sup>need to reduce</sup> objective of ~~reducing public~~ <sup>level</sup> expenditure. There are several areas (transport infrastructure, energy, regional policy in Northern Ireland and elsewhere) currently involving heavy public expenditure in the United Kingdom where we believe ~~there could be a new or greater role~~ <sup>UK</sup> ~~for the use of Community funds.~~ <sup>could be justified.</sup> When we know what the Commission ~~propose we will be able to consider the implications for UK public expenditure.~~

If pressed: We do not expect any of these ideas, which are currently being explored, to lead to increases in public expenditure in the UK.



cc: Press Office



Foreign and Commonwealth Office

London S.W.1

11 January 1980

N Sanders Esq  
10 Downing Street  
London  
SW1

Dear Nick,

Developments in the European Communities 1979

With reference to my letter of 20 November last, you know that we decided not to go ahead with our previous plan to publish a White Paper on the above on 10 December but to wait until we were able to incorporate developments for the period October-December 1979. We now aim to publish the updated version of the White Paper, covering the whole of last year, on Wednesday 30 January. *at Nap*

I should be grateful if you, and those to whom I am copying this letter, would kindly reconfirm that there is no objection to publication.

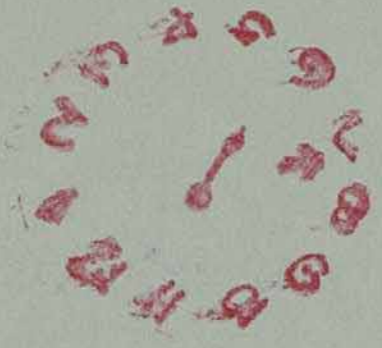
Yours sincerely  
Edwnc

E R Worsnop  
Parliamentary Clerk

J Stevens Esq  
Office of the Chancellor of the Duchy of Lancaster  
68 Whitehall  
London  
SW1

P Moore Esq  
Chief Whip's Office  
12 Downing Street  
London  
SW1





Red ink markings, possibly a signature or a stamp, located to the left of the circular postmarks.

11 JAN 1980



CONFIDENTIAL

Buro RM

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cc: CO

Michael Alexander

Original on

10 DOWNING STREET

Social Services: May 79

Uprating of Benefits.  
10 January 1980

From the Private Secretary

Dear Tony.

As you know, the Chancellor called on the Prime Minister this morning. The following points are worth recording:

(i) The Chancellor commented that the Prime Minister had effectively ruled out the de-indexation of retirement pensions in her weekend interview on television. He intended, nonetheless, to base the next pensions uprating on a relatively optimistic RPI forecast - just as the RSG settlement had been based on a low forecast of pay and prices. The Prime Minister agreed that there was scope for some savings from this approach, though the principle of indexation would have to be adhered to. The Prime Minister also suggested that it would be worth considering postponing the announcement of the new pension rates until June - rather than announcing them in the budget. With the inflation rate hopefully turning down by then, this would reduce the pressure for a larger uprating.

(ii) The Chancellor went on to say that if retirement pensions were not to be de-indexed, it would be necessary to look for major savings by not uprating other social security benefits in line with inflation. He mentioned in particular child benefit, where it would be possible to save £300m if the child benefit rate were increased by only half the inflation rate. There would be powerful opposition to this, both from the poverty lobby and from those who were concerned about the "income in and out of work" problem. But he felt that savings had to be secured from this source. The Prime Minister said that she agreed in principle; she also commented that, in order to prevent the "income in and out of work" problem from getting worse, it would be necessary to reduce the uprating of the child supplement on supplementary benefit.

(iii) The Chancellor reported briefly on his discussions in The Hague with Sir Ian Gilmour on the EEC budget. The Dutch Prime Minister had told them that the Dutch Government could perhaps support the UK in obtaining a reduction in our net contribution up to 900 m.u.a. But he had also said that it would be necessary for Britain to provide some concession to the Germans and others in return, even though this could be of a symbolic or cosmetic nature. They appeared to have in mind something in the energy field. He (the Chancellor) did not suggest that we should give

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H.R.

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- 2 -

away anything substantive, but we ought to be in a position to offer something which our partners believed was a concession. Accordingly, he was asking Treasury officials to consider possible options. The Prime Minister agreed that this work should proceed, though she emphasised that we should not concede anything in the energy field of substance.

I am sending a copy of this letter to Martin Vile (Cabinet Office).

*Wm ew.*

*Tim Latham*

Tony Battishill, Esq.;  
H.M. Treasury.

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Copy "Personal" in Alexander

for [unclear]

Cc Sir R Armstrong  
Mr Elliot

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QZ 01369

MR RICHARDSON

Community Budget: Danish Attitudes

1. Mr Spreckley and I had three hours of talks with a team of Danish officials led by Mr Niels Ersbøll, who in Danish terms roughly combines Lord Bridges' job with mine. You will be getting a full record from the Embassy before the weekend, but the Lord Privy Seal may wish to have these immediate impressions.
2. The Danes were very conscious of the clash between the Prime Minister and Mr Jørgensen at Dublin. Ersbøll described it as an "accident" due mainly to the previous discussion on TNF. We made no attempt to deny that a crisis had been only narrowly averted in Dublin and that we were looking for a more helpful attitude next time. The Danes will expect the Lord Privy Seal to follow this up when he sees Danish Ministers and from this point of view it is no bad thing that they should have something of a conscience. I said that, given Denmark's favourable position within the Community and her basic political interest in a stable Community with the UK as a constructive member, we would expect them not merely to refrain from making the running against us but to be more active in seeking a solution.
3. The Danes laid stress on the need for adequate preparation before the next European Council and welcomed the Lord Privy Seal's tour and the preliminary indications we were able to give them of our post-Dublin thinking (along the lines of the Lord Privy Seal's brief for Rome, The Hague and Luxembourg).
4. Apart from a remark by the representative of the Prime Minister's Office that the 520 m.u.a. did not remain "on the table" after Dublin, there was no real disposition to question that that part of the problem had been effectively resolved and that "something more" would have to be done on the receipts side. Here they expressed a strong preference for the expansion of existing policies without ruling out the possibility of special funds for the UK or even further adaptations to the Financial Mechanism.



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Their preference for using existing instruments arose in part from their wish to secure something for Denmark (e.g. in transport infrastructure) but much more from a general desire to inculcate a new dynamism into the Community. The fact that this would be the most expensive way to recompense the UK did not deter them, although they did not contest my assertion that there was no immediate prospect of the Community agreeing to lift the 1 per cent VAT ceiling. They are worried that our pressure for more receipts will use up Community funds which they feel should be available for financing their agricultural exports (restitutions). They appear to have sought and obtained some assurances from Gundelach on this point.

5. The general theme was that the UK's budget problem could only be solved if there was a new mood in the Community and a real confidence that the UK would be ready to play a constructive part. The ensuing discussions, not unexpectedly, brought up:-

(a) energy: this was the most interesting development. Ersbøll made no attempt to argue about North Sea oil prices nor our depletion policies. What he was looking for was effective Community action to curtail dependence on OPEC oil and to put pressure on the US and Japan. His idea seemed to be that the EEC should formulate new commitments designed to reduce its dependence on imported oil and then to make them condition<sup>a</sup>l on equivalent US action e.g. to raise internal prices. He also felt that the Community should consider the best way to utilise the OPEC surpluses which would arise from the latest price increases. We should follow up these ideas before the Lord Privy Seal's visit to Copenhagen.

(b) Fisheries: there was some complaint that we failed to recognise the importance of fisheries to the Danish economy and less confidence than I expressed about the prospect for a settlement on the CFP during 1980. I stressed the need to

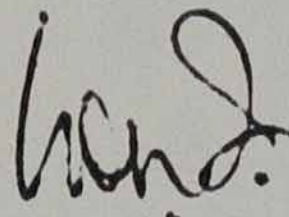


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avoid any link with the budget issue and suggested that we should both urge the Italian Presidency to be more active.

(c) CAP: the main complaint here was the familiar one that we did not lean as heavily as the Danes would like on the Germans. The Danes fear that there will be a further revaluation of the DM during 1980 and a further increase in German mcas. They therefore attach more importance to getting a reduction in mcas at the next price fixing and for that purpose are willing to see a modest increase in common prices (offset in the case of milk by an increase in the co-responsibility levy). Like everyone else the Danes want it both ways - a squeeze on German agriculture but not on Danish exports. I hope we convinced them that if the prospects for reducing CAP expenditure were as dubious as they suggested, this only reinforced the need to find other more immediate ways of relieving us of our budget contribution.

6. On the basis of this visit I would judge that there is some chance of securing a less unhelpful attitude from the Danes. This was certainly the message we got from the Permanent Secretary of the Danish Foreign Ministry. But they will continue to count on the French and others to restrict what is offered to us and hence the amount the Danes will be asked to contribute.



M D M FRANKLIN

9 January 1980

cc Sir K Couzens Treasury  
Lord Bridges FCO  
Mr Hannay FCO  
Mr Spreckley FCO  
HM Ambassador, Copenhagen



PM 8/20/80

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Emo 10/1

Ref. A01101

PRIME MINISTER

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Cabinet: Community Affairs

The Cabinet will be aware that, at your request, the Lord Privy Seal is currently undertaking a series of bilateral visits as a follow-up to the Dublin European Council on our budget problem. These exchanges in Community capitals and with the Commission are timed to be completed before the end of the month when you are due to receive Signor Cossiga whose task it is to decide when to reconvene the European Council. The Lord Privy Seal will be reporting to you at the end of the series, and it would probably be best to defer his report to the Cabinet on his visits until he has completed the series. So far he has been to Rome, The Hague and Luxembourg.

2. You might like to tell the Cabinet of your meeting with Members of the European Parliament (MEPs) from the European Democratic Group on 8th January. The Chancellor of the Exchequer and the Lord Privy Seal met the same Group on 9th January.

3. At the Foreign Affairs Council on 15th January we are hoping to get agreement on a preferential trade regime for Rhodesia.

4. The Minister of Agriculture may wish to report further on the continuing French defiance of the European Court ruling on sheepmeat, also mentioned on 20th December. He is due to discuss this again with Commissioner Gundelach on 10th January.

j

Stephen Walsh

for. ROBERT ARMSTRONG

9th January, 1980



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HD/.....

SIR D MAIRAND  
M FERGUSON

IMMEDIATE

CABINET OFFICE

D.O.T.

PLUS OGDS

MR M D M FRANKLIN  
MR D M ELLIOTT  
MR J THOMAS  
MR HORNE

NO. 10. ~~M. ALEXANDER~~  
(2)

H.M. TREASURY

M.A.F.F.

SIR K COUZENS  
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M DEVAIS

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M HOLLEY-MINER

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FM THE HAGUE 091750Z JAN 80  
TO IMMEDIATE FCO  
TELEGRAM NUMBER 26 OF 09 JANUARY  
INFO PRIORITY EEC POSTS

VISITS OF THE LORD PRIVY SEAL AND CHANCELLOR OF THE EXCHEQUER : 8 JANUARY

1. IN THE TALKS ABOUT THE COMMUNITY BUDGET ISSUE WHICH THE LORD PRIVY SEAL AND THE CHANCELLOR OF THE EXCHEQUER HAD HERE ON 8 JANUARY WITH THE NETHERLANDS PRIME MINISTER, FINANCE MINISTER AND STATE SECRETARY FOR FOREIGN AFFAIRS, THE DUTCH ACKNOWLEDGED THAT THE UK HAD A SERIOUS PROBLEM AND DECLARED READINESS TO HELP FIND A SOLUTION. THEY DID NOT DISMISS OUT OF HAND TALK OF A RECEIPTS MECHANISM OR REGIME BUT ASKED INTELLIGENT IF POINTED QUESTIONS WHEN MAKING CLEAR THEIR RESERVATIONS. THEY WERE OBVIOUSLY RELIEVED BY SUGGESTIONS THAT ANY ADDITIONAL RECEIPTS COULD BE USED IN LINE WITH COMMUNITY OBJECTIVES AND WOULD NOT MERELY GO INTO SOME GENERAL FUND.



2. FULL RECORDS OF THE MINISTERIAL TALKS ARE BEING PREPARED SEPARATELY. THE FOLLOWING PARAGRAPHS CONTAIN WHAT SEEM TO US TO BE THE MAIN POINTS WHICH EMERGED FROM DUTCH STATEMENTS AND QUESTIONS.

3. THE MEETING WITH MR VAN AGT (ATTENDED ONLY BY MR VAN DER MEI ON THE DUTCH SIDE) WAS GENUINELY FRIENDLY AND FRANK. MR VAN AGT EMPHASISED THAT HE REGARDED THE UK AND NETHERLANDS AS QUOTE SPECIAL FRIENDS UNQUOTE AND THAT HE HAD GREAT UNDERSTANDING FOR MRS THATCHER'S OBJECTIVES AND POLITICAL DIFFICULTIES OVER THIS ISSUE. THE NETHERLANDS WANTED TO HELP, BUT THE FIGURE OF MEUA 1500-1800 WAS HE HAD TO SAY, QUOTE IMPOSSIBLE UNQUOTE AT LEAST IN THE SHORT (I.E. 2-3 YEAR) TERM. HE WAS CONSCIOUS OF THE NEED FOR SPEED IN ORDER TO HELP US AND, ESPECIALLY, TO ALLOW THE COMMUNITY TO GET ON WITH OTHER VITALLY IMPORTANT MATTERS. ALTHOUGH THE NETHERLANDS WAS A BENEFICIARY HE WANTED QUICK ACTION PROVIDING MORE RECEIPTS TO THE UK AND ESPECIALLY ON HALTING THE GROWTH OF THE CAP. HE HOPED THAT A START COULD BE MADE QUICKLY ON THE BASIS OF THE COMMISSION'S CAP PROPOSALS.

4. MR VAN AGT ALSO TOOK ON BOARD THE IDEA OF A SPECIAL MECHANISM FOR RECEIPTS, REHEARSING THE IDEA WITHOUT, HOWEVER COMMENTING. QUOTE SPEAKING FRANKLY AND CONFIDENTIALLY UNQUOTE HE SAID THAT, WHILST IT WAS NOT FOR HIM TO GIVE ADVICE, HE THOUGHT THE KEY TO A SOLUTION LAY IN GETTING CHANCELLOR SCHMIDT ON OUR SIDE: WITHOUT THAT, NOTHING COULD OVERCOME FRENCH OPPOSITION, AND THE REST COULD DO NOTHING AGAINST A JOINT FRANCO-GERMAN STAND. (HE HAD EVIDENTLY HAD SOME CONTACTS WITH SCHMIDT SINCE DUBLIN, AND MENTIONED THE LATTER'S ANXIETY THAT THE UK SHOULD ALLOW PROGRESS TO BE MADE ON FISHERIES POLICY).

5. MR VAN DER MEI MENTIONED AT THE OUTSET (BEFORE THE LPS'S DELAYED ARRIVAL) DUTCH INTERNAL BUDGETARY PROBLEMS AND THE NEED TO ADAPT DUTCH ECONOMIC POLICY, BUT THERE WAS NO GENERAL DISPOSITION TO PRAY THESE IN AID AS AN EXCUSE FOR NOT BEING HELPFUL. MR VAN DER MEI RECOGNISED THE IMPORTANCE OF THE BUDGET PROBLEM AND THE NEED IN THE INTEREST OF THE COMMUNITY TO FIND A COMMUNITY SOLUTION AS SOON AS POSSIBLE.

6. RESPONDING TO THE LORD PRIVY SEAL'S MENTION OF THE PROMISE OF POLITICAL HELP GIVEN BY DR VAN DER KLAAUW WHEN THEY MET IN THE HAGUE ON 7 JUNE, (THE HAGUE TEL NO 155 OF 1979), MR VAN DER MEI ADMITTED THAT THE UK HAD A SERIOUS POLITICAL PROBLEM WITH ECONOMIC ASPECTS. YET THE UK RECEIVED BENEFITS FROM EEC MEMBERSHIP OUTSIDE THE BUDGET. THE NETHERLANDS WOULD HELP THE UK TO SOLVE THE PROBLEM AS QUICKLY AS POSSIBLE, BUT HE SAW DIFFICULTIES.



WITH ECONOMIC ASPECTS. YET THE UK RECEIVED BENEFITS FROM EEC MEMBERSHIP OUTSIDE THE BUDGET. THE NETHERLANDS WOULD HELP THE UK TO SOLVE THE PROBLEM AS QUICKLY AS POSSIBLE, BUT HE SAW DIFFICULTIES. ANDRIESSEN LATER USED THE PHRASE QUOTE WE HAVE IMPORTANT OBJECTIONS UNQUOTE BUT SAID THAT HE WOULD STUDY OUR IDEAS CLOSELY.

7. MR VAN DER MEI SAID THAT THE DUTCH HAD ACCEPTED THE PROPOSALS ON ADAPTING THE FINANCIAL MECHANISM MADE BY THE COMMISSION BEFORE DUBLIN BUT TOOK THE VIEW THAT LONG TERM SOLUTIONS WOULD NEED TO BE FOUND IN THE FRAMEWORK OF COMMUNITY STRUCTURAL POLICIES, INCLUDING REFORM OF THE CAP.

8. AT THE MEETINGS WITH BOTH MR VAN DER MEI AND MR ANDRIESSEN THE DUTCH SIDE EXPRESSED PUZZLEMENT AND DISAPPOINTMENT THAT AN OPPORTUNITY TO START CUTTING CAP COSTS HAD BEEN LOST WITH A REJECTION OF THE AMENDMENTS TO THE 1980 BUDGET PROPOSED BY THE EUROPEAN PARLIAMENT. DID THIS REPRESENT A CHANGE OF UK POLICY ON CAP REFORM? THE LPS ASSURED THE DUTCH THAT WE WERE STILL VERY MUCH IN FAVOUR OF CAP REFORM IN ITS OWN RIGHT FOR THE FUTURE HEALTH OF THE COMMUNITY, BUT IT WOULD NOT SOLVE OUR BUDGET PROBLEM - IT WOULD NEITHER YIELD ENOUGH NOR BRING RESULTS SUFFICIENTLY QUICKLY.

9. THE DUTCH ASKED HOW ANY NEW MECHANISM OR REGIME WOULD BE FINANCED. THE COST OF THE CAP MIGHT BE FORCED DOWN, BUT IT WOULD BE A SLOW PROCESS; THERE WAS NOT MUCH ROOM WITHIN THE ONE PER CENT VAT CEILING FOR AN INCREASE IN EXPENDITURE TO ACCOMMODATE HIGHER UK RECEIPTS. THE CHANCELLOR OF THE EXCHEQUER AND THE LPS RESPONDED THAT THERE WAS ROOM FOR 1980 AND PERHAPS 1981, IF CAP COSTS COULD BE CUT. BUT THEY ACKNOWLEDGED THAT THE ONE PER CENT CEILING WOULD PRESENT A PROBLEM; BUT BY THEN ANY RECEIPTS MECHANISM WOULD MERELY BE ONE OF THE MANY ESTABLISHED COMMUNITY POLICIES AFFECTED.

10. MR VAN DER MEI AND OTHERS STRESSED THAT ANY SPECIAL RECEIPTS REGIME WOULD HAVE TO BE PRESENTED AS A QUOTE PERFECTLY COMMUNAUTAIRE (UNDERLINED) POLICY UNQUOTE; HOW WOULD WE PROPOSE TO DO THIS? THEY NOTED THAT THE DUBLIN COMMUNIQUE HAD MENTIONED SUPPLEMENTARY COMMUNITY (UNDERLINED) MEASURES.

11. MR ANDRIESSEN VOICED HIS FEELING THAT WHAT WE WERE PROPOSING SMACKED OF JUSTE RETOUR (LAST TWO WORDS UNDERLINED) (TO WHICH THE LPS RESPONDED VIGOROUSLY). HE ALSO ARGUED THAT THERE WAS A FUNDAMENTAL DIFFERENCE BETWEEN QUALIFYING FOR MONEY SOLELY BECAUSE THE UK MET CERTAIN ECONOMIC CRITERIA AND QUALIFYING FOR PAYMENTS UNDER A COMMUNITY POLICY WHERE THE SUMS INVOLVED WERE DETERMINED BY THE NATURE OF THE ACTIVITY. THE DUTCH WERE THEREFORE



PAYMENTS UNDER A COMMUNITY POLICY WHERE THE SUMS INVOLVED WERE DETERMINED BY THE NATURE OF THE ACTIVITY. THE DUTCH WERE THEREFORE INTERESTED TO HEAR FROM SIR G HOWE AND SIR K COUZENS A DESCRIPTION OF THE OBJECTIVE TESTS WHICH COULD BE WRITTEN INTO ANY REGIME TO ENSURE THAT ONLY THE UK WOULD QUALIFY AND THAT THE REGIME WOULD BE SELF-CORRECTING. THE IDEA THAT A MECHANISM COULD BE THE CHEAPEST SOLUTION AND COULD BE MADE TO SERVE RECOGNISED COMMUNITY AIMS SEEMED A NEW ONE TO THEM. THE CHANCELLOR EXPLAINED THAT RECEIPTS MIGHT BE SPECIFICALLY DEVOTED TO TYPES OF EXPENDITURE WHICH WOULD CONTRIBUTE TO CONVERGENCE, TO THE GROWTH OF THE UK'S GDP AND TO SPECIFIC COMMUNITY PROGRAMMES WITH THE COMMISSION SATISFYING ITSELF ABOUT THE PURPOSE TO WHICH THE MONEY WAS PUT.

12. WHILE ACCEPTING THE LOGIC OF A SPECIAL REGIME MR VAN DER MEI WONDERED WHETHER WE WERE NOT THINKING ON TOO AMBITIOUS LINES, GIVEN THE NEED FOR SPEED. WOULD IT NOT BE BETTER IN THE TIME AVAILABLE TO TRY TO CHANGE THE REGIONAL DEVELOPMENT FUND IN OUR FAVOUR? HE HAD EARLIER PROPOSED THAT THE RDF MIGHT BE ADAPTED BY AN INCREASE IN THE NON-QUOTA SECTION TO TEN PER CENT (WHICH THE NETHERLANDS HAD ORIGINALLY WANTED) OR A CHANGE IN EXISTING QUOTAS. SIR K COUZENS POINTED OUT THAT SUCH A CHANGE WOULD REQUIRE THE SAME JUSTIFICATION AS A NEW RECEIPTS MECHANISM (AND FOR THAT MATTER THE EXISTING DUBLIN MECHANISM): AND TO PRODUCE THE REQUIRED RESULT FOR THE UK WOULD NEED AN ENORMOUS AND COSTLY INCREASE IN THE SIZE OF THE RDF. BUT A QUOTE SECOND WINDOW UNQUOTE IN THE RDF MIGHT BE A POSSIBILITY.

13. FCO PLEASE ADVANCE TO:-

NO 10	- ALEXANDER
F.C.O.	- LORD PRIVY SEAL'S OFFICE
	- PS/PUS
	- BRIDGES (DUS)
	- HEAD OF EID(I)
	- HEAD OF EID(E)
CAB OFFICE	- FRANKLIN
	- ELLIOTT
TREASURY	- COUZENS
	- JORDAN-MOSS
	- MRS HEDLEY-MILLER
	- ASHFORD
MAFF	- D. EVANS

TAYLOR



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GRS 300

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FM LUXEMBOURG 091700Z

TO IMMEDIATE FCO

TELEGRAM NUMBER 013 OF 9 JANUARY 1980

INFO IMMEDIATE UKREP BRUSSELS PARIS ROME AND BONN ROUTINE ALL OTHER  
EEC POSTS

LPS VISIT TO LUXEMBOURG: 9 JANUARY

1. DURING THIS MORNING THE LORD PRIVY SEAL MET THE PRIME MINISTER (WERNER), THE FOREIGN MINISTER (THORN), THE FINANCE MINISTER (SANTER), THE MINISTER OF STATE AT THE MFA AND MINISTER OF FINANCE (HELMINGER AND MOHLEN), AND SENIOR LUXEMBOURG OFFICIALS. THORN GAVE A LUNCHEON FOR HIM AFTER WHICH THE LPS HELD AN INFORMAL PRESS CONFERENCE IN MY HOUSE. HE WAS IN LUXEMBOURG FOR 6 HOURS; IT WAS TIME WELL SPENT.
2. THE LUXEMBOURG MINISTERS GAVE THE LPS AN ASSURANCE OF THE LUXEMBOURG GOVERNMENT'S HELP IN SEEKING AN EARLY, LASTING, EQUITABLE AND COMMUNAUTAIRE SOLUTION TO OUR BUDGETARY PROBLEM. BOTH WERNER AND THORN ENDORSED THE POLITICAL NEED FOR AN AGREEMENT, AND ONE WHICH WOULD NOT ENTAIL AN ANNUAL RE-OPENING OF THE QUESTION.
3. THE LPS EXPLAINED THE SCALE OF THE INEQUITY WE FACED AND EMPHASISED THE IMPORTANCE OF THE RECEIPTS SIDE IN SOLVING THE PROBLEM. WE WERE PREPARED TO BE FLEXIBLE OVER THE PRECISE METHOD BY WHICH OUR RECEIPTS COULD BE RAISED AND WE WANTED A GENUINE COMPROMISE. BUT WE HAD LITTLE ROOM WITHIN WHICH TO MANOEUVRE. WERNER AND THORN TOOK CAREFUL NOTE OF OUR IDEAS ON THE RECEIPTS MECHANISM AND ASKED PROBING THOUGH NOT HOSTILE QUESTIONS. THEY SHOWED SOME CONCERN LEST A SPECIAL RECEIPTS SOLUTION MIGHT MAKE US (OR ANY OTHER PARTNER WHO MIGHT FIND HIMSELF IN BUDGET DIFFICULTIES IN THE FUTURE) LESS INCLINED, HAVING POCKETED THE MONEY, TO PURSUE COMMUNITY POLICIES THEREAFTER: THE INCENTIVE MIGHT HAVE BEEN REMOVED. THE LPS SAID THAT, ON THE CONTRARY, ONCE OUR BUDGETARY BURDEN HAD BEEN REMOVED IT WOULD BE MUCH EASIER FOR US TO SUBSCRIBE TO COMMUNITY POLICIES MORE POSITIVELY ACROSS THE BOARD.
4. THORN, WHO HAD SPENT YESTERDAY IN PARIS WITH FRANCOIS-PONCET, WARNED THAT WE SHOULD NOT UNDERESTIMATE THE FRENCH ATTACHMENT TO THE CONCEPT OF LINKAGE. HE THOUGHT THERE

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NO 10 Downing St.  
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WAS THE POLITICAL WILL IN FRANCE TO FIND A SOLUTION BUT HE DOUBTED IF THE FRENCH WOULD BE READY TO DO ENOUGH. IN TERMS OF TACTICS HE ASKED US TO BEAR IN MIND THAT ALL OF THE PARTNERS WOULD HAVE TO BE ABLE TO CLAIM THAT THEY WERE NOT COMING BACK FROM THE NEXT COUNCIL EMPTY HANDED. THORN SAID THAT THE KEY LAY WITH THE GERMANS: A GREAT DEAL WOULD DEPEND ON HOW MUCH SCHMIDT WAS PREPARED TO OFFER.

5. WERNER MADE THE POINT THAT IF OUR CONCERNS WERE TO BE MET, IT WOULD MEAN FINDING MONEY AND ALL OUR PARTNERS HAD FINANCIAL PROBLEMS OF THEIR OWN. HE DID NOT WANT TO SEE THE 1% VAT LIMIT INCREASED.

6. ON TIMING, THORN SAID HE WANTED TO SEE A SOLUTION AS SOON AS POSSIBLE. HE THOUGHT SCHMIDT WOULD ALSO LIKE TO GET RID OF THE PROBLEM QUICKLY (WITH AN EYE ON HIS ELECTIONS). BUT IT WOULD BE VERY DAMAGING TO GO INTO A COUNCIL WITHOUT THE MAIN LINES OF A SETTLEMENT AGREED BEFOREHAND. GIVEN THE TIMETABLE OF BILATERAL CONTACTS AND THE COMMISSION'S PREPARATIONS, THORN WAS SCEPTICAL OF THE POSSIBILITY OF ACHIEVING A CONSENSUS IN TIME FOR A SPECIAL COUNCIL, SAY IN FEBRUARY. BUT IT WOULD BE FOR THE ITALIAN PRESIDENCY TO DECIDE A DATE.

THOMAS

FILES

EID (1)

WED

PS

PS/LPS

MR. BULLARD

LORD BRIDGES

MR HANNAY

MR FERGUSSON

MR EVANS

COPIES TO:

MR FRANKLIN

CABINET OFFICE

MR JORDAN MOSS

TREASURY

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10 DOWNING STREET

From the Private Secretary

Free  
cc  
JH  
20(11) Subject file  
(Fca)  
Hart Euro Pol - Direct  
to Pro Elections - May 79  
to Primary  
D/Trade  
Att-Gen.

9 January 1980

Dear Rosine,

MEETING WITH THE EUROPEAN DEMOCRATIC GROUP

I sent you yesterday a brief summary of the main points that came up in the course of the Prime Minister's "private" meeting with the Members of the European Parliament at Church House. In the light of the interest which has been aroused about the Prime Minister's remarks on possible solutions to the budget problem, you and the other recipients of my letter may like to have a more detailed account of what the Prime Minister said on this subject.

The Prime Minister began by responding to Sir Fred Catherwood's assertion that there was growing sympathy in the European Parliament for the proposition that the contribution of each member state to the Community budget should be in line with its GNP. The Prime Minister said that this was a concept with which she would of course have much sympathy. However, to have it adopted as a basis for calculating budgetary contributions would involve a total reform of the system of Community financing. This would take far too long to effect.

The Prime Minister then identified four elements which would be, or might be, relevant to a solution of the budgetary difficulty:-

(a) Action on the contribution side of the budget. The Prime Minister said that agreement on a corrective mechanism to deal with this issue had been, in effect, reached at Dublin.

(b) Action on the receipts side of the budget on the basis of existing procedures. It was essential that a larger proportion of Community expenditure should come to the UK. This might involve the introduction of new schemes for Community expenditure. The UK had put forward a number of suggestions. These included the coal industry, transport system and Ulster.

(c) The establishment of a receipts mechanism. The Prime Minister said that one basis for such a mechanism would be that it should ensure that Britain received receipts at a level of 75 or 80 per cent of the average received by each of the other members of the Community per head of population.

/(d)



(d) Action on restructuring the budget as a whole. This, according to the Prime Minister, was an essential objective. But it would be extremely difficult to achieve rapid action on the amendment of the deeply entrenched provisions of the CAP.

I am sending copies of this letter to the Private Secretaries to the members of OD(E) and to Martin Vile (Cabinet Office).

*Yours ever*

*Michael Alexander*

R.M.J. Lyne, Esq.,  
Foreign and Commonwealth Office.



BY TUBE

Neville Galtie Nolo Press  
office

p.a. *[Signature]* 9/11

NEWS REPORT ON MRS THATCHER'S COMMON MARKET PROPOSALS

Transcript from BBC Radio 4, 8 o'clock News (am), 8 January 1980

NEWSREADER: Mrs Thatcher has put forward a number of proposals to solve the dispute with the Common Market over Britain's budget contribution. But she told a private meeting in London of Conservative European MP's that pulling out of the market was not one of them there was no question of that. However Mrs Thatcher said we could not go on suffering the enormous cost of belonging to the Community, the problem was to persuade our partners that they should either get less or pay more. John Sargeant of our political staff outlines the solutions suggested by the Prime Minister:-

SARGEANT: Britain could receive more for special projects, there could be money for instance for the coal industry to help open up new coal seams, there could be grants for improving the British transport system and perhaps specific aid for Ulster. Then there was the £350 million already offered at the Dublin summit. If there's also what Mrs Thatcher called another cash mechanism this could be enough. She didn't say how near this would come to the estimated deficit this year of £1,000 million but she did produce a different calculation. She said she would be satisfied if we in Britain got three quarters of the average receipts per head of those in the rest of Europe. And according to one of the Conservative Euro MP's I spoke to she gave the impression that 'dogged determination' was the tactic she and her Ministers were going to employ.

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FM ROME 081400Z JAN 80

TO IMMEDIATE FCO

TELEGRAM NUMBER 16 OF 8 JANUARY

INFO IMMEDIATE THE HAGUE

INFO PRIORITY ALL OTHER EEC POSTS.

VISIT OF LORD PRIVY SEAL

1. THE ITALIAN PRIME MINISTER SIGNOR COSSIGA GAVE THE LORD PRIVY SEAL A FIRM ASSURANCE ON 7 JANUARY THAT HE, HIS GOVERNMENT, THE MAIN POLITICAL PARTIES AND THE ITALIAN REPRESENTATIVES IN THE EUROPEAN PARLIAMENT ALL WANTED TO SEE A REASONABLE AND QUICK SOLUTION TO THE UK'S BUDGET PROBLEM IN THE EUROPEAN COMMUNITY. THIS WAS NOT ONLY BECAUSE THE COMMUNITY MUST GET THROUGH ITS OWN CRISIS BUT BECAUSE FAILURE TO DO SO WOULD WEAKEN EUROPE IN ITS DEALINGS WITH THE OUTSIDE WORLD IN THESE DANGEROUS DAYS. IT COULD EVEN ENCOURAGE THE SOVIET UNION TO PROFIT BY THE UNSTABLE SITUATION WHICH A COMMUNITY CRISIS COULD CREATE.

2. BY WAY OF PREPARATION FOR HIS IMPORTANT VISIT TO LONDON ON 29/30 JANUARY TO MEET THE PRIME MINISTER, SIGNOR COSSIGA HAD ASKED THE COMMISSION TO MAKE PROPOSALS. HE HAD PUT THIS BOTH TO ORTOLI AND NATALI IN ROME AND WOULD BE SEEING JENKINS HERE ON 11 JANUARY. THE COMMISSION PROPOSALS SHOULD TAKE ACCOUNT OF THE NEED FOR CONVERGENCE, FOR STRUCTURAL REFORM AND THE REDUCTION OF AGRICULTURAL EXPENDITURE, THE UK BUDGETARY PROBLEM, AND ALSO THE DIFFICULTY OF THE REJECTION BY THE EUROPEAN PARLIAMENT OF THE 1980 BUDGET. THE COMMISSION HAD UNDERTAKEN TO LET HIM HAVE PROPOSALS IN TIME TO CONSIDER BEFORE HIS VISIT TO LONDON. IT WOULD ALSO HELP HIM TO KNOW IN STRICT CONFIDENCE WHAT OUR EXPECTATIONS WERE ON THE ASSUMPTION THAT WE COULD ACCEPT AN IMPROVED CORRECTIVE MECHANISM ON THE CONTRIBUTION SIDE AND INCREASED EXPENDITURE IN THE UK, IN ORDER TO GET A SATISFACTORY RETURN.

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3. THE LORD PRIVY SEAL EXPRESSED GRATITUDE FOR THE ASSURANCES GIVEN BY SIGNOR COSSIGA AND SAID WE SOUGHT A GENUINE COMPROMISE THOUGH THERE WAS LITTLE SCOPE FOR MANOEUVRE IN RELATION TO OUR ORIGINAL DEMAND. MOREOVER THE PROBLEMS COULD NOT ALL BE SOLVED AT ONCE. WE NEEDED A QUICK SOLUTION TO OUR PROBLEM BUT RESTRUCTURING WOULD TAKE TIME AS WOULD AGREEMENT ON THE 1980 BUDGET.

4. SIGNOR COSSIGA SAID THAT PRESENTATION WAS VERY IMPORTANT. GISCARD AND SCHMIDT HAD GIVEN THE IMPRESSION IN DUBLIN THAT THEY THOUGHT WE WANTED A PERMANENT "RENEGOTIATION" OF OUR TERMS, WHICH WAS NOT ACCEPTABLE. HE HIMSELF DID NOT THINK THIS. HE RECOGNISED THAT WE MUST GIVE PRIORITY TO OUR BUDGETARY PROBLEM. BUT IF HE COULD OFFER SOME ADVICE IT WOULD BE THAT WE SHOULD PUT THIS IN A WIDER CONTEXT IN ORDER TO IMPROVE THE PRESENTATION. THE SHORT TERM REMEDY FOR THE UK MUST BE ACCOMPANIED BY LONGER TERM TREATMENT FOR THE COMMUNITY AS A WHOLE TO PREVENT SIMILAR PROBLEMS ARISING.

5. THE LORD PRIVY SEAL EXPLAINED THAT TWO-THIRDS OF OUR PROBLEM AROSE ON THE SCORE OF INADEQUATE RECEIPTS AND RESTRUCTURING COULD ONLY HAVE HELPFUL EFFECTS IN THE LONG TERM. IN THE SHORT TERM WE NEEDED A MECHANISM TO IMPROVE RECEIPTS.

6. SIGNOR COSSIGA REFERRED TO THE OTHER SUBJECTS MENTIONED AT DUBLIN (ENERGY, FISHERIES, SHEEPMEAT), WHICH HAD BEEN PUT INTO THE COMMUNIQUE. THE LORD PRIVY SEAL SAID THERE SHOULD BE NO MILEAGE WITH THE BUDGET PROBLEM AND THESE ITEMS SHOULD BE DEALT WITH ON THEIR MERITS. SIGNOR COSSIGA SAID IT WOULD BE EASIER TO MAKE PROGRESS ON THESE ITEMS IF THE BUDGET QUESTION HAD BEEN SETTLED: IT WAS IMPORTANT THAT WE SHOULD NOT GIVE THE IMPRESSION THAT WE WERE ONLY CONCERNED WITH THE BUDGET.

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7. THE LORD PRIVY SEAL'S TALKS WITH ZAMBERLETTI (DEPUTISING FOR FOREIGN MINISTER MALFATTI WHO IS STILL ILL) AT THE MINISTRY OF FOREIGN AFFAIRS WERE NOT VERY CONCLUSIVE, THOUGH THE SAME ITALIAN ARGUMENTS EMERGED. THEY DO NOT LOSE SIGHT OF CONVERGENCE, DO NOT WANT THE UK PROBLEM TO BE DEALT WITH IN ISOLATION, AND ARE AGAINST ANY MECHANISM BEING OF INDEFINITE DURATION. THEY SEEM PREPARED TO CONSIDER MAKING ADDITIONAL FUNDS AVAILABLE TO THE UK BUT POINT OUT THE DIFFICULTIES OF GETTING PROJECTS APPROVED AND MONIES PAID OVER IN A SHORT TIME SCALE. THE LORD PRIVY SEAL PRESSED THE MERITS OF A STRAIGHT-FORWARD RECEIPTS MECHANISM TO SOLVE THE MAJOR PART OF OUR PROBLEM. ZAMBERLETTI SAID THE REJECTION OF THE 1980 BUDGET BY THE EUROPEAN PARLIAMENT HAD INTRODUCED AN IMPORTANT NEW POLITICAL FACTOR. SOMETHING SHOULD BE DONE TO PLACATE THE PARLIAMENT ON THIS SCORE IN ORDER THAT THEY DID NOT TRY TO GET INVOLVED IN THE SOLUTION OF OUR PROBLEM, WHICH WOULD BE AN UNWELCOME COMPLICATION. THE PARLIAMENT WOULD REACT BADLY TO ANYTHING THAT SMACKED OF "JUSTE RETOUR" BUT WELL TO A SOLUTION WHICH PROMOTED CONVERGENCE IN THE COMMUNITY. ZAMBERLETTI WAS ANXIOUS TO EXCHANGE VIEWS WITH THE LORD PRIVY SEAL WHEN HE HAD FINISHED HIS TOUR OF OTHER COMMUNITY CAPITALS.

8. SIGNOR COSSIGA MADE A POINT OF BRINGING IN THE MINISTER OF THE TREASURY (PANDOLFI) AT THE END OF THE LORD PRIVY SEAL'S CALL, AND PANDOLFI SUBSEQUENTLY CAME TO MY DINNER ON THE EVENING OF 7 JANUARY. LIKE ZAMBERLETTI HE WAS SHORT OF CONSTRUCTIVE IDEAS BUT FULL OF A DESIRE TO HELP.

9. IT WILL BE IMPORTANT TO LET SIGNOR COSSIGA KNOW THE RESULTS OF THE LORD PRIVY SEAL'S ROUND OF VISITS TO OTHER CAPITALS BEFORE THE ITALIAN PRIME MINISTER'S VISIT TO LONDON ON 29/30 JANUARY. IF IT IS NOT CONVENIENT FOR THE LORD PRIVY SEAL TO VISIT ROME AGAIN FOR THIS PURPOSE I SHOULD BE GLAD TO PASS A REPORT TO SIGNOR COSSIGA SAY ON 24 JANUARY. BY THAT TIME THE ITALIANS SHOULD HAVE RECEIVED SOME ADVICE FROM THE COMMISSION AND IT WILL BE DESIRABLE TO INJECT SOME OF OUR IDEAS TO KEEP THEM ON THE RIGHT LINES.

/10. PLEASE



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10. PLEASE PASS ADVANCE COPIES TO

NO 10 ALEXANDER,

F.C.O. LORD PRIVY SEAL'S OFFICE

PS/PUS,

HANNAY (AUS),

HEAD OF EID(I),

HEAD OF EID(E),

CAB OFFICE FRANKLIN,

ELLIOTT,

TREASURY COUZENS

JORDAN-MOSS

MRS HEDLEY-MILLER

ASHFORD

ARCULUS

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EID



Originals. Euro Parl, May 79  
Direct Elections & relations  
with Euro Parliament.



file 26  
Euro Parl

10 DOWNING STREET

From the Private Secretary

8 January 1980

MEETING WITH THE EUROPEAN DEMOCRATIC GROUP

As you know, the Prime Minister had an informal meeting with the members of the European Democratic Group in the European Parliament at Church House this afternoon. Although the meeting had been billed as an informal occasion when the Prime Minister could circulate among the MEPs and get to know them, it in fact turned out to be a question and answer session of a rather more formal kind.

Most of the questions were predictable in content and the Prime Minister replied along standard lines. However, one or two raised specific points on which the Prime Minister's replies should be recorded.

Sir Fred Catherwood and Sir Fred Warner asked about the relationship between the MEPs and the Government machine. Sir Fred Catherwood proposed specifically that a special Committee should be set up within the Cabinet Committee structure. This Committee might be chaired by the Foreign and Commonwealth Secretary and have as members two or three Ministers concerned with Europe, Mr. Scott-Hopkins and one or two other members of the European Democratic Group. Sir Fred Warner thought that such a Committee would make it possible for MEPs to make available to the Government the special knowledge they were acquiring in Strasbourg. The Prime Minister, in reply, said that Cabinet Committees were where final decisions were taken by the Government. If the MEPs wanted to feed in ideas, this should be done at an earlier stage in the Governmental process. The natural way to do this was through the usual contacts with Departments, with Members of the Westminster Parliament and with research groups.

Mrs. Madron Seligman raised the question of the possibility of the nomination of a clerk from the House of Commons to be present in Strasbourg to act as a representative of the National Parliament during the sessions of the European Parliament. He would be responsible for distributing documents from Westminster and for keeping MEPs in the picture about progress of business there. The Prime Minister said that she thought it should be possible for the functions envisaged by Mrs. Seligman to be carried out by those already in Strasbourg. It should be possible for MEPs, a few of whom were also Members of the Westminster Parliament, to keep themselves in the picture by making energetic use of the existing facilities.

/In discussion



In discussion of the British contribution to the Community Budget, the Prime Minister stressed the following points, among others:-

- (a) there was no question of Britain leaving the European Community;
- (b) the Government had put forward a number of suggestions for areas in which Community expenditure in the United Kingdom could be initiated or increased, e.g. the coal industry, transport and Ulster. However, any money received from the Community would have to be in substitution for existing expenditure;
- (c) the 1 per cent VAT ceiling would have to be observed (this was in response to a direct question from Peter Price about the Prime Minister's willingness to move to a 2½ per cent VAT ceiling in order to make room for greater expenditure on the social and regional fronts)
- (d) the Prime Minister would be well content if Britain's net contribution ended up on more or less the same level as that of France;
- (e) the Government hoped that the Budget problems would be sorted out "by the next meeting of the European Council".

I am sending copies of this letter to the Private Secretaries to the members of OD(E) and to Martin Vile (Cabinet Office).

M. O'D. B. ALEXANDER

R. M. J. Lyne, Esq.,  
Foreign and Commonwealth Office.





*File 26*

10 DOWNING STREET

From the Private Secretary

4 January 1980

*Top copy filed as "Call by outgoing Italian Ambassador - Ducci"*

*Italy Dec 79.*

CALL BY THE ITALIAN AMBASSADOR

The Italian Ambassador, Signor Ducci, paid a farewell call on the Prime Minister yesterday. The Prime Minister had agreed, exceptionally, to see Signor Ducci because of the impending visit to London of the Italian Prime Minister, Signor Cossiga. Signor Ducci confirmed that Signor Cossiga was hoping to come to London on 29/30 January.

Signor Ducci said that he disagreed with those newspaper commentators who were arguing that Signor Cossiga might fall from power in the course of this month. His own reading of the situation was that Signor Cossiga's position was now stronger than it had been before Christmas and that Signor Cossiga would probably remain in office until the local government elections in May. The Prime Minister pointed out that, given the summit meetings planned for June, the complications of a change in Prime Minister at that time would be at least as great as those which would arise this month. Signor Ducci implied that this factor might help to keep Signor Cossiga in office even beyond May.

Signor Ducci said that the Prime Minister had arranged an intensive programme of meetings for the rest of this month. He would be seeing M. Ortoli in Rome tomorrow and the Lord Privy Seal on Monday. He would be seeing Mr. Roy Jenkins a little later and then visiting Strasbourg and Washington. The month's programme would be completed by Signor Cossiga's visit to London.

On the budgetary issue, Signor Ducci said that a problem which was pre-occupying the other members of the Community was whether there could be any assurance that a decision taken in the near future would be a final decision or whether they would be asked to conduct a further re-negotiation in a year or two's time. The Prime Minister said, with some emphasis, that she had been making clear that Britain wanted a formula that would last as long as the problem. The last thing she wanted was to have to deal with this problem again in the future. Signor Ducci had nothing new to say on the substance of the budgetary issue. But he observed at one point that the Germans held the key to a solution. They would

/need some

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need some kind of compensation, albeit cosmetic, for the extra burden they would have to assume. They might seek movement in the direction of a common energy policy. The Prime Minister observed that no-one had ever established what was meant by 'a common energy policy'.

There was a brief discussion about Afghanistan in the course of which Signor Ducci said that his authorities had the impression that President Carter might propose a discussion of Afghanistan at Head of Government level. Signor Ducci was vague about which governments would be involved. The Prime Minister said that President Carter had made no such suggestion to her. She expressed doubt as to whether a meeting at Head of Government level would be justified. The normal machinery for inter-governmental consultation should suffice.

I am sending a copy of this letter to Martin Vile (Cabinet Office).

M. O. D. E. ALEXANDER

Paul Lever, Esq.,  
Foreign and Commonwealth Office.

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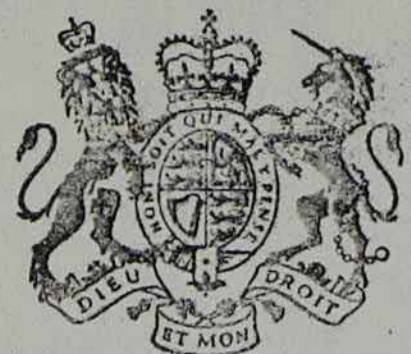
subject

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OD(E)

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FCO

H.M.T

Ld. Pres.

(Ld. Privy Seal)

MAFF

D/Trade

10 DOWNING STREET

From the Private Secretary

4 January 1980

AH - Gen.

LORD PRIVY SEAL'S TOUR OF EUROPEAN CAPITALS

As you know, the Lord Privy Seal called on the Prime Minister this evening to discuss his forthcoming series of visits to Community capitals. One or two points which came up at the meeting should be recorded.

The Prime Minister said that she was not overly optimistic about the chances of securing a satisfactory settlement to Britain's budgetary problem. However, she agreed that the Lord Privy Seal should adopt a confident approach to his interlocutors. The Government's posture for the time being should be in effect that the issues of principle had been largely resolved in Dublin. What was at issue was the technical problem of how the money to redress the imbalance might best be found.

The Prime Minister said that she would be unwilling to go to another Council meeting on the budgetary question unless it had been very carefully prepared in advance. She did not wish to have to go through again the kind of discussions which had taken place in Dublin. The Prime Minister also confirmed her determination that the 1 per cent VAT ceiling should not be breached.

The Prime Minister agreed with the Lord Privy Seal that so far as possible the U.K. budgetary problem and the more general problem created by the European Parliament's rejection of the Budget as a whole should be kept separate. The aim should be to deal with the British problem in a shorter time scale.

I am sending copies of this letter to the Private Secretaries to the other members of OD(E) and to Martin Vile (Cabinet Office).

M. O'D. B. ALEXANDER

Michael Richardson, Esq.,  
Lord Privy Seal's Office.

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2  
PRIME MINISTER

To glance  
MS

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

3rd January 1980

Dear Michael,

ECONOMIC BENEFITS OF NORTH SEA OIL AND GAS

.....

The Chancellor has asked me to let you have the attached briefing note on this subject which he has had prepared here. It is intended as material on which FCO Ministers and other colleagues can draw in countering arguments that their overseas counterparts may put in particular contexts about the benefits of the North Sea.

I let you have it now so that the Lord Privy Seal may have it by him in Rome on 7 January at the first of his series of talks on the EEC Budget.

I am sending copies of this letter and of the enclosure to the Private Secretaries to the Prime Minister and other Cabinet Ministers, and to Sir Robert Armstrong.

Yours ever,

A.M.W. BATTISHILL  
(Principal Private Secretary)

M. J. Richardson Esq.





THE "BENEFITS" OF NORTH SEA OIL AND GAS

1. Introduction

North Sea oil and gas represent an addition to the nation's real income which comes through mainly in the form of oil company profits and Government tax revenues, with little direct effect on income from employment. It also has an important impact on the balance of payments. Welcome though these benefits are, their importance should be kept in perspective, both in scale and duration. We may be self sufficient in energy for no longer than the periods of office of two successive Governments.

2. Effect on national output

i. The effect on GNP is not large. Production in 1979 probably added about 2 per cent to the level of GNP. Even in the mid-1980s - the years of peak production - less than 5 per cent of GNP is likely to be due to the North Sea. The rate of growth of GNP is increased only when production is building up.

ii. This gain to the nation's annual real income will, even at the peak of production, probably represent less than two years of the kind of economic growth rates achieved in the 1950s and 1960s.

3. Impact of higher world oil prices

i. Although in volume terms Britain will in 1980 be self-sufficient in oil we are not immune from the effects of increased oil prices. For example, the OECD has forecast that the increase in world oil prices following the December 1979 meeting of OPEC will bring overall economic growth in 1980 to a standstill in the OECD countries. A slowdown in world activity will harm the UK economy as growth in our export markets slows down.





ii. In addition if investors shift into sterling, perceiving the UK economy to be better insulated than some others from some of the direct effects of oil price increases, the exchange rate will strengthen and for a time at least make it more difficult for UK industry to compete internationally.

iii. It is not true [as the Germans have attempted to argue] that with UK oil production of, say, 560 million barrels in 1979 each \$1 increase in the price of oil benefits us by \$560 million. The UK is not yet a net exporter of oil and so an increase in the price brings no net benefit. Rather it brings a transfer of resources between UK consumers and producers, with UK manufacturers, for example, facing increases in their energy costs just as their overseas competitors do. Even to the extent that Britain does become a net oil exporter very little net benefit may arise from higher oil prices, not only because of the effect on markets for our exports ((i) above) and on our competitiveness ((ii) above) but also because a large part of North Sea oil revenues accrues to foreign oil companies.

4. The effect on tax revenues

i. Government revenues from royalties, petroleum revenue tax and corporation tax are expected to be about £2.1 billion in 1979-80. This is equivalent to about 9 per cent of the yield from income tax. But receipts will not build up their peak until the mid-1980s and will obviously begin to tail off thereafter.

ii. By the mid 1980s North Sea revenues might be equivalent to  $7\frac{1}{2}$  per cent of total general government tax receipts. But slow growth in the rest of the economy could mean little growth in total tax revenues in real terms.





5. The balance of payments

i. North Sea benefits appear initially as foreign exchange savings. In 1979 the contribution to the visible account, net of debits such as repatriation of profits by oil companies, was estimated at about £5 billion, equivalent to about 9 per cent of exports of goods and services.

ii. But even with this useful contribution the current account for 1979 is expected to be in deficit by £2½ billion, reflecting a high level of imports from the Community and elsewhere, our poor export performance and large contributions to the EEC Budget.

iii. The contribution to the balance of payments can be realised through the accumulation of larger foreign exchange reserves or other overseas assets; through a higher level of demand at a given exchange rate; or through a higher exchange rate and hence lower inflation. But there are drawbacks in all of these: building up foreign exchange reserves threatens control of the money supply; supply-side constraints severely limit the possibility of expanding domestic output and a higher exchange rate makes it harder for our exporters to compete on world markets.

6. Conclusions

i. The North Sea is an undoubted benefit to the UK economy. Compared with what would otherwise have happened, the oil and gas increase our real income, help with the balance of payments, and reduce the rate of inflation and the burden of taxation.

ii. But the deep-seated problems of the UK economy mean that the benefits of the North Sea go nowhere near solving the problems we still face.





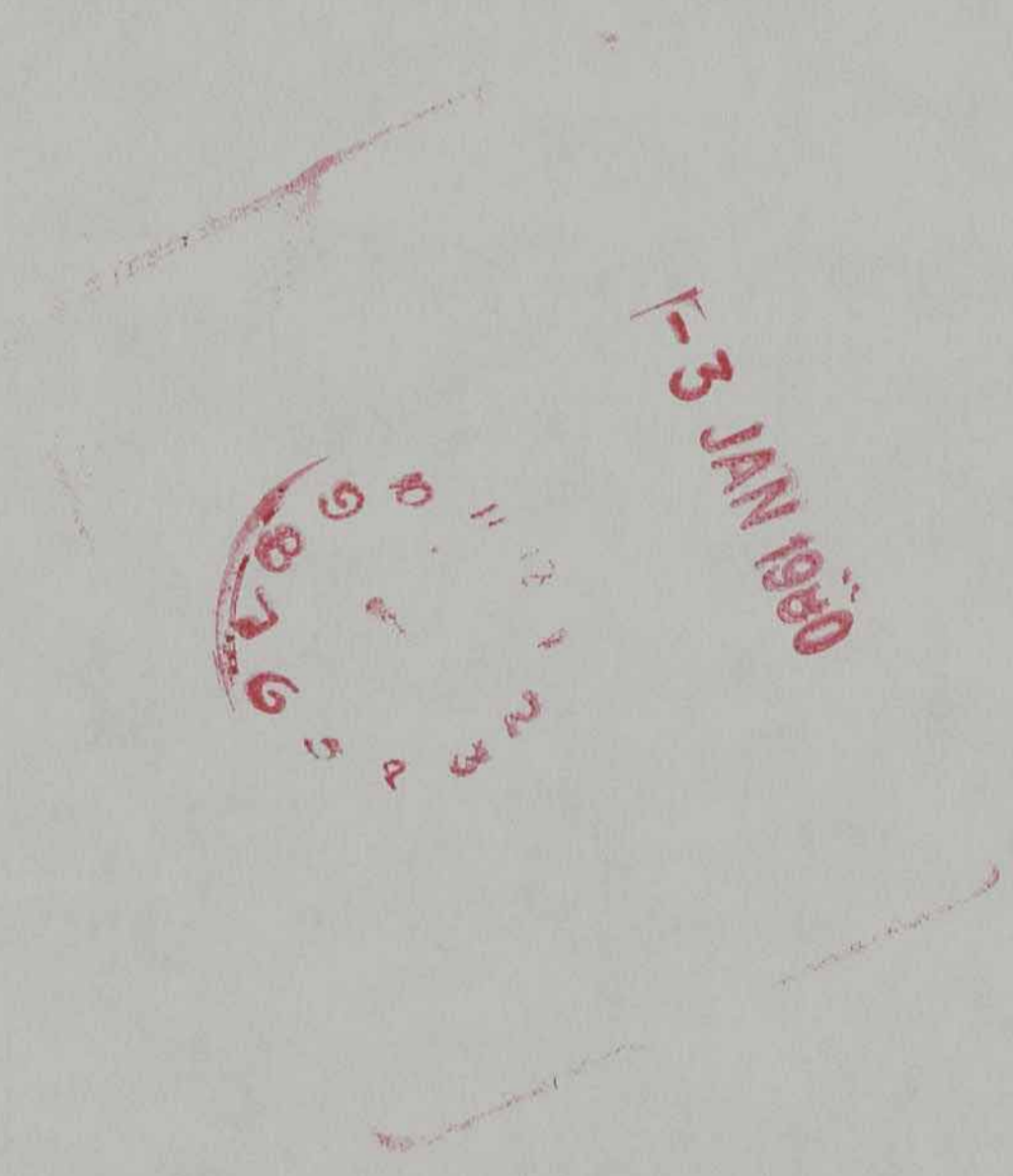
iii. The benefits are not large when compared with the size of the economy; nor are they long-lived.

iv. There are some positive disadvantages, in particular sterling has been pushed to levels which reduce our competitiveness and create problems for our industrial base.

v. Our prospective self-sufficiency in oil does not insulate us from the effects of OPEC price increases.

HM Treasury  
2nd January 1980





1-3 JAN 1980



FILE

Original in G/R

office  
copy



10 DOWNING STREET

THE PRIME MINISTER

3 January 1980

Dear Tullian,

Thank you for sending me the letter you had received from Mr. Bartlett, the Honorary Secretary of the Harwich Chamber of Trade and Commerce.

The Government feel strongly that membership of the EEC offers the best prospects for us. We are determined to make a success of it, reaching solutions on the negative aspects - notably the problem of the high net contribution to the budget - and working positively for EEC policies which are of a real benefit to Britain.

Our net contribution is expected to be something over £1,000 million in 1980. As you know, the problem was discussed at great length during the recent Dublin Summit. We are determined to reach a lasting and satisfactory solution and a number of ideas are now being examined in preparation for the next European Council in early 1980. I attach a copy of my recent statement to Parliament which you may like to forward to Mr. Bartlett.

Economically, our membership of the Community offers Britain great opportunities, provided our industry will rise to the challenge. Already about 40 per cent of our exports go to other EEC countries compared with only 25 per cent before we joined. The Community is a very powerful economic force in the world.

/It would be

RH



It would be a mistake to assume, as Mr. Bartlett has done, that trade agreements with the Commonwealth or the United States of America would simply spring back to life in the very different economic conditions of today if we left the Community. But we want to strengthen links between the Community and Commonwealth countries, and ensure that the latter's interests are not overlooked. It is for this reason that we have taken a leading role in promoting agreements such as the Lomé Convention and those between the EEC and Commonwealth countries in Asia. As you know, we have made it clear that New Zealand must receive a fair deal from the Community for its exports of lamb and butter.

You may also like to point out the very strong political arguments for belonging to the Community. For centuries our countries fought each other. On two occasions quarrels between the countries of Europe became world wars, in which more than 40 million people died. It was vital to build a Community in Europe to prevent that happening again. If we work together in world affairs we can be a powerful and constructive political force.

*Yours*

*Raymond*

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Ref: A01014

Original filed  
Euro Pol. May '79  
(Direct Elections to Euro Parl  
to Euro Parl)

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PRIME MINISTER

Ministerial Liaison with MEPs

I see from the record that the question of liaison with United Kingdom MEPs arose at your meeting on 21st December on the Community Budget. I understand that you were critical of the advice you received from OD(E)(79) 20th Meeting about the possibility of the European Parliament rejecting the 1980 Budget shortly after you had seen Mr. Scott Hopkins (Mr. Alexander's letter of 7th December to Mr. Lever refers). There was a subsequent discussion about the briefing of MEPs in OD(E) (OD(E)(79) 21st Meeting) which laid down guidance for individual Ministers and charged the Cabinet Office to draw attention to those issues which might require a collective view. In addition, the Lord Privy Seal has now offered to meet members of the European Democratic Group before each plenary session of the Parliament.

2. How can these arrangements be tightened up to ensure that the Government is speaking with one voice? For routine matters, the procedure approved by OD(E) will probably suffice. But where there are major tactical questions on which Mr. Scott Hopkins is likely to consult you, then you may feel that it would be desirable for the Foreign and Commonwealth Secretary or the Lord Privy Seal to participate in your talks with him. It could also be advantageous to invite the appropriate departmental Ministers (e.g. the Chancellor of the Exchequer on the budget) when it is clear in advance that particular departmental interests are involved. In any event, you may think it helpful to commission a brief from the Cabinet Office or the FCO on the non-Party aspects for future meetings with Mr. Scott Hopkins.

ROBERT ARMSTRONG

Robert Armstrong

3rd January 1980



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**JAN 4 1948**



*Main body of the document containing several paragraphs of very faint, illegible text.*

**ROBERT ARMY**



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FRAME GENERAL

FM THE HAGUE 271245Z DEC 79

TO PRIORITY FCO

TELEGRAM NUMBER 474 OF 27 DECEMBER

INFO PRIORITY EEC POSTS

*amb.*

YOUR TELEGRAM NO 447 TO BONN : COMMUNITY BUDGET CONTRIBUTION.

1. I TOOK THE OPPORTUNITY OF A CALL ON DR VAN DER MEI, STATE SECRETARY AT THE MINISTRY OF FOREIGN AFFAIRS RESPONSIBLE FOR COMMUNITY MATTERS, TO DISCUSS THE LORD PRIVY SEAL'S VISIT.

2. VAN DER MEI CONFIRMED THAT BOTH HE AND THE NETHERLANDS PRIME MINISTER WERE LOOKING FORWARD TO THE OPPORTUNITY OF DISCUSSING THE EEC WITH SIR IAN GILMOUR. HE THOUGHT IT DESIRABLE THAT THE LORD PRIVY SEAL SHOULD ALSO SEE MR ANDRIESSEN, THE MINISTER OF FINANCE, AND MR VAN DER STEE, THE MINISTER OF AGRICULTURE. I SUGGESTED THAT IF THE LORD PRIVY SEAL WERE ABLE TO STAY THE NIGHT IN THE HAGUE, I SHOULD INVITE THE THREE MINISTERS CONCERNED TO DINNER TO ENABLE INFORMAL DISCUSSIONS TO CONTINUE.

3. ON SUBSTANCE VAN DER MEI CONFIRMED THAT THE DUTCH HAVE NOT YET CARRIED FORWARD THEIR THINKING ON WAYS OF MEETING THE BUDGET PROBLEM: I HAD THE IMPRESSION THAT THEY FELT THAT THIS WAS UNSATISFACTORILY LANDED IN THE LAPS OF THE COMMISSION BUT THAT THEY WERE HOPING THAT WE WOULD PRODUCE OUR OWN SPECIFIC IDEAS FOR SOLUTIONS. I EMPHASISED THE NEED FOR A WILL TO COMPROMISE ON THE PART OF OUR PARTNERS WHICH REQUIRED A READINESS TO ENVISAGE SOME QUITE RADICAL MEASURES AND SAID THAT I HOPED THAT THE DUTCH SIDE WOULD BE IN A POSITION TO ELABORATE ON THE VERY HELPFUL IDEAS THAT THEY HAD PUT FORWARD IN DUBLIN. I THINK IT UNLIKELY, HOWEVER, THAT THEY WILL IN FACT BE ABLE TO COME UP WITH ANYTHING NEW. THEY CERTAINLY HOPE THAT WE WILL BE IN A POSITION TO DISCUSS SPECIFIC PROPOSALS THAT WE THINK MIGHT HELP.

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4. VAN DER MEI IS INCLINED TO BE SOMEWHAT LEGALISTIC IN HIS APPROACH TO COMMUNITY QUESTIONS AND I THEREFORE TOOK THE OPPORTUNITY TO RUB IN BOTH THE POLITICAL ASPECTS AND THE REAL EFFECT OF RESOURCE TRANSFERS AS THEY AFFECTED THE UK, AS WELL AS DISCUSSING THE EFFECTS OF CAP ON THE UK. VAN DER MEI ALSO REMINDED ME THAT PRESIDENT GISCARD HAD INSISTED IN DUBLIN THAT A SOLUTION TO THE BUDGET PROBLEM MUST DEPEND ON A SOLUTION TO THE FISHERIES, SHEEPMEAT AND ENERGY QUESTIONS. I SAID THAT SUCH LINKAGE WAS UNACCEPTABLE AND THAT WE HAD A RECOGNISED PROBLEM WHICH MUST BE DEALT WITH IN ANY CASE. I ALSO MADE APPROPRIATE POINTS ON ALL THREE ISSUES.

5. I HAVE ESTABLISHED THAT THE DIRECTOR-GENERAL FOR EUROPEAN COOPERATION AT THE MFA, PROFESSOR POSTHUMUS MEYJES, WILL BE BACK IN THE HAGUE IN THE WEEK BEGINNING 7 JANUARY. HE IS A KEY MAN IN DUTCH POLICY FORMULATION AND IT IS IMPORTANT THAT HE SHOULD BE IN ON THE TALKS. APART FROM THE LORD PRIVY SEAL'S MEETING WITH MR VAN AGT, I ATTACH MOST IMPORTANCE TO HIS MEETING WITH THE MINISTER OF FINANCE AND I HOPE THAT A SEPARATE TALK WITH HIM CAN BE ARRANGED (IN ADDITION TO HAVING HIM TO DINNER).

TAYLOR

FRAME GENERAL

EID (1)

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URS 600

UNCLASSIFIED

FM PARIS 221055Z DEC 79

TO IMMEDIATE FCO

TELEGRAM NUMBER 1008 OF 22 DECEMBER 1979

INFO PRIORITY BONN BRUSSELS COPENHAGEN DUBLIN LUXEMBOURG  
ROME THE HAGUE AND UKREP BRUSSELS

FRENCH PRESS POST - DUBLIN

1. TWO ARTICLES HAVE APPEARED IN THE FRENCH PRESS IN THE LAST FEW DAYS WHICH ARE OF SPECIAL INTEREST AS EVIDENCE OF IDEAS CIRCULATING IN PARIS SINCE DUBLIN.
2. THE MORE SIGNIFICANT OF THE TWO APPEARED IN YESTERDAY AFTERNOON'S MONDE WITH THE HEADING "PARIS SEEKS A NEW FORMULA FOR RELATIONS BETWEEN BRITAIN AND THE COMMUNITY" AND WAS SIGNED BY DELARUE, THE PAPER'S DIPLOMATIC CORRESPONDENT. THE ARTICLE SAYS THAT FRENCH GOVERNMENT CIRCLES ARE NOW FACING THE QUESTION OF WHETHER IT WILL BE NECESSARY TO REBUILD EUROPE WITHOUT GREAT BRITAIN. "MRS THATCHER'S DEMANDS AT DUBLIN WERE SO CONTRARY IN SUBSTANCE AND IN FORM TO WHAT HAS HITHERTO BEEN THE BASIS OF EUROPEAN CONSTRUCTION - COMMUNITY PREFERENCE - THAT THE QUESTION CAN NO LONGER BE COMPLETELY AVOIDED". THE ARTICLE ARGUES THAT THE SITUATION IS NOT COMPARABLE WITH THE CRISIS OF 1965/66 BECAUSE DE GAULLE WAS NOT ASKING FOR MONEY WHEREAS MRS THATCHER WANTS A GREAT DEAL. IS IT IMAGINABLE THAT HER EIGHT PARTNERS, ALL SEVERELY TRIED BY THE RISE IN PETROL PRICES, COULD DEMAND BILLIONS FROM THEIR PARLIAMENTS TO BENEFIT THE ONLY MEMBER STATE WHICH WAS PROFITING FROM THIS SITUATION? A PACKAGE DEAL REMAINED POSSIBLE COVERING TEMPORARY BUDGETARY CONCESSIONS FOR THE UK, AN OVERHAUL OF THE CAP (INCLUDING SHEEP MEAT AND NEW ZEALAND) AND THE DEFINITION OF FISHERIES AND ENERGY POLICIES. BUT MRS THATCHER HARDLY SEEMED READY TO CONTEMPLATE THIS IN DUBLIN. IF A START IS NOT MADE ON SETTLING THE PROBLIM, THE ARTICLE CONTINUES, "THE COMMUNITY WILL QUICKLY BE IN DANGER OF THE BLOCKING TACTICS WHICH THE BRITISH PRIME MINISTER HAS ALREADY THREATENED TO RESORT TO. THEN THERE WOULD BE NO ALTERNATIVE TO CONTEMPLATING NEW RELATIONS BETWEEN GREAT BRITAIN AND HER PARTNERS".

13. THE ARTICLE



3. THE ARTICLE THEN REFERS TO THE ASSOCIATION AGREEMENT FLOATED BY DE GAULLE IN JANUARY 1963. IT RECALLS ALSO THE IMPORTANCE ALWAYS ATTACHED BY THE UK TO POLITICAL COOPERATION, ADDING THAT THE FORMULA WHICH IS CONSIDERED IN PARIS TO BE WORTH EXPLORING AND WHICH MIGHT TEMPT GREAT BRITAIN MIGHT BE CALLED ASSOCIATION-PARTICIPATION. THIS WOULD INVOLVE AN ECONOMIC ASSOCIATION OF A MORE FLEXIBLE KIND THAN INTEGRATION IN THE COMMUNITY PLUS PARTICIPATION IN POLITICAL CO-OPERATION. THE ARTICLE ENDS AS FOLLOWS: "THE THINKING IN PARIS HAS NOT GOT BEYOND AN EARLY STAGE, THE ESSENTIAL POINT BEING NOT TO BE CAUGHT SHORT, SHOULD MRS THATCHER UNLEASH A CRISIS IN THE SPRING OF 1980".

4. THE OTHER ARTICLE APPEARED IN THIS WEEK'S NOUVEL OBSERVATEUR WITH THE HEADLINE "SHOULD THE ENGLISH BE DRIVEN OUT OF THE COMMON MARKET". (THE VERB USED -BOUTER- EVOKES IN ANY FRENCHMAN'S MIND THE ROUT OF THE BRITISH BY JOAN OF ARC.) THE ARTICLE SUGGESTS THAT THIS WAS THE FEELING OF FRENCH LEADERS ON 10 DECEMBER WHEN FACED WITH TWO NEW BLOWS BY THE BRITISH: THE 5 PER CENT DEVALUATION OF THE GREEN POUND AND BRITAIN'S READINESS TO FALL IN WITH AMERICAN DEMANDS FOR RETALIATORY ACTION AGAINST IRAN. THE ARTICLE ALLEGES THAT THE BRITISH WERE CONSIDERED IN PARIS TO HAVE ACCEPTED ENTIRELY THE MOST IMPORTANT DEMAND, THE FREEZING OF IRANIAN DEPOSITS IN BRITISH BANKS. THE ARTICLE THEN CATALOGUES FAMILIAR FRENCH COMPLAINTS AGAINST BRITAIN'S COMMUNITY POLICY - SHEEP MEAT, / FISH, / EMS, / OIL ETC. IT ENDS HOWEVER, ON A RATHER DIFFERENT NOTE SAYING THAT IT IS TO BE HOPED THAT FRENCH LEADERS WILL NOT IN THEIR ANGER LOSE SIGHT OF THE SIZE OF FRANCE'S BOOMING TRADE SURPLUS WITH THE UK, THE INCREASE IN THE PROPORTION OF BRITAIN'S IMPORTS FROM THE EEC OVER THE LAST 10 YEARS, AND THE EXTENT OF BRITAIN'S FINANCIAL CONTRIBUTION TO THE COMMUNITY. "IF BRITAIN GOES" POINTS OUT THE WRITER "THE OTHER EIGHT WILL HAVE TO PAY IN HER PLACE. FOOD FOR THOUGHT?...FOR EXAMPLE ABOUT A ROLE OF MERE ASSOCIATE FOR BRITAIN".

5. SEE COMMENT IN MIFT (NOT TO ALL).

HIBBERT

FILES	ES & SD	MR BULLARD	ADDITIONAL DISTN.
FRD	NEWS D	MR CORTAZZI	ECONOMIC SUMMIT
ECON D	PS	MR HANNAY	
WED	PS/LPS	MR EVANS	
FED	PS/MR HURD	MR HARDING	
N AM D	PS/MR RIDLEY	MR MURRAY	
EID	PS/PUS	MR HAYES	
PLANNING STAFF	SIR A DUFF	MISS BROWN	
TRED	LORD BRIDGES		



C.C.  
LOD  
DT  
MAFF  
LPS  
LPO  
HMT  
CO  
D/N



cc Master set

10 DOWNING STREET

From the Private Secretary

21 December, 1979.

Dear George,

Community Budget

The Prime Minister held a meeting this morning with the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Lord Privy Seal, the Secretary of State for Energy and the Minister of State (Mr. Buchanan Smith) Ministry of Agriculture, Fisheries and Food.

There was general agreement that, in addition to the improvements in the Financial Mechanism which had been on offer at Dublin, we should now press hard to secure a receipts mechanism which would operate automatically to raise the level of our receipts per head nearer to the Community average. In this way, we should not have to argue each year over individual programmes: the amount we received would rise as total Community expenditure rose. It was likely that the Commission would propose a special fund for the UK for a limited period of years, and some of the uses for such a fund which they might favour could raise problems of additionality. However, it might prove possible to marry the idea of a fund with ideas for a mechanism as suggested in the note by officials.

The conclusions in the note by officials (viz. that, while we should continue to press for it, restructuring of the Community budget would not produce early or sufficient relief for the UK) were generally endorsed. There was some discussion about the 1980 Budget. The Prime Minister said she was extremely anxious that the Government should work closely with Mr. Scott Hopkins and the Conservative MEPs. The present procedures could be improved. We had been wrong to side with the French and Germans against the amendments to the draft budget proposed by the Parliament. The Chancellor of the Exchequer said OD(E) had recently discussed the problem but he still felt there was a political gap between the Government and Conservative MEPs. While it might not always be the case, in the immediate future it was in the UK's interest to side with the majority of the European Parliament. They were likely to be more favourable, e.g., to cuts in agricultural expenditure than were the majority of the Council. The Lord Privy Seal said that he was planning

/ to

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to meet Conservative MEPs before each session of the Parliament. It was difficult to tell whether the dispute over the 1980 budget would help our aim of restructuring the budget or deflect the Community's attention from our immediate budget problem.

On tactics, the Lord Privy Seal said he was now trying to set up a series of bilateral meetings for early January beginning with the Dutch and the Germans and leaving the French and the Danes (who had been most difficult in Dublin) to the end. In these contacts he would rest on the Prime Minister's statement after Dublin that we were looking for a genuine compromise in which we had limited room for manoeuvre. This implied that we were willing to accept some net contribution. In the meantime it was no longer helpful to refer to "broad balance", and if we cited the case of France it should be for purposes of comparison rather than as a statement of our position. He would hope to report to the Prime Minister by the third week in January, i.e., before the expected visit to London by the Italian Prime Minister, Signor Cossiga, which should if possible be arranged for the fourth week in January. The Government would need to consider then what threats might be necessary. Although the Germans had shown great reluctance to part from the French, their attitude remained crucial and they might be ready to put more pressure on the French especially if they feared that otherwise we might leave the Community. Nor should we under-rate the help we might get from the Benelux countries who were distrustful of the French.

On related issues the Secretary of State for Energy said Count Lambsdorff had told him that Chancellor Schmidt's attitude on the budget issue would be much influenced by what we were willing to do with North Sea oil in a sub-crisis situation. There was still a failure to recognise that we had behaved very responsibly towards the rest of the Community. We were already doing something substantial for the Community on prices and supplies. So far as the UK was concerned, North Sea oil gave us the advantage of receipts from our exports and some greater security of supply, but it did not give us cheap oil. By mid-January we would come under pressure to raise our prices following the Caracas meeting and this could produce new difficulties with our Community partners. They should understand that we could choose to exercise continued restraint or threaten to push up our prices, although the latter course would have wide repercussions. It was suggested that, although we should not over-rate the importance of North Sea oil as a source of supply for the Community, it was nevertheless worth while re-examining whether our oil policies could be exploited within the Community in order to advance our budget objectives. For instance, in a sub-crisis we might offer to make oil available at spot prices. But



basically our approach should be one of threatening to be less helpful than in the past rather than offering further positive help.

On fisheries there was general agreement that we could not allow discussions on the Common Fisheries Policy to become linked to the budget issue. As we had done before Dublin, we should aim to show that progress was being made.

Summing up the discussion, the Prime Minister said:-

- (a) the two papers by officials had been broadly endorsed;
- (b) the Lord Privy Seal should carry out bilateral consultations on the lines suggested and report back as early as possible in January. It would also be helpful if the Chancellor of the Exchequer would contact his opposite numbers especially the German and Italian Finance Ministers;
- (c) OD(E) would consider in January the tactical handling of energy, fisheries, and sheepmeat in relation to the budget issue along the lines agreed at the meeting;
- (d) apart from an interim meeting which might be necessary, there should be a further Ministerial discussion in the third week of January to consider a report on the Lord Privy Seal's consultations as well as the result of work currently in hand on the withholding of Community contributions and policies of obstruction within the Community if we did not make satisfactory progress on our budgetary requirement.

I am sending copies of this letter to the Private Secretaries of the members of OD(E), to Bill Burroughs (Department of Energy), and to Martin Vile (Cabinet Office).

*Yours ever*

*Nicholas Alexander*

G.G.H. Walden, Esq.,  
Foreign and Commonwealth Office.



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Ref. A01010

*Primo Minister*

MR. ALEXANDER

*Primo*

Consequences of European Parliament's Rejection of the 1980 Community Budget

We have only just received a copy of the note by the Foreign and Commonwealth Office sent to you by Paul Lever on 14th December. Independently we had been looking into the precise financial implications and you may wish to have this supplementary note, which has been discussed with the Treasury.

2. As the FCO note explains, although monthly Community expenditure on each item is restricted to one-twelfth of the 1979 budget or the 1980 draft budget, whichever is the lower, our VAT contribution is based on one-twelfth of the 1980 draft Community budget as established by the First Budget Council (payments of customs duties and agricultural levies continue unrestricted). Because the first draft contained a smaller provision e.g. for the Regional Fund, the result is a reduction in the United Kingdom's gross contribution but only about £10 million over the whole of 1980. And since the Community's income under the draft 1980 budget exceeds what it will be authorised to pay out balances will accumulate in the Commission's favour. This means that the Community would be less embarrassed if we were to withhold our net contribution.

*MJ*

M. J. VILE

20th December, 1979



*cc Mr Whitmore*

NOTE FOR THE RECORD

The Chancellor of the Exchequer called on the Prime Minister at 0845 hours today. The following are the main points which came up in discussion:

(i) EEC Budget

The Chancellor said that the Lord Privy Seal was establishing a small official group to assist him in developing our negotiating strategy on the EEC Budget issue. Four FCO officials were to be on this group, but only one Treasury official had been invited. While accepting that the FCO had to be in the lead, he felt that the Treasury had a crucial role to play; and therefore Treasury representation on the group should be on a par with the FCO. The Prime Minister agreed that Treasury representation should be stronger, and that - in addition to Sir Ken Couzens - there should be at least two other Treasury representatives. (We have since spoken to Sir Ian Gilmour's Office about this, and he is taking the necessary action.)

(ii) Treasury Appointments

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**ACT 2000** *for 40 years*

*CM Wayland  
6 July 2010*

(iii) Budget Date

The Chancellor said there were two options: either 25 March or 22 April. His own provisional preference was for 25 March mainly because the later date would involve

/ a loss



a loss of about £100 million (assuming the indirect taxes were revalorized). After the late Budget this year, he also did not want a repeat. The Prime Minister said that she agreed.

(iv) Monetary Policy

The Chancellor said that the Treasury were reviewing various aspects of monetary policy, including the Bank's performance in October and also the proposals for Monetary Base Control. He would be letting the Prime Minister have a note fairly soon. Moreover, he had promised a paper on monetary policy to Cabinet.

R.

20 December 1979





7

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

PRIME MINISTER

OUR EEC CONTRIBUTION: NEXT STEPS

It may help if I record some views on the next steps on our EEC contribution, which we are to discuss at your meeting tomorrow, 21st December.

Receipts

2. This is the critical area. We have on offer an improved Financial Mechanism which would reduce our gross contribution so as to bring it in line with our share in Community GNP. There is some degree of recognition in the Dublin communique that the UK has a special case for improved receipts, and the study which the Dublin Council asked the Commission to undertake is part of that. But my impression is that the most any of our partners are at present thinking of as additional receipts for the UK is 200 or 300 meua a year, perhaps for a limited period. We need much more than that to achieve an equitable and defensible settlement.

3. Much the best solution would be an arrangement which guaranteed us a certain proportion of average Community receipts, with or without cosmetic matching with UK public expenditure already included in existing programmes. Some form of Special Fund for the UK (whether as a branch of the Regional Fund or otherwise) could serve the same purpose. A combination of methods might meet our needs if the





components were on the right lines. But I do not at present see how our needs could be met on the necessary scale and for a long enough period unless two principles were recognised. The first is that the UK has a special case for extra receipts because it is below average GNP per head and because its receipts are so low. The second is that our receipts must rise at least in line with average receipts in the Community, or with some other suitable dynamic factor. A temporary allocation or fund in money terms could mean that we had no permanent settlement and that our problem would rapidly return.

4. I see no serious difficulty about devising a method, or producing matching UK expenditure, provided our partners are really ready to accept an increase in our receipts on the necessary scale. However, I have no illusions about the effort that will be required to reach that position.

Restructuring

5. The paper by officials seems to me to demonstrate that a dramatic degree of restructuring of the Budget would be required to give us any very significant reduction in our net contribution, even over 3 or 4 years. I am sure that we should make every attempt to get the Budget restructured in the right direction but I would not expect this to do much to reduce our present net contribution. In the absence of the right mechanisms for our gross contribution and for receipts, that effort would be needed to prevent further deterioration in our contribution position. The paper by officials brings out that restructuring means for us getting down the cost of the guarantee section of the CAP borne on the Community Budget. In spite of a growing recognition that this

/expenditure





expenditure is running out of control I believe that administering a check to CAP costs on the necessary scale is still likely to be even more difficult than protecting the UK from paying for it by limiting our net contribution with the aid of financial and receipts mechanisms.

1980 Budget

6. We shall need to discuss tactics following the rejection by the Parliament of the 1980 Budget in more detail, perhaps at a later meeting. However, I think that in the period immediately ahead we may have to give a lower priority to the principle of the supremacy of the Council of Ministers over Parliament on expenditure; and say publicly that while we are in our present net contribution position we are obliged to consult our national interest in getting that redressed, and consider whatever is proposed on the 1980 Budget accordingly. If we made it clear that this was the principle on which we were operating, it would leave open the possibility that once a satisfactory settlement had been reached on our net contribution, we might be prepared to return to the principle of the supremacy of the Council. The French are known to be deeply concerned at the risk of an alliance between the majority in the Parliament and a minority in the Council hostile to CAP expenditure of the present scale and form. They would have an interest in seeing us return to the principle of the supremacy of the Council.

7. I think this means that in the re-presented 1980 Budget we would look for the strongest limitation we could get, consistent with the reasonable interests of British farmers, on guarantee section expenditure; and the best improvement we

/ could





could achieve in expenditure yielding us gains in receipts. We would need throughout to keep in close touch with our MEP's, especially in order to explain to them changes in our policy.

8. Like the Foreign Secretary, I would favour further exploratory work on other Community matters which our partners might attempt to relate to the UK contribution question. I think we have to be careful to measure the economic costs to the UK of any steps we take in these areas, and I think stress should be on exploring measures which are either inevitable or which cost us little or nothing in economic terms.

New Figures

9. I think we have to face the need before long to update the familiar Commission figures of e.g. 1552 meua for our net contribution on an importer benefits basis and 520 meua for the potential benefit from an unrestricted Financial Mechanism.

...

The Annex to this minute explains our latest forecasts. I think there is a case for making public, perhaps in an arranged question, our latest estimate of our net contribution on the basis of the present exchange rate; and for making clear also that we shall be claiming for 1980 under the existing Financial Mechanism. The effect would be to leave our net contribution after the claim at about the familiar £1,000m. level. There is a case for using as the base the Budget for 1980 as rejected by Parliament. If our net position is improved in the course of settling the Budget it would be reasonable to take credit for that as part of our effort to solve the problem.

10. The revised figures for 1980 reflects again the upward trend of our net contribution which we know will continue at a rapid pace into 1981 and later years unless present arrangements are changed. Until we achieve a satisfactory solution,





this is a formidable problem for public expenditure and for the borrowing requirement.

11. I understand that we shall be looking at the implications of withholding and of a policy of obstruction at a later meeting, as well as at a paper about our legal case for redress under the Treaty (Article 175). In the very last analysis withholding tackles directly the impact on the borrowing requirement, though we would all prefer a satisfactory settlement without it.

12. I know the Lord Privy Seal is planning an intensive programme of visits to carry our case further. I would be very ready to assist by way of visits to key fellow-Finance Ministers.

13. I am copying this minute to the Foreign & Commonwealth Secretary, the Lord Privy Seal, the Minister of Agriculture, the Secretary of State for Energy and to Sir Robert Armstrong.

G.H.

(G.H.)  
20 December, 1979





EEC CONTRIBUTION: NEW FIGURES

1. The figures we have hitherto used for our net contribution in 1980, and for the benefit to us of an unrestricted Financial Mechanism, have been those quoted by the Commission in their Reference Paper of September 1979. The Commission used for their calculations:-

a. the latest information they then had about the prospective 1980 Budget;

b. a constant real exchange rate for the UK at the level of February 1979 ie. on expectation that the nominal rate would fall in line with relative UK inflation .

2. We have now re-worked the figures, since the assumptions at a. and b. above are now quite unrealistic. The basis we have used are:-

i. the 1980 Budget in its latest form ie. as rejected by the Parliament;

ii. two variants on the exchange rate:-

a. The Commission's method, by which the rate falls to reflect the difference between our inflation rate and that of the Community as a whole;

b. the current rate extended unchanged into 1980, irrespective of relative inflation rates (relative inflation rates are only one factor affecting our exchange rate);

iii. MCA's take account of the recent 5 per cent Green Pound devaluation, but assume no further change under either exchange rate variant.





20 DEC 1979





## SECRET

## NET CONTRIBUTIONS TO 1980 BUDGET AND EFFECTS OF FINANCIAL MECHANISMS

	September Reference Paper Basis		- Latest Information - Commission Method:			
	Meua	£m <sup>1</sup>	Exchange Rate falls to reflect inflation differential		Constant nominal exchange rate	
	Meua	£m <sup>1</sup>	Meua	£m <sup>1</sup>	Meua	£m <sup>2</sup>
<u>UK NET CONTRIBUTION</u>						
i. importer benefits treatment of MCAs	1552	1090	1700	1195	1780	1160
ii. exporter benefits	1814	1280	1920	1350	1910	1250
<u>BENEFIT OF UNRESTRICTED FINANCIAL MECHANISM</u>						
a. Gross	630	445	730	515	500	325
b. Net	520	365	600	420	400	260
<u>CLAIM FOR 1980 UNDER PRESENT MECHANISM</u>						
	n/a		425	300	215	140
	n/a		345	240	175	115

1. Method implies exchange rate of £1 = 1.42 Eua
2. Method implies exchange rate of £1 = 1.53 Eua

NB The benefit from the Financial Mechanism, restricted or unrestricted, is very sensitive to assumptions about relative inflation rates and the exchange rate.

SECRET





20 DEC 1979



PRIME MINISTERCommunity Budget: Follow-up to the Dublin European Council

1. Following Sir Robert Armstrong's minute of 7 December you decided to have an informal meeting with a restricted group of Ministers before the Christmas break to consider follow-up action to the Dublin European Council discussions on our Budget problem.
2. The conclusions of the Dublin meeting said that adaptation of the Financial Mechanism could constitute a useful basis for a solution; asked the Commission to look at supplementary measures to increase our receipts; and contained general wording about the need to improve the structure of the Community Budget. In reporting to the House on 3 December you said that you were ready to work for a genuine compromise but that your room for manoeuvre was limited. The Commission has started work on its remit on receipts and we have given them a note of our own ideas. The Italian Presidency is planning a series of bilateral visits starting with a visit by Mr Roy Jenkins to Rome at the beginning of January. You have agreed to Lord Carrington's suggestion that the Lord Privy Seal should be given responsibility for co-ordinating our strategy and carrying out bilateral consultations.
3. Your meeting on Friday morning does not need to take final decisions but to make sure that all the necessary preparatory work is going ahead and that the Lord Privy Seal has a general steer for his consultations with other Governments, which will need to start as early as possible in the New Year.
4. The meeting has before it:-

(a) a paper by officials on supplementary measures to increase our receipts, together with the note we have now given to the Commission which was based upon it;

(b) a paper by officials on restructuring the budget; and

(c) the Foreign and Commonwealth Secretary's minute of

19 14 December

*I have also included  
a paper about the  
implications of the  
European Parliament's  
rejection of the  
1980 Budget. Your  
colleagues will not have this. Am*



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5. The note by officials on supplementary measures to increase UK receipts defines our ideal requirements (paragraphs 2-7); considers three possible forms which the supplementary measures might take (paragraphs 8-29); examines current UK Public Expenditure programmes which could be financed by the Community (paragraphs 30-38 and Annexes 1 and 2); and concludes (paragraphs 39-42) that

(i) we should keep alive the possibility of a simple receipts mechanism linked to the Financial Mechanism; but

(ii) because the Commission are unlikely to put this item forward, we should collaborate with them in exploring other supplementary measures.

(iii) These measures could include special treatment for the UK under existing Community policies, but these are unlikely to make a major contribution to our problem.

(iv) The next best thing to a receipts mechanism would be a special fund for the UK, linked to expenditure on policies of interest to the Community, the most promising candidates being coal investment, transport infrastructure, Northern Ireland and urban renewal (to all of which it may help to give a regional slant).

6. The note by officials on restructuring of the Community Budget rehearses the unfulfilled promises we got about a better balanced Budget before we joined the Community (paragraphs 2-4); the more recent Italian pressure for a shift towards non-agricultural expenditure (paragraphs 5-9); sets out three conditions which would have to be met if a restructuring of the Budget is to help the UK (paragraphs 10-15); shows the scale of change that would be needed to provide a significant reduction in our net contribution (paragraphs 16-17 and the Table); discusses the most effective ways of controlling CAP expenditure (paragraphs 18-21); and concludes



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(paragraphs 22-25) that

- (i) restructuring of the Budget can provide no nearly contribution to the solution of our problem; for which we must place main reliance on the supplementary receipts measures;
- (ii) we should nevertheless argue strongly for restructuring, within the 1 per cent ceiling, provided our conditions are met;
- (iii) success will depend critically on cutting the cost of the CAP; we must look for the course which would create least problems for British agriculture.

7. The minute by the Foreign and Commonwealth Secretary looks at each of the three legs of our Budget strategy in turn; assumes that, subject primarily to French backsliding, the £350m on offer at Dublin will be available again; notes that restructuring of the Budget can only help us in the longer term, proposes that we should nevertheless seek a reduction in guarantee expenditure under the CAP within the 1 per cent VAT ceiling, and settle later what role we want the European Parliament to play in this; and recommends that for the immediate future we should concentrate on supplementary receipts measures along the lines proposed in the note by officials. (paragraphs 2-4). Under tactics, Lord Carrington proposes an intensive programme of bilateral contacts by the Lord Privy Seal; an early visit by the Italian Prime Minister; and suggests that OD(E) should consider early in January the tactics we should adopt on the issues which our partners see as linked to our Budget problem, namely fish, sheepmeat and North Sea oil (paragraphs 5-8).

HANDLING

8. You might find it convenient to base the discussion on the Foreign and Commonwealth Secretary's minute, taking the notes by officials as they arise. The Foreign and Commonwealth Secretary may wish to introduce his minute. Thereafter you might take the meeting through his minute, in the following



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sequence:-

(i) restructuring the budget: any dissent from the conclusions in paragraphs 23-26 of the Official Note? There is now a link with the European Parliament and you may wish to note that OD(E) will be considering our attitude towards the Parliament's rejection of the 1980 Budget early in the New Year. The Chancellor of the Exchequer and the Minister of Agriculture may wish to comment. Officials are doing more work on ways of cutting the cost of the CAP (and Mr Walker sent you some preliminary ideas on 21 November). OD(E) should have a paper in January.

(ii) Additional receipts: Does the meeting endorse the conclusions in paragraphs 39-41 of the Official Note on Supplementary Measures? We must continue to work on the Commission to get out proposals by about the third week in January. How far can we go in accepting Commission influence over our expenditure programmes in exchange for Community financing of those programmes? (Chancellor to comment).

(iii) On tactics, the Lord Privy Seal might be invited to report on the bilateral contacts he has in mind with the Presidency, the Commission and the other member states. He will presumably operate within the framework of your statement to the House on 3 December. Should the Chancellor also visit some of his counterparts?

(iv) On related issues, you have ruled out linkages. The Foreign and Commonwealth Secretary agrees that we must continue to argue each issue on its merits but suggests that more work is needed to develop our tactics on fish, sheepmeat and energy. The Minister of Agriculture and the Secretary of State for Energy will wish to comment; they could be asked to bring papers to OD(E) early in January proposing the best tactical handling.

+

"When precisely should  
Signor Cossiga come here?"



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CONCLUSIONS

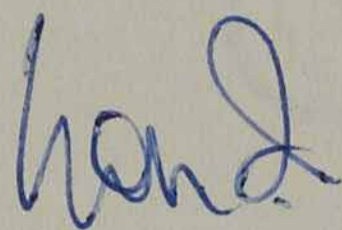
9. Your summing up might:

(a) endorse the two papers by officials;

(b) agree that the Lord Privy Seal should carry out bilateral consultations on the lines you have laid down and report back to you as early as possible in January;

(c) agree that OD(E) should consider the CAP, energy and other related issues in January;

(d) envisage a meeting of OD under your chairmanship to take the Lord Privy Seal's report as well as the work which is being done on obstruction/withholding if we do not get our way next time.



M D M FRANKLIN

CABINET OFFICE SW1

20 DECEMBER 1979



PRIME MINISTERMEETING WITH THE CHANCELLOR

You only have 15 minutes with the Chancellor tomorrow. I understand he will probably want to raise the following points:

1. Treasury Appointments

You discussed these last week but did not reach final conclusions; the Chancellor wants to take your mind further on these.

2. EEC Budget

The Chancellor is a bit concerned about the handling. You have agreed that Sir Ian Gilmour should be in charge of the negotiating strategy; but you in fact told the Chancellor when you saw him two weeks ago that the Treasury should take the lead in conducting the review of options. I think in fact that the choice of the Lord Privy Seal was the right one - since only the FCO can really take charge of the tactics etc. (and of course Lord Carrington is the Chairman of OD(E)). But you might mollify the Chancellor by saying that the Treasury must of course play a major role in this exercise.

3. Iran

We have the meeting fixed up for tomorrow afternoon but so far no papers for it. The Chancellor may want to have your latest thinking on the ~~assistance~~ <sup>assets</sup> question.

If there is time, you might want to ask the Chancellor what are his plans for working up some of the small firms schemes which were discussed at E Committee last week. The scheme which interested Ministers most was the "starting up" scheme to encourage equity investment. It was left that the Chancellor should make his best judgement on the merits of this scheme nearer the time of the budget. But Inland Revenue officials remain hostile to it and Treasury officials seemingly indifferent; unless rapid progress is made in preparing a scheme in fuller detail, the option of introducing it in the budget may be lost.

R.

paper  
now  
received  
(in the  
folder)



CONFIDENTIAL

MR. ALEXANDER

Community Budget: Prime Minister's Meeting  
on 21st December

I attach for consideration at the meeting to be chaired by the Prime Minister on 21st December two Notes by Officials, entitled respectively -

A Community Budget: Supplementary Measures to increase  
United Kingdom Receipts.

B Restructuring the Community Budget.

2. The Prime Minister has already seen the first paper, and approved a note based upon it to be given informally to the Commission. I also attach a copy of that note in the form in which it has been given to the Secretary General of the Commission. Some of the figures in the paper have been revised. The second is a companion piece dealing with the contribution which might be made to alleviating our Budget problem by a shift in Community expenditure away from agriculture. Both have been prepared by the Official Steering Committee on European Questions.

C

3. I am sending copies of this minute and the attachments to the Private Secretaries to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Lord Privy Seal, the Minister of Agriculture and the Secretary of State for Energy.

*MJV*

(M. J. Vile)

19th December, 1979



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COMMUNITY BUDGET : SUPPLEMENTARY MEASURES TO INCREASE UK RECEIPTS

Note by Officials

The Presidency conclusions following the European Council in Dublin on 29/30 November said:

"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 greater participation by the United Kingdom in Community expenditure."

This paper discusses supplementary measures to increase UK receipts; it falls into three parts:

- Part I outlines the UK's objectives and identifies the key problems.
- Part II discusses the steps which the Community might take to channel funds to the UK.
- Part III looks at the range of existing UK public expenditure programmes which could be financed by the Community, either for the first time or to a greater extent than now. Annex 1 summarises the main candidates.
- Annex 2 illustrates some "packages" of projects and programmes which look promising.

The paper does not discuss our chances of getting receipts on the necessary scale. If there was a political readiness to make large payments to the UK, the practical problem of absorbing the funds would be secondary.

I OBJECTIVES

2. Ideally, the UK wants a special provision for receipts which would:
  - a. substantially reduce our net budgetary contribution to the EEC
  - b. reduce public expenditure and the Public Sector Borrowing Requirement (PSBR)
  - c. offer relief in 1980 and provide the basis for a continuing degree of relief (in relation to our net contribution)
  - d. be limited to the UK and avoid setting precedents which could be costly after enlargement.

The receipts need to come in a grant or interest rate subsidy. Loans would reduce neither public expenditure nor the PSBR.

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Additionality

3. Objective b. requires some further explanation. All receipts in respect of expenditure by UK public bodies will reduce our net contribution to the EEC budget as defined in PESG programme 27 and therefore the burden on the balance of payments. But if this is to be reflected in a matching fall in public expenditure and the PSBR, Community financed expenditure must replace existing planned spending which would have been financed by the UK. If receipts from the EEC lead to additional spending, the benefit to the PSBR of a cut in our net contribution will be correspondingly offset.

4. This raises a problem with any money in respect of spending by local authorities and public corporations. The doctrine that Community funds should be genuinely additional is no longer so fervently espoused in Brussels. We understand from our sources in the Commission that, provided the UK is prepared to maintain a tactful silence on this point, the Commission is unlikely to make an issue of it. But it may still be politically difficult for the Exchequer to get the full benefit from additional funds which European institutions appear to have given to public bodies, even though assurances that grants will not be used to increase spending are already standard practice in some cases.

Wider Implications

5. We must be on our guard against changes which would carry a serious risk of adding to the total budgetary or non-budgetary costs of EEC membership in the longer term. Some arrangements and types of spending provide a lever for other countries to increase their share in Community spending; this would eventually dilute the benefit to us of any special regime.

Criteria for Special Treatment

6. Any special arrangements (whether inside or outside existing funds) should be effectively confined to the UK. This could be done explicitly, by naming the UK, or indirectly by specifying conditions which only the UK could meet. Two conditions would identify the UK in 1980:

- a. below average GNP per head
- b. net contributor

To guard against the possibility that Italy might again become a net contributor a third could be added:

- c. receipts per head less than (at most) 80 per cent of the EEC average.  
(Italy's receipts are, in 1980, likely to be slightly below average).



All calculations would exclude the effect of our own refund.

7. Conditions might be helpful to us in the longer term, as a means of enshrining our claim to special treatment in Community instruments.

## II COMMUNITY ARRANGEMENTS

8. The Dublin Presidency conclusions do not define what form the "supplementary measures" should take. There are three possibilities:

- (a) using existing funds like the Regional Fund to give greater benefits to the UK.
- (b) developing a special fund for the UK.
- (c) a receipts mechanism.

Current thinking in the Commission focuses on (a) or (b). From our point of view (c) is the best solution, although it is the one most likely to encounter opposition. It may be possible to develop a version of (c) that looks like (b); there is a grey area between (b) and (c) which it might be possible to exploit by importing criteria relating to our low receipts per head into (b). However, it may be necessary to demonstrate that adequate funds cannot reliably be provided through an enlargement of existing funds before the rest of the Community are prepared to take either (b) or (c) seriously. But, once the sums to be made available to the UK have been broadly agreed, the simplicity of /these approaches may do much to commend them. It is essential to keep alive the idea of a receipts mechanism developing our own variants of this basic idea for use at an opportune moment.



A - Enlarging Existing Funds

10 More could be made available to the UK under existing policies either by enlarging the total size of the Regional and Social Funds, or by increasing the UK's share. The first is the only serious option. A simple increase in the UK's share, without an increase in size of the Fund, would be at the expense of other less prosperous countries, notably Italy, who are the main beneficiaries of structural spending.

11 Possible approaches, all of which involve increasing existing Funds pro tanto are:

a. a special window for the UK within an enlarged Regional Fund. Projects covered by this tranche need not be subject to exactly the same tests and procedures as those covered by existing sections of the Regional Fund (though this might be difficult to avoid) but they would probably have to be located in the assisted regions.

b. an increased UK quota in a greatly enlarged quota section of the Regional Fund\*.

Other possibilities which might play a very minor role in any package are:

d. a larger share for the UK in an expanded Social Fund

e. a guaranteed increase in the UK's share of a much expanded non-quota section of the Regional Fund.

12 It would be difficult to secure payments on the scale we are looking for through this route. The problem is the small size of the existing funds. Commitments to the Regional Fund are likely to total around 1 billion eua\*\* in 1980, of which the UK may receive about 270 meua (27%). The Social Fund is about the same size, and the UK's share is likely to be about 25%. In order to give the UK additional receipts from the Regional Fund of 500 meua the Fund itself would have to be increased by 50% and the UK's share increased to one half. This would leave the Italians and the Irish with quotas of only 26% and 4% (compared with 39% and 6% now) though their receipts in 1980 would be unaffected in cash terms. It would be very difficult to sustain this degree of preferential

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\* The Regional Fund is split into quota and non-quota sections, of which the first is 95% of the total.

\*\* Commitments in the draft budget for 1980



treatment for the UK over a prolonged period.

13 Utilising existing policies may be complicated administratively. Projects have to conform to prescribed Community criteria and are subject to cumbersome and time consuming vetting procedures. This is especially true of the non-quota section of the Regional Fund where the Commission have more discretion in selecting projects than under the quota section. Moreover the non quota and social funds are not allocated by national quota so it would be difficult to enforce what was - in substance - a UK quota. Moreover, the recent restriction in the area designated for special assistance by the UK Government will limit - though probably not drastically - the range of projects for which finance could be claimed from the Regional Fund as it stands.

14 These administrative problems could be avoided if the Community were simply to raise its percentage support for UK projects which will attract Community funds under existing arrangements. This would include projects already started. At the moment the Community's share in UK projects is typically around 25-30% of their total cost. But substantially increasing this would mean giving the UK much more favourable treatment than the Irish and Italians, (both of whom currently attract a Community share somewhat in excess of ours).

15 It is, of course, our contention that the UK has a good case for special treatment. Even so, if special arrangements are closely associated with existing policies, it will be difficult to avoid invidious comparisons resulting in pressure on the part of others for equal treatment. Given the prospect of enlargement, this approach would be all the more vulnerable.

Summary: Existing Funds

16 It is unlikely that an adequate and timely response to the UK's needs can be found from within existing programmes alone - without giving rise to additional pressures on the Community Budget by the other less prosperous countries. But special treatment under existing policies may have some part to play as part of a more general solution. The main possibilities seem to be increased Community participation in existing projects, and the idea of a special UK "window" in the Regional Fund.



B A Special Fund or a Receipts Mechanism

17 We could press for a special fund for the UK ((b) in paragraph 8 above) or a receipts mechanism ((c) in paragraph 8 above), perhaps by means of a further amendment to the existing Financial Mechanism. A special fund would certainly require, and an amendment to the existing Financial Mechanism would probably require, a Council Regulation under Article 235.

A Receipts Mechanism

18 An explicit receipts mechanism - eg. to bring UK receipts per head up to 80 per cent of the Community average - is our clear preference, but does not currently feature in Commission thinking. Nonetheless, we must keep the idea alive. Its great advantage is that it would ensure that in each year funds would be provided according to the size of our receipts deficiency. The effect of any budget restructuring agreed as part of an overall solution would also be automatically taken into account. We could argue that a formula would protect the rest of the Community against paying the UK too much - if our problem disappears more rapidly than expected - as well as protecting us, in the event that it does not.

A Special Fund

19 A special fund for the UK would probably be more negotiable than a receipts mechanism. Present Commission thinking is that any special fund would take the form of a fixed amount agreed for a limited number of years - probably three or four at most. But since we expect our net contribution to continue growing, this approach would provide an increasingly inadequate degree of relief.

20 A special fund might have imported into it some elements of a mechanism. Instead of agreeing a cash limit, the size of the fund could be reached by a formula related to our receipts per head. But this extension of the special fund idea, because it essentially involves a receipts mechanism in disguise, may well not find favour with the Commission or other member states.



21 Ideally, funds provided either through a special fund or a receipts mechanism would be subject only to a general condition that they should be used in ways which would promote convergence (cf EMS interest rate subsidies). In practice, both forms of increasing our receipts are likely to be subject to more detailed conditions. In particular, a special fund is likely to be constrained to certain types of expenditure.

Areas of Spending

22 From our point of view, expenditure singled out for special treatment should be in areas of particular interest to the UK from which we would expect to benefit in net terms even if other countries eventually succeeded in obtaining increased Community funds in these areas. But to be negotiable, the spending areas should probably be not too far removed from existing Community policies. (It might help, for example, if they had a regional dimension or flavour). In addition the provision of funds for the UK should preferably:

- a. Avoid distorting competition between member states (in contravention of Article 3 of the Treaty. In practical terms this also means that they should avoid alienating powerful special interest groups in other member states).
- b. Avoid cutting across new Community policies which are in course of preparation, and from which other members hope to benefit.

23 In their paper for the Dublin Summit, the Commission suggested:

- coal investment
- transport infrastructure
- agricultural improvement expenditure

The UK public expenditure aspects of these suggestions are discussed in Part III. In relation to the criteria outlined above none of these suggestions is perfect.

24 Coal Investment would apparently create great problems with the Germans, and (possibly to a lesser extent) the French and Belgians, who all have vocal mining interests. It might also lead to a demand for funds on the part of coal consuming nations such as Italy. On the other hand it could be presented as a move to help adapt to the Community oil shortage.



A Community wide scheme to support coal investment would dilute the benefit to the UK but we could still expect to substantially benefit because UK accounts for at least half of EEC investment.

25 Agricultural Improvement is of little interest to us because we do not have a structural problem and the sums involved are likely to be trivial. This is an area with much more potential for other members states than for us.

26 Transport Infrastructure. The UK is by European standards relatively poorly provided with motorways and has a large construction programme. There is some Community finance in this area already, through the EIB and the Regional Fund. Though there is no problem with competition policy, the Commission have been trying for some time - without much success - to launch a special transport infrastructure programme. There may be reluctance to give money to the UK for this purpose without parallel progress on a Community-wide policy but we could claim the disadvantages of peripherality.

27 Other possible areas for special spending are Northern Ireland, urban renewal, and telecommunications. Northern Ireland has the appeal of being recognised by the Community as being in a special situation and has the sympathy of member states. It may be possible to justify Community finance for some current as well as capital spending. But there will inevitably be problems of comparability with the Republic of Ireland, and this together with political pressures to spend more, may raise problems of additionality (especially since any additional Community spending in the Republic of Ireland is made to appear as a genuine addition to resources).

28 In the case of telecommunications, the UK is in the position of having large investment programme. But initial Commission reactions are that this would be a difficult area to justify in relation to existing Community policies and concerns. Urban renewal in areas of <sup>industrial decline</sup> is also an area of public expenditure which would be suitable for EEC support; the UK has a disproportionately large share of city centre problems.

Summary: Mechanism and Special Fund

29 A special regulation under Article 235 would be the simplest method of providing money for the UK, though anything resembling a mechanism will run into objections from other member states. The ideal solution from our point of view would be a general directive which left us considerable latitude in



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● disposing of the funds - subject no doubt to consultation with the Commission and a general requirement that the funds were used to promote convergence. Tying expenditure to policies of particular interest to the Community might be necessary in order to make a special fund more acceptable.

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UK PUBLIC EXPENDITURE PROGRAMMES

30. The attached table shows current figures for those programmes to which additional Community funds might be applied, either under existing funds or under new arrangements. The separate columns identify the responsible spending authority, and the extent to which they already attract Community money.

31. The Community typically pays only a proportion of the total cost of any particular project or programme leaving member governments or the responsible agencies to find the rest from non-EEC sources. At present the Community is prepared to cover 30-40 per cent of the costs of infrastructure investment supported by the Regional Fund or up to 50 per cent of government financing of Social Fund projects or assistance grants to private industry. The new non quota section of the Regional Fund <sup>may</sup> establish a precedent that up to 70 per cent\* of project costs may be met by the Community. For clearly identified regional projects it may be possible to negotiate a 70 per cent matching of UK expenditure, but for most other purposes 50 per cent is probably more realistic. These arrangements need not necessarily apply, though there will be a presumption that they should.

32. The following points have emerged from our informal contacts with the Commission:

- a. Infrastructure investment eg roads, railways, will be more favourably regarded than "productive" investment (eg coal, steel)
- b. any reputable public authority could qualify - ie all public corporations, local authorities, as well as central government
- c. it will be difficult to obtain Community funds for current rather than capital spending. The only possibility might be under some regional umbrella like Northern Ireland
- d. either new starts or old projects might qualify for extra funds
- e. funds provided through window in existing funds would have to be justified in terms of those funds.

\* This 70 per cent grant rate has not yet been agreed



The precise timing of particular projects and programmes may not be too important. Informal contacts suggest that the Commission might be prepared to make advances on agreed projects perhaps up to 80 per cent even before the investment was incurred. Nevertheless it is important to allow for the impact of possible spending cuts or further delays in capital expenditure in particular areas. It would not be to our advantage to direct Commission attention to marginal UK spending which may have to be cut.

Additionality

34. The question of which public body is responsible for expenditure involved is relevant to additionality even where, as usually happens, the payments are made through the Exchequer. There are no accounting problems in scoring a net saving to the PSBR, provided existing spending levels are held. Local authority current and capital spending is a direct charge on both public expenditure and the PSBR, like central government spending. The capital spending of some public corporations (eg Regional Water Authorities) is treated in the same way. In the case of other public corporations (including nationalised industries) it is their net external financing requirement which scores. In each case however payments to the relevant body would almost certainly reduce the PSBR as long as expenditure remained unaffected.

35. The real issue is the extent to which central government can prevent local authorities and public corporations from spending more. At the least, adjustments would have to be made to the RSG and CG direct grants to the bodies involved. In the case of nationalised industries there is no statutory basis for recoupment of grants which we do not want to be used for extra investment. In principle the Government have the power to prevent extra investment by the nationalised industries, though in practice additional Community money would certainly generate pressure in some cases that could prevent this power being used. British rail is one such case since it is actively seeking to raise its investment ceiling. We should need to exclude cases where we judge that such pressure could not be resisted. Moreover, in both practical and presentational terms it may be difficult to give grants to bodies which are net cash generators or are likely to become so during the early 1980s and to get the money back into the Exchequer without some leakage into extra expenditure. In other areas, overt recoupment by central government would be subject to particular political problems - Northern Ireland is one example.



Programmes for Special Regions

36. These problems arise with one otherwise attractive idea which has been informally suggested to us by the Commission. The proposal is that the Community might find a range of fairly disparate spending programmes in a number of specially disadvantaged regions designated either geographically, or within a special "urban programme". Increased spending might be related loosely to the existing regional fund, through a special UK window or could be a designated area for spending under a completely new fund for the UK.

37. This approach might make it possible to include areas not officially classified as assisted regions (eg London Docklands). It might also provide a convenient cover for EEC funding which would not otherwise qualify under the Regional Fund - eg capital expenditure on schools and hospitals. But there could be difficult problems of recoupment.

Grants and Loans

38. Neither public expenditure nor the PSBR would be reduced by loans alone. The money needs to come in the form of a grant or an interest rate subsidy. The subsidy element in any Community loan would score. Payments in the immediate future could be increased by capitalising the subsidy element, as was done in the case of EMS interest rate subsidies. But even so, it would probably be hard to get very much money through this route because the loans involved would have to be very big.

CONCLUSIONS

39. Our aim should be to keep alive the possibility of a simple receipts mechanism which, by way of further amendment to the Financial Mechanism, would increase the refund to the UK in respect of our below-average receipts per head.

40. However, we are unlikely to persuade the Commission to make this idea their own, at any rate at this stage. We must therefore collaborate with them in exploring other forms of "supplementary measures" which could meet our requirements. We should point out the severe limitations on securing special treatment for the UK under existing policies without ruling out the possibility of this approach making some contribution to a satisfactory solution.



41. The next best thing to a receipts mechanism would be a kind of block grant or special fund for the UK subject to consultation with the Commission to ensure that it was used to promote convergence and in line with Community policies. If, as is likely, some indentification with existing and planned public expenditure policies was necessary, several possibilities exist. Our expenditure on coal, on transport infrastructure, in Northern Ireland, and in urban areas suffering from serious industrial decline appear to be the most promising.

42. We should seek to influence current thinking within the Commission by giving them a memorandum explaining our preference for a receipts mechanism, but indicating the areas of public expenditure (as listed in paragraph 41 above) to which we consider the Community should contribute.

Cabinet Office

13 December 1979



SUMMARY OF PUBLIC EXPENDITURE PROGRAMMES TO WHICH EEC MIGHT CONTRIBUTE

<u>Programme</u>	<u>Amounts in PESC</u> 1980/81		<u>Responsible</u> <u>Authority</u>	<u>Comments</u>
	<u>meua</u>	<u>£m at 79</u> <u>survey</u> <u>prices</u>		
1. <u>Transport infrastructure</u>				
'E' roads linking directly to EEC ports	} 730	430	Central	Infrastructure investment fits Community preferences. Link with existing proposals for a Transport Infrastructure Fund. Regional projects can already claim from ERF. Spillover problem.
- less directly linked			Government	
Other motorways and trunk roads			"	
Major motorway reconstruction	85	50	"	Existing Community practice to exclude motorways from ERF.
Capital spending on local roads	570	335	Local authorities	Infrastructure preference, Regional project can already claim under ERF, problem of recoupment from RDG.
Capital spending on** railways	423	250	CG/Nationalised Industry	No existing Community practice, possible justification from higher transport costs in peripheral areas of Community. Spillover problem. Possible pressures for additionality.
Airports capital** investment	25	15	Nationalised Industry Board	As above - problem of grant finance for profitable investment in some cases.
Ports, docks and waterways investment	85	50	Public Trust/ Local authority	Regional projects already qualify for ERF grant. Potentially severe recoupment problems except where ports are heavy NLF borrowers.
Total of above	1915	1130		

\* Current Prices converted at £1 = 1.5 meua.  
+ Not all this scores as public expenditure.

\*\* Figures for airports and railways relate to the  
external financing requirement. Expenditure on fixed  
assets in 1980/81 will be £79 m for BAA and £350m  
for railways.



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	<u>meua</u>	<u>£m at 79</u> <u>survey</u> <u>prices</u>	<u>Responsible</u> <u>Authority</u>	
<b>2. <u>Coal industry investment</u></b>				
Investment in new mines and major extensions	490	290	CG/Nationalised Industry	Possible justification as easing adaptation to oil prices. Robust in that UK would be principal beneficiary from "Community-wide" scheme. German miners an important interest group. Some difficulties if UK has to agree to export coal at below UK prices (UK prices 40% higher than world prices).
Other coal industry investment	510	300		
<b>3. <u>Electricity investment</u></b>				
Electricity Council and * Area Boards expenditure on fixed assets	237	140	Nationalised Industry	} No existing relevant Community policies. Some precedent in existing EIB lending to regional electricity generation projects.
N. Scotland Hydro Electric fixed assets	76	45	"	
S. Scotland Electricity* Board fixed assets	93	55	"	
<b>4. <u>Expenditure in Northern Ireland</u></b>				
Capital and infrastructure investment	680	400	LAs and CG	Some existing EIB, Regional Fund and Social Fund precedents. Political pressure to raise real expenditure in Northern Ireland.
Aid for trade, industry and employment	350	205		
Current expenditure on:				
Roads and transport	110	65	"	
Housing	125	75	"	
Environmental services	60	35	"	
Education, Libraries	465	275	"	
Health & Social services	500	295	"	
Social Security	1010	595	"	
<b>Total of above</b>	<b>3300</b>	<b>1945</b>		

\*Figures for electricity boards refer to the external financing requirement. Expenditure on fixed assets in 1980/81 will be: Electricity Council and Boards £797m, S.Scotland Board £123m.



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	<u>meua</u>	<u>£m at 79</u> <u>survey</u> <u>prices</u>	<u>Responsible</u> <u>Authority</u>	
5. <u>Telecommunications investment</u> *	NIL	NIL	Nat. Industry	} Problem of grant finance for profitable services. No general distortion to Community competition but some problems about supplying industries. Spillover problems.
Post investment *	NIL	NIL	"	
6. <u>Miscellaneous Expenditure</u>				
Expenditure on further education	340	200	LA	} Could be argued to promote convergence some precedents for assistance via regional and social funds. Spillover
Educational capital spending	915	540	LA/CG	
MSC measures to promote training and mobility etc	1100	650	CG	
Health services capital spending	905	535	Local Hospital authority	
Thames Barrier	170	100	CG	Negotiability?
<u>Increase Community participation:</u>				
Structural Funds (double present rate of support)				
Regional	140	85	CG/LA	} Would increase UK effective receipts from these funds above those of Italy; Advantages in terms of speed since projects and criteria already vetted.
Social	110	65	"	
Guidance	60	35	"	
Other	15	10	"	
All of the above	325	195		

\*The figures for Post Office refer to the external financing requirement. Expenditure on fixed assets in 1980/81 will be - telecommunications £1080m. Post and Other £57m.



SOME ILLUSTRATIVE PACKAGES

1. For illustrative purposes we have drawn up six different options, which show a combination of expenditure policies capable of producing additional receipts from the EEC of about £1 billion in 1980/81. The figures must be regarded as provisional. Departments have not yet had the opportunity to make a full assessment of the financial implications of these illustrative packages and further work is being carried out.

I. Existing policies

2. This option gives one illustration of what might be done within existing Community policies. There are of course other possibilities. The package could be put into effect through a special section of the Regional Fund, or by ad hoc extension of each policy area. The main components are:

a. Increased participation in structural expenditure. The Community could provide up to 70 per cent of total costs (from the present 25-55 per cent) from existing projects under the Regional, Social, Guidance and Research Funds.

meuas at current prices  
(£m at 1979 survey prices)

	<u>1980/81</u>
Regional Fund	255 (150)
Social Fund	85 ( 50)
Guidance	95 ( 55)
Other	25 ( 15)
	<hr/>
All	460 (270)

b. Regional transport expenditure. This would provide 70 per cent assistance towards the Exchequer costs of roads and transport in Northern Ireland, Scotland and



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Wales. Total public expenditure would be:

	1980/81
Northern Ireland	170 (100)
Scotland	520 (308)
Wales	270 (160)
 Total	 960 (568)
 70 per cent of above	 675 (398)

These figures include current as well as capital expenditure which may be difficult to justify: but some spending which we categorise as current - such as road maintenance - might just qualify. The pure infrastructure element is about 90 per cent of the total.

3. For political reasons it might be necessary to include an English region - though the figures are not yet available.

c. Rural aid programme. This is not strictly in present Community policies but it accords closely with Community precedents. In particular there is a close analogy with the Mediterranean agriculture package. The figures assume that the Community finances 70 per cent of our expenditure on the following programmes:

	1980/81
Forestry	100 ( 60)
Land drainage and flood protection <sup>+</sup>	290 (170)
Other rural infrastructure*	
not in a. or b.	170 (100)
All	560 (330)
 70 per cent	 390 (230)

\* For example, this could include capital expenditure in Northern Ireland, Scotland and Wales on Other Environmental Services.

<sup>+</sup> Most land drainage included here is in fact urban.

This package would raise gross Community spending in the UK by



1525 meua (£900 million) in 1980/81.

## II. Regional infrastructure

4. This option would allow the Community to make a more substantial contribution towards infrastructure provision in Northern Ireland, Wales, Scotland and the development areas in England. Estimates given in this section are particularly uncertain as they are based on historic shares of the development areas in the respective programmes. There are also conceptual problems in regionalising some spending, eg rolling stock investment. The figures are the definition of assisted regions which will become effective in March 1982.

### Regional expenditure on selected infrastructure investment 1980/81

	£m 1979 survey prices					Total assisted areas
	GB	S	W	NI	NE +SW	
Water and Sewerage investment	535	65	30	20	80	195
Road construction and improvement (incl some road maintenance)	878	135	95	25	60	315
Railways investment	250					20
Investment in electricity * generation capacity	237	98	n.a		n.a	237
Investment in coal mines	615	30	90		175	295
Educational investment	539	95	30	40	40	205
Hospitals and health service investment	460	45	25	20	30	120
Urban programme	140					25
<b>Total of above</b>						<b>1442</b>
	<u>Of which Community contribution (at 70 per cent of total)</u>					<b>1010</b>

\*The figures for electricity show the external financing requirement of the boards. Expenditure on fixed assets in the assisted areas for 1980/81 might be about £400 million.

About one-third of all infrastructure investment is located in the development areas and special development areas.. The gross provision of £1442 million could, if a 70 per cent contribution were obtained from the Community, lead to gross receipts of £1010 million (1979 survey prices) in 1980/81 and similar amounts in 1983/84.



III. Transport and Communications

5. This option would allow the Community to contribute towards UK public investment in transport and communications infrastructure. It would probably be hard to get the Community to accept more than a 50 per cent share in these expenditures.

Expenditure on transport and communications

	meua at current prices (£m at 1979 survey prices)	
	<u>1980/81</u>	
"E" roads directly linking to European ports )	730	(430)
- less directly linking )		
Other motorways and trunk roads )		
Major motorway reconstruction	85	(50)
Capital spending on local roads	570	(335)
Capital spending on railways	425	(250)
Airports capital investment*	25	(15)
Ports, docks and waterways	85	(50)
Post Office *	nil	nil
<hr/>		
Total of above	1835	(1080)
Community contribution (at 50 per cent share of above)	960	(565)

\*External financing requirement. Actual investment in 1980/81 will be:  
Post Office - £1140m. Airports - £80m. Railways £350m.

If the Community were to contribute say 50 per cent towards UK public investment in transport and communications it could produce UK gross receipts of 960 meua (£565 million at 1979 survey prices). In return for special aid for transport infrastructure, we might have to agree to the draft Community transport infrastructure regulation before we could be certain that it would be to our advantage to do so.

IV. Northern Ireland

6. This focusses on Northern Ireland. Relevant expenditure is shown in the table below. If the EEC contribution for Northern Ireland were to exceed the grant-in-aid element of public expenditure in Northern Ireland (£750m in 1980-81), this would be especially likely to result in an addition to public expenditure in respect of the excess.



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Public expenditure in Northern Ireland in 1980/81

meua (£m at 1979 survey prices)

Capital and infrastructure investment	600 (400)
Aid for trade, industry and employment	310 (206)
Current expenditure on:	
roads and transport	98 ( 65)
housing	112 ( 75)
environmental services	52 ( 35)
education, libraries	412 (275)
health and social services	442 (295)
social security	895 (597)

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Total of above \* 2922(1948)

Possible Community 50 per cent contribution 1461 (974)

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\* excludes law and order, protective services, common services, fuel, agriculture, etc.

V. Energy

7. Community grants could substitute for the planned external finance of the NCB. There would be no increased risk of a Community grant leaking into wages provided the amount was less than the Boards fixed investment and less than the level of external financing consistent with the coal strategy approved by Ministers. Such a policy would represent a partial reversal of the previous preoccupation of ECSC with pit closures. Chancellor Schmidt has indicated that he would oppose a coal investment policy for the UK unless German miners were also to benefit. On the other hand the policy could be presented as helping the Community to adapt to oil shortages. Our comparative investment in all branches of coal development, maintaining new machinery, new capacity, new mines should ensure that we would receive at least half of the receipts even if the scheme were to spill over into a Community-wide coal investment policy.

8. It may similarly be possible to obtain grant finance towards the cost of UK investment in electricity generation. There would however be extra difficulties in that other member states have



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also large investment programmes. In addition the Electricity Board's investment programmes are largely self-financing which might add to the problems of recoupment.

Energy investment in fixed assets in the UK (coal and electricity)

meua (£m at 1979 survey prices)

1980/81

New mines and major extensions	490	(290)
Other NCB investment	510	(300)
Electricity investment, England and Wales*	235	(139)
North of Scotland Hydro Electric Board	75	(45)
South of Scotland Electricity Board*	193	(55)
Nuclear research (current expenditure)	220	(150)
Other energy research ( " )	85	(50)
Northern Ireland electricity service	70	(40)
<hr/>		
Total of above	1778	(1049)
Say 50 per cent Community contribution	889	(524)

\*External financing requirement. Expenditure on fixed assets 1980/81: Electricity E&W £800m, S.Scotland £125m. About 20% of electricity investment is nuclear.

VI. Urban Programme

9. Expenditure by local authorities on capital programmes in the major urban centres affected by industrial decline is of the order of £750 million. The city centres included are:- London docklands, Birmingham, Merseyside, Manchester - Salford, Tyneside, Clydeside and Belfast. Much of the spending is on housing.

10. Although the packages above have been assembled for the purposes of Ministerial discussion, they would be <sup>not</sup> appropriate for direct transmission to the Commission. There could be particular dangers in illustrating an energy package.



## RESTRUCTURING THE COMMUNITY BUDGET

## Note by Officials

The purpose of this Note is to provide an assessment of the reduction in the UK net contribution to the Community Budget which might be brought about by a change in the composition of Community expenditure (restructuring of the Budget) in addition to special measures to increase UK receipts, possibilities for which are set out in the accompanying note on supplementary measures.

Background

2 For every £ that the UK contributes to the cost of the CAP, it receives back 30p. It is therefore bound to be a substantial net contributor to a Budget in which the CAP absorbs over 70% of expenditure.

3 When Britain was negotiating to join the EEC in 1970-71, the CAP took 80% of the Community Budget. British negotiators pointed out, and the six acknowledged, that as long as agricultural spending continued to dominate the Budget, the UK would be a major net contributor. In reply, the Community argued that the development of other policies would in the course of the 1970s reduce the CAP share of expenditure and thereby ease the UK burden. The Commission produced a range of scenarios which showed the proportion of agricultural expenditure falling to between 40% and 60% by the time the UK's transitional arrangements expired.

4 This was the original concept of a "better-balanced Budget". It has not been realised. The proportion absorbed by the CAP has scarcely fallen between 1971 and 1979 despite a threefold real-terms increase in the size of the Budget. In 1979 it accounts for 74%; on present plans it will be 75% in 1980.

Recent history

5 The Italians have recently taken the lead in arguing for a better-balanced Budget. They are net beneficiaries from budgetary expenditure on the CAP and wish to continue to increase their receipts from the Guarantee Section. They receive 15½% of this expenditure compared with a revenue share of 12%. But as a net importer of temperate agricultural products, Italy incurs a substantial extra-budgetary loss as a result of the CAP. It is to offset this resource loss (which adds to their inflation) that the Italians have been seeking increases in non-agricultural expenditure which brings them a clear and large net benefit.



6 They have called upon the Community to give greater emphasis to "structural and investment policies". This means Regional Fund, Social Fund and CAP Guidance Section expenditure ("structural funds"), together with expenditure on energy, industry, research and transport. They have suggested that the Community should establish targets for this expenditure, expressed as a proportion of the Community Budget. They cited targets for 1982 of 25% of expenditure for structural policies (10.6% in 1979) and 5% for general investment policies (2.1% in 1979). They linked this with a suggestion that CAP Guarantee Section expenditure should be redirected to benefit Mediterranean (ie Italian) products at the expense of the dairy sector (which would not benefit the UK). They made no proposal about restraining the total size of the Budget.

7 In their two papers prepared for the Dublin Council, the Commission welcomed this approach, as consistent with their own objectives for "the development of Community policies, particularly those in the structural field, and the better control of agricultural expenditure". Their latest three-year forecast had envisaged expenditure in these categories rising from 14% of the Budget in 1980 to 22% in 1982. This would however depend on the Community's ability to bring agricultural expenditure under control. They emphasised the limits to what could be achieved without an increase in the Community Budget requiring the raising of the 1% VAT limit.

8 In Dublin Heads of Government recognised that Community policies "can and must play a supporting role" in achieving convergence of economic performance between Member States, and that "steps must be taken to strengthen the economic potential of the less prosperous countries of the Community". The Presidency conclusions gave a guarded welcome to the idea of restructuring:

"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 and necessary provisions for Mediterranean agriculture, to strengthen Community action in the structural field".

9 When reporting on the outcome of the Council to the House of Commons, the Prime Minister noted that there had been general support for the Commission's view that more should be spent on structural measures and less on agriculture. This was the "third and longer term element" in tackling



the problem of the UK's net budget contribution. Structural reform would necessarily take time, but unless some such changes were achieved within the next 18 months the 1% VAT ceiling would be breached.

Curbing CAP Expenditure and the Relevance of the 1% Ceiling

10 For the Italians and the Commission, "restructuring" means expanding the Community's non-agricultural policies, alongside some control over the growth - not the level - of Guarantee Section expenditure. British priorities are different. Restructuring will only help the UK's problem if Guarantee Section expenditure is reduced, or at least held.

11 The heart of the matter is that even with a reformed Financial Mechanism in place, we would need an extra 2-2½ eua spent on the structural funds merely to make good to us the damage done by an extra 1 eua on the Guarantee Section.

12 The Commission's first solutions paper suggested that a quadrupling of the right structural funds, (by 5,000 meua) would reduce the UK's net contribution by only 350 meua. A one-third increase in Guarantee Section expenditure would wipe out this benefit.

13 The UK's experience since joining the Community establishes the point in another way. Our present ratio of receipts to contributions at 1:2, is more favourable than the ratio foreseen at the time of entry - 1:3 - but the size of the net contribution has nevertheless become intolerable because agricultural expenditure rose by 150% in real terms between 1971 and 1979.

14 If therefore a restructuring of the Budget is to play a significant part in reducing the UK net contribution, it has to satisfy the following criteria:-

i. the absolute level of Guarantee Section expenditure has to be held down as much as possible and in a way that does not unacceptably discriminate against the UK farm sector. If it is held so that it does not grow in real terms, that is something. If it declines in real terms, so much the better.

ii reducing the proportion of the Budget consumed by the Guarantee Section is a helpful way of trying to achieve i. above. But if over



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a period the Budget is allowed to expand within or beyond the 1% VAT ceiling, so that a smaller CAP proportion still means substantial absolute growth, it ceases to be helpful.

iii. increases in non-Guarantee Section expenditure of the right kind can help us, but they are not likely to be an adequate substitute for holding down Guarantee Section expenditure because of the 2:1 gearing, still less for a receipts mechanism special to the UK. The 2:1 gearing could worsen with enlargement. They are a lower priority than i. But the best restructuring for the UK would be a combination of i. and the right increases in non-Guarantee Section expenditure.

15 The value of the 1% VAT limit is that it is a lever to hold down agricultural expenditure. It cannot help us on iii. above. And holding down the Budget as a whole only helps us to the extent that the effect is to hold down Guarantee Section expenditure. An immediate danger is that as the 1% VAT ceiling is reached, Guarantee Section expenditure (which is obligatory) will rise as a proportion of the total, rather than fall. That is why the use of the 1% ceiling lever has to be combined with a programme for limiting Guarantee Section expenditure in order to do the trick.

Illustrative Options

16 The table below starts from the 1980 Budget proposed by the Commission (and rejected by the European Parliament). It shows the proportions of the main components of Community spending. It then shows three cases for 1981, assuming that in that year total expenditure reaches the 1% VAT ceiling. The ceiling fixes the Budget total, on Commission estimates, at 18,475 million EUA. The effect on the UK net contribution is then shown where the proportions of expenditure remain as in 1980; where the CAP Guarantee Section falls to 60%; and where it falls to 50%. The reduction in Guarantee Section spending is allocated to the structural funds.

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TABLE

RESTRUCTURING WITHIN 1% CEILING : ILLUSTRATIVE OPTIONS

	<u>1980</u>		<u>1981(A)</u>		<u>1981(B)</u>		<u>1981(C)</u>	
	meua	%	meua	%	meua	%	meua	%
CAP Guarantee Section	11,269	69	12,747	69	11,085	60	9,238	50
Structural funds (Regional and Social Funds and CAP Guidance Section)	1,698	10	1,848	10	3,510	19	5,357	29
Other (Energy, Industry, Research, Administration, etc)	3,346	21	3,880	21	3,880	21	3,880	21
Total Budget	16,313	100	18,475*	100	18,475*	100	18,475*	100
UK net contribution	1,814		2,266		2,013		1,733	
			Change from (A)		-253		-533	

\*Estimated yield of Own Resources with a 1% VAT rate.

Note: This Table contains hypothetical figures which are based on the assumption that the UK's net gain/loss from additional Community expenditure in each category would remain the same as its average net gain/loss in the past.

17 We cannot provide even remotely reliable figures beyond 1981. However, 1981 examples give a fair indication of the scale of change needed to provide a significant reduction in our net contribution through restriction. This would still be true if the change were spread over 4 or 5 years.

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Ways of reducing the cost of the CAP

18 The best way to reduce the cost of the CAP is to freeze prices or, better still, to reduce them. It is extremely difficult to put any absolute ceiling on CAP expenditure, just as it was on the cost of agricultural support in the United Kingdom before we joined the EEC because the cost of agricultural support depends on world prices and on production, which in turn depends on the weather and the increase in agricultural efficiency. It would be possible to lay down a financial limit in advance within which decisions affecting the Guarantee Section would be taken.

19 The most effective additional way of controlling CAP expenditure would be by means of some sort of standard quantity whereby the level of support would decline or cease after a certain amount had been produced or that a levy would be imposed on producers to finance the disposal of production above the standard quantity. Another method would be a form of "debudgetisation", under which CAP expenditure would be transferred from the Community Budget to national budgets. If national exchequers bore all or part of the expenditure on the main commodities, it would be highly advantageous to the United Kingdom, particularly on milk. The main disadvantage is that there would be a strong incentive for member states to export their surpluses to each other and thus get them to bear the costs of intervention or support restitution on their national budgets. There would be a grave danger that we would end up still supporting an excessive share of European surplus production.

20 A more attractive method might be to combine a freeze on prices with Community agreement that certain specific methods of support could be financed nationally under Community supervision. A draconian method of cutting production would be by farm quotas, but these would not only ossify production to the detriment of the United Kingdom but would also pose administrative problems quite beyond all but perhaps the Danes, the Dutch and ourselves.

21 A combination of these methods might be attractive to the UK: price freeze/reduction coupled with standard quantities and the right extension of national financing, for example. The effect of action on different commodities would be of course very different: 46% of Guarantee Section expenditure goes on milk, 13% on cereals, 10% on sugar and 7% on beef. A fuller paper on methods will be prepared in the New Year. But we have to recognise that the majority of member states would find a major reduction in Guarantee Section expenditure very unattractive: they are attached to the CAP, even if some want to see the growing cost restrained. There would be difficulties too for British agriculture in the face of rising costs if green pound devaluations were not available on any scale.



Attitudes of other member states

22 Indications of the positions of the Commission and Italy have already been given. It should, however, be added that attitudes within the Italian Government are not uniform. The Minister of Finance (Pandolfi) seems to favour control of CAP expenditure, whereas the Minister of Agriculture (Marcora) merely wants a transfer of resources towards Mediterranean products at the expense, if necessary, of the 1% ceiling. A similar dichotomy exists in the German Government, but there opinion seems to be growing in favour of CAP reform. Chancellor Schmidt asked the Bundestag on 11 December to work for a compromise on the UK budget problem and also to recognise that such a compromise would involve "sensitive cutbacks in the spending policy of the Common Agricultural Policy". The Dutch Prime Minister has also indicated that he has set work in hand to draw up ideas to change the emphasis of CAP expenditure away from price support towards structures from which he believes the UK would benefit, apparently with some support from the Luxembourgers (but not the Belgians). Although, therefore, the restriction of expenditure on the CAP remains something to be resisted in half the Community and most Ministries of Agriculture, there is a discernible minority view which recognises that costs have got out of hand.

Conclusions

23 The conclusion of this paper is that restructuring of the EEC Budget could be beneficial to the UK in the longer term, but it will offer no early contribution to the solution of the problem of our high and inequitable net contribution. The UK's task in securing a sufficient and timely alleviation remains formidable.

24 The UK should argue strongly for restructuring within the 1% ceiling, on the lines of paragraphs 14 and 15 above. A strong positive attitude towards re-structuring on the part of the UK might strike a more responsive chord with other member states than solutions restricted to our benefit alone.

25 Any degree of success will depend critically on difficult decisions on the CAP. Proposals to contain, let alone reduce, Guarantee Section expenditure will not be painless for the UK. But, unless the situation is to continue to drift, the Community, including the UK, will have to look for the least disadvantageous course or courses. And even a very tough price policy might not in practice cut the real cost of the CAP immediately: a target change to a 60% proportion for the CAP, let alone 50% is very ambitious indeed in the short term.



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26 The pursuit of the special solution to the UK's problem, through the receipts measures discussed in the accompanying paper, therefore remains an overriding priority.

CABINET OFFICE

20 December 1979

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COMMUNITY BUDGET: SUPPLEMENTARY MEASURES TO INCREASE UK RECEIPTS

Note by the United Kingdom

1. The Dublin European Council requested the Commission "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 greater participation by the United Kingdom in Community expenditure".
  
2. This informal note sets out the United Kingdom's views on a number of possible approaches to the objective defined in the European Council remit. It is concerned with means, and does not seek at this stage to put figures on the financial yield required from supplementary receipts measures. The United Kingdom is ready to consider any suggestions the Commission may wish to put forward, provided that they result in an acceptable adjustment in our inadequate receipts. It will also be important that the solution arrived at is so conceived as to avoid the Community having to face the same problem again after a few years.
  
3. We continue to believe that an enhanced receipts mechanism linked to the Financial Mechanism offers the simplest and most effective approach. It would be building on an existing Community instrument. It would also be communautaire in a wider sense, as the money paid through the mechanism to the member state in question would be used for purposes in line with Community policies. If in addition it provided that a member state would have to have below say 80% of the



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Community average in receipts per head to qualify, it would virtually exclude the risk of establishing an expensive precedent for the other member states or Greece, Spain and Portugal. It would be self-correcting in that the refund would fall if, for example, economies in CAP expenditure reduced average Community receipts per head or if extra Community expenditure in the UK under existing policies raised our receipts per head towards the Community average.

4. We nevertheless want to work closely with the Commission in exploring other forms of supplementary measures which could meet our needs. In principle these measures could take two forms: enlarging existing funds to the benefit of the UK, or creating a special fund devoted exclusively to the UK.

5. In the first category, the possibilities are:-

- (i) increased Community participation in existing projects or programmes under the Regional and Social Funds and the Guidance Section of FEOGA;
- (ii) a special window for the UK within an enlarged Regional Fund, with more flexible qualifying criteria;
- (iii) increasing the UK's share in an enlarged quota section of the Regional Fund.



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6. This approach, and especially (ii) above, may have a useful role to play in contributing to the desired objective. Illustrative figures are set out in Annex A. But it is unlikely to yield enough because the existing funds are small in relation to our requirements. Further, if other member states were to demand comparable treatment the scale of expenditure would be unacceptable to the Community as a whole, and the resulting totals would come up against the 1% VAT ceiling.

7. In the second category, additional receipts could be provided for the UK outside existing funds and policies using a special Council regulation under Article 235 (on the analogy of the Financial Mechanism or the regulation setting up the EMS interest rate subsidies). This could provide for payments to the UK in the form of direct grants. It would be essential that the sums should be available for an adequate period. The Fund would be designed to promote convergence and to be used for purposes in line with Community policies, in consultation with the Commission.

8. The Commission identified, in their paper for the Dublin Summit, three areas in which spending could be designated for special treatment: coal investment, transport infrastructure and agricultural improvement. Of these coal investment and transport infrastructure hold the most appeal for the UK and in relation to the test of compatibility with Community objectives. Northern Ireland and urban renewal in declining industrial areas are also strong candidates. Northern Ireland is demonstrably in a special situation, in which extra Community aid



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would be readily identified and credited; and the problems of industrial and urban decay are particularly serious in the UK. Illustrative figures covering these possibilities are in Annex B.

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## INCREASED COMMUNITY EXPENDITURE IN THE UK UNDER EXISTING POLICIES

The figures below shew the refund which would accrue to the UK assuming that the Community provided 70% of total costs (instead of the present 25-30%) of existing projects under the Regional, Social, Guidance and Research Funds.

	MEUAs at current prices (£m at 1979 survey prices 1980/81)
Regional Fund	230 (150)
Social Fund	140 (95)
Guidance	80 (55)
Other	<u>20 (15)</u>
	470 (315)



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LIST OF PROGRAMMES AND PROJECTS IN THE UK TO WHICH THE  
COMMUNITY COULD CONTRIBUTE (1)

	UK Public Expenditure 1980/81, £m at 1979 Survey Prices	Rate of Grant which EEC might pay (2) %	Refund from Commission meua
<b>1. TRANSPORT INFRASTRUCTURE</b>			
"E" roads linking directly to EEC ports	100	50	85
- less directly linked	100	"	85
Other motorways and trunk roads	230	"	195
Capital Spending on local roads	335	"	284
Capital Spending on railways	350	"	297
Airports capital investment	80	"	68
Ports, docks and waterways investment	50	"	42
TOTAL	1245	"	1055
<b>2. COAL INVESTMENT</b>			
Investment in new mines and major extensions	240	50	203
Other investment in coal	375	50	318
<b>3. REGIONAL INFRASTRUCTURE (4)</b>			
Road construction and improve- ment	315	70	374
Railways investment	50	"	59
Water and sewerage investment	195	"	231
Investment in electricity generation	400	"	475

- Notes (1) the above categories are not mutually exclusive. Individual items may thus appear under more than one head.
- (2) assuming that the full refund implied by the rate of expenditure and proposed grant-rate could be claimed in 1980-81
- (3) converted from £ to ua at 1.7, to update to 1981 prices.
- (4) a breakdown into Ireland, Scotland, Wales and the British Assisted Regions (post 1982) is given in annex C.



## 3. REGIONAL INFRASTRUCTURE (cont'd)

Investment in coal mines	295	70	350
Educational investment	205	70	243
Hospitals and health service investment	120	70	142
Urban programme	25	70	30
TOTAL	1635	70	1940

## 4. NORTHERN IRELAND

Capital and infrastructure investment	400	70	475
Aid for trade, industry and employment	205	50	174
Current expenditure on:			
Roads and transport	65	50	55
Housing	75	50	64
Environmental Services	35	50	30
Education, libraries	275	50	233
Health and social services	295	50	250
Social security	595	50	504
TOTAL	1945	Average 55	1785

## 5. URBAN AREAS IN INDUSTRIAL DECLINE

Items to be supplied

TOTAL (pm)	1000	70	1186
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Regional expenditure on selected infrastructure investment 1980/81

£m 1979 survey prices

	GB	S	W	NI	NE +SW	Total assisted areas
Water and Sewerage investment	535	65	30	20	80	195
Road construction and improvement (incl some road maintenance)	878	135	95	25	60	315
Railways investment	350	30	10		10	50
Investment in electricity generation capacity	970	220	100		80	400
Investment in coal mines	615	30	90		175	295
Educational investment	539	95	30	40	40	205
Hospitals and health service investment	460	45	25	20	30	120
Urban programme	140					25
<b>Total of above</b>						<b>1635</b>
	<u>Of which Community contribution</u> (at 70 per cent of total)					<b>1145</b>





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PM/79/101

PRIME MINISTER

EEC Budget

Budget Contribution: Tactics for the Coming Weeks

1. At your meeting on 21 December we shall be looking at the follow-up to the Dublin European Council, in the period leading up to a decision by the Italian Presidency to bring forward the next meeting of the Council to a date in February.

Dublin Council

2. The formula for a possible solution which emerged from Dublin divides into three parts:

- (a) the removal of the restrictions on the existing financial mechanism;
- (b) supplementary receipts from the Community, specifically or largely directed to the UK;
- (c) restructuring of the budget to reduce the part of CAP guarantee expenditure and to increase that of structural programmes.

It was clear at Dublin that (a) was available to us had we agreed that it was a final solution to the problem. We can therefore assume that it will be available again as part of a final solution. We must, however, look out for a back-sliding on the part of some of the other member states, in particular the French, who were very reluctant to go as far as £350 million, and probably hold unsatisfactory views on duration.

3. The restructuring of the budget, as is clear from the paper prepared by officials (EQS(79)28), can only be expected to produce savings for us in the longer term. We must take every opportunity to emphasize that we look for major progress in this field over the next two or three years. But we should not set our sights so high as to invite disappointment: nor (the opposite danger) /by underlining

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by underlining the need for modest reform in individual sectors, lead other members to believe that a long-term programme providing for major restructuring will alone be a satisfactory complement to the unrestrained financial mechanism. In deciding upon our aims and our tactics with regard to this section of the triptych, we have to hold firmly to the 1% VAT ceiling while at the same time achieving a reduction in guarantee expenditure under the CAP. We must decide our attitude to the role of the European Parliament in this, following upon the rejection of the 1980 budget. Finally, we must recognise that any major reduction of guarantee expenditure is going to have some limiting effect on the incomes of our own farmers, especially if the performance of sterling leaves us little margin on the green pound.

4. Thus for the immediate future we should concentrate on supplementary receipts. We should continue to press the virtues of a receipts mechanism. But the Commission will want to look first at the possibility of exploring additional benefits from existing programmes and then at new expenditure programmes. The paper by officials (EQS(79)28) shows how we could indicate to the Commission a range of packages of expenditure which might add up to something like the sum we are aiming for.

#### Tactics

5. We have to address ourselves to the Commission and to the other member states, and in particular the Italian Presidency. I am glad that you have agreed that Ian Gilmour should take personal charge of our negotiating strategy. In addition to drawing the threads together at home, he will have to undertake an intensive programme of bilateral contacts in the New Year.

6. The Commission is going to prepare proposals which will have to be available some time in January. You have already agreed that Mr Butler may give to the Commission, before Christmas, a paper giving some preliminary views.

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7. We have a great deal of work to do with our partners in a relatively short time. You yourself have agreed to receive the Italian Prime Minister here early in the New Year. We understand that this would be his first visit as President. I share your view that this visit should take place as early as reasonably possible.

8. The factor which we are not going to be able to overlook in our bilateral contacts is the interest many of them have in other matters of current Community debate, such as fisheries, sheepmeat and energy. We can and should continue to maintain that each of these subjects has its own specific characteristics and should be considered on its merits. Given that a number of our partners made it clear at Dublin that they felt that some link between these subjects and the budget was inevitable, we need to be clear how we are going to handle them. In many cases they reflect domestic preoccupations which, though not perhaps of equal intensity to our own, are nonetheless real. It would only be prudent, given that we are bound to hear more of this, if some preparatory work were done on how we want to handle these. I suggest OD(E) should consider papers early in January from the Minister of Agriculture on the tactics for fisheries and sheepmeat and the Energy Secretary on oil.

#### Conclusion

9. To sum up, I think that we must set work in hand on restructuring the budget and on supplementary receipts on the lines suggested above, as well as drawing up a programme of bilateral contacts and developing the line which we should be taking during them on the basis of the three tiered approach to which the Dublin conclusions pointed. This work should be conducted against a background of a firm determination to achieve an equitable solution together with a willingness to compromise within the limits on our room for manoeuvre of which you spoke in the House. We should aim to report to you early in the New Year  
/on the

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on the outcome of first contacts with the Commission and our partners.

10. I am copying this minute to the Private Secretaries of the Chancellor of the Exchequer, the Lord Privy Seal, the Minister of Agriculture, the Secretary of State for Energy and Secretary of the Cabinet.

C  
/

19 Dec 1979.

(CARRINGTON)

Foreign and Commonwealth Office

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19 DEC 1979





30/87



Foreign and Commonwealth Office

London SW1A 2AH

19 December 1979

PA

Sir K Couzens KCB  
H M Treasury  
London SW1

*Dear Ken*

EEC BUDGET: UK CONTRIBUTION

You will have seen from the Foreign and Commonwealth Secretary's minute to members of OD(E) of 14 December that the Prime Minister has agreed that the Lord Privy Seal is to assume overall responsibility for our negotiating strategy on the budget issue reporting to the Foreign and Commonwealth Secretary and to OD(E) as necessary. He wishes to establish a small informal group of officials from the FCO, Treasury and Cabinet Office to help him in this task, who will meet regularly (at least once a week and more often if the situation demands it) and some of whom will travel with him on any programme of bilateral visits. The group will consist of Michael Butler from Brussels, and David Hannay, Nick Spreckley and me from the FCO. Michael Franklin has agreed to represent the Cabinet Office, and the Lord Privy Seal has asked me to invite you to represent the Treasury or to nominate an Under-Secretary to represent you.

The Lord Privy Seal would like to have a first meeting before the Prime Minister's meeting on Friday morning, and he would be grateful to know if you or your representative could come to his office at 3 p.m. on Thursday. Discussion will focus on the papers circulated for the Prime Minister's meeting and on a possible programme of bilateral visits in the New Year.

*Yours ever  
Tom Bridges*

Bridges

cc Mr M D M Franklin CMG  
Cabinet Office

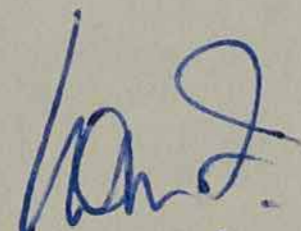


QZ 01359

PRIME MINISTER

Cabinet: Community Affairs

1. The Foreign and Commonwealth Secretary might report on the 18 December Foreign Affairs Council. We blocked agreement on the non-quota section of the Regional Fund since the allocation for the UK was inadequate. But agreement was reached on the steel anti-crisis measures for 1980. We pressed for decisions at the February Council on safeguard action against imports on US synthetic textiles if the Commission's consultations have not produced an acceptable solution by then.
2. The Chancellor of the Exchequer might report on the 17 December Finance Council, at which it was agreed that Finance Ministers would consider the Commission's proposed economies in the Common Agricultural Policy in January or February in parallel with the Agriculture Council. There was no substantive discussion of the European Council's remit on the Budget issue.
3. The situation arising from the European Parliament's rejection of the 1980 Community Budget will be considered by OD(E) after the Christmas break, by which time the Commission's thinking on the way forward should be clearer.
4. There was a meeting of the Environment Council on 17 December and the Research Council meets on 20 December.

  
M D M FRANKLIN

19 December 1979



## SUPPLEMENTARY LEVY ON MILK PRODUCERS

Mr Thomas of UKREP passed on to me yesterday some interesting figures, which he had been given by the MMB representative in Brussels, on the Commission's estimate of the percentage of milk deliveries in each of the member states which would be subject to the supplementary levy. The MMB man had apparently spotted these whilst in the Commission building in a document he was not supposed to have seen, and therefore we cannot quote them back at the Commission! Nevertheless, the picture revealed is an instructive one, as follows :-

	%
Belgium	45
France	51
Italy	56
Luxembourg	60
Germany	66
Denmark	70
Netherlands	90
Ireland	90
UK	100

2. As these appear to relate to deliveries to dairies, which in the UK comprise a higher proportion of total milk supplies than the EEC average, our overall position would of course be that much more unfavourable. That indeed is confirmed by another Commission figure which apparently shows that the UK would contribute the highest proportion (25%) of the levy revenue. In other words, the Commission's own arithmetic appears to bear out our view that, notwithstanding its other drawbacks, the supplementary would in addition discriminate against the UK.

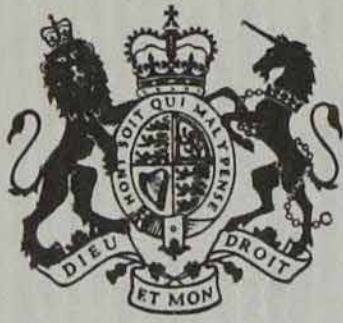
D H GRIFFITHS  
6 December 1979

Mr Slater

cc overleaf

Minute file





10 DOWNING STREET

~~Michael~~

He walked landed  
 the to the PM. She  
 said she would use  
 it as ammunition  
 when she next sees  
 the Jenkins! (I  
 have sent my  
 to Michael Franklin)

R.  
 18.12.79?



cc Mr Waters

Mr Harding

Mr Perrins

Mr Sadowski

Mr Kuyk

Mr Davies

Mrs Archer

Mr D Evans

Mr Hadley

Mr Scott (DAFS)

Mr Armstrong (DANI)

Mr Hall Williams (WOAD)

Mr Roberts (Treasury)

Mr Speckley (FCO)

Mr Vinall (DoT)

Mr Horne (Cabinet Office)



RESTRICTED



CABINET OFFICE

70 Whitehall, London SW1A 2AS Telephone 01-233 8319

*From the Secretary of the Cabinet: Sir Robert Armstrong KCB, CVO*

18th December, 1979

Ref. A0990

*Dear Michael*

Community Budget

I am writing to confirm that the meeting foreshadowed in my letter of 14th December to Denis Walker will take place at No. 10 at 10.00 am on Friday, 21st December.

I am copying this letter to the Private Secretaries to the Ministers attending this meeting, namely the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Lord Privy Seal, the Minister of Agriculture and the Secretary of State for Energy.

*Yours ever*

*Martin Vile*

(M. J. Vile)

M. O'D. B. Alexander, Esq.

*1 CS*  
*2 MODBA*  
*Ma*  
*Ant*



18 DEC 1979







DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 6401  
SWITCHBOARD 01-212 7676

From the  
Minister of State 's Office

The Hon Adam Butler MP

Martin Hall Esq  
Private Secretary to the  
Chancellor of the Exchequer  
Treasury Chambers  
Parliament Street  
London SW1

18 December 1979

*Dear Martin,*

*R  
18/12*

The Foreign Affairs Council of Ministers will be meeting this afternoon to consider, inter alia, the Commission's proposal under Article 3750 of the Budget for an ad hoc allocation of the funds for industrial reconstruction and conversion in the 1978 and 1979 budgets to assist selected projects in the synthetic fibres sector. In view of the doubts expressed by Treasury officials at his briefing meeting yesterday afternoon about the wider budgetary implications of the proposal, Mr Butler, who will be representing us at the Council, asked me to let you know of the line which he intends to take. The picture is complicated by the fact that the Commission may attempt to link this proposal, and our acceptance of it, to their support for certain measures which we are anxious to have incorporated in the package of anti-crisis measures for the steel industry, which is also being discussed at this afternoon's meeting.

As far as the Commission's proposal under Article 3750 is concerned, the background is known to your people. It is, briefly, that for over a year Member States have been discussing a Commission draft regulation providing for financial assistance from Community resources for industries in crisis. Member States have been unable to agree on the draft regulation, which has found little favour, and in the meantime, in order to avoid the loss of existing budgetary allocations, the Commission have made certain ad hoc proposals for their use in the synthetic fibre sector. The projects concerned are almost all in Italy, none are in the UK and UK firms have been given no formal opportunity to submit proposals for consideration.

/ ... Taken in isolation





Taken in isolation the proposal is unpalatable in several respects. First, it involves expenditure of some £3 million of our resources for Community purposes without our being given the opportunity to benefit; this is very difficult to accept, particularly in the light of the stance taken by the Prime Minister in Dublin on our seeking a broad balance between the costs and benefits of our membership of the Community. Second, we have our own problems of over-capacity and in these circumstances it is doubly difficult to agree to Community expenditure for industrial reconstruction which does not yield a net benefit to the UK.

... However, as I have said, it is unlikely that we will be able to consider this proposal in isolation. Commissioner Davignon has asked to see Mr Butler before the Council meeting to discuss the UK stance of his proposal for Article 3750, and also Mr Butler's letter to him seeking his support to ensure that the broad protection given to our steel industry by the anti-crisis measures remains largely unchanged (copy attached). The Commission have proposed certain relaxations in the measures which we are anxious should not be incorporated, particularly at the present time when BSC will need all the support they can get to implement their radical restructuring plans. It is clear that Davignon may attempt to link the two issues. The matter is further complicated by the fact that the Italians, who would be the main beneficiary under the Article 3750 proposal, may attempt to block renewal of the anti-crisis measures in any form because of their reservations about the draft decision regulating state aids to the steel industry which they, and only they have not yet endorsed. In brief, the scene looks set for a typical "horse-trading" session.

Mr Butler will of course seek to secure our objectives on the anti-crisis measures without making any concessions on the restructuring proposal. However if he judged that we could not secure our steel objectives without consenting to the restructuring proposal, then he feels we should give our consent; he considers that the benefits for our steel industry, particularly at the present time when it is beset with considerable difficulties on a number of fronts, outweigh the costs and disadvantages to us of the Article 3750 proposal.

Mr Butler would expect to consent to the Article 3750 proposal only if we first secured our objectives for steel; and in consenting, he would make clear that the UK's stance on this question was without prejudice to our stance on the wider budgetary question of seeking a broad balance for the UK on the costs and benefits of Community membership; and that we would expect to obtain a greater benefit under any future proposed Community instruments for industrial restructuring and conversion; and that we could give our consent only if we are satisfied as to the propriety of the proposal in the context of the regulations governing expenditure

/ ... of Community





of Community fund allocations.

It may of course be possible for Mr Butler to gain nearly all of what we want in regard to the steel measures, and he may judge that the size of any shortfall on that will be such as to justify blocking the Article 3750 proposal.

Mr Butler has discussed this matter with the Secretary of State who agrees with his proposed line.

I am copying this letter to Mike Pattison (No. 10), Michael Richardson (Sir Ian Gilmour's Office) and Martin Vile.

Yours sincerely,

*Tom Jaffray*

T M Jaffray  
Private Secretary

cc PS/SOS

PS/Lord T

PS/Mr Mi

PS/Mr Ma

PS/Sec  
Mr Lippitt  
Mr Ridley

Mr Gross

Mr Hudson

Mr Benjamin  
Mr Ingram  
Mr Day

Mr Morris

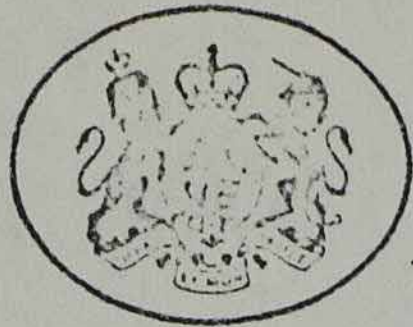
Mr Mountfield

Mr Preston DOT

Mr Jones-Parry FCO

Mr Paterson Treasury





M

DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 6401  
SWITCHBOARD 01-212 7676

From the  
Minister of State

The Hon Adam Butler MP

Commissioner Davignon  
European Economic Commission  
Rue de la Loi  
200 1049 Brussels  
Belgium

13 December 1979

cc PS/Sec of State  
PS/Mr Marshall  
Mr Ridley  
Mr Cross  
Mr Prester  
Mr Shearer FCO  
Mr Gorch FCO  
Mr Healey UK Rep  
Mr Darlington  
Mr Morris (as file)

Dear Commissioner,

The British Steel Corporation has announced its intention to reduce quickly its effective steelmaking capacity by 5 million tonnes to about 15 million tonnes of liquid steel per annum in line with foreseen demand. This will involve closures, additional to those recently announced at Shotton and Corby, and a total reduction in employment through closures and demanning of 50,000 over the next year or so.

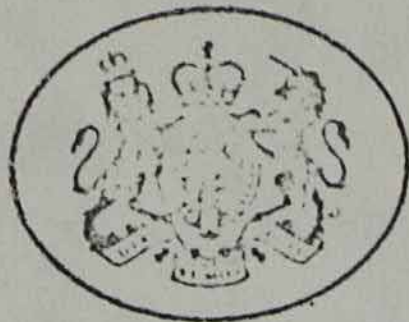
These measures will call for the greatest determination on the Corporation's part if they are to be carried through. They reflect the BSC's resolve to make themselves competitive and profitable as quickly as possible and I feel sure you would agree that, in line with your own policy on restructuring, they deserve full encouragement and support.

Your anti-crisis measures have been valuable in mitigating the worst of the steel recession. And I entirely share the view that measures restricting competition offer no long-term solution and can only be seen as a temporary means of facilitating adaptation. But to weaken these measures at this time when such wide spread closures, rundowns and redundancies are in train and in a year when a market downturn is forecast by the Commission itself (and will be particularly marked in the UK) is to risk bringing the policy into disrepute.

I am therefore very concerned that the proposals for 1980 involve changes that would be damaging to our restructuring effort. It is particularly important that, at a time when flat products production must be rundown in very difficult market conditions, the mandatory minimum price for hot rolled-coil should not be suspended but should be retained as you first proposed. The proposal to reduce the coverage of the external measures by excluding semi-

/ ... manufacture





manufacture steel, as well as certain special steels, would also have serious consequences for us.

A package that included these changes would be most unsatisfactory to us and I am therefore writing, in advance of the Council meeting on 18 December which is to discuss steel, to seek your co-operation in maintaining the measures particularly in these respects.

*Yours sincerely*  
*Adam Butler*

ADAM BUTLER



18 DEC 1979

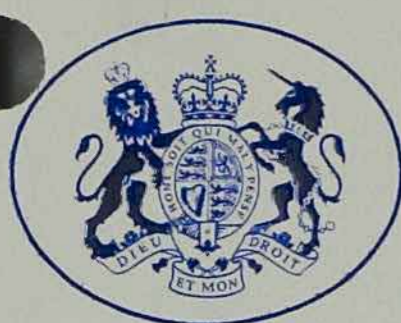
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010

Ami Amite  
Agree?



Ministry of Agriculture, Fisheries and Food  
Whitehall Place London SW1A 2HH

12  
17/12

From the Minister's Private Office

CONFIDENTIAL

Tim Lankester Esq  
10 Downing Street  
LONDON SW1

(Sir Ian Gilman's trip  
to Vienna has been

17 December 1979  
cancelled, and so  
will be able to  
attend the EEC budget  
meeting).

Dear Tim,

COMMUNITY BUDGET: FOLLOW-UP ACTION TO THE  
DUBLIN EUROPEAN COUNCIL

I explained to you this morning that my Minister would be unable to attend the meeting arranged for 10.00 on 21 December because he has a longstanding commitment to open the Droitwich Ring Road in his constituency at 11 am on that day. My Minister feels that he cannot break this commitment in view of all the planning that has gone into the event, which is one of major importance to his constituency.

He would however like to be represented at the meeting at No. 10 and he would be most grateful if the Prime Minister would allow Mr Buchanan-Smith, his Minister of State (Commons) to represent him. I would appreciate it if you could consult the Prime Minister and let me know whether she would be content with this arrangement.

Yours sincerely

Garth Waters

GARTH WATERS  
Principal Private Secretary



17 DEC 1979





Emo PD

File  
ufo  
11/17  
1/80

AT



10 DOWNING STREET

From the Private Secretary

17 December 1979

*B/S 20.12.79  
for info*

Dear Martin

Community Budget: Additional Receipts

The Prime Minister has seen Sir Robert Armstrong's minute to her of 14 December on this subject, together with the attached paper prepared by the Official Steering Committee on European Questions.

The Prime Minister agrees that a note on the lines proposed should be given informally to the Commission early next week and that the paper should be included in the dossier for her meeting on 21 December.

I am sending copies of this letter to Paul Lever (Foreign and Commonwealth Office), Tony Battishill (HM Treasury) and Michael Richardson (Lord Privy Seal's Office).

*Yours ever*

*Michael Alexander*

Martin Vile, Esq.,  
Cabinet Office.

CONFIDENTIAL



# CONFIDENTIAL

GRS 700

CONFIDENTIAL

FM BONN 141605Z DEC 79

TO PRIORITY FCO

TELEGRAM NUMBER 785 OF 14 DECEMBER

INFO EEC POSTS

COMMUNITY: END OF TERM REPORT

1. I SAW DOHNANYI THIS MORNING FOR A ROUND UP ON COMMUNITY MATTERS, ESPECIALLY THE BUDGET AND CAP REFORM. I REFERRED TO SCHMIDT'S HELPFUL REMARKS ON BOTH IN THE BUNDESTAG AND ASKED WHETHER THE FEDERAL GOVERNMENT HAD COME TO ANY POST-DUBLIN CONCLUSIONS (MY TELNO 779).

2. HE SAID THAT THEY HAD NOT (REPEAT) NOT AND WENT ON TO SAY THAT WHILE THE GERMAN GOVERNMENT REMAINED DISPOSED TO BE HELPFUL, THERE WERE LIMITS WITHIN WHICH THEY COULD HELP. MOREOVER THE SITUATION IN THE COMMUNITY, PARTICULARLY IN THE SMALLER COUNTRIES, HAD NOT MOVED IN OUR FAVOUR. THE DECISION IN NATO ON TNF MODERNISATION HAD EXPOSED THE FRAGILITY OF THE DUTCH AND BELGIAN GOVERNMENTS: EVEN THE ITALIAN GOVERNMENT WAS WITHOUT A FOREIGN MINISTER AND ITS PREDECESSOR HAD FALLEN ON THE EMS ISSUE. IT WOULD BE VERY DIFFICULT FOR ANY OF THESE GOVERNMENTS TO COME BACK FROM BRUSSELS AND FACE THEIR PARLIAMENTS HAVING GIVEN BRITAIN SOME MONEY AND BROUGHT NOTHING HOME FOR THEMSELVES. THE ROW BETWEEN THE EUROPEAN PARLIAMENT AND THE COUNCIL HAD NOT HELPED EITHER.

3. MOREOVER CAP REFORM WOULD BE VERY DIFFICULT AND HE THOUGHT THE BRITISH POSITION VERY UNCLEAR. HE SAID HE HAD RECENTLY SPOKEN TO THE LORD PRIVY SEAL AND WAS BY NO MEANS CERTAIN OF OUR VIEWS ON THIS SUBJECT. HE ASSUMED THAT, LIKE EVERYBODY ELSE: WE HAD FARMERS TO THINK OF.

4. AS I WAS LEAVING HE THREW OUT AS A PERSONAL THOUGHT THE FOLLOWING IDEA. THE MOST WE COULD EXPECT ON THE CONTRIBUTIONS SIDE WAS 520 MUA: FRANCE HAD NOT FORMALLY AGREED TO THAT AND IN ANY CASE WAS STILL ENVISAGING RELIEF FOR ONLY ONE YEAR. HE THOUGHT THAT FRANCE COULD PROBABLY BE BROUGHT TO AGREE TO 520 MUA EACH YEAR FOR 3 YEARS. WHAT, HE SAID, IF WE COULD AGREE TO A FORMULA FOR, SAY, 800 MUA IN YEAR 1, 600 IN YEAR 2 AND 400 IN YEAR 3, WITH THE KNOWLEDGE THAT BY YEAR 3, REFORM OF THE CAP WOULD BE UNDER WAY. I GAVE HIM NO REASON TO SUPPOSE THAT YOU WOULD ENTERTAIN SUCH AN IDEA.

CONFIDENTIAL

15



# CONFIDENTIAL

5. I ALSO HAD A BRIEF WORD WITH SCHMIDT AT A FAREWELL RECEPTION FOR THE NEW FEDERAL GERMAN AMBASSADOR IN LONDON, RUHFUS. THE CHANCELLOR ONCE AGAIN REVERTED TO ONE OF HIS FAVOURITE THEMES: THAT BRITAIN SHOULD TAKE THE LEAD IN THE COMMUNITY FOR REFORM OF THE CAP AND, AS A START, SHOULD SUPPORT THE COMMISSION'S PRESENT PROPOSALS. HE HAD STUCK HIS NECK OUT IN THE BUNDESTAG AND WOULD DOUBTLESS GET IN TROUBLE FROM CERTAIN QUARTERS: BUT OPINION IN GERMANY WAS MOVING IN FAVOUR OF REFORM. THE BRITISH SHOULD COME UP WITH IDEAS.

6. MY FIRST CONCLUSION FROM ALL THIS IS THAT THE FEDERAL GERMAN GOVERNMENT HAVE NOT YET APPLIED THEIR MINDS VERY SERIOUSLY SINCE DUBLIN TO MAJOR COMMUNITY PROBLEMS, STILL LESS TO FRESH THOUGHT ABOUT OUR BUDGET PROBLEM. FOR ONE THING, SCHMIDT AND SPD MINISTERS WENT STRAIGHT FROM DUBLIN TO THEIR PARTY CONFERENCE IN BERLIN AND THIS WEEK IN BONN HAS BEEN DEVOTED TO THE DOMESTIC BUDGET DEBATES. THEY SEEM NEITHER TO HAVE RECEIVED MUCH IN THE NATURE OF RECOMMENDATIONS FROM OFFICIALS NOR GIVEN MUCH IN THE WAY OF DIRECTIONS TO OFFICIALS. TO JUDGE BY DOHNANYI'S APPEARANCE TODAY, THEY ARE ALL MOREOVER IN NEED OF A GOOD HOLIDAY. THEY SEEM CONTENT TO SEE THE BALL PASSED BACK TO THE COMMISSION.

7. MY SECOND CONCLUSION IS THAT THE BANDWAGON HAS NOW STARTED TO ROLL HERE SERIOUSLY FOR CAP REFORM. IT HAS GATHERED SPEED SINCE MY DESPATCH OF 18 JULY AND SCHMIDT IS NOW PUBLICLY COMMITTED TO IT. HE IS ALSO PUBLICLY COMMITTED (CF. HIS REMARKS AT THE SPD PARTEITAG AND IN THE BUNDESTAG BUDGET DEBATE: MY TELEGRAM NO. 755) TO A MODERATELY HELPFUL POSTURE ON OUR BUDGET PROBLEM. AS WITH CAP REFORM HOWEVER HE HAS NO PRECISE IDEAS ON HOW TO PROCEED. I RECOGNISE THE DANGERS OF PUTTING FORWARD IDEAS OF OUR OWN WHICH FALL SHORT OF GIVING US THE WHOLE OF WHAT WE WANT. NEVERTHELESS, IF THE MOMENTUM WHICH THE PRIME MINISTER GENERATED AT DUBLIN IS TO BE MAINTAINED AND A QUOTE GENUINE COMPROMISE UNQUOTE IS GOING TO BE STRUCK BETWEEN NOW AND THE NEXT EUROPEAN COUNCIL, IT MAY WELL BE THAT WE SHALL HAVE TO TAKE SOME INITIATIVE IN ORDER TO BRING OUR PARTNERS TO FOCUS ON ACTUAL PROPOSALS FOR SOLVING THE PROBLEM. IF AND WHEN WE HAVE PROPOSALS TO PUT FORWARD, I THINK WE ARE LIKELY TO FIND THE GERMANS READY AT LEAST TO TAKE A SYMPATHETIC LOOK AT THEM.

WRIGHT

FCO/WH DISTN.  
WED

2.  
CONFIDENTIAL





FCS/79/191

MEMBERS OF OD(E)

EEC Budget: UK Contribution: Future Tactics

1. I have discussed with the Prime Minister how best we might handle the negotiations with our Community partners on the problem of the UK budget contribution between now and the next European Council.
2. As the Prime Minister told Parliament, we shall be entering upon a period of intense diplomatic activity. We shall have to devote considerable energies to lobbying in the various European capitals at both official and Ministerial levels. If we are to achieve a satisfactory result our case will have to be presented in a coordinated manner.
3. At home we shall need to embark upon intensive and rigorous studies, which will involve a number of Departments, covering not only an immediate increase in UK receipts but also a shift in the longer-term pattern of Community expenditure. Our policies on the specific issues of fish, sheepmeat and energy, mentioned in the Dublin European Council Conclusions, and also our handling of the agricultural price fixing negotiations will have to be dealt with in parallel to our budget objectives.
4. Responsibility for the overall coordination of this work will continue to lie with OD(E) reporting to the Prime Minister and to OD Committee and Cabinet as necessary. As Chairman of OD(E) I shall wish to be closely involved, and I shall ensure that the Committee itself remains abreast of all the important issues. But there will also be a need for close day to day Ministerial liaison on the detailed work and for Ministerial coordination of and involvement in the negotiations with our partners. These may unavoidably touch on the policy questions mentioned in the preceding paragraph and we shall need a Ministerial spokesman who can respond on the basis of a general view of them. The Prime Minister has agreed with my proposal that the Lord Privy Seal should assume responsibility for this and take personal

/charge





charge of our negotiating strategy, reporting to me and to OD(E) as necessary. He will coordinate a programme of bilateral exchanges in pursuit of our objectives and will undertake necessary visits to Community capitals and to the Commission. He will also report progress regularly to the Ministers concerned to ensure that immediate attention is paid to all the problems which arise.

5. I am sending copies of this minute to, in addition to the members of OD(E), the Secretaries of State for Energy and Industry, the Secretaries of State for Wales, Scotland and Northern Ireland, the Chancellor of the Duchy of Lancaster and to Sir Robert Armstrong.

(CARRINGTON)

Foreign and Commonwealth Office

14 December 1979





17 DEC 1979



CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

14 December 1979

Dear Mr Alexander

Consequences of European Parliament's Rejection  
of 1980 Community Budget

/ You asked today for a short paper on this subject for the Prime Minister. The attached paper has been prepared by FCO officials after consultation with Treasury officials.

Law

McChandle

PP (P Lever)  
Private Secretary

M O'D B Alexander Esq  
10 Downing Street

CONFIDENTIAL



/4.12.79

CONSEQUENCES OF EUROPEAN PARLIAMENT'S REJECTION OF THE  
COMMUNITY BUDGET FOR 1980

IMMEDIATE PROCEDURAL CONSEQUENCES

Note by the Foreign and Commonwealth Office officials

1. The European Parliament voted by 288 to 64 (one abstention) to reject the draft budget for 1980 on 13 December under Article 203.8 of the Treaty. In the resolution (attached) accompanying rejection the Parliament called upon the Commission to present a new preliminary draft budget on the basis of which the Council would present a new draft budget to the Parliament.
2. The Treaties do not make clear whether in fact the budgetary procedure should be repeated in full (a preliminary draft budget by the Commission plus up to two readings by each institution) or whether it is now for the Council to produce new proposals for the Parliament. Council lawyers are preparing a paper on this. The normal budget procedure would allow for adoption of the budget after one reading by Council and Parliament. Only if the Parliament proposes changes in the Council's draft does it go back to the Council; and only if they then alter the Parliament's draft does it go back to the Parliament for a second reading.
3. The timing is still uncertain! The Commission have told us in confidence that they do not intend to start work on the provisional draft budget until they have found guidelines for the new budget acceptable to both the Parliament and the Council. In the normal way, the preparation of the preliminary draft takes about three months' work in the Commission. Even though the estimating for most of the items will have been done, it is most unlikely that the Council will be able to hold its first reading within the next month.

/The Twelfths



The Twelfths Regime

4. The operation of Community finances will continue under the provisional twelfths regime, i.e. the Community may spend each month up to one twelfth of 1979 budget appropriations (or what is entered in the 1980 draft budget if that is less) and on the contributions side, levies and duties are paid in full each month together with one twelfth of the amount entered under VAT contributions in the 1980 draft budget.

5. Article 204 (which regulates Commission spending under the twelfths regime) lays down that a qualified majority of the Council may unilaterally authorise further obligatory expenditure in excess of the one-twelfth. (For non-obligatory expenditure the consent of the Parliament is required.) It is not clear whether there is any limit on the use of this power. Government and Commission lawyers are looking into the point.

6. No immediate problem is likely to arise since the agricultural spending in the early part of the year is less than average. We may need in time to consider whether we should seek to block any proposal for additional agricultural expenditure either by finding any ally (perhaps Italy) to vote against or by invoking the Luxembourg Compromise. The implications of the latter course of action would have to be considered carefully. Qualified majority voting has always been used in the context of the Budget. To break with this practice could create uncertainties in the future and a precedent which could be used against us.

7. Under the twelfths regime it seems likely that our gross monthly contribution would be reduced only by something under £1 million. It is not possible to predict what effect the twelfths regime may have on Community spending levels in the UK.

/Prospects



Prospects for Agreement between Council and the Parliament

8. The Parliament has two main related aims:

(i) to get the Council to recognise its status as an effective part of the Community budgetary authority, so as to increase its influence over the content of the budget, and in particular to confirm its right to propose modifications to obligatory expenditure (and thus to influence agricultural policy);

(ii) to restructure the budget: by shifting the balance away from agricultural expenditure, especially on surpluses, towards structural expenditure on e.g. agricultural guidance, Regional Development Fund and Social Fund, and other new policies (some of which have not yet been approved by the Council).

9. On (i), the French and Danes have resisted any reference in a public statement by the Council to the Parliament as part of the Community budgetary authority. In our view this appears to contradict the wording of the Treaty.

10. On (ii), the Second Budget Council on 23 November rejected (the UK also voted against) the Parliament's modifications designed to reduce provision for expenditure on milk etc and greatly reduced the Parliament's proposed increases to non-obligatory expenditure (RDF etc). They thus, in the Parliament's view, not only voted for the status quo on substance but effectively frustrated the Parliament's attempt to play its legitimate role.

11. Prospects for agreement on the 1980 budget largely turn on these two points.

/UK Interests



UK Interests

12. On (i), the UK has no difficulty in acknowledging the Parliament's status as part of the Community budgetary authority. We have made clear that we recognise it has the right under the Treaties to propose modifications to obligatory expenditure. We are, however, faced with a dilemma in how we vote in practice on such modifications. HMG decided to vote against the Second Budget Council on 23 November to avoid provoking the Germans and especially the French in the context of the Dublin European Council. The French are particularly concerned that a majority in the Parliament and a minority in the Council should not be allowed to overturn an earlier decision taken by consensus in the Council relating to obligatory (agricultural) expenditure. Our vote at the Second Budget Council did not apparently affect President Giscard's attitude at Dublin in our favour, though it is true that the French appeared to be willing to go along with revision of the 1975 Financial Mechanism which goes further than they had gone previously. Too warm a welcome in public to the Parliament's rejection of the budget could make further difficulties in our relationship with the French.

13. On (ii) (restructuring the Budget), UK interests largely coincide with the Parliament's objectives.

Consequences of Rejection for reducing UK net budget contribution

14. Of the three elements identified at Dublin as a possible basis for a Budget settlement, two are relevant here:

- (a) the Commission's proposals for developing supplementary Community measures within the United Kingdom could include proposals for additional expenditure under the structural funds, which the Parliament also wishes to increase;

/(b)



(b) the Commission's advocacy at Dublin of long term reform of the budget, which is also one of the Parliament's objectives.

15. The questions arise what opportunities exist to pursue our major budget aims in the negotiation of a new 1980 budget and how to exploit the situation to our advantage. Our partners are likely to want early adoption of the 1980 budget. It is not yet clear whether we share this interest or whether we should seek to play it long. We are urgently considering these questions.

Conclusion

16. We draw three preliminary conclusions:

- (i) Rejection of the budget will not bring the Community to a halt financially nor, even if the provisional twelfths regime continues for a long time, will our net budgetary contribution be significantly affected.
- (ii) Important tactical opportunities in relation to our strategy on getting a budget settlement and to our policy on the CAP have been opened up and will need further study.
- (iii) We must keep in close touch with both the Commission and UK MEPs in the weeks ahead.

Foreign and Commonwealth Office

14 December 1979



2. THE RESOLUTION ADOPTED BY THE PARLIAMENT THIS AFTERNOON IS AS FOLLOWS:

QUOTE

THE EUROPEAN PARLIAMENT,

- HAVING REGARD TO THE GUIDELINES ADOPTED BY IT AT THE BEGINNING OF THE BUDGETARY PROCEDURE,
- HAVING REGARD TO THE DRAFT GENERAL BUDGET AS PRESENTED BY COUNCIL ON 11 SEPTEMBER 1979 (DOC 1-378/79),
- HAVING REGARD TO ITS OWN MODIFICATIONS AND AMENDMENTS ADOPTED AT ITS MEETING OF 7 NOVEMBER 1979,
- HAVING REGARD IN PARTICULAR TO ITS RESOLUTION OF THE SAME DATE,
- HAVING REGARD TO THE DELIBERATIONS OF COUNCIL OF 23 NOVEMBER 1979 (DOC 1-563/79),
- HAVING REGARD TO THE REPORT OF THE COMMITTEE ON BUDGETS (DOC 1-581/79),



IN APPLICATION OF PARAGRAPH 8 OF ARTICLE 203 OF THE TREATY (EEC)

- 1 RECALLS THAT IN ITS RESOLUTION OF 7 NOVEMBER 1979 IT STATED THE CONDITIONS UNDER WHICH IT COULD AGREE TO THE ADOPTION OF THE BUDGET SEMICOLON NAMELY, IF THE UNJUSTIFIED CUTS CARRIED OUT BY COUNCIL FOR NON-COMPULSORY SECTORS WERE OVERTURNED AND IF THE FIRST MOVES TO CONTROL AGRICULTURAL EXPENDITURE HAD BEEN ACHIEVED, AND IF THE EUROPEAN DEVELOPMENT FUND AND ALL THE COMMUNITY'S LENDING AND BORROWING ACTIVITIES HAD BEEN INCLUDED WITHIN THE BUDGET SEMICOLON
- 2 POINTS OUT THAT COUNCIL, IN ITS EXAMINATION OF PARLIAMENT'S AMENDMENTS, HAS NOT AGREED TO OVERTURN THE UNJUSTIFIED CUTS TO NON-COMPULSORY SECTORS, WHICH IT HAD MADE WHEN IT DREW UP THE DRAFT BUDGET SEMICOLON
- 3 NOTES THAT THE COUNCIL HAS NOT ACCEPTED PARLIAMENT'S PROPOSALS WHICH REPRESENTED THE FIRST MEASURES AIMED AT CONTROLLING AGRICULTURAL EXPENDITURE, MEASURES WHICH IN NO WAY ATTEMPTED TO CALL IN QUESTION THE PRINCIPLES OF THE COMMON AGRICULTURAL POLICY BUT SIMPLY TO CONTROL THE COST THEREOF IN AN EQUITABLE MANNER SO THAT REPEATED INCREASES DO NOT IN THE LONG RUN ENDANGER THE VERY BASIS OF THAT POLICY SEMICOLON
- 4 POINTS OUT THAT COUNCIL DID NOT AGREE TO THE INCLUDING WITHIN THE BUDGET OF THE EUROPEAN DEVELOPMENT FUND AND THE COMMUNITY'S LENDING AND BORROWING ACTIVITIES SEMICOLON
- 5 CONCLUDES THAT NONE OF THE CONDITIONS SET OUT IN ITS RESOLUTION OF 7 NOVEMBER 1979 HAS BEEN FULFILLED SEMICOLON
- 6 BELIEVES THAT COUNCIL HAS NOT PERMITTED THE EUROPEAN PARLIAMENT TO ACT POSITIVELY AS A PART OF THE BUDGETARY AUTHORITY, RESPONSIBLE FOR THE BUDGET AS A WHOLE SEMICOLON



7 RECOGNISES THE POLITICAL CHALLENGE TO ITS FUTURE POSED BY  
COUNCIL'S REFUSAL TO EXERCISE ITS OWN POLITICAL RESPONSIBILITIES,  
AS A COUNCIL, WITHIN THE BUDGETARY AUTHORITY SEMICOLON

8 THEREFORE REJECTS THE 1980 DRAFT BUDGET AS MODIFIED BY COUNCIL  
SEMICOLON

9 CALLS UPON THE COMMISSION TO PRESENT A NEW PRELIMINARY DRAFT  
BUDGET TO TAKE ACCOUNT OF PARAGRAPH 38 OF ITS RESOLUTION OF  
7 NOVEMBER 1979, ON THE BASIS OF WHICH, COUNCIL, PURSUANT TO  
ARTICLE 203, PARAGRAPH 8, OF THE TREATY (EEC) SHOULD PRESENT A  
NEW DRAFT BUDGET.



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Ref. A0971

PRIME MINISTER

Community Budget: Additional Receipts

I attach a paper prepared by the Official Steering Committee on European Questions on how we can hope to improve our budget position on the receipts side.

2. Some of the figures are still subject to final checking but I am sending it to you tonight in view of the desirability of influencing the Commission's thinking before the Christmas break. For this purpose I also attach a draft note which is based on the paper and which has been prepared by Cabinet Office, Treasury, FCO and Mr. Butler (UKREP). Its main purpose, as you will see, is to give the Commission an indication of the type of existing United Kingdom public expenditure programmes which, in our view, the Community could reasonably finance. But it also argues the merits of a more straightforward receipts mechanism. It does not at this stage indicate what level of additional receipts would be acceptable to us. The figures in the accompanying tables are still being worked out but they will add up to something over 2 billion eua, i. e. well in excess of what we are asking for let alone what we may be offered. This is to avoid being pinned down to a precise figure at this stage.

3. I should be glad to know whether you would be content for such a note to be given informally to the Commission early next week; and for the paper to be included in the dossier for your meeting on 21st December. I am also sending copies of both the paper and the draft note to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and the Lord Privy Seal.

REA

(Robert Armstrong)

14th December, 1979



CONFIDENTIAL

COMMUNITY BUDGET: SUPPLEMENTARY MEASURES TO INCREASE UK RECEIPTS

Note by the United Kingdom

1. The Dublin European Council requested the Commission "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 greater participation by the United Kingdom in Community expenditure".

2. This informal note sets out the United Kingdom's views on a number of possible approaches to the objective defined in the European Council remit. It is concerned with means, and does not seek at this stage to put figures on the financial yield required from supplementary receipts measures. The United Kingdom is ready to consider any suggestions the Commission may wish to put forward, provided that they result in an acceptable adjustment in our inadequate receipts. It will also be important that the solution arrived at is so conceived as to avoid the Community having to face the same problem again after a few years.

3. We continue to believe that an enhanced receipts mechanism linked to the Financial Mechanism offers the simplest and most effective approach. It would be building on an existing Community instrument. It would also be communautaire in a wider sense, as the money paid through the mechanism to the member state in question would be used for purposes in line with Community policies. If in addition it provided that a member state would have to have below say 80% of the



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Community average in receipts per head to qualify, it would virtually exclude the risk of establishing an expensive precedent for the other member states or Greece, Spain and Portugal. It would be self-correcting in that the refund would fall if, for example, economies in CAP expenditure reduced average Community receipts per head or if extra Community expenditure in the UK under existing policies raised our receipts per head towards the Community average.

4. We nevertheless want to work closely with the Commission in exploring other forms of supplementary measures which could meet our needs. In principle these measures could take two forms: enlarging existing funds to the benefit of the UK, or creating a special fund devoted exclusively to the UK.

5. In the first category, the possibilities are:-

- (i) increased Community participation in existing projects or programmes under the Regional and Social Funds and the Guidance Section of FEOGA;
- (ii) a special window for the UK within an enlarged Regional Fund, with more flexible qualifying criteria;
- (iii) increasing the UK's share in an enlarged quota section of the Regional Fund.



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6. This approach, and especially (ii) above, may have a useful role to play in contributing to the desired objective. Illustrative figures are set out in Annex A. But it is unlikely to yield enough because the existing funds are small in relation to our requirements. Further, if other member states were to demand comparable treatment the scale of expenditure would be unacceptable to the Community as a whole, and the resulting totals would come up against the 1% VAT ceiling.

7. In the second category, additional receipts could be provided for the UK outside existing funds and policies using a special Council regulation under Article 235 (on the analogy of the Financial Mechanism or the regulation setting up the EMS interest rate subsidies). This could provide for payments to the UK in the form of direct grants. It would be essential that the sums should be available for an adequate period. The Fund would be designed to promote convergence and to be used for purposes in line with Community policies, in consultation with the Commission.

8. The Commission identified, in their paper for the Dublin Summit, three areas in which spending could be designated for special treatment: coal investment, transport infrastructure and agricultural improvement. Of these coal investment and transport infrastructure hold the most appeal for the UK and in relation to the test of compatibility with Community objectives. Northern Ireland and urban renewal in declining industrial areas are also strong candidates. Northern Ireland is demonstrably in a special situation, in which extra Community aid



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would be readily identified and credited; and the problems of industrial and urban decay are particularly serious in the UK. Illustrative figures covering these possibilities are in Annex B.

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## INCREASED COMMUNITY EXPENDITURE IN THE UK UNDER EXISTING POLICIES

The figures below shew the refund which would accrue to the UK assuming that the Community provided 70% of total costs (instead of the present 25-30%) of existing projects under the Regional, Social, Guidance and Research Funds.

	MEUAs at current prices (£m at 1979 survey prices)
	1980/81
Regional Fund	230 (150)
Social Fund	140 (95)
Guidance	80 (55)
Other	<u>20 (15)</u>
	470 (315)



LIST OF PROGRAMMES AND PROJECTS IN THE UK TO WHICH THE COMMUNITY  
COULD CONTRIBUTE\*

	UK Public Expenditure 1980/81, £m at 1979 Survey Prices	Rate of Grant which EEC might pay	Refund from Commission
1. TRANSPORT INFRASTRUCTURE			
"E" roads linking directly to EEC ports	/		
- less directly linked			
Other motorways and trunk roads			
Capital Spending on local roads			
Capital spending on railways			
Airports capital investment			
Ports, docks and waterways investment			
TOTAL			
2. COAL INVESTMENT			
Investment in new mines and major extensions.			
Other investment in coal.			
3. REGIONAL INFRASTRUCTURE			
Road construction and improvement.			
Railways investment.			
Investment in ports, harbours and waterways.			
Investment in electricity generation.			

[In addition to three columns as for  
1 and 2 above, there would be additional  
columns breaking down column 1 into shew  
separate figures for Scotland, Wales,  
Northern Ireland and North-East England.]

\*Note: the above categories are not mutually exclusive. Individual  
items may thus appear under more than one head.

/Assuming that the full refund implied by the rate of expenditure and  
proposed grant rate could be claimed in 1980-81.



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3. REGIONAL INFRASTRUCTURE (cont'd)

Investment in coal mines.

Educational investment.

Hospitals and health service  
investment.

Urban programme.

TOTAL

4. NORTHERN IRELAND

Capital and infrastructure  
investment.

Aid for trade, industry and  
employment.

Current expenditure on:

Roads and transport

Housing

Environmental Services

Education, libraries

Health and social services

Social security

TOTAL

5. URBAN AREAS IN INDUSTRIAL DECLINE

[Items to be supplied]





11/4 DEC 1979

11-4



SECRET



Info P01 5

CABINET OFFICE

70 Whitehall, London SW1A 2AS Telephone 01-233 8319

Lo. Mrs

From the Secretary of the Cabinet: Sir Robert Armstrong KCB, CVO

14th December, 1979

Ref. A0963

Community Budget: Follow-up Action to the Dublin European Council

destroyed TR 14-12-79

I attach a copy of a minute of 7th December from the Secretary of the Cabinet to the Prime Minister on follow up action to the Dublin European Council, and a copy of a letter from Michael Alexander recording the Prime Minister's comments.

The Prime Minister has subsequently agreed to have a meeting on Friday, 21st December with the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Lord Privy Seal, the Minister of Agriculture and your Secretary of State. Officials are preparing notes on the problem of our inadequate receipts and on structural changes in the Budget for this meeting. There will also be a note by the Foreign and Commonwealth Secretary on the handling of bilateral contacts and the problem of linkages on which the Prime Minister has commented.

I am copying this letter to the Private Secretaries to the Prime Minister, the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Lord Privy Seal and the Minister of Agriculture, who will wish to note that this correspondence has now been copied to the Department of Energy, and that there is to be a meeting next Friday.

M. J. VILE

(M. J. Vile)

Denis Walker, Esq.



6mo 7A

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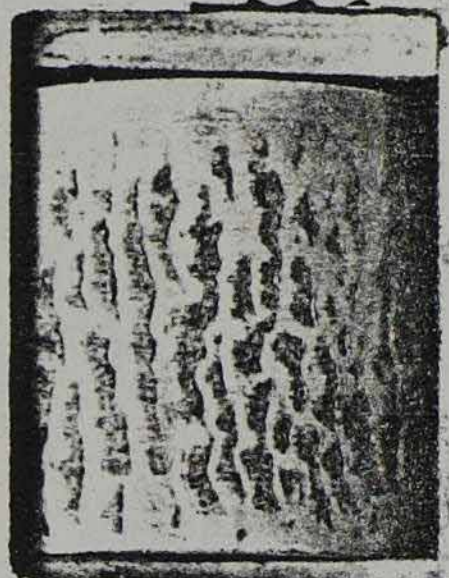
JS



10 DOWNING STREET

*From the Private Secretary*

13 December 1979



EEC BUDGET: FUTURE TACTICS

The Prime Minister has seen and approved the draft text which you sent me the other day of a minute which the Foreign and Commonwealth Secretary intends to circulate to his colleagues on OD(E) on this subject. The text which she has approved is that which refers to our policies on specific issues being "dealt with in parallel to" our budget objectives.

M. O'D. B. ALEXANDER

G.G.H. Walden, Esq.,  
Foreign and Commonwealth Office.

KRP  
J.





CONFIDENTIAL

VB

MR. VILE  
CABINET OFFICE

Community Budget: Follow-up to  
the Dublin Council

The Prime Minister has seen your minute to me of 12 December on this subject and has agreed the arrangements proposed in it.

M O'D B A

13 December 1979

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TCR





10 DOWNING STREET

Prime Minister -

(1)

Lord Cannington  
would like to see a  
summit on these lines  
about Sir Ian Gilmour's  
new responsibilities.

Agree?

Yes not

Ans.

12-12-79



Registry No.

DRAFT

Type 1 +

SECURITY CLASSIFICATION

Top Secret,  
Secret,  
Confidential,  
Restricted,  
Unclassified.

To: - MEMBERS OF OD(E)

From  
SECRETARY OF STATE

Telephone No. Ext.

Department

PRIVACY MARKING

..... In Confidence

EEC BUDGET: UK CONTRIBUTION: FUTURE TACTICS

1. I have discussed with the Prime Minister how best we might handle the negotiations with our Community partners on the problem of the UK budget contribution between now and the next European Council.
2. As the Prime Minister told Parliament, we shall be entering upon a period of intense diplomatic activity. We shall have to devote considerable energies to lobbying in the various European capitals at both official and Ministerial levels. If we are to achieve a satisfactory result our case will have to be presented in a coordinated manner.
3. At home we shall need to embark upon intensive and rigorous studies, which will involve a number of Departments, covering not only an immediate increase in UK receipts but also a shift in the longer-term pattern of Community expenditure. Our policies on the specific issues of fish, sheepmeat and energy, mentioned in the Dublin European Council Conclusions, and also our handling of the agricultural price fixing negotiations will have to be *dealt with in parallel to* ~~closely~~ *dealt with in parallel to* ~~carefully~~ *dealt with in parallel to* ~~coordinated~~ *dealt with in parallel to* with the pursuit of our budget objectives.
4. Responsibility for the overall coordination of this work will continue to lie with OD(E) reporting to the Prime Minister and to OD Committee and Cabinet as

/necessary

*Dealt with in parallel to*



necessary. As Chairman of OD(E) I shall wish to be closely involved, and I shall ensure that the Committee itself remains abreast of all the important issues. But there will also be a need for close day to day Ministerial liaison on the detailed work and for Ministerial coordination of and involvement in the negotiations with our partners. These may unavoidably touch on the policy questions mentioned in the preceding paragraph and we shall need a Ministerial spokesman who can respond on the basis of a general view of them. The Prime Minister has agreed with my proposal that the Lord Privy Seal should assume responsibility for this and take personal charge of our negotiating strategy, reporting to me and to OD(E) as necessary. He will coordinate a programme of bilateral exchanges in pursuit of our objectives and will undertake necessary visits to Community capitals and to the Commission. He will also report progress regularly to the Ministers concerned to ensure that immediate attention is paid to all the problems which arise.



MR. ALEXANDER

cc. Mr. Whitmore  
Mr. Franklin

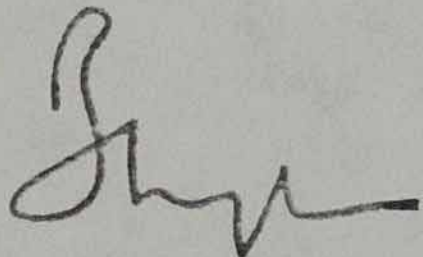
+nw

EEC Budget

1. A curious feature of Friday's Lobby for Sunday newspapers was its concentration (at their direction) on the Eurobudget. No coverage resulted. I conclude, therefore, that they were staking out the territory. In essence, what they are now looking for are concrete examples of our determination to follow Dublin through. We may be able to hold the position up to the New Year; but we shall need some very clear evidence of action immediately thereafter if we are to meet suspicions that we are going soft.

2. In short, we cannot rely on my ebullient briefing (which necessarily has to be less ebullient because we approach the second Summit in a spirit of compromise). We need visible action or activity. This poses a dilemma because official action is, in general, behind the scenes.

3. Could you please bear these points in mind for the future? There is no substitute for Ministerial activity, though softness in pursuit of our national interests is not to be recommended as a feature of that Ministerial activity.



B. INGHAM

12 December, 1979



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PRIME MINISTER

Community Affairs

*W. 19/12/79*

The Minister of Agriculture might be invited to report on the outcome of the 10th-11th December Agriculture Council. We (and the Italians) secured our green currency devaluations against strong French resistance; agreement was reached on the basis for negotiating voluntary restraint agreements on sheepmeat with third countries, with no concessions to the French on the internal regime; the wine package was agreed at lower cost levels than originally proposed by the Commission; and a first discussion took place on Commissioner Gundelach's CAP economy proposals.

2. The Chancellor of the Exchequer might report on the meeting between the Budget Council and the European Parliament on 12th December, and on the prospect that the European Parliament may reject the 1979 supplementary Budget and the 1980 Budget.

3. The Secretary of State for Trade and the Minister of Transport might report on the outcome of the 6th December Transport Council, which inter alia agreed a series of measures designed to lead to a liberalisation of air transport and lower fares within Europe.

4. OD(E) will have met immediately before Cabinet to discuss guidance to Departments on the Government's relations with United Kingdom Members of the European Parliament, and possible further Community action against United States synthetic textiles. The Chancellor of the Exchequer will have been in the chair, and could be asked to report.

RA

(Robert Armstrong)

12th December 1979



Ref. A0934

MR. ALEXANDER

Prime Minister

*Handwritten:* Mrs. [unclear] Agree AB + C? [unclear] 12/11

Community Budget: Follow-up Action to the Dublin European Council

Your letter of 10th December records the Prime Minister's comments on Sir Robert Armstrong's minute of 7th December. In the light of the Prime Minister's reactions, and in particular her wish to have a meeting before the Christmas break, Sir Robert Armstrong would like to suggest the following. The Treasury and FCO have been consulted.

- A
- 10 am
- B
- (a) The Prime Minister might have an informal meeting next week with the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Lord Privy Seal, the Minister of Agriculture and the Secretary of State for Energy. Since the Prime Minister only returns from Washington on Wednesday and has heavy commitments on Thursday, a meeting on Friday, 21st December, would seem to be indicated.
- (b) For that meeting, there will be a note by officials on the problem of our inadequate receipts. We hope to have this paper ready by the weekend, and because of the impending Christmas break in Brussels, it would be helpful to have the Prime Minister's preliminary reactions before she leaves for Washington, in case the Commission ask to be given some preliminary indication of our thinking before Christmas.
- (c) There will also be a note by officials on structural changes in the budget, as discussed in paragraph 11 of Sir Robert Armstrong's minute of 7th December.
- (d) The meeting could also consider the handling of bilateral contacts and the problem of linkages on which the Prime Minister has commented. She might feel it would be useful to have a note from the Foreign and Commonwealth Secretary on these aspects.
- C.

2. If the Prime Minister approves these arrangements, we will inform other Departments accordingly.

*Handwritten:* M.J.V.

M. J. VILE

12th December, 1979



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ORS 170

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FM FCO 111131Z DEC 79

TO IMMEDIATE UKDEL STRASBOURG

TELEGRAM NUMBER 82 OF 11 DECEMBER

INFO IMMEDIATE UKREP BRUSSELS

*La. Amt*

FOR HOHLER (UKREP)

FOLLOWING CONFIRMS TELECON HOHLER/GOODENOUGH:

EUROPEAN PARLIAMENT: COMMUNITY BUDGET

1. PLEASE EXPLAIN TO SCOTT-HOPKINS THAT, IN INDICATING TO HIM ON 7 DECEMBER HER LIKELY ATTITUDE TO THE PROSPECT OF THE BUDGET BEING REJECTED BY THE EUROPEAN PARLIAMENT, THE PRIME MINISTER DID NOT INTEND TO GIVE A PRECISE ACCOUNT OF OUR TACTICAL APPROACH IN THE COUNCIL TOMORROW ON THE PARLIAMENT'S PROPOSED MODIFICATIONS TO THE 1979 THIRD SUPPLEMENTARY BUDGET AND ON ANY PROPOSAL BY THE PARLIAMENT TO INCREASE THE MAXIMUM RATE. SHE WAS RATHER REFLECTING HER OWN VIEWS ON THE EFFECTS OF A POSSIBLE OUTCOME TO THE PARLIAMENT'S CONSIDERATION OF THE 1980 BUDGET. IT IS OUR INTENTION TO COLLABORATE ON A COMPROMISE WHICH WOULD MAKE IT POSSIBLE FOR THE EUROPEAN PARLIAMENT NOT (REPEAT NOT) TO REJECT THE BUDGET.

CARRINGTON

FILES

EID (1)

PS

PS/LPS

PS/PUS

LORD BRIDGES

MR FRETWELL

COPIES TO

MR ALEXANDER, NO 10 DOWNING ST

MR ELLIOTT, CABINET OFFICE

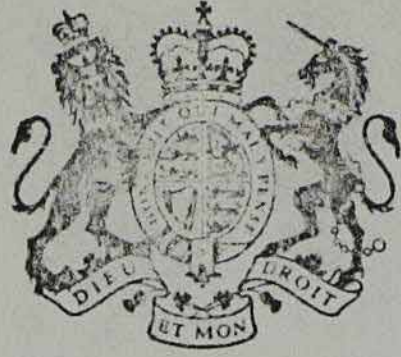
MR ASHFORD, TREASURY

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JL



10 DOWNING STREET

From the Principal Private Secretary

11 December, 1979.

Dear Robert,

EEC Budget: French Views Post Dublin

Although I went to see Wahl in Paris yesterday on another matter, I took the opportunity to ask him how he saw the problem of the Community Budget in the wake of the European Council Meeting in Dublin. He said that the French had gone to Dublin hoping that the Prime Minister would be ready to move off the British position of seeking broad balance, which they regarded as synonymous with *juste retour*. They had therefore been very concerned when it had seemed from the discussion in the European Council that there was no flexibility in the British position. What had saved the day was the Jenkins' initiative and the Prime Minister's readiness to seek a solution at a further meeting in a spirit of genuine compromise. But for this late development, the Community would have found itself in a crisis. There were, however, a number of points which he wished to make about any possible eventual outcome. First, as the French had made clear before Dublin, any solution must be within the rules of the Community. All the members of the EEC, including the UK, were members of the same club, and they should all follow the rules of the club. The French could have understood it if the UK had said at Dublin that they accepted the rules of the Community, but they wanted them to produce different figures. Instead, we had tried to embark on the far more radical course of changing the rules of the club. This had led to the UK being isolated.

Second, he thought that it would be possible to find only a small amount by way of additional Community expenditure in the UK to supplement the 520 million units of account which was available if the constraints on the Financial Mechanism were removed. The difficulty was that any device that helped the UK was also likely to apply to other members of the EEC. We should soon come up against the 1% VAT ceiling which the French, like the UK, did not want to see breached. Any figure on offer at the next Council Meeting was therefore likely to be well short of 1,500 million units of account.

/ Third

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- 2 -

Third, it was inescapable that any solution to the Budget problem had to be reached at the same time as progress was made on the other major problems at present engaging the Community such as sheepmeat, fish, and even perhaps - because of the Germans - energy, though he was not saying that there had to be any kind of formal linkage. Finally, it was important that the next meeting of the Council should be well prepared beforehand.

He also wanted to draw attention to the fact that a number of commentators outside Government circles were now saying that, as a result of the course followed by the UK on the Budget, the question of possible British withdrawal from the Community had been re-opened, and the opponents of the Community strengthened.

I said that the Prime Minister had made it absolutely clear at Dublin and subsequently that there was no question of British withdrawal from the Community. For what the Prime Minister had described as wider political reasons - let alone any others - Britain would remain within the Community. But while we wanted to remain a member of the club, we could not accept a situation where the application of the rules meant that we were making our present massive net contribution to the Budget, while countries like Denmark (which was richer even than Germany in terms of GNP per head), Holland and Belgium, which were all better off than Britain, were substantial net beneficiaries. Britain had said time and again that she was not seeking *juste retour*. We should be very happy to settle for a position similar to that of France, which, as Wahl acknowledged, could well be described as one of "broad balance". We believed that a solution to our problem could be found by building on the three areas identified in the communique of the European Council meeting. It was not enough to look forward to an improvement in our budgetary position as a result of reform of the CAP. We of course wanted such reform, but it would take time. Britain had to have a sufficient improvement in her budgetary position in 1980/81, and we should be seeking that in the spirit of genuine compromise which the Prime Minister had referred to. We would be seeking ways of substantially increasing Community expenditure in the UK: it was the lack of such expenditure that was one of the prime causes of our present difficulty. We agreed entirely with his view that it was essential that the next meeting of the European Council should be adequately prepared. We thought that if the Council was to be a success, the solution to the Budget problem would need to be virtually agreed before the meeting began.

/ Although

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- 3 -

Although Wahl made his remarks in a very friendly way - indeed, at one point in the conversation he said to me that, on his return from his visit to London last month, President Giscard had remarked that France was now closer than ever before to Britain on everything but EEC matters -, there was undoubtedly an underlying hardness and an unwillingness to admit of any but the most limited advance on what was on offer to us in Dublin in all that he had to say on this subject. I am afraid that if Wahl was reflecting President Giscard's views, as I think we must assume he was, it does not augur well for the work which will be going on over the next few weeks in preparation for the next meeting of the European Council.

I am sending copies of this letter to Michael Palliser and Ken Couzens.

Yours etc.,

Alvin White.

Sir Robert Armstrong, K.C.B., C.V.O.,  
Cabinet Office.

Re

CONFIDENTIAL



PRIME MINISTER

①

fa. Ant

Mr. Scott-Hopkins

When Mr. Scott-Hopkins called on you last Thursday, he told you that it was very probable that the European Parliament would throw out the 1980 EEC Budget. You made it clear that this project caused you no displeasure.

At a meeting of OD(E) earlier today, your colleagues came to the conclusion that a rejection of the Budget by the Parliament was likely to be, on balance, damaging to our interests and in particular to our chances of securing redress for our own budgetary problem. I will submit the minutes of the meeting to you as soon as they are available.

There is, of course, no question of trying to dissuade Mr. Scott-Hopkins from pursuing his opposition to the EEC Budget. But you may think it would be politic to indicate to him that he should not give the impression that your reaction at a private discussion represented the final view of HMG. If you agree I will arrange for this message to be passed to Mr. Scott-Hopkins informally.

Is it worth passing such a message? It would only indicate a fundamental difference of view. Ant

10 December 1979

As it has no effect on his action and as I revised my view (wrongly) on a previous occasion -

of course OD(E) will be - for the sake of doubt, better - I will be 1/2 next week





10 DOWNING STREET

From the Private Secretary

10 December 1979

COMMUNITY BUDGET: FOLLOW UP ACTION TO THE DUBLIN EUROPEAN COUNCIL

The Prime Minister has seen Sir Robert Armstrong's minute to her of 7 December on this subject. She has made a number of detailed comments and one general comment on the text. The general comment is as follows:

"You will see various comments throughout the text but broadly speaking they amount to the following:-

- (a) No linkage with other issues. Each of these must be dealt with on merit and on the assumption that we continue as an ordinary member of the Community. When the Budget disagreement is over we shall not want to find ourselves in an adverse position;
- (b) Energy - I am not prepared to bargain away our few resources. To suggest that we might be allowed to keep our own money in return for giving up some of our oil is ridiculous;
- (c) We must get ahead faster. If the meeting is to be at the end of February it will have to be called in early February. That means nearly all bilaterals and negotiations must be complete by the end of January. "

The Prime Minister made the following points on the text of Sir Robert Armstrong's minute:

- (a) She believes that its acceptability to New Zealand must be a major factor in our approach to any sheepmeat regime;
- (b) She does not agree with the third or with the final sentences of paragraph 6 of your paper on energy;

/(c)

SECRET



SECRET

- 2 -

- (c) The Prime Minister is concerned lest a meeting with Signor Cossiga at the end of January should be too late;
- (d) The Prime Minister is unwilling to envisage a concession on the 1980 price fixing as a possible price we might pay for further movement on the Budget. She will also resist the creation of a link by the French between the Budget and continued access for New Zealand butter;
- (e) The Prime Minister is unwilling to use our North Sea oil policies as a means of creating pressure on our Community partners in the way envisaged in paragraph 14 of Sir Robert Armstrong's minute;
- (f) The Prime Minister wishes to have a Ministerial meeting between her return from Washington and the Christmas break in order to discuss our approach to the next meeting of the European Council. The meeting should have papers to consider.

I am sending copies of this letter to George Walden (FCO), Tony Battishill (HM Treasury), Michael Richardson (Lord Privy Seal's Office), Garth Waters (Ministry of Agriculture, Fisheries and Food) and Bill Beckett (Law Officers' Department).

M. O'D. B. ALEXANDER

Martin Vile, Esq.,  
Cabinet Office.

SECRET

9/13



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FM UKREP BRUSSELS 071726Z DEC 79

TO ROUTINE FCO

TELNO 6723 OF 7 DECEMBER

INFO COPENHAGEN BRUSSELS THE HAGUE ROME DUBLIN PARIS BONN LUXEMBOURG  
ATHENS

YOUR TELNO 1381: COMMUNITY BUDGET

*Prime Minister*

*11.12.*

*ms.*

1. DISCUSSION AT THE INFORMAL MEETING OF COREPER WITH THE PRESIDENT OF THE COMMISSION YESTERDAY WAS ROUTINE. JENKINS SAID THAT THE COMMISSION WOULD GO TO WORK ON THE DUBLIN COMMUNIQUE, BUT WERE NOT THINKING OF TRYING TO PRODUCE A NEW PAPER BEFORE CHRISTMAS. DID THE INCOMING PRESIDENCY HAVE ANY IDEAS ABOUT THE HANDLING? PLAJA SAID THAT HIS MINISTERS HAD NOT YET REACHED ANY CONCLUSIONS.

2. RIBERHOLDT, EVIDENTLY DELIGHTED THAT HIS PRIME MINISTER HAD TAKEN A HARD LINE AT DUBLIN, SAID THAT IT WAS EXTREMELY IMPORTANT TO GET A FEW THINGS CLEAR. IF THE UK PERSISTED IN REFERRING TO OWN RESOURCES AS "OUR MONEY" THERE COULD BE NO PROGRESS. MOREOVER ACTION ON THE EXPENDITURE SIDE COULD ONLY TAKE PLACE IN THE CONTEXT OF THE DEVELOPMENT OF COMMUNITY POLICIES IN THE NORMAL WAY. THERE COULD BE NO LUMP SUM PAYMENTS OR MECHANISMS. NANTEUIL ADDED FOR GOOD MEASURE THAT THE 520 MUA WERE NOT ACQUIS. NOR WAS IT ACCEPTABLE FOR THE UK TO CONTINUE TO PURSUE THE "JUSTE RETOUR" UNDER ANOTHER NAME. ANY EXPENDITURE FROM NEW POLICIES WOULD HAVE TO BE WITHIN THE LIMITS OF THE COMMUNITY'S PRESENT PRINCIPLES. PLAJA MENTIONED THAT EXPENDITURE ON COAL WOULD CAUSE PARTICULAR DIFFICULTIES FOR ITALY.

3. I SPOKE ON THE LINES OF PARAGRAPH 5 OF YOUR TUR. I ADDED THAT COMPLAINTS ABOUT UK REFERENCES TO OUR NET CONTRIBUTION AS "OUR MONEY" WOULD BE BETTER RECEIVED IF THOSE WHO MADE THEM WERE PREPARED TO STOP REGARDING THEIR CONTRIBUTION TO THE COMMUNITY BUDGET TO RELIEVE US OF OUR UNFAIR BURDEN AS "THEIR MONEY".

CONFIDENTIAL

*|| I HOPED*



# CONFIDENTIAL

I HOPED THAT MY COLLEAGUES HAD NOTED BOTH THE PRIME MINISTER'S WILLINGNESS TO WORK IN A SPIRIT OF COMPROMISE AND HER STATEMENT THAT SHE HAD VERY LITTLE ROOM FOR MANOEUVRE. THE SOLUTION HAD TO BE ONE WHICH REASONABLE PEOPLE IN THE UNITED KINGDOM WOULD REGARD AS FAIR. IT WAS THE RESULTS WHICH MATTERED AND I HOPED THAT ON THE BASIS OF THE DUBLIN COMMUNIQUE WE COULD GET AWAY FROM IDEOLOGICAL ARGUMENT.

4. NANTEUIL WAS NOT PREPARED TO LEAVE IT THERE BUT NOTHING OF INTEREST ENSUED FROM THE REMAINING DISCUSSION.

FCO COPY TO:

FCO - PS/SOFS, PS/LPS, PS MR HURD, BRIDGES, FRETWELL, SPRECKLEY

CAB - FRANKLIN, ELLIOTT, WALSH

MAFF - EVANS

TSY - PS/CHANCELLOR, COUZENS, JORDAN-MOSS, MRS HEDLEY-MILLER

ASHFORD, BAKER, THOMSON

NO10 - ALEXANDER

BUTLER

{ADVANCED AS REQUESTED}

FILES

EID

PS

PS/LPS

PS/MR HURD

PS/PS

MR FRETWELL

LORD BRIDGES

COPIES TO

ADVANCE ADDRESSEES



SECRET

Prime Minister

Ref. A0900

PRIME MINISTER

See vol.

1 2

Community Budget: Follow-up Action to the Dublin European Council

This minute, which reflects the conclusions of a meeting I held on 5th December with the Treasury, the Foreign and Commonwealth Office and the Ministry of Agriculture, suggests how we should prepare for the resumed European Council consideration of our Budget problem. The preparation can be considered under three heads.

Handling Community business between now and the next European Council

2. As you made clear in Cabinet yesterday, we are not in this period concerned with seeking to bring the Community to a halt. We should therefore be prepared in the Ministerial Councils immediately ahead and other Community meetings to continue to deal with business on its merits, attempting no obstruction for obstruction's sake and being ready to make progress or reach agreement where it suits our interests to do so. <sup>2</sup> Where it does not we should seek to play the issue long and be on the look out for issues of interest to our Community partners which might give us some leverage.

3. On certain subjects - fish, sheepmeat and energy - <sup>Some</sup> ~~more~~ member states have sought to establish linkages with our Budget problem. We shall insist that these are matters which have to be dealt with on their merits. Nonetheless, we should aim to turn this situation to account. This will mean allowing sufficient progress (where we can do so without damage to British interests) to report at the next European Council, while at the same time giving nothing of substance away that might be useful at that Council.

3 4. On fisheries, we should be able to register useful progress on conservation by the next European Council. We should also continue to explore the basis for a possible settlement with the Danes on the pout box and with others on points of particular concern to them. We should concede nothing finally before the Council. The crunch point on access and quotas may not come before the summer of 1980, but there is a risk that others will try to accelerate this



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timetable and we may come under pressure at the European Council to make commitments which would prejudice our position. We shall have to examine whether we can better avoid this by delaying consideration of quotas and access or by establishing an informal understanding in bilateral talks on where an eventual solution might lie.

④ 5. On sheepmeat, it is clear that we must not give the French any satisfaction in advance of the European Council. We should continue to discuss a regime which would be acceptable to us, and to New Zealand. It may be desirable, say at the December or January Agriculture Council, for the Minister of Agriculture to show some willingness to contemplate a move towards Community financed premia in line with the authority he has already received from OD(E). If we do not make some move of this sort we may lose the support of other Member States, thus taking the heat off the French.

⑤ 6. On energy, *we must continue our own supply drive etc.* we need to do two things. One is to look at the scope for making life uncomfortable for our Community partners e.g. on oil prices as part of a possible campaign of obstruction. The other is to look again at the scope for action which, without damage to our interests, would respond to their concern about the vulnerability of their other sources of supply. Domestic security of oil supplies must clearly take priority, and it may well be that further work will only confirm the recent OD(E) conclusion that we can do nothing for the Community either on prices or on supplies. But, given the importance attached to this point by the Germans, the French and the Danes, we obviously cannot ignore it in the bargaining over a solution to our Budget problem.

7. On all the subjects where the possibility of "linkage" at the next Council arises we shall have to assess the costs to our economy of any additional concessions we might make in order to achieve a solution on the Budget.

#### Preparations for the next European Council

8. Of the three elements in a possible solution already identified by the Commission, we shall need to consolidate the gain on the contributions side. But the most important task now is to get something substantial on the receipts side, building on the paragraph in the Dublin communique which dealt with that subject. The Treasury are already at work on this. We should keep alive the



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✓  
notion of a straight receipts mechanism, but this will clearly be extremely difficult to negotiate, and other "supplementary measures" to increase our receipts will have to be explored. For this purpose we need to identify domestic expenditure programmes which might qualify for Community aid without involving us in increased Exchequer expenditure. This will mean stretching (or by-passing) the principle of "additionality" which may present problems for the Commission. We must work closely with the Commission on all this. Once we know how far they are willing to go, we can decide whether it is best to leave them and the Italian Presidency to sell the package to other Member States or whether we ourselves should take the discussion up with the other Member States. We should in any case talk to the Italians as soon as we have our own ideas clear and approved by you and other Ministers.

9. Signor Cossiga has indicated that he would like to make London the first visit of the Italian Presidency. It would probably be better for him to know your views before talking to other Heads of Government. On the other hand, we ought to know beforehand what proposals are likely to emerge from the Commission. This points to a meeting with Signor Cossiga towards the end of January.

19.11  
Jan - not  
later.

*Much less likely. If the Council Meeting is to be end full it would have to be called by de jure Feb*

10. A fourth question which may become linked with the budget negotiation in the next three months is the 1980 price fixing, including the Commission's proposals on milk and sugar. If there is deadlock in the price negotiations, with most Member States insisting on increases and the United Kingdom alone pressing for a freeze, other Member States may look for a concession by the United Kingdom as a price for further movement on the budget. The French will be strongly tempted to make a further link with the question of continued access for New Zealand butter. We shall have to consider further the substance of our position and the timing of these negotiations.

No  
/  
No

11. You have indicated that some commitment to structural change in the Budget could have a part to play in securing a lasting solution. The Treasury are working on this also. We need to quantify this idea and see in what form it would be most valuable to us, and how it could be most readily accepted by other Member States. It would probably involve specifying a (reduced) ceiling

(ignore unexplained)



SECRET

*No increase in VAT ceiling - otherwise contributions will rise.*

percentage of the Budget for CAP expenditure to be reached over a period, perhaps coupled with a specified increased proportion for structural expenditure of a kind helpful to us. Our analysis would have to take account of the scope for using the 1 per cent VAT ceiling to help achieve this. If we can secure some savings for 1980-81 in the cost to us of the CAP through the current discussions on measures to cut the surpluses of milk and sugar, so much the better. But the Commission's current proposals are unacceptable and no decisions will in any case be taken before the CAP price fixing.

12. The papers on both the receipts side and the restructuring of the Budget will be discussed interdepartmentally under Cabinet Office chairmanship. The intention is to have these available before Christmas, and ready for Ministerial consideration early in January.

Contingency Planning

13. On withholding, you have already had a preliminary paper (attached to the Chancellor's Private Secretary's letter to your Private Secretary of 28th November). The Treasury and the Treasury Solicitor are now elaborating this assessment in consultation with FCO, Cabinet Office and the Law Officers' Department. This paper will need to deal vigorously and in detail with possible methods of withholding; with the risk of challenge either in the European Court or in a United Kingdom court whether by the Commission, another Member State or some other aggrieved party; with the question whether an adverse verdict in either court could be pre-empted or nullified by domestic legislation; and whether it would be possible to avoid such legislation opening up the whole issue ~~of the use~~ of the direct applicability of Community legislation, enshrined in Section 2 of the European Communities Act, which is fundamental to Community membership. The Treasury are also reconsidering the basis on which we could deploy legal arguments in support of our case, whether generally, to justify withholding, to defend an action against the United Kingdom in the European Court, or possibly to initiate a European Court case under Article 175 of the Treaty (which has previously been examined and rejected). On all these issues you will obviously need the advice of the Attorney General. In parallel, the Foreign and Commonwealth Office will be assessing the wider Community implications: the effects of such a course of action on our position in the Community and on the



SECRET

prospects for a successful outcome of the Budget negotiations, and the retaliatory measures which our partners might take and the consequences of those measures for the United Kingdom together with the effects on our bilateral relations with individual members of the Community, especially France and Germany. I am arranging for these respective inputs to be put together by the Cabinet Office for Ministerial consideration early in January.

14. The second leg of our contingency planning should aim to take further the work already done on a possible campaign of obstruction. We shall need a detailed survey of the issues coming up for decision in Brussels up to the autumn of 1980, so as to assess how effective such a campaign could be and what impact it would have both on the United Kingdom and on the other Member States. ~~It should this time include, as already mentioned, the possibilities of putting pressure on our partners through our North Sea oil policies.~~ This work will be co-ordinated by the official committee under Cabinet Office chairmanship and, like the other papers, should be ready for submissions to Ministers early in January.

Already  
have  
this

No

15. We have of course considered whether we could have papers ready for Ministerial consideration before Christmas. We do not think that we can sensibly do so. They require a good deal of work (including legal advice), and of pulling together, and that cannot be done properly in time for Ministerial meetings before Christmas. In any case, the pressure on Ministers in the run-up to the Christmas recess could make it very difficult to find the required amount of time for which all those concerned could be available. The Community institutions will themselves go into recess for Christmas and the New Year and, even if we could fit in a Ministerial meeting before Christmas, we should not make any headway in discussions with the Commission or with the partners until the week beginning 7th January. I recommend therefore that we aim at Ministerial discussion early in the New Year, as soon as all the Ministers concerned are available. I want to make group before Washington

We must  
have some

This is  
much to  
slow

16. I should be grateful to know whether you are content with these arrangements.



SECRET

17. I am sending copies of this minute to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Lord President, the Lord Privy Seal, the Minister of Agriculture and the Attorney General.

REA

(Robert Armstrong)


You will see various comments throughout the text but broadly speaking they amount to the following

7th December, 1979

- ① No linkage with other issues - each of which must be dealt with on merit on the assumption that we continue as an ordinary member of the Community. When the budget disagreement is over we shall not want to find ourselves in an awkward position.
- ② Liability - I am not prepared to bargain away our few reserves. To suggest that we might be allowed to keep our own money in return for joining up some of our oil is ridiculous.
- ③ We must get ahead faster. If the meeting is to be end Feb. it will have to be called early Feb. That means nearly all bids etc & negotiations must be complete by end Jan. M.I.



10, DOWNING STREET,  
WHITEHALL S.W.1.



*With the Private Secretary's  
Compliments.*

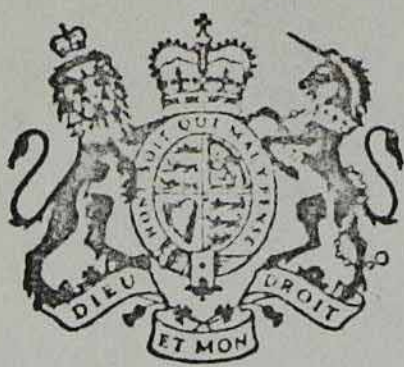


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Fro 7.12.79



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10 DOWNING STREET

From the Private Secretary

7 December 1979

*Top copy filed on Euro 801 (July 79) " PM meeting with Scott-Hopkins "*

Call by Mr. Scott-Hopkins

Mr. Scott-Hopkins, the Leader of the European Democratic Group in Strasbourg, called on the Prime Minister this morning to discuss the possible rejection of the 1980 EEC Budget by the European Parliament. He left some background papers with the Prime Minister. I enclose copies.

Mr. Scott-Hopkins said that the European Democratic Group had decided, virtually unanimously, to reject the 1980 Budget. It was possible that one or two of the Danish members might abstain but otherwise his Group was united. He thought it very likely that the Parliament as a whole would vote in favour of rejection. The Commission would no doubt try to produce proposals to buy off a sufficient minority of the Parliament to secure the passage of the Budget. They would be aiming at the Irish, the Danes and the French. Mr. Scott-Hopkins thought it was unlikely that they would succeed. In order to make any impact on those who were at present firmly opposed to the Budget, the Commission would have to increase the expenditure on the regional and social side of the Budget by at least 1,000 meuas. It was not easy to envisage how they could do this.

Mr. Scott-Hopkins said that his Christian Democratic colleagues in the Parliament were confident that Italy and the Benelux countries would be prepared to block the passage through the Council of Ministers of any Commission proposal sufficiently large to have an impact in the Parliament. He did not make a specific request for the UK to assist in blocking such a proposal but made it clear that he hoped we would do so. The Prime Minister indicated that the prospect of the Budget being rejected by the European Parliament caused her no displeasure.

Mr. Scott-Hopkins said at one point that agricultural surpluses were at present being sold to Iran as well as to the Soviet Union. I should be grateful to know soon whether there is any truth in this.

Mr. Scott-Hopkins did not raise the question of HMG's failure to support the earlier efforts of the European Parliament to amend the Community Budget.

/ I am sending

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- 2 -

I am sending copies of this letter to Tony Battishill (HM Treasury), Garth Waters (Ministry of Agriculture, Fisheries and Food) and Martin Vile (Cabinet Office).

Paul Lever Esq  
Foreign and Commonwealth Office

CB

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Extract from a meeting with the Chancellor of the Exchequer 6.12.79

(e) EEC Budget: The Chancellor asked whether the Treasury or the FCO should take the lead on the paper on the possibilities of withholding our contribution. The Prime Minister said that it should be the Treasury; she hoped the review could be completed by Christmas. The basic strategy was now to get a £350 million reduction in contributions (as offered at Dublin), a £400 million or so improvement in receipts, and a change in the structure of the Budget to bring benefits in two or three years time. If this could not be achieved, then we should withhold our contribution.

Subject file:-  
Iran-Situation  
May 1979





JFH  
cc HMT  
MAFF  
CO

10 DOWNING STREET

From the Private Secretary

5 December 1979

Dear Gunge,

Community Budget

You will have seen the Official Report of the Prime Minister's statement and answers to supplementaries on this subject in the House on Monday. These of course constitute the basis for our policy in the period between now and the next meeting of the European Council. As such they should be drawn to the attention of Community Governments by our EEC posts.

In doing so posts should draw attention to the Prime Minister's use of the phrase "a genuine compromise". This means just what it says. It implies a willingness on the part of the other members of the Community to take very substantial action on the receipts side of the problem. It implies a lasting solution. And it implies undertakings on the restructuring of the budget, an aspect of the problem to which the Prime Minister attaches considerable importance.

I am sending copies of this letter to Tony Battishill (HM Treasury), Garth Waters (Ministry of Agriculture, Fisheries and Food) and Martin Vile (Cabinet Office).

Yours truly

Michael Alexander

G.G.H. Walden, Esq.,  
Foreign and Commonwealth Office.

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PRIME MINISTER

Community Affairs

You will wish briefly to report the outcome of the 29th-30th November Dublin European Council, though Cabinet colleagues will no doubt have heard or seen your statement in the House and there should not be much need for further discussion at this stage. The next steps will need careful preparation. I shall be making a submission on this shortly.

2. Since OD(E) will have exchanged views on the implications of this outcome at its meeting immediately before the Cabinet, the Foreign and Commonwealth Secretary might wish to add his comments, and report on the meeting of OD(E) immediately before Cabinet which will have considered the implications of Dublin for the handling of other Community business during the next few weeks. OD(E) will also have discussed the Commission's latest proposal for dealing with CAP surpluses, but their conclusions could more sensibly be considered when the Cabinet takes Item 4.

3. The Minister of Agriculture might be invited to report on the outcome of the 3rd December Fisheries Council, which made progress on both the internal and external regime.

4. The Secretary of State for Energy might be invited to report on the 4th December Energy Council, at which the United Kingdom came under strong pressure to agree that North Sea oil production should be increased in times of supply shortages and that priority access should be given to Community countries. No agreement was reached on the coking coal decision because of Italian objections.

5. The European Parliament meets on 10th or 11th December and may decide to reject the 1980 Community Budget. OD(E) will consider the implications of this decision and the line we should urge the Council to take. Both the Lord Privy Seal and the Financial Secretary have seen Conservative MEPs to explain the Government's position in the Budget Council.

  
(Robert Armstrong)

5th December, 1979



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ECF0802/05

FLASH

A. Bretwell

ZZ F C O

PP COPENHAGEN

PP THE HAGUE

PP ROME

PP DUBLIN

ADVANCE COPY

PP PARIS

PP BONN

PP LUXEMBOURG

GR 440

CONFIDENTIAL

FM UKREP BRUSSELS 050808Z DEC 79

TO FLASH F C O

TELNO 6598 OF 5 DECEMBER.

INFO PRIORITY BRUSSELS, COPENHAGEN, THE HAGUE, ROME, DUBLIN, PARIS, BONN AND LUXEMBOURG. (PERSONAL FOR ALL AMBASSADORS).

M I F T : COMMUNITY BUDGET.

AS I SEE IT, WE NEED TO WORK OUT URGENTLY A NEW LINE WHICH WE CAN ALL TAKE WITH THE COMMISSION AND WITH REPRESENTATIVES OF MEMBER GOVERNMENTS.

2. AS REGARDS THE FIGURE ON THE RECEIPTS SIDE, I REMAIN CONVINCED THAT WE SHOULD TRY TO GET OUR PARTNERS TO CONCENTRATE THEIR MINDS ON WHAT WOULD BE A REASONABLE (LAST WORD UNDERLINED) NET CONTRIBUTION (E.G. COMPARISON WITH FRANCE) AND WHAT WOULD NOT (E.G. 900 OR SO MILLION UNITS OF ACCOUNT WHICH RESPONSIBLE PUBLIC OPINION IN THE UK AND ELSEWHERE WOULD SURELY REGARD AS EXCESSIVE).



3. I RECOMMEND THAT WE WRITE TO THE COMMISSION VERY SOON, SETTING OUT ABOUT 1000 MILLION UNITS OF ACCOUNT WORTH OF EXPENDITURE IN THE UK WHICH COULD PLAUSIBLY BE REGARDED AS FITTING IN WITH PART III OF THE COMMISSION'S PRE-DUBLIN PAPER; THAT WE EXPRESS INTEREST IN THE POSSIBILITY OF SUCH A PAYMENT BEING MADE BY MEANS OF A REGULATION LIKE THE INTEREST-RATE SUBSIDY ONE; BUT THAT WE GO ON TO SET OUT THE ADVANTAGE OF A MECHANISM FROM THE COMMUNITY'S POINT OF VIEW. AS REGARDS THE FIGURE WE SHOULD EXPRESS WILLINGNESS TO NEGOTIATE, POINTING OUT HOWEVER THAT IF M.C.A'S ARE PHASED OUT OUR NET CONTRIBUTION IN 1980 (UNCORRECTED) WOULD BE ABOUT 1750 M U A.

4. I THINK THAT WE SHOULD, WITH THE COMMISSION'S AGREEMENT, UNDERTAKE INTENSIVE BILATERALS WITH MEMBER GOVERNMENTS ON THE BASIS OF THIS DOCUMENT. AND WE SHOULD ENCOURAGE THE ITALIANS AND THE COMMISSION TO DO THE SAME IN PARALLEL, PREFERABLY HAND IN HAND.

5. I ASKED TUGENDHAT WHETHER DAVIGNON COULD PLAY A HELPFUL ROLE IN THIS. HE THOUGHT, ON REFLECTION I AGREE, THAT HE WOULD NOT NECESSARILY BE NEAR ENOUGH TO OUR POSITION TO BE HELPFUL AND WAS IN ANY CASE TOO BUSY ALREADY.

6. I SHALL NEED TO SPEAK ON THIS SUBJECT AT A COREPER LUNCH WITH ROY JENKINS ON THURSDAY. UNLESS YOU SEE OBJECTION, I SHALL DRAW ON THE LINE IN MY I.P.T.

7. I THINK I SHOULD GO BACK TO JENKINS VERY SOON ON THE FIGURE IF, AS I IMAGINE, YOU REGARD 300 M U A AS TOTALLY INADEQUATE.

BUTLER

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A. Fretwell

FM UKREP BRUSSELS 050806Z DEC 79

TO F L A S H FCO

TELEGRAM NUMBER 6597 OF 5 DECEMBER

INFO PRIORITY ALL EEC POSTS (PERSONAL FOR AMBASSADOR).

FLASH

M I F T : COMMUNITY BUDGET

ADVANCE COPY

1. ROY JENKINS' MIND HAD CLEARLY BEEN ON OTHER MATTERS SINCE DUBLIN. BUT HE CLAIMED TO HAVE RECEIVED INDIRECTLY NEWS OF THE PRIME MINISTER'S POST-DUBLIN THOUGHTS WHILE IN LONDON OVER THE WEEK-END AND ON MONDAY. HE THOUGHT WE WERE NOW LIKELY TO BE "REALISTIC" ABOUT ACTION ON THE RECEIPTS SIDE IN 1980 AND TO PUT MORE WEIGHT ON THE REFORM OF THE C.A.P.

2. HE WANTED TO PRE-COOK THE NEXT EUROPEAN COUNCIL MUCH MORE THOROUGHLY AND SEEMED TO THINK THAT IT MIGHT BE POSSIBLE TO REACH AGREEMENT ON A FIGURE OF SAY, 300 M UNITS OF ACCOUNT FOR ACTION ON THE RECEIPTS SIDE AS A BASIS FOR PREPARATORY WORK. I SAID THAT THIS WOULD LEAVE US WITH A NET CONTRIBUTION IN 1980 NOT FAR SHORT OF A BILLION UNITS OF ACCOUNT, IF M.C.A.'S WERE PHASED OUT. I THOUGHT IT MOST UNLIKELY THAT THE PRIME MINISTER'S SPIRIT OF COMPROMISE WOULD HAVE LED HER THAT FAR. SHE HAD ALSO SAID SHE HAD LITTLE ROOM FOR MANOEUVRE.

3. JENKINS SAID THAT ON FRIDAY MORNING SCHMIDT HAD INDICATED A FIGURE UP TO WHICH HE WOULD BE PREPARED TO GO. HE THOUGHT HE HAD SAID THAT CONTRIBUTING TO THE 520 M.U.A. (AT 46 PERCENT) WOULD BRING GERMANY TO 1200 M.U.A. IN 1980. (AT FIRST SIGHT THIS SUM DOES NOT ADD UP). SCHMIDT HAD NAMED AN ADDITIONAL FIGURE FOR RECEIPTS, BUT JENKINS HAD NOT NOTED IT DOWN. PERHAPS LORD CARRINGTON OR MRS THATCHER HAD? SINCE IT WAS NOW CLEAR THAT THE IRISH AND ITALIANS WOULD HAVE TO CONTRIBUTE, THE GERMANS WOULD NOT BE AT 46 PERCENT. THERE WOULD THEREFORE BE SOME FAT IN THE GERMAN POSITION. HE WAS TRYING TO FIND OUT HOW MUCH.

4. JENKINS, TOO, SEEMED TO BE THINKING OF A SIMPLE LUMP SUM FOR 1980. I SAID THAT THERE WERE TWO SERIOUS DISADVANTAGES TO THIS APPROACH:-

(A) WE WOULD HAVE GREAT DIFFICULTY IN GETTING AGREEMENT TO A LUMP SUM CONTINUING FOR SEVERAL YEARS.



(B) IF IT WAS SPECIFIED TO BE FOR THIS OR THAT COMMUNITY POLICY  
E.G. COAL, OTHERS WOULD WANT TO GET IN ON THE ACTION.

5. I THOUGHT THAT WE WOULD WANT TO TRY TO KEEP THE POSSIBILITY OF A RECEIPTS PER HEAD MECHANISM ALIVE, E.G. TO BRING US UP TO 80 PERCENT OF THE COMMUNITY AVERAGE. THIS WOULD HAVE THE FOLLOWING ADVANTAGES, WHICH OFFICIALS FROM OTHER MEMBER STATES WERE NOT PRONE TO DISMISS OUT OF HAND:-

(A) IF IT WERE FOR COUNTRIES WITH BELOW AVERAGE GDP PER HEAD AND WITH BELOW 80 PERCENT OF AVERAGE RECEIPTS PER HEAD, NO OTHER EXISTING OR NEW MEMBER WOULD QUALIFY

(B) THEREFORE, NO ONE ELSE WOULD HAVE TO BENEFIT, AVOIDING ADDITIONAL RISK OF HITTING THE 1 PERCENT VAT CEILING

(C) IT WOULD BE SELF-CORRECTING IN THAT THE PAYMENT TO US WOULD DECLINE IF THE COMMUNITY AVERAGE OF RECEIPTS-PER-HEAD DECLINED BECAUSE WE REDUCED THE C.A.P. SURPLUSES OR IF ADDITIONAL COMMUNITY EXPENDITURE IN THE U.K. BROUGHT US NEARER TO THE AVERAGE.

6. JENKINS DID NOT EXCLUDE KEEPING THE MECHANISM IDEA ALIVE. BUT HE THOUGHT WE WOULD NOT IN ANY CASE GET MORE THAN 3 OR 4 YEARS WHICH WOULD SURELY GIVE TIME FOR THE C.A.P. CURE TO WORK. I EXPRESSED DOUBTS, BOTH ABOUT TIME IT WOULD TAKE TO CURE THE C.A.P. AND ABOUT THE IDEA OF HAVING TO RENEGOTIATE THE ARRANGEMENTS IN 3 OR 4 YEARS. SURELY THE COMMUNITY WOULD NOT WANT THAT.

7. JENKINS URGED US TO TAKE REFORM OF THE C.A.P. MUCH MORE SERIOUSLY. GISCARD HAD HAD A FREE RUN AT DUBLIN WITH MISLEADING FRENCH VIEWS. WE HAD GOT OURSELVES INTO THE POSTURE OF NOT FAVOURING ANY IDEAS FOR CUTTING C.A.P. COSTS. I EXPLAINED WHY GUNDELACH'S IDEAS WOULD NOT DO AND STRESSED THAT THE COMMISSION MUST NOT COME FORWARD WITH PROPOSALS FOR PRICE INCREASES FOR MILK AND SUGAR, AS GUNDELACH SEEMED TO WANT TO DO.

8. JENKINS HAD NOT GIVEN MUCH THOUGHT TO FUTURE PROCEDURE. I ARGUED THAT THE COMMISSION AND THE INCOMING PRESIDENCY OUGHT TO UNDERTAKE INTENSIVE BILATERAL PREPARATION BEFORE ANY NEW DOCUMENT WAS PREPARED.

9. TUGENDHAT WAS MORE ROBUST. HIS FEELING WAS THAT DUBLIN HAD MOVED MINDS IN OUR DIRECTION AND HE WAS MUCH MORE INCLINED TO TRY TO GIVE THE MECHANISM IDEA A RUN.



10. See m i f t.

Butler.



ZZ FCO

P, COPENHAGEN

PP THE HAGUE

PP ROME

PP DUBLIN

PP PARIS

PP BONN

PP LUXEMBOURG

GRS 420

CONFIDENTIAL

FM UKREP BRUSSELS 050715Z DEC 79

TO F L A S H FCO

TELEGRAM NUMBER 6596 OF 5 DECEMBER

INFO PRIORITY ALL EEC POSTS (PERSONAL FOR AMBASSADOR).

PERSONAL FOR P U S: COMMUNITY BUDGET

1. UNFORTUNATELY I SIMPLY CANNOT PUT MY FOOT TO THE GROUND THIS MORNING. SO HERE ARE MY THOUGHTS FOR YOUR MEETING. I SET OUT BELOW THE STATE OF PLAY; RECORD VIEWS OF ROY JENKINS AND TUGENDHAT IN M.I.F.T.; AND GIVE SOME OF MY OWN IN MY SECOND I.F.T.. IT IS ESSENTIAL THAT THE CONFIDENCE OF OUR FRIENDS IN THE COMMISSION BE RESPECTED.
2. THE COMMISSION ARE NOT BRIMMING OVER WITH NEW IDEAS. IN THE LIGHT OF NOEL'S VIEWS, THE PRESIDENT IS BEING ADVISED THAT THE FIRST THING TO DO IS TO EXAMINE THOROUGHLY WHAT COULD BE DONE TO INCREASE EXPENDITURE IN THE UK BY EXPANSION OF EXISTING POLICIES (E.G. NON-QUOTA SECTION OF THE REGIONAL FUND, SOCIAL FUND, ETC.) OUR FRIENDS IN THE COMMISSION RECOGNIZE THAT THIS CAN ONLY RESULT IN THE ANSWER THAT THIS ROAD IS A DEAD-END. BUT THEY THINK IT NECESSARY TO DEMONSTRATE THIS BEFORE THEY CAN MOVE ON SINCE DAVIGNON HAS APPARENTLY SOME PET PROJECTS HE WANTS TO FORWARD AND GIOLITTE IS TALKING ABOUT MAKING QUICKER PAYMENTS FROM EXISTING FUNDS SO AS TO PRODUCE A BIGGER RETURN TO THE U.K. IN 1980.

FLASH

ADVANCE COPY

~~Ar. Bretwell~~

L.S.  
Shub  
2/81



3. NOEL IS THINKING OF A SIMPLE REGULATION ALLOCATING A BLOC TO THE UK FOR AGREED COMMUNITY PURPOSES. MICHAL JENKINS IS AUTHORIZED TO MAKE CONTACT WITH US FOR INFORMAL DISCUSSIONS ON POSSIBLE AREAS FOR COMMUNITY EXPENDITURE. HE WILL BE IN LONDON ON MONDAY. NOEL IS OPPOSED TO ANYTHING RESEMBLING A "MECHANISM" OR EVEN TO HAVING CRITERIA FOR QUALIFYING FOR SUCH TREATMENT. THE MONEY WOULD JUST BE FOR THE UK.

4. ONE POSSIBLE ADVERSE FACTOR IS THAT ORTOLI IS SAID TO HAVE BEEN REPROACHED STRONGLY BY GISCARD AT DUBLIN FOR LETTING JENKINS TABLE THE TEXT WHICH FORMED THE BASIS OF THE DUBLIN CONCLUSIONS. THERE ARE FEARS THAT HE MAY TRY TO PLAY A BIGGER AND LESS HELPFUL ROLE. ON THE OTHER HAND TUGENDHAT HAS FOUND HIM TO HAVE MOVED IN OUR DIRECTION SINCE DUBLIN.

5. I HAVE ONLY SO FAR BEEN ABLE TO TALK TO A FEW PERMANENT REPRESENTATIVES. THE DUTCH AND BELGIAN, A GERMAN COUNSELLOR AND VAN YPERSELE, A NOT VERY REPRESENTATIVE GROUP, HAD ALSO COME QUITE SOME WAY TOWARDS ACCEPTING THAT SUBSTANTIAL CONCESSIONS HAVE TO BE MADE TO US ON THE RECEIPTS SIDE. ON THE OTHER HAND RIBERHOLDT CLAIMED THAT THE PRIME MINISTER'S LINE AT DUBLIN, PARTICULARLY CALLING OWN RESOURCES "MY MONEY" HAD ALIENATED THE DANISH PRIME MINISTER BEYOND RECALL.

BUTLER

NNNN





CABINET OFFICE

With the compliments of  
Sir Robert Armstrong KCB, CVO  
*Secretary of the Cabinet*

M. O'D. B. Alexander, Esq.

70 Whitehall, London SW1A 2AS  
Telephone: 01-233 8319



CONFIDENTIAL



*fa. [Signature]*

CABINET OFFICE

70 Whitehall, London SW1A 2AS Telephone 01-233 8319

*From the Secretary of the Cabinet: Sir Robert Armstrong KCB, CVO*

4th December, 1979

Ref. A0849

We are meeting tomorrow morning at 10.30 am to discuss the follow up to Dublin on the Community Budget. You and I would both like to be able to get away for a memorial service at 12 noon. In the hope of concentrating the discussion and enabling us to achieve this, I have prepared a kind of "annotated agenda", which I hope sets out the ground which we need to cover at the meeting.

I envisage that the outcome of the meeting should be a decision that the Cabinet Office should prepare a submission to the Prime Minister on the "game plan", to reach her in time for this weekend's box. We should of course seek to agree that submission in draft with the Departments represented at the meeting.

I am sending copies of this letter and of the annotated agenda to Brian Hayes, Ken Couzens and Michael Alexander.

ROBERT ARMSTRONG

Sir Michael Palliser, GCMG



Community Budget: Follow-up to Dublin

Meeting on 5th December 1979

Annotated Agenda

1. Handling of Community Business between now and Next European Council.

General tactics: business as usual, no obstruction for obstruction's sake. Be ready to reach agreement where it suits UK interests to do so. Where it does not, avoid agreement by playing long.

Budget to be dealt with on merits: but it is clear that we shall not make progress unless there is also progress on sheepmeat, fisheries and energy. Therefore we have de facto linkage. Tactics for handling these issues so as to have sufficient progress to report for next European Council.

2. Preparations for Next European Council.

Commission asked to advise on supplementary measures to increase Community expenditure in the UK. Nature and timing of liaison between UK and Commission. Need for HMG to identify areas in which expenditure theoretically on a Community-wide basis would in practice be wholly or virtually to UK. How to overcome problem of "additionality".

Some definite commitment on structural change in the budget will probably be an essential ingredient in an acceptable final package. What work should we be doing to identify and propagate changes which would meet our needs?



Machinery for processing these issues:  
EQS? Timetable for progress, including submissions to and decisions by Ministers, and discussions with partners. Should we ourselves conduct explorations with partners or should we work through the Commission and the Italian Presidency?

3. Contingency Planning for Failure to reach agreement at Next European Council.

We now need to do detailed and definitive work on withholding contributions and on general obstruction.

As to withholding budget contribution, some work has already been done by the Treasury. There is some reason to think that some people in the Commission take a less apocalyptic view of this possibility than one might have expected, and that they will try to play it long and cool. This would not necessarily go for the partners. We need to consider exactly what we should do and how we should do it, and what would be the legal implications. If action took the form of interfering with transfers from the EEC account with the Paymaster General to the EEC account with the Bank of England, could the Commission challenge that in the European Court? If they could not do so, could they and would they challenge in the British courts? They might be reluctant to take the case to the British courts unless they could not take it to the European Court. What should we do in the event of an adverse decision, either in the British courts or in the European Court? Would the choice be



between compliance, blatant defiance and amending the European Communities Act? What would be the implications of the last course: could Parliamentary debate on an Amending Bill be narrowly confined to the point of withholding contributions? If we withheld contributions, what would the reaction of our partners be? What counter-action could they, and would they be likely to, take? How could we respond to it? The implications of this course need to be thought right through, and rigorously.

As to general obstruction, we shall need a detailed accounting of meetings expected and decisions required through the spring, summer and autumn, so as to be able to judge how effective such a campaign could be, and what would be its impact both on the UK and on partners.

The study of general obstruction should also include a considered submission on the possibilities for obstruction, or at least making life uncomfortable for Community partners, in the energy field.

Machinery for progress on these items:

- (a) Withholding contributions: Cabinet Office, Treasury and FCO.
- (b) General obstruction: EQS.
- (c) Energy: Department of Energy and FCO, reporting to EQS.

Timetable for discussions at official level and submissions to Ministers.



4 DEC 1979





SECRET



file 461

10 DOWNING STREET

*From the Private Secretary*

3 December 1979

Tony Battishill wrote on 30 November about post-Dublin contingency planning and the EEC budget. This is to confirm that the Prime Minister is content for the Treasury to consult with other Departments as proposed.

I am sending copies of this letter to George Walden (Foreign and Commonwealth Office) and to Martin Vile (Cabinet Office).

T. P. LANKESTER

M. A. Hall, Esq., M.V.O.,  
H.M. Treasury.

GB

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HAGFO 05/03

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PP UKREP BRUSSELS

PP BRUSSELS

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CONFIDENTIAL

FM THE HAGUE 031549Z DEC 79.

TO IMMEDIATE FCO

TELEGRAM NUMBER 405 OF 03 DECEMBER

INFO PRIORITY UKREP BRUSSELS.

INFO ROUTINE BRUSSELS, LUXEMBOURG, DUBLIN, COPENHAGEN, PARIS,  
BONN AND ROME.

M I P T

EUROPEAN COUNCIL - CONVERGENCE/BUDGET.

1. HEAD OF CHANCERY TODAY ASKED THE TREASURER-GENERAL AT THE  
MINISTRY OF FINANCE FOR ELUCIDATION OF MR VAN AGT'S IDEAS AS REPORT-  
ED IN THE PRESS.

2. WELINK SAID THAT MR VAN AGT'S PROPOSAL WAS IN TWO PARTS:

(A) THE NON-QUOTA SECTION OF THE REGIONAL DEVELOPMENT FUND  
SHOULD BE USED TO THE BENEFIT OF THE UK. IT WOULD BE UP TO THE  
COMMISSION TO MAKE PRECISE PROPOSALS, BUT HE THOUGHT THIS COULD  
YIELD UP TO 100MEUA.

(B) THE EMPHASIS ON CAP EXPENDITURE SHOULD BE CHANGED TOWARDS  
STRUCTURES AND AWAY FROM SUPPORT. THE DUTCH HAD NOT MADE ANY  
PRECISE PROPOSALS ON THIS, NOR HAD THEY PUT FORWARD ANY FIGURE



FOR WHAT THE UK'S BENEFIT FROM THE CHANGE MIGHT BE, WELLINK SAID THAT, WHILE THE DUTCH DID HAVE SPECIFIC IDEAS, THEY WERE NOT PREPARED TO REVEAL THEM AT PRESENT, AND ANY MENTION OF A FIGURE WOULD ENABLE EXPERTS TO WORK OUT WHICH AREAS OF CAP EXPENDITURE MIGHT BE AFFECTED. BUT HE DID, IN ANSWER TO A QUESTION, CONCEDE THAT THE DUTCH IDEAS WERE RELATED TO THEIR CONCERNS ABOUT THE EFFECTS OF ENLARGEMENT OF CAP EXPENDITURE.

3. WELLINK THOUGHT THAT IT WAS GENERALLY RECOGNISED THAT THE UK'S CLAIM WAS FAR TOO HIGH. EQUALLY HE THOUGHT ALL BUT FRANCE ACCEPTED THAT MORE WOULD NEED TO BE DONE THAN MERELY "UNBINDING" THE DUBLIN FINANCIAL MECHANISM. IT OUGHT TO BE POSSIBLE TO GIVE THE UK MORE THAN 50% OF WHAT WAS BEING ASKED. THIS WOULD UNDOUBTEDLY WORK TO THE DISADVANTAGE OF THE NETHERLANDS IN THE BUDGET IN GENERAL AND IN THE CAP IN PARTICULAR, AT LEAST IN THE SHORT TERM, BUT THEY WERE PREPARED TO ACCEPT THIS. HE WAS HOWEVER NOT SURE ABOUT THE FRENCH, WHO WOULD BE ADVERSELY AFFECTED BY DUTCH IDEAS ON BOTH THE RDF AND THE CAP.

4. THE DUTCH IDEAS WOULD NOW NEED TO BE WORKED OUT INTERNALLY IN MORE DETAIL. AT SOME STAGE THERE WOULD CLEARLY HAVE TO BE DISCUSSIONS WITH THE COMMISSION. WELLINK THOUGHT THAT, SINCE THE COMMISSION HAD BEEN TASKED WITH THE PRODUCTION OF NEW IDEAS ANYWAY, THE COMMISSION WAS LIKELY TO SEEK AN EARLY MEETING WITH THE DUTCH SO AS TO INCORPORATE ANY DUTCH IDEAS IN THEIR OWN PROPOSALS.

TAYLOR

NNNN



SENT AT 031621Z JGH  
RECD AT 031621Z VHH



PART

3

ends:-

TSY to MODBA

30/11/79

(S)

PART

4

begins:-

The Hague Tel 405 to FCO 3/12/79



