

PART II

Confidential Filing

The Community Budget
Developments in the European
Community

EUROPEAN
POLICY

Part I: May 1979

Part II: March 1980

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
9.3.81		23.7.81					
11.3.81		27.7.81		PREM 19/458 <div style="border: 2px solid red; padding: 10px; transform: rotate(-5deg); display: inline-block;"> Material used by Official Historian DO NOT DESTROY </div> <div style="border: 2px solid red; padding: 10px; transform: rotate(-5deg); display: inline-block;"> Material used by Historian DO NOT DESTROY </div>			
20.3.81		7.8.81					
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22.7.81							
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PART 11 ends:-

24.9.81

PART 12 begins:-

9.10.81

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
EQS (81) 6	6.3.81
C (81) 12	24.3.81
CC (81) 15th Conclusions, Minute 3 (extract)	9.4.81
EQS (81) 9	15.5.81
OD (E) (81) 15	29.5.81
OD (E) (81) 16	1.6.81
OD (E) (81) 17	2.6.81
OD (E) (81) 7th Meeting, Minutes	4.6.81
EQS (81) 9 Revise	10.6.81
CC (81) 22nd Conclusions, Minute 3	11.6.81
EQS (81) 14	12.6.81
CC (81) 25th Conclusions, Minute 3	25.6.81
EQS (81) 16 and Addendum	14.7.81
EQO (81) 110 and Corrigenda	22.7.81
OD (81) 40	27.7.81
EQS (81) 21	28.7.81
EQS (81) 22	28.7.81
CC (81) 30th Conclusions, Minute 3	30.7.81
C (81) 43	3.8.81
OD (81) 15th Meeting, Minutes	9.9.81
CC (81) 31st Conclusions, Minute 2 (extract)	15.9.81
C (81) 46	17.9.81
CC (81) 32nd Conclusions, Minute 3	24.9.81

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate CAB (CABINET OFFICE) CLASSES

Signed

Wayland

Date 2 April 2011

PREM Records Team

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Budget
in Sublation

Ref. A05642

PRIME MINISTER

Cabinet: Community Affairs

The Chief Secretary, Treasury (in the absence of the Chancellor of the Exchequer) could report on the outcome of the 17 September Finance Council. The French gave way on export credits, as foreshadowed in the Summit talks, so enabling the Community to adopt a common position at the OECD discussions in October; the Germans lifted their reserve on the renewal of the Ortolli loan facility; the Italians were authorised to extend their import deposit scheme for a further five months from 1 October, on certain conditions; and useful progress was made under strong Presidency pressure on the insurance services Directive.

2. The Chief Secretary, Treasury could also report on the 22 September Fiscal Council. The Council was unable to reach agreement on compromise proposals for the harmonisation of duties on alcoholic drinks, in part because the French put forward new proposals for differential, and arguably discriminatory, duties on spirits which other member states had not had time to consider. The Council will meet again on 21 October; meanwhile the Commission will seek a further postponement of the European Court case against the United Kingdom's wine/beer duty ratio.

3. The Lord Privy Seal (in the absence of the Foreign and Commonwealth Secretary) could comment on the endorsement given by the German Cabinet on 18 September to Herr Genscher's proposals for European union. President Mitterrand will unveil his own ideas for a "relance" of the Community on 24 September.

4. The Secretary of State for Employment will host an informal meeting of Employment Ministers in London on 24-25 September.

5. Next week the Agriculture Council will meet on 28 September, and the Fisheries Council on 29 September.

RIA

ROBERT ARMSTRONG

23 September 1981

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PRIME MINISTER

Community Affairs

You may wish to inform the Cabinet of the discussion of Community topics at the 10th-11th September Anglo/French Summit.

2. You will wish the Foreign and Commonwealth Secretary to report on the outcome of the 14th September Foreign Affairs Council, at which member states will have been invited to state their general approach to the budget restructuring negotiations before the mandate group gets to work on 15th September. Mr. Hurd will have set out the United Kingdom position in accordance with the decisions reached in OD last Wednesday (OD(81) 15th Meeting). *below.*

3. Since the issue arose during the August break, you may wish the Minister of Agriculture to explain the background to the introduction of import controls on poultry meat and the current state of play in his exchanges on this subject with the Commission. He may also confirm that, after a series of postponements, arrangements have now been made for bilateral talks with the French on the Common Fisheries Policy at both Ministerial and official level before the 29th September Fisheries Council.

4. There is a meeting of the Finance Council on 17th September.



Robert Armstrong

14th September 1981

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Extract NFR Mr Mitterrand Kete-i-Jete

11.9.82

European Community Matters

Subject filed in France
Pg. 2. Visit of Mitterrand

President Mitterrand said that yesterday they had talked about ways of giving the European Community a new thrust forward. He had been reflecting further on how to give substance to such a development, and one idea was that the Community should borrow on the international markets in the context of policies on energy saving, coal exploitation and new technologies. Such borrowings might also be important to us in steel and textiles, where British and French interests were similar. The Community had a level of credit vis-a-vis the lending countries which the individual member countries did not have, and we should take advantage of this. He envisaged the borrowing being done through the EIB. A development on these lines would be a powerful element in giving the Community

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a fresh impetus. He would like to see British and French Finance Ministers discuss this idea.

The Prime Minister agreed.

The meeting concluded at 1055 hours.

RAW.

11 September 1981

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SUBJECT

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cc France: July 78: Kelson

Subject in France, Pt 2: Visit of Mitterrand

cc MAEX (EXTRACT)

RECORD OF A CONVERSATION BETWEEN THE PRIME MINISTER AND THE PRESIDENT OF THE FRENCH REPUBLIC, M. FRANCOIS MITTERRAND, AT 10 DOWNING STREET ON 10 SEPTEMBER 1981 AT 1600 HOURS

PRESENT

The Prime Minister
Mr. M. O'D. B. Alexander

President Mitterrand
M. Vedrine

General

After an exchange of courtesies, President Mitterrand said that he hoped his visit marked the beginning of a period in which the two Governments could speak frankly and productively on the problems facing them. The bilateral relationship was making real progress. There was a growing feeling of confidence, although, of course, this improved atmosphere could not altogether displace the reality of events. He thought that perhaps the discussions might start with general international problems in which both countries were involved; go on to deal with the problems of the Community, where there were difficulties both between France and the United Kingdom, and with their other partners; and end with a discussion of the bilateral relationship where there was much that was positive. One could equally well take these problems in reverse order. What mattered was that they were all covered.

European Community

The Prime Minister proposed that it might be helpful to start with a discussion of the Community. After all both the Governments had surrendered many powers, e.g. in the field of agriculture, to it. There were major problems to be dealt with in the coming year, e.g. the CAP, the reform of the Budget, and the CFP. All these problems needed to be dealt with as soon as possible. They did not become any easier with the passage

/of time.

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of time. It would be a great help to know President Mitterrand's mind on them. A date had been set in Luxembourg for further consideration of the 30 May Mandate and of the CAP, i.e. early September. The President had said then that by this time he would have had time to study the problems and/^{would} know the direction in which he wished to go.

President Mitterrand said that the problems of the European Community had to be examined as a whole. It was, of course, permissible to study the problems of the CAP. They could, if necessary, be discussed in isolation. But if one was to draw up a balance sheet of advantages and disadvantages for any member country, then the agricultural problems could not be taken in isolation. The French Government had no wish to evade the problems of the CAP. But the Mandate referred to the whole range of activities of the Community. France had advantages in some spheres and disadvantages in others. He could not accept that those areas where France enjoyed advantages should be picked out and the others ignored. That having been made clear by way of a preliminary statement, he was in favour of a discussion of the agricultural issue.

The positions of the French and British Governments were, of course, different in regard to the CAP and the 30 May Mandate. The British Government wished to establish the principle of the juste retour, i.e. that member countries should be entitled to draw advantages from the Community in exactly the same proportion as the effort they contributed. In relation to the CAP, Britain contributed more than it got back. France was hostile to the principle of the juste retour. To implement that principle would be to render the European Community a nullity. It implied that the Community should be regarded as a confederation within a free trade area. The British, of course, disliked indulging in broad political generalisations of the kind which he had just made. But it was important to remember the distance which separated Britain and France on this concept. Britain

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wanted the juste retour to be a permanent feature of the Community. He could not accept this. The juste retour could be useful. For a year or two agreement on a budgetary mechanism was permissible. But it could not be a permanent policy.

The Prime Minister said that she would never describe her policy as being to seek a juste retour, i.e. a situation in which member countries were getting out precisely what they had put in. Her policy was to seek a situation where, when the balance sheet was drawn up, the total budgetary result should be seen to be a flow of resources from the richer members to the poorer members. Countries like Ireland, Greece and Italy must be seen to benefit from membership. But those countries which were in per capita terms, among the richest, should not, as at present, be the beneficiaries. One had to achieve a final budgetary outcome where the better off were paying and the less well off were receiving. We should be aiming to establish a principle of equity of this kind. This was not happening at present. Germany was the biggest contributor, the United Kingdom was the second largest and France was contributing very little. Unless an equitable system could be achieved, conflicts would undoubtedly ensue. She wished to stress the importance which she attached to the Community. It had locked together countries which in the past had fought each other. Such hostilities must never happen again. The Community was playing a vital role in bringing much of Europe closer together.

President Mitterrand said that there was much in the Prime Minister's presentation with which he could agree. The European Community was a political necessity. All its members had drawn profit from it. There had, of course, been problems and crises but the economies of the members had grown, thanks to the Community. The further development of the Community posed no problem for France. He had therefore been glad to hear the Prime Minister's words.

The Prime Minister's remarks about juste retour had been a very useful corrective. The application of juste retour

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to the poorer members would certainly make more difficulties for them. He agreed that there had to be a better balance as between the various member countries. The problem was how to establish this within the CFP and the Community's other areas and policies. There would have to be much discussion on the basis of member countries' mutual requirements and individual problems. If the Federal Republic felt it was doing too much and the United Kingdom felt it was being hard done by, this must be examined. He considered that the examination would show that things balanced out. France was, of course, a larger producer of agricultural products than either the Federal Republic or the United Kingdom. On the other hand she did less well where industrial products were concerned. France prospered in those areas where the character of the workforce and the quality of her natural resources favoured her. On the other hand, she did not have the United Kingdom's commercial genius. The discussion of the Community's problems could not concentrate only on those areas where France was benefiting,

The Prime Minister said that if things went on as at present, the Community would run up against a budgetary crisis. The CAP would produce ever greater surpluses and would take up ever more of the budgetary resources of the Community. At the same time, the Federal Republic and the United Kingdom would stand firm on the 1 per cent VAT ceiling. It was neither sensible nor intellectually justifiable to spend such a large proportion of the Community Budget on agricultural surpluses which the Community could not eat, which it had to dispose of at considerable cost, and which dislocated the economies and agricultural industries of third world countries. President Mitterrand said that a brake had to be imposed on the production of surpluses. It posed too great a burden on France and her partners. The Prime Minister's reasoning was irrefutable. The question was, in practical terms, what to do.

/ The Prime

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The Prime Minister asked whether French dairy farmers were intent on increasing their yields and therefore producing ever larger surpluses. British dairy farmers were highly efficient but did not produce surpluses. They could, of course, produce a good deal more than at present. Britain had tackled the problem of small farmers many years earlier by encouraging them to combine. It was difficult to solve the problems of the Budget without tackling the CAP. Of course, farmers had to be provided with a decent living. But there had to be a reasonable budget and there had to be an agricultural policy which was reasonable in relation to the rest of the world. Of course, these problems could not be solved here and now. But each member had to feel that it was being fairly treated by its partners. She and the President were both politicians who knew what could and could not be done.

President Mitterrand said that his position was in many respects the same as that of the Prime Minister. He had no wish to encourage the production of surpluses. He had to point out, however, that the surpluses often occurred because producers outside the Community were able to get their products into the Community too easily and too cheaply. Soya was a case in point and a source of serious competition. Another example was provided by beef, the imports of which were unbalancing the Community's internal production. The problems could not be resolved in a year or two. Changes in the structure of production would be required but the Prime Minister's basic approach was right.

It was necessary to distinguish between the immediate problems, such as those relating to wine and milk, and the medium and long term problems of surplus production where fair and equitable solutions should be sought. In this latter context, President Mitterrand said he would be glad if a solution could be found which did not involve raising the 1 per cent VAT ceiling and imposing higher taxes on his electorate. As regards wine, France had been forced to take action because

/the problem

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the problem was "threatening to strangle us". The measures taken were certainly legally contestable and might well have contravened Community regulations. One could also reproach the Italians, e.g. on the origins, quality and quantity of the wine they were exporting. In any case, the French Government could not have contemplated a farmers' revolt which might well have resulted in bloodshed. As a result, he had had to adopt a position which was opposed to his political philosophy. He accepted that the question of milk surpluses might be similarly urgent for the United Kingdom. There was a need to get round a table to discuss all these matters. Ways must be found to limit the production of surpluses and to avoid imbalances. France was ready for discussions. President Mitterrand said that he was a realist. He recognised that German acceptance of the present budgetary situation could not last. France would have to make proposals.

The Prime Minister said that everyone understood the need to deal with short-term problems. She and the President were both in politics. But what needed to be considered now was whether longer-term structural adaptation was not required. The CAP had shown itself to be insufficiently flexible. No-one welcomed the surpluses or the percentage of the budget being taken by the CAP. The time had come when both the structure of the CAP and the proportion of the Budget taken by the CAP had to be discussed. In the period of two years since she had been in office she had seen these problems repeatedly postponed because they were not urgent. They had to be tackled while there was still time and that meant a start in September. President Mitterrand said that although on some questions his point of view and that of the Prime Minister differed, her overall approach was just what he would have hoped for. His safeguard measures on wine had resulted from the non-observation of Community rules by Italy. The discussion of the CAP must take account of the entry of agricultural products from outside the Community. That said, he was anxious to see the reform of the

/CAP

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CAP. It might not be the same reform as the Prime Minister had in mind. But it certainly was the same discussion and it was a discussion from which he wanted a result. The Prime Minister wanted to begin in September. So far as he was concerned, the sooner the better - although in practical terms September might prove to be a little early. He would be entirely happy to begin in the European Council meeting in November. If the discussions could be got under way before November, whether between Heads of Government or between others, he would be entirely content.

The Prime Minister said there were many other problems beyond those contained in the 30 May Mandate. Agreement on the Common Fisheries Policy had to be reached. So long as it remained unresolved, each Government was paying subsidies to its fishing community because they were being prevented from fishing normally. (President Mitterrand indicated that he agreed.) HMG wanted to see whether progress could not be made in developing a Community policy on insurance. Britain and France had a shared interest in the Multi Fibre Arrangement because of their textile industries. Britain wanted to see the Community developing a more effective policy for negotiating with the Japanese, whose technique of focusing on particular trading sectors caused such difficulties. President Mitterrand said he would be happy to see a start made in bringing the positions of France and Britain closely together on insurance and on the MFA. The CFP had been discussed many times in the past. France's defence was that what was happening now was consistent with the commitments entered into by France in the past. As regards Japan, he endorsed the Prime Minister's broad objective. However, Britain's own practice towards Japan had been too liberal. We had opened our market, more particularly for cars, excessively and allowed exports into the Community to a degree which was dangerous for all members. None the less, he would be happy to see this issue, like the others, discussed. The Prime Minister said that our trading policies were very liberal and as a result we had been taking in more imports than others. We had agreed that the negotiation with the Japanese should be conducted by the European Commission or at least that

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they should keep a close watch on the level of Japanese imports. But the Commission did not seem to be moving sufficiently rapidly. Because of the Community, we were, of course, inhibited from negotiating with the Japanese on a country-to-country basis and therefore had been negotiating on an industry-to-industry basis. This had resulted in widely varying situations in the various member countries. It had strengthened the case for Community action.

President Mitterrand said that he and the Prime Minister were agreed on the need for joint discussions on the MFA, on a Community policy on insurance and on the need for a Community policy on trade with Japan. These were all positive initiatives. As regards the Common Fisheries Policy, France would never refuse discussion. He recognised that the United Kingdom, an important partner whom he respected, had every right to raise the question. But there were earlier agreements in force and France had to defend its interests. As regards the 30 May Mandate, he was happy to open discussions with France's other partners in the Community on the basis which he had already described. On the reform of the CAP, which likewise should be discussed in the larger frame of the development of the Community as a whole, he would be happy to see preparation begin immediately after the present meeting with conversations between Ministers and officials. He was, in short, ready for an all-embracing discussion as soon as possible. He would be looking for progress in the direction of greater justice between the members of the Community. He did not wish to delay matters in any way.

/ Bilateral Relations

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Ref. A05465

PRIME MINISTER

EC Budget Restructuring: The Next Phase of the Negotiations

(OD(81) 40)

PURPOSE OF DISCUSSION

Since the last discussion by OD of budget restructuring in October 1980 (OD(80) 20th Meeting) there has been a period of extensive bilateral contacts culminating in the presentation of the mandate report by the Commission in June. Substantive negotiations based on this report will take place this autumn in the Foreign Affairs Council, assisted by the Mandate Group set up by the Heads of Government at the last European Council. The purpose of this OD meeting is to agree the approach we should adopt to these negotiations in the early autumn.

BACKGROUND

2. The Committee will have before it a Note by Officials (attached to OD(81) 40) and minutes commenting on it from the Chancellor of the Exchequer and the Secretary of State for Trade (dated 4 and 21 August respectively).

3. The Note by Officials summarises the Commission's report on the 30 May 1980 mandate and the reactions of other member states, and notes the opportunities and risks involved in the United Kingdom's position as Presidency. It then sets out suggested lines of approach on the main issues arising in the months ahead, including questions of timing and procedure, and invites OD's endorsement of the conclusions in paragraph 27. The Committee's discussion will follow an informal meeting of Foreign Ministers on 5-6 September and provide guidance for the first substantive discussion at the Foreign Affairs Council on 14-15 September, as well as for the Anglo-French Summit.

HANDLING

4. You may wish to invite the Foreign and Commonwealth Secretary to open the discussion by giving his assessment of where matters stand. The informal meeting of Foreign Ministers on 5-6 September had only a short procedural

discussion; but from this and from contacts at official level there are some signs that the French may wish to procrastinate.

5. To focus subsequent discussion, it might be best to take first the issue raised by the Chancellor of the Exchequer, of what the United Kingdom's objective should be, and then consider the main issues which the mandate raises, viz:

- (i) CAP Reform
- (ii) Non-agricultural policies
- (iii) Budgetary mechanisms
- (iv) Timing and procedure

6. In his minute of 4 August the Chancellor argues that the aim of keeping our net contribution "no higher and if possible lower than that resulting from the 30 May settlement" (OD(80) 20th Meeting) could produce unpredictable and unsatisfactory results and that our objective should instead be "to initiate a process of reform that will lead to the elimination of our net contribution at the earliest date". You will want to hear the views of the Foreign Secretary on how realistic it is to think that we could end up with an assurance that the United Kingdom would cease to be a net contributor, especially after enlargement. There must of course be a difference between the Government's publicly expressed aim and what might be acceptable at the end of the day, which is bound to be influenced by other elements, including how long any special arrangements will last, with what degree of certainty they will limit our net contribution, and the absolute size of what we contribute. For the time being, it should be sufficient to rest in public on the line enunciated by the Chancellor in his recent Hague speech, viz that the direction of net transfers should take account of relative prosperity.

(i) CAP Reform

7. The Foreign and Commonwealth Secretary and the Chancellor of the Exchequer will probably both argue that we should stand by the line which Ministers agreed and which was put to the Germans at our last bilateral Summit (OD(E)(81) 14). This included price restraint, non-price measures (such as the milk super-levy) and a growth in CAP spending 'markedly lower' than the growth

National Aids

of own resources. The Minister of Agriculture may argue that we cannot commit ourselves precisely on price restraint given the income needs of British agriculture. He may question how far guidelines laid down by the European Council can be effectively imposed on the Agriculture Council and to what extent we will get real support from the Germans at that stage. He will stress the importance of tackling national aids which France particularly has used recently to escape the effects of price restraint. The Secretary of State for Industry may point out the need to ensure that our policy on agricultural state aids is not inconsistent with that for aids for industry. The Secretary of State for Trade may refer to the importance of avoiding new restrictions on agricultural imports such as a levy on oils and fats and of opposing long term export contracts based on subsidies.

8. Any weakening in our position on CAP reform will be criticised by the Germans, while the French may ultimately look for some flexibility on our part on the CAP as part of a satisfactory budget agreement. We should, therefore, take a firm stand now. On the other hand, we need to be wary of potentially unhelpful links being made, especially with the Common Fisheries Policy (CFP). In spite of the absence of the French Fisheries Minister, it will be important to use the Anglo-French Summit to see what the chances are of the CFP being agreed quickly, so pre-empting a linkage.

(ii) Non-Agricultural Policies

9. It should not be necessary for the Committee to discuss individual non-agricultural policies since no specific decisions are required at this stage. Ministers will be consulted as necessary as the negotiations proceed. However, the need for a positive United Kingdom attitude towards progress on at least some other Community policies may be important if the package as a whole is to be acceptable to countries like the Benelux and the French who stand to lose as a result of new budget arrangements.

(iii) Budgetary Mechanisms

10. There may be general agreement that we should maintain our advocacy of a generalised budget mechanism based on equitable budgetary objectives, without ruling out the mechanism proposed by the Commission, which could be developed to give an acceptable result.

(iv) Timing and Procedure

11. Subject to anything arising from the informal meeting of Foreign Affairs Ministers, there should be agreement that we work for the Foreign Affairs Council, assisted by the Mandate Group, to prepare for key decisions to be taken at the November European Council. The Committee will wish to review progress in about mid-October to see what realistic objective we should set for the European Council in London at the end of November.

CONCLUSIONS

12. Depending on the discussion you might conclude:
- a. The conclusions in the Note by Officials are endorsed.
 - b. We must continue to take a robust line on the need for lasting arrangements to ensure that our net contribution is reduced to a defensible level, without at this stage being specific on the level of net contribution which would be acceptable to us.
 - c. On CAP reform we should maintain the line put to the Germans (OD(E)(81) 14) and work for effective guidelines on price restraint and other measures to be agreed by the European Council.
 - d. We should be constructive in our approach to non-agricultural policies within the existing financial constraints and aim to get guidelines agreed at the European Council.
 - e. We should maintain our own approach that the overall effect of the Community's budget on member states should be the result of conscious decisions without ruling out the Commission's ideas with the aim of developing them to our advantage.
 - f. OD should review progress prior to the November European Council. Meanwhile specific points requiring decision should be put to OD(E).



ROBERT ARMSTRONG

7 September 1981

2 September 1981

White Paper on developments in the European
Communities: January to June 1981

We spoke this afternoon, and I told you
we had no objection to your publishing this
White Paper on 16 September.

WILLIAM RICKETT

A.G. Harrison, Esq.,
Foreign and Commonwealth Office.

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Foreign and Commonwealth Office

London SW1A 2AH

2 September 1981

Dear Pattison,

WHITE PAPER ON DEVELOPMENTS IN THE EUROPEAN COMMUNITIES:
JANUARY TO JUNE 1981

1. We propose to publish on Wednesday 16 September a White Paper on Developments in the European Communities covering the period January to June 1981. The report is purely factual and one of a series normally produced every six months.

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

Yours ever,

A G Harrison
Assistant Parliamentary
Clerk

M Pattison Esq
10 Downing Street

cc: D Heyhoe Esq
Office of the Chancellor of
the Duchy of Lancaster

P Moore Esq
Government Chief Whips Office

Note: I have passed the print
comments to Cabinet Office so that they
can be taken into account in briefing.

Wm 26/8

Prime Minister

Envelope 2

PS

Cabinet Office will advise
on these prints when briefing
for OD, but you may wish
to see this now.

Wm 26/8

CONFIDENTIAL

PRIME MINISTER

BUDGET RESTRUCTURING: NEXT PHASE OD(81)40

I shall be away when this paper is discussed on 4 September
together with the Chancellor's associated minute to you
(dated 4 August). I should have liked to make two points.

First, I share naturally the Chancellor's wish to obtain a
more predictable and satisfactory financial outcome than that
resulting from the 30 May settlement. But even taking the
obliging observations of the Federal Chancellor and the
Commission's report at their face value, I fear that we must
face up to the danger of our position being quickly overrun
by the strong pressures to breach the 1% ceiling in exchange
for new financial mechanisms. Too many Member States are
conscious that within that ceiling, rectification of our
position (and even more so that of Germany) simply means
transferring a burden to them with nothing to show in return.

redmap -
benefits
them

If we are not to be left, once again, in a Nine to One
situation, in which hostile critics claim we are simply
seeking an illogical juste retour, we need a sharper battle
order than that presented in the conclusions of the note by
officials, though one which still looks communautaire.

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Second, I am persuaded that the Special Mandate Group are
very soon going to need something crisper from their governments
than the programme and timetable set out in paragraph 27 of the
note. The forces for cupidity and inertia which match the need
for fundamental reform of CAP are those which will put the
1% ceiling in jeopardy. The Commission's report says some
useful things about market realities; about the competing
claims of efficiency, social needs, deprived regions and the

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rights of the consumer; and about structural surpluses. But unless Member Governments can agree that market realities and the interest of the consumer will not be met by financing social needs from price fixing (or perhaps even from the CAP budget) and that structural surpluses will continue until there are production controls, then we shall quickly watch the familiar spectacle of expert wrangles about modalities with no central coherence. The chance for reform will slip by, perhaps for the last time. This will not simply mean that allocation of the Community budget will be determined by agricultural ambitions (and you will have seen the recent representations of the CBI to the Foreign Secretary). More immediately Member States will not have the chance to measure the room for balancing activities in other fields - limited as these may be - which will enable them securely to appraise unacceptable situations, the appropriate mechanisms for dealing with them or ultimately the significance of the 1% ceiling itself.

I am all too conscious of the problems but I imagine you will be anxious to use the opportunity of Mitterand's visit to sound out his conception of some of these basic issues. I, myself, should be particularly ready to probe French thinking on the world market background, particularly on the prospects for a more dynamic export policy which as Trade Minister I must deeply suspect.

I am sending copies of this to Peter Carrington, Geoffrey Howe, Peter Walker, other Members of OD and to Sir Robert Armstrong.

W. J. B.

Department of Trade
1 Victoria Street
London, SW1H 0ET
21 August 1981

JB

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10 DOWNING STREET

From the Private Secretary

19 August 1981

The Prime Minister has seen the Chancellor's minute of 4 August about the next phase of the negotiations on restructuring the EC Budget.

As the Chancellor says, these matters will be for discussion in September, in the meetings which begin with OD on the 8th. She has nevertheless commented that she agrees with the Chancellor that our objective must be a fundamental restructuring of the Budget on the lines of his Hague speech, and that we should not play with the idea of extending the 30 May formula as a permanent solution.

At this stage, the Prime Minister has asked me to pass on this comment only to the Chancellor.

MAP

Peter Jenkins, Esq.,
HM Treasury.

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Ref: A05416

MR LANKESTER

I agree with the Chancellor, Prime Minister
- we must fundamentally restructure
the budget on the basis of his May 30 agreement that I respond
speedily to the Treasury's restructuring below?
the Treasury's restructuring below?
as a permanent solution
ref. 12

Play A

1. You asked for advice on the Chancellor of the Exchequer's minute of 4 August to the Prime Minister, in which he argued that, instead of the objective of achieving a budget contribution no higher and if possible lower than that resulting from the 30 May settlement, we should raise our sights and seek to eliminate our net contribution altogether. The minute needs to be read in conjunction with the letter which the Chancellor of the Exchequer's Private Secretary wrote to you on 4 August explaining the changes between the forecasts in the current PES exercise about our net contributions to the Community Budget compared with the assumptions about them in the last Public Expenditure White Paper.

Play B

2. The Prime Minister has agreed that a meeting of OD should be held on 8 September to consider our strategy for the next phase of negotiations on budget restructuring. She could suggest to the Chancellor that this will provide a convenient opportunity to consider whether we should raise our sights as he suggests. In this context it will also be helpful for the Committee to have as background the Treasury's current forecasts of our net contribution if the 30 May settlement were prolonged.

x

3. Turning to the comparison with the previous White Paper forecasts, the letter of 4 August explains that the underlying assumptions, on which those forecasts have been based, have been changed, and that the price of better than expected refunds this financial year will be worse than expected refunds in 1982/83. For internal planning purposes it would be sensible to adopt the more cautious basis of forecasting now suggested by the Treasury; but before the next White Paper is published, in March, the position should be reconsidered in the light of the restructuring negotiations to see what different assumptions or forecasts would be appropriate. Changes in assumptions will have a more limited effect on the figure for 1982/83 than for later years. This is because, although the bulk of the refunds will relate to the 1982 calendar year, a part will relate to 1981 which is covered by the 30 May agreement. The final figure will depend on progress with the negotiations.

←

RA

Robert Armstrong

7 August 1981

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

M O'D B Alexander Esq.
Private Secretary
10 Downing Street
LONDON
SW1

4th August 1981

Prime Minister B²
This is all v. technical and
the higher figures for 1982/83
are, for the moment, only for
internal purposes. But they are
nonetheless worrying;
if ~~we~~ they remain
unchanged, this
will cause political
(and financial) problems
next year.
JPP

mf

R
5/8

Dear Michael,

UK NET CONTRIBUTION TO COMMUNITY BUDGET

The preliminary figures for this year's public expenditure survey show an unwelcome increase of £173 million, compared with the last White Paper, in our net payments to European Community institutions in 1982-83, partially offset by a reduction of some £120 million in the current year. The Chancellor has suggested that the Prime Minister will wish to note both (a) the reasons for these revisions to the figures and also (b) our expectation that the discussions in the Community this autumn over calculation of our refund entitlement for 1980 could be troublesome.

The increase in our forecast net payments to Community institutions in 1982-83 is more than accounted for by a higher forecast net contribution to the Community Budget. (The footnote to the table below explains the difference between these two aggregates.) The comparison between the new figures for our net budget contribution and those in the last White Paper is as follows:-

Net contributions to Community budget (£ million)

	1981-82	1982-83	1983-84	1984-85
Last White Paper revalued (Cmd 8175)	529	566	600	..
Survey report	425	745	625	690
Difference	-104	+179	+ 25	..

Note: The above figures relate exclusively to our net budget contributions (as in table 2.2.1 of Cmd 8175). They differ from the programme 2.7 figures for net payments to European Community institutions in including overseas aid attributed to the aid programme but excluding net receipts from the European Coal and Steel Community and capital subscriptions to the European Investment Bank.

/The new



The new figures for 1982-83 differ from the White Paper figures in being precarious forecasts rather than stylised assumptions. The changes compared with the White Paper reflect this change of status as well as developments since the turn of the year. Within the total changes, there are three factors which call for special comment - one favourable and two unfavourable. The favourable factor is a higher than expected level of receipts, including CAP guarantee receipts. The unfavourable factors are the high level of the sterling/ecu exchange rate this year, compared with February of last year, and revised assumptions on the calculation and payment of our budget refunds.

Taking these in order, the UK's share of receipts from CAP guarantee expenditure has recently risen substantially above the levels previously foreseen - partly as a result of decisions taken by the Agriculture Council in April. Our future receipts share depends critically on market developments and cannot be predicted with any confidence. Our own projections differ considerably from those of the Commission. We have thought it reasonable at this stage to assume a receipts share of around 8 per cent, for the time being at least, as against around 6 per cent in the past. These and other higher receipts are reflected in the lower net contributions figures for 1981-82. In 1982-83 and later years, however, the reduction in the net contribution is assumed to be offset, or partially offset, by a consequential reduction, lagged one year, in our budget refunds.

The relatively high £/ecu exchange rate this year is significantly affecting the timing of our VAT contributions, as between this year and next. The method of paying VAT own resources to the Community is such that if, as is happening in 1981, the sterling/ecu exchange rate during the year is higher than it was in February of the preceding year, there is a temporary reduction in our net contribution during the year in question, followed by a higher net contribution in the succeeding year. A considerable amount of the UK's net contribution has in effect been switched from the current year into 1982-83; and we are also expecting some of the 1983-84 net contribution to be switched back into 1982-83. The annexed note (for connoisseurs only) explains in more detail how this curious system works.

On budget refunds, the last public expenditure White Paper made the stylised assumption that from 1982-83 onwards our net refunds would adapt to keep our net contribution constant in real terms. With the passage of time, however, it is no longer satisfactory to make this assumption for 1982-83. We have instead made a calculation of what our refunds might be on the basis prescribed in the 30 May agreement for the 1980 and 1981 budgets.

/In practice,

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In practice, as the Prime Minister may recall from earlier briefing, there is disagreement in the Community on whether the 30 May agreement should be read as prescribing a minimum net refund to the UK or a minimum net contribution by the UK. We have argued, with some support from the Commission, that the agreement provides for a minimum net refund to the UK, equivalent to some 66 per cent of our unadjusted net contribution in 1980 and 1981 as projected by the Commission last May, while other Member States have argued that the agreement provides for minimum net contributions by the UK of the amounts stated in the agreement. The sums involved in this difference of interpretation are substantial - some £80-90 million in 1981-82 and perhaps some £180-200 million in 1982-83. We have thought it best to assume at this stage in the survey that the outcome will lie halfway between these two extremes.

We have also assumed that all our refunds - supplementary measures as well as financial mechanism - will be converted from ecus into sterling at the average exchange rate for the budget year to which they relate rather than at the rates prevailing when the payments are made. The financial mechanism regulation provides specifically for this, but the supplementary measures regulation does not mention the point. We have argued with the Commission that the same exchange rate must apply to the two channels for our refunds, which are supposed to be interchangeable; but they have not as yet conceded the point. If we lose the argument, our net contribution in 1981-82 is likely to be some £50-60 million higher. It could rise by a further £15 million on top of this if we fail to qualify under the financial mechanism and have to take all our refunds in the form of supplementary measures. (In another year, the exchange rate convention for which we are arguing might well be to our disadvantage; but there can be no certainty about this, and a bird in the hand is worth two in the bush.)

These problems over our refunds in respect of the 1980 Budget will have to be discussed in the Community in the autumn. The discussions are likely to be controversial, and may come to a head at a particularly unfortunate time, when we are trying as Presidency to pave the way for a satisfactory agreement on reforming the Community Budget in the longer term. We shall need to consider the tactical options carefully. When we know the outcome we shall have to look again at the projections of our net contribution.

The figures shown in the survey report for 1983-84 and 1984-85 are based on the stylised assumption that the 30 May agreement will be extended into later years. This is not of course our negotiating objective - see the Chancellor's minute of August 4 - but we do not want to count our chickens before they are hatched and there is no obviously better assumption to use for survey purposes.

Handwritten: This will follow - I am getting Cabinet Office advice on it. / I am

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I am copying this letter to Francis Richards (FCO),
Kate Timms (MAFF) and David Wright (Cabinet Office).

Yours ever
Peter

P.S. JENKINS
Private Secretary

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

5 August 1981

M. Alexander, Esq.,
Private Secretary,
10, Downing Street

Dear Mr Alexander

UK NET CONTRIBUTION TO THE COMMUNITY BUDGET

... The attached annex should have been enclosed with Peter Jenkins' letter to you of 4 August.

Would you also please amend the penultimate paragraph of the letter, line 5, to read "4 August".

I am copying this letter and enclosure to the recipients of Peter Jenkins' letter.

Yours sincerely
David Jenkins

D.J. BARTON

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COMMUNITY BUDGETVAT CONTRIBUTIONS AND CHANGES IN THE EXCHANGE RATE

There are four main stages each year in the calculation and payment of our VAT contributions to the Community budget:

- (1) Our VAT contributions to the budget are estimated initially in sterling.
- (2) These sterling figures are converted into ecus at the conventional 'budget exchange rate' for the budget concerned and entered in the budget on this basis: ^{the} 'budget' rate is the rate which obtained on the first working day of February of the preceding year.
- (3) During the budget year, we pay over each month one-twelfth of the ecu sums in the budget, converted into sterling, not at the budget exchange rate in (2) above, but at the sterling/ecu exchange rate prevailing in the middle of the month preceding the month of payment.
- (4) In August of the following year, a 'VAT adjustment' payment is made, or received, to take account of (a) [✓] errors in the budget projection of the VAT base and (b) changes in the sterling/ecu exchange rate between stages (2) and (3) above.

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The net effect is that our VAT liability is calculated in sterling, as a percentage of our sterling VAT base, both at the initial stage of estimation and in the final reckoning. But the monthly payments which we make on account during the year, being denominated in ecus, produce the 'wrong' sterling amounts if the exchange rate during the year differs from the 'budget' exchange rate.

2. In the case of the 1981 budget, the average sterling/ecu exchange rate during the year (stage 3 above) is likely to be well above the 'budget' rate (stage 2 above) of 1.58.

(The average rate so far this year has been about 1.87.)

Hence we expect to pay over during this year significantly less sterling than our VAT base justifies. This 'underpayment' will have to be made good by means of a VAT adjustment in the summer of 1982 (stage 4 above) which will increase our net sterling contribution in that year. In terms of financial years, this will be reflected in a lower net contribution in 1981-82, followed by a higher net contribution in 1982-83.

3. The 1982-83 figure is likely to be further increased by the very high 'conventional' sterling/ecu exchange rate for the 1982 budget of 1.92 (based on the actual rate of the first working day of February this year). This will be reflected in 'overpayments' of VAT in sterling terms during 1982 if (as we assume) the average exchange rate for that year is lower than 1.92.

A
Euro Palwriting
C.O. admin.
Mr. Cass
Thursday pm.
T.Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

EC BUDGET RESTRUCTURING: THE NEXT PHASE OF THE NEGOTIATIONS

You will have seen the note by officials circulated as OD(81)40. No doubt we shall have an opportunity to discuss it in September. Meanwhile, I should like to comment on the specification of our objections^{ves} in paragraph 2. This follows the minutes of an OD meeting last October, where we are recorded as having agreed that our broad aim should be to bring our net contribution "to a level no higher and, if possible, lower than that resulting from the 30 May settlement".

2. I do not recall that we actually discussed this formula last October. In any event, it was then and remains ambiguous. The 30 May settlement did not impose a fixed ceiling. It left us with a net contribution which is not completely predictable, and rises from year to year. Future rises could well be substantial if the agreement were rolled forward: the net contribution figure for 1981 in the 30 May agreement is larger than that for 1980 by an amount explicitly related to the increase in the Commission's estimates of our unadjusted net contribution between those two years. If the Commission were asked to repeat the process, they would be likely to predict sharp increases in our unadjusted net contribution in 1982 and subsequently. The 30 May approach would thus produce sharp increases in our adjusted net contributions also.

3. In any case, as I said in my minute to you of 27 January, we should not regard an outcome on the lines of the 30 May agreement as indefinitely defensible. That agreement was, in my view, a significant step forward, but it left us more disadvantaged in relation to our GNP per head than any other member of the Community.



4. Since then, there have been a number of important developments:-

(i) With colleagues' agreement, I have in my Hague speech committed us publicly to the argument that the Community should adopt a principle which is applied without controversy within national states - that resources should flow from more to less prosperous regions, and not vice versa.

(ii) There is some evidence that we are making an impression with our arguments. For example our Embassy in Bonn recently reported that Chancellor Schmidt told a "European-American workshop" meeting that he did not see why the UK, as one of the poorer countries in the Community, should be a net contributor. We must do nothing to frustrate such developments in others' perceptions.

(iii) The Commission's report on restructuring has publicly described the effects of FEOGA on the UK as "inequitable".

(iv) The ambiguities in the 30 May agreement have, if anything, become more perplexing. (A note on this point is on its way to you.)

(v) The recent report by the NEC of the Labour Party suggests that our continuing net contribution is likely once more to become a damaging political issue, playing into the hands of those who advocate withdrawal.

(vi) It becomes no easier, to put it mildly, to meet our public expenditure targets while continuing to make a net contribution to the European Community.



5. For these and other reasons, I am convinced that our objective in the forthcoming negotiations must be to initiate a process of reform that will lead to the elimination of our net contribution at the earliest possible date. I am under no illusion about the difficulties. But I think we ought to recognise amongst ourselves that we cannot afford to set our sights any lower.

6. It is also critical that we do not give misleading signals to others about the type of settlement that we could accept. Getting the UK to acquiesce in an extension of the 30 May approach is the easy way out for the Commission and the other member states. If the problem of the excessive German contribution could be solved by getting us to pay progressively more, then all the tensions created by Schmidt's insistence on a limit for Germany would evaporate - but we would be left with a continuing and increasing financial cost that could not be justified to UK public opinion.

7. At some stage we shall need to make this plain to the Germans and others. In the meantime the negotiating approach suggested in OD(81)40 - particularly paragraphs 19 and 20 - is not inconsistent with the objective that I have proposed in paragraph 5 above.

8. I am sending copies of this minute to Peter Carrington, Peter Walker, other members of OD and Sir Robert Armstrong.

(G.H.)

4 August 1981

*FCO will be advising
on these recommendations.
BY on 18/8.*

*lh
4/8*

*dealt with by
phone: WR.*

*slha
24.8.81*

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TO PRIORITY FCO
TELEGRAM NUMBER 585 OF 3 AUGUST
INFO ROUTINE UKREP BRUSSELS PARIS

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GERMAN APPROACH TO THE MANDATE NEGOTIATIONS

1. WE HAVE BEEN REFLECTING ON THE PROBLEM OF ENSURING THAT WE AND THE GERMANS KEEP IN STEP AS THESE NEGOTIATIONS PROGRESS. IT SEEMS TO US THAT AS A START WE NEED TO BE CLEAR HOW FAR THE FEDERAL GOVERNMENT ARE LIKELY TO GO, AND HOW MUCH UPHEAVAL AND RANCOUR INSIDE THE COMMUNITY THEY MIGHT BE PREPARED TO ACCEPT TO GET RADICAL ACTION ON THE MANDATE REPORT, RATHER THAN TRY TO SETTLE FOR A LESS AMBITIOUS SOLUTION OF THE BRITISH AND GERMAN PROBLEMS ALONE WHICH WOULD PRESENT LESS OF A THREAT TO THE ESTABLISHED ORDER IN THE COMMUNITY. I SEE FROM RECENT EQS PAPERS THAT THERE IS NO CERTAINTY ON THIS IN LONDON. NOR IS THERE HERE. AS USUAL, BONN SPEAKS WITH A VARIETY OF VOICES.

2. AS YOU KNOW, EVER SINCE THE 30 MAY AGREEMENT THE GERMANS HAVE MADE CLEAR THEIR UNHAPPINESS WITH THE POSITION WHICH IT CREATED FOR THEM. THE AGREEMENT HELPED TO EXPOSE THE PROBLEMS AND DEFINE POLICY AISFS FOR THE FEDERAL GOVERNMENT. THEY WANT TO KEEP COMMUNITY EXPENDITURE WITHIN THE ONE PERCENT LIMIT. THEY WANT A BETTER BALANCE BETWEEN AGRICULTURAL AND OTHER COMMUNITY EXPENDITURE. THEY WANT NO OPEN ENDED COMMITMENT TO THE COMMUNITY FOR THEMSELVES. AND THEY WANT TO END THE UNFAIRNESS OF NET CONTRIBUTIONS AS BETWEEN THEMSELVES AND THE SMALL RICH. RECENTLY THEY HAVE EMPHASISED ALSO THE FRG'S REAL AND PRESSING ECONOMIC, BALANCE OF PAYMENTS AND BUDGETARY PROBLEMS. (THE REALITY OF THE LATTER IS ILLUSTRATED BY THEIR DECISION ANNOUNCED LAST WEEK TO HOLD DEFENCE EXPENDITURE IN 1982 AT CURRENT LEVELS.)

3. BUT THE GERMANS HAVE SEEMED PUZZLINGLY RELUCTANT TO DO MUCH ABOUT TAKING ACTION TO IMPLEMENT THEIR POLICY OBJECTIVES. CONTACTS BETWEEN SPECIALISTS SHOW THAT WE ARE FURTHER AHEAD IN OUR STUDY OF THE BUDGETARY PROBLEM AND POSSIBLE CORRECTIVES THAN THEY ARE. THE FEDERAL GOVERNMENT FAILED IN ITS EFFORT TO ENSURE THAT THE GERMAN COMMISSIONERS TOOK PART IN THE PREPARATION OF THE MANDATE REPORT. ALTHOUGH WE KNOW HE WAS IRRITATED BY THAT REPORT, THE FEDERAL CHANCELLOR SHIED AWAY FROM EXPRESSING HIS DISSATISFACTION AT THE EUROPEAN COUNCIL AND CONTENTED HIMSELF WITH TELLING THE PRESS WHAT HE WOULD HAVE SAID TO THE COUNCIL IF HE HAD ADDRESSED THE PROBLEM THERE.

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4. SO WHERE DO THE GERMANS STAND? THE TREASURY'S EXPLORATORY TALKS WITH THE ECONOMIC AND FINANCE MINISTRIES HAVE BEEN PROMISING AND GERMAN OFFICIALS THERE EXPRESS THEMSELVES ROBUSTLY. BUT AT THE END OF THE DAY THE ECONOMIC MINISTER'S DECISION WILL BE AFFECTED BY HIS PARTY LINKS WITH GENSCHER AND BY THE LATTER'S SPECIAL RESPONSIBILITY FOR COMMUNITY MATTERS. AND THE FINANCE MINISTER HAS ONLY A NATIONAL AND BUDGETARY INTEREST IN A SOLUTION: HE TOLD THE CHANCELLOR OF THE EXCHEQUER THAT HE WOULD HAVE NO PROBLEM WITH THE COMMUNITY BUDGET IF US INTEREST RATES WERE 3 PER CENT LOWER AND HIS BALANCE OF PAYMENTS WAS BETTER. ALL THE SAME LAMBSDORFF AND MATTHOEFER FACE HARD ECONOMIC AND BUDGETARY PRESSURES. I BELIEVE THEY WILL FIGHT HARD FOR A SOLUTION OF THE GERMAN PROBLEM WITH THE COMMUNITY BUDGET. BUT, THAT ACHIEVED, THEY ARE LIKELY TO SEE THE PROBLEM OF GETTING AN ENDURING AND SENSIBLE BUDGETARY STRUCTURE FOR THE COMMUNITY AS SOMEBODY ELSE'S BUSINESS.

5. ERTL IS BOUND TO TEMPORISE. HE HAS BEEN CLOBBERED IN CABINET AND BY THE FEDERAL CHANCELLOR AND HAS LESS FREEDOM OF ACTION THAN HE ONCE HAD. HIS HEART IS NOT IN THE RADICAL CHANGES IN THE CAP AND THE RELATIVE REDUCTION OF SPENDING ON AGRICULTURE WHICH A PROPER SOLUTION TO THE STRUCTURAL PROBLEM WOULD DEMAND. HIS LONG EXPERIENCE TELLS HIM THAT HE CAN WAIT AND WATCH UNTIL IDEAS FOR RADICAL REFORM RUN INTO THE SAND.

6. GENSCHER AND THE FOREIGN MINISTRY SEE THE NEED FOR SOME REFORM OF THE CAP AND THE BUDGET IF THE COMMUNITY IS NOT TO BECOME IMPOSSIBLY EXPENSIVE AND THEREFORE UNPOPULAR. BUT THEY FEEL EQUALLY COMMITTED TO THE COMMUNITY'S ENLARGEMENT AND DEVELOPMENT. THEY FEEL THAT THESE WILL INEVITABLY PUSH SPENDING ABOVE THE ONE PERCENT LIMIT, ABOUT WHICH THEY ARE AGNOSTIC. THEY WOULD PROBABLY LIKE TO GET FURTHER THAN A MINIMALIST SOLUTION OF THE GERMAN AND BRITISH PROBLEMS. BUT THEY ARE AFRAID OF THE HOSTILITY OF THE FRENCH AND THEIR SMALL RICH NEIGHBOURS. THEY FEAR A REVIVAL OF THE QUOTE UGLY GERMAN UNQUOTE IMAGE. THEY HAVE A NATURAL AND PROPER RELUCTANCE TO UPSET APPLE CARTS. AND THEY DREAD BEING THOUGHT UNCOMMUNAUTAIRE. THEY WOULD IN MY VIEW PRESS FOR FUNDAMENTAL MEASURES ONLY IF THEY WERE CONVINCED THAT TO DO SO WAS THE ONLY WAY TO MAKE PROGRESS TOWARDS THE HEALTHY FURTHER DEVELOPMENT OF THE COMMUNITY. THEY WOULD NEED TO CONVINCED THEMSELVES, IN FACT, THAT IT IS THE ADVOCATES OF A THOROUGH-GOING REFORM, NOT OF PALLIATIVES, WHO ARE THE TRUE EUROPEANS.

7. ALL THIS LEADS ME TO CONCLUDE THAT MOST MEMBERS OF THE FEDERAL GOVERNMENT WOULD BE PREPARED TO SETTLE FOR AN OUTCOME OF THE MANDATE NEGOTIATIONS WHICH GAVE THEM THE CONTINUATION OF THE ONE PERCENT LIMIT UNTIL ENLARGEMENT: SOME CAP REFORM : AND LIMITS ON THEIR NET TRANSFERS. NO DOUBT THEY WOULD LIKE TO ACHIEVE MORE, BUT I GUESS THEY WILL BE DETERRED FROM PRESSING THE POINT TO THE LIMIT FOR THE REASONS WHICH I HAVE SET OUT.

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8. IF I AM RIGHT , WE NEED TO DECIDE WHETHER WE TOO ARE PREPARED TO ACCEPT SUCH A LIMITED OUTCOME: WHETHER WE ARE PREPARED TO PURSUE THE RADICAL SOLUTION WITHOUT WHOLEHEARTED GERMAN SUPPORT AS ONE AGAINST NINE: OR WHETHER WE CAN AND SHOULD PERSUADE THE GERMANS THAT IT IS IN THEIR INTERESTS AND THOSE OF THE COMMUNITY TO HOLD OUT FOR A MORE AMBITIOUS OUTCOMEM IN WHAT FOLLOWS I ASSUME THAT YOU WILL CONTINUE TO ATTACH PARAMOUNT IMPORTANCE TO KEEPING THE GERMANS WITH US: AND THAT YOU WILL HOPE TO CONVINCHE THEM THAT FOR US BOTH TO FIGHT HARD FOR A RADICAL SOLUTION TO THE PROBLEM IS IN THE BEST LONG TERM INTERESTS OF THE COMMUNITY AS A WHOLE.

9. IT WOULD BE WRONG TO UNDER RATE THE DIFFICULTIES . OUR CREDIT IS POOR: WE ARE SEEN BY SOME AS JOHNNIES -COME-LATELY: RECOLLECTIONS OF THE LAST GOVERNMENT'S RENEGOTIATION RANKLE: WE WENT TO THE BRINK OVER THE 30 MAY AGREEMENT: THE FEDERAL CHANCELLOR, DESPITE YOUR AND OUR EFFORTS TO PUT HIM RIGHT, FELT INFURIATED OVER THE FISHERY IMPASSE: AND WE CANNOT GUARANTEE THAT THE NEXT BRITISH GOVERNMENT WILL NOT BE ONE WHICH WILL TRY TO TAKE US OUT OF THE COMMUNITY. MANY GERMANS HAVE SOME PRETTY DEEP-SEATED SUSPICIONS OF OUR COMMUNITY BONA FIDES. AND IN THEIR HEART OF HEARTS THEY MAY SUSPECT THAT WE WILL BE TEMPTED TO ACCEPT THE COMMISSIONS SOLUTION TO THE BRITISH PROBLEM AND, WITH THAT UNDER OUR BELT, TO FORGET OUR CONCERN ABOUT LIMITING AGRICULTURAL EXPENDITURE.

10. BUT IF WE DO NOT TAKE ON THE JOB OF PUTTING SOME FIGHTING SPIRIT INTO THE GERMANS, NO ONE ELSE WILL. THE CONTACTS AT TECHNICAL LEVEL HAVE GONE WELL : BUT WHAT IS NEEDED NOW IS A DIALOGUE AT THE HIGHEST POLITICAL LEVEL ABOUT THE POLITICAL CASE FOR A COHERENT REFORM OF THE CAP AND THE STRUCTURE OF THE BUDGET. THE IMPORTANT TARGETS ARE MATTHOEFER AND LAMBSDORFF IN THE EARLY STAGES OF THE DEBATE AND, EVEN MORE IMPORTANT, GENSCHER AND SCHMIDT THROUGHOUT.

11. THE LATTER HAVE A LOT IN COMMON. A STRONG SENSE OF GERMAN RESPONSIBILITY. WELL - DEVELOPED SCEPTICISM. AN ABSENCE OF EURO FANATICISM - IN SCHMIDT'S CASE A WEARINESS WITH A LOT OF THE THINGS THE COMMUNITY TRIES TO DO. BUT ALTHOUGH NEITHER GIVES ABSOLUTE PRIORITY TO EUROPE, BOTH SEE THE NEED FOR STEADY IF MEASURED PROGRESS BY THE COMMUNITY FOR THE HEALTH OF EUROPE, TO KEEP GERMANY IN ITS PROPER PLACE (POWERFUL BUT NOT IRRESPONSIBLE), AND TO ENABLE EUROPE TO LOOK THE US, JAPAN AND THE SOVIET UNION IN THE EYE. THEY NOW WANT TO COMBINE THAT MEASURED PROGRESS WITH SAVING MONEY. GENSCHER'S POLITICAL UNION IDEAS SERVE JUST THIS PURPOSE. SCHMIDT IS SCEPTICAL ABOUT THOSE IDEAS BUT HE RECOGNISES THE SAME NEEDS.

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| 12.

12. TO GET THE DIALOGUE LAUNCHED WITH MAXIMUM IMPETUS, IT WOULD BE WORTH CONSIDERING THE POSSIBILITY OF A PERSONAL LETTER FROM THE PRIME MINISTER TO THE FEDERAL CHANCELLOR, OR FROM YOU TO GENSCHER SETTING OUT OUR THINKING AND STRESSING THE NEED FOR THE TWO GOVERNMENTS TO MAINTAIN CLOSE CONTACT. THE OBJECT OF THIS WOULD BE TO CREATE AS CONSTRUCTIVE AN ATMOSPHERE AS POSSIBLE FOR THE FIRST MEETING THE PROPOSED ANGLO-GERMAN QUOTE COMMISSION UNQUOTE, ABOUT WHICH THE CHANCELLOR OF THE EXCHEQUER HAS WRITTEN TO MATTHOEFER AND WHICH I UNDERSTAND WE HOPE MIGHT CONVEINE AT THE BEGINNING OF SEPTEMBER. WE SHOULD ARRANGE BILATERAL MEETINGS WITH BOTH CORTIER AND GENSCHER, IN THE RUN UP TO THE PRIME MINISTER'S MEETING WITH THE FEDERAL CHANCELLOR AT THE CONSULTATIONS ON 29-30 OCTOBER, WELL BEFORE THE NOVEMBER EUROPEAN COUNCIL.

13. OUR ESSENTIAL MESSAGE IN THESE CONTACTS SHOULD, IT SEEMS TO ME, BE:-

(A) THIS IS OUR LAST OPPORTUNITY FOR THE FORESEEABLE FUTURE TO ACHIEVE A FAIR AND UNARBITRARY ALLOCATION OF BURDENS WITHIN THE COMMUNITY. WITHOUT THIS WE CANNOT HOPE FOR WHOLEHEARTED COMMITMENT BY MEMBER STATES TO THE COMMUNITY'S FURTHER DEVELOPMENTS.

(B) THE IMPORTANCE OF THE FRG AND THE UK STAYING TOGETHER TO ACHIEVE THIS.

(C) OUR BELIEF THAT WE HAVE, GIVEN OUR STRENGTH AND THE INTRINSIC MERITS OF OUR CASE, A GOOD CHANCE OF SUCCESS, AT THE PRICE ONLY OF A TEMPORARY UPHEAVAL IN THE COMMUNITY.

14. IN PURSUING THIS DIALOGUE WITH THE GERMANS THERE ARE SEVERAL POINTS WE WILL HAVE TO KEEP IN MIND. WE MUST NOT APPEAR TO SEEK AN EXCLUSIVE RELATIONSHIP, CUTTING OUT THE FRENCH. WE MUST SHOW UNDERSTANDING OF THE CONCERNS OF THE SMALL RICH, PARTICULARLY ABOUT DIRECTORATES. WE SHALL NEED TO BRING OUT THE COMMUNITY, NOT JUST THE NATIONAL, ARGUMENTS FOR THOROUGH-GOING REFORM. WE WILL ALSO NEED TO SHOW THE GERMANS BY OUR ACTIONS THAT WE ARE IN EARNEST ABOUT THE FURTHER DEVELOPEMENT OF THE COMMUNITY ONCE WE HAVE GOT THE CAP AND BUDGET RIGHT. FOR EXAMPLE A CONSCIOUSLY COMMUNAUTAIRE PRESENTATION OF OUR EFFORTS TO ACHIEVE A CFP AND THE IMPORTANCE WE ATTACH TO LIBERALISATION OF SERVICES WOULD HELP CONVINCE THE GERMANS THAT WE MEAN WHAT WE SAY. AND A POSITIVE MOVE ON THE EMS OR ON ENERGY, WERE EITHER JUDGED POSSIBLE, WOULD PROBABLY HAVE MORE IMPACT THAN ANYTHING ELSE ON THE CHANCELLOR PERSONALLY.

15. WE CANNOT BE SURE OF SUCCESS. THE GERMANS HAVE A TRADITION OF BACKING AWAY FROM SHOW DOWNS IN THE COMMUNITY. THEY MIGHT FIND OUR ADVOCACY OF A RADICAL APPROACH IN THE END UNCONVINCING. BUT EVEN IN THIS WORST CASE, THE DIALOGUE I ENVISAGE WOULD SERVE THE SUBORDINATE, DEFENSIVE PURPOSE OF GIVING US ADVANCE WARNING IF THE GERMANS WERE GOING TO BACK AWAY, AND TIME TO ADJUST OUR AIMS ACCORDINGLY SO AS TO AVOID FINDING OURSELVES FIGHTING A STRUGGLE WITHOUT ALLIES.

TAYLOR
FRAME GENERAL
ECD(1)

THIS TELEGRAM
WAS NOT
ADVANCED

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EWB PSL

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Peter Walker MBE MP
Minister of Agriculture, Fisheries and Food
Ministry of Agriculture, Fisheries and Food
Whitehall Place
LONDON
SW1

30 July 1981

Ha. Peter

*NKPA
Nils 30/7*

1982 COMMUNITY BUDGET: GUARANTEE SECTION

Thank you for your letter of 21 July.

I was not able to reply before Thursday's Budget Council. In the event, as you will no doubt have been informed, in my final compromise package I was able to ensure the retention of the Commission's proposed provision for the continuation of the butter subsidy in 1982-83. This was despite the fact that in the initial stages of discussion a number of member states had been pressing for its deletion and could have secured this under the budgetary voting rules. Subject to the later stages of the Budget procedure, therefore, 113m ecus will remain available for this purpose in the 1982 budget.

Although there was some discussion of the German proposal on the coresponsibility levy, this too dropped out of sight in the final compromise.

I am sending copies of this letter to the recipients of yours.

Nigel Lawson
NIGEL LAWSON

CONFIDENTIAL

Ref. A05344

PRIME MINISTER

Cabinet: Community Affairs

You might wish the Chancellor of the Exchequer to report on the outcome of the 23rd-24th July Budget Council, which was chaired by the Financial Secretary, Treasury. While it looks as though the dispute with the European Parliament over the 1981 budget will be satisfactorily resolved, the decisions in the Budget Council over the draft budget for 1982 were only partially successful so far as the United Kingdom was concerned. Although we and the Germans sought major reductions in agricultural expenditure, in conformity with the "markedly lower" formula, agreement was possible only on a compromise arrangement under which some 433 mecu in FEOGA guarantee expenditure was transferred to a suspense account rather than being cut from the budget. Provision for the United Kingdom butter subsidy appears in the same suspense account, from which funds can be drawn by qualified majority vote in the Council.

2. You will wish the Minister of Agriculture to report on the outcome of the 27th July Fisheries Council, which he chaired. The Council was unable to reach agreement on Commission proposals for total allowable catches (TAC) and quotas for the reopening of herring fishing. The Commission asserted that their proposals nevertheless now had legal force, and that they would monitor catches and order fishing to cease if the limits in their proposals were exceeded. Since several countries rejected Mr. Walker's suggestion that the member states should conduct their herring fishing in accordance with the Commission's proposals, it is unclear how those proposals can be enforced. The herring fishery will be opened and we shall seek to make suitable provision in our national regulations for it to be closed again when the TAC has been taken.

3. The Foreign and Commonwealth Secretary might mention the probability that the Americans will sell 100,000 tons of surplus butter to the USSR, using New Zealand as a commercial intermediary. We have made it clear both to the USA and to New Zealand that we do not favour such a sale.

CONFIDENTIAL

CONFIDENTIAL

4. OD(E) will have met before Cabinet, under the Lord President's chairmanship, to decide whether the United Kingdom Presidency should convene a Fiscal Council to deal with the harmonisation of alcoholic drinks duties in September.

RA

ROBERT ARMSTRONG

28th July, 1981

CONFIDENTIAL



Handwritten signature

Foreign and Commonwealth Office
London SW1

*NBPA
Handwritten initials*

23 July 1981

Handwritten signature

1982 COMMUNITY BUDGET : FEOGA GUARANTEE SECTION

I have seen your letter of 21 July to Nigel Lawson. You will, no doubt, since have heard that the Germans now seem ready to support inclusion of substantial provision for the butter subsidy in Chapter 100 and that a suitable formula has been agreed with them over savings in the milk sector which will leave the way open for us to oppose continuation of the basic co-responsibility levy to next year's price fixing negotiations. This seems a very satisfactory response.

Of course, if the Germans do not support us at the Council itself, we could be out-voted on the butter subsidy. This would be very unwelcome. Nigel Lawson will, I am sure, press the arguments for its retention but there seems little we can do if we are out-voted. I hope it will not come to that. I would not, however, wish this question to jeopardise our alliance with the Germans over the wider and more important range of budgetary issues.

The decision on whether there will actually be a butter subsidy is not, of course, taken until next year's price fixing.

I am copying this letter to the Prime Minister, Nigel Lawson, Members of OD(E) and to Sir Robert Armstrong.

Handwritten signature

The Rt Hon Peter Walker MBE MP
Minister of Agriculture, Fisheries & Food
Whitehall Place
London SW1

Eno Sol

Ref. A05300

PRIME MINISTER

Cabinet: Community Affairs

You will wish the Minister of Agriculture to report on the 20-21 July Agriculture Council, the first to be held under his chairmanship. He made a keynote speech, endorsed by the Commission, setting out the Presidency's programme, which will include a general debate on the CAP in October as part of the budget mandate, a discussion on the prospects for agricultural production over the next five years, and an urgent examination of the procedures for dealing with state aids. The Council otherwise reached agreement on measures for Ireland and Greece and a partial ban on hormones used in fattening livestock.

2. The Minister of Agriculture may also be able to report to the Cabinet, as envisaged last week, on his talks with the Commission on subsidies to the French poultry industry. These talks follow three earlier letters from Mr Walker to the Commission asking them to investigate French aids. He has so far had one reply confirming that no aid had been granted to the Brittany turkey producer from Community agricultural funds, that the Commission were awaiting further information from the French about their aids to the poultry sector in general, and that there was at that stage no evidence that these aids were contrary to Community law. The MAFF have been unable to refute this last assertion: on the available facts it looks as though the Government assistance given to the Brittany plant is similar to the regional aids provided within our own assisted areas. In these circumstances the best way forward might be through a general tightening of the control of state aids for agriculture, along the lines which Mr Walker has suggested to the Council. If he has more detailed proposals to make for tackling this problem, you might invite him to put a paper to OD(E) in the first instance.

Premier
Sheep.
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3. The Budget Council, under the chairmanship of the Financial Secretary, will take place on the day that Cabinet meets, having been preceded by a meeting with a delegation from the European Parliament on 22 July. The Council will consider a rectifying budget for 1981 and a preliminary draft budget for 1982. The Chancellor of the Exchequer will be able to report to Cabinet next week; but the Minister of Agriculture might refer to the United Kingdom butter subsidy (his letter of 21 July to the Financial Secretary, Treasury refers). It is generally agreed that the retention of the butter subsidy is one of our principal objectives. But we also want to get agreement at the budget on savings in the 1982 provision for agricultural expenditure in order to bring it markedly below the rate of growth in own resources. This will be impossible unless we make common cause with the Germans, and they want to include a reduction in the butter subsidy among the savings. We cannot, therefore, in the last resort make the butter subsidy a breaking point. There are signs that a reasonable compromise with the Germans can be reached.

4. Next week the Fisheries Council meets on 27 July.

ROBERT ARMSTRONG

22 July 1981



MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

From the Minister

CONFIDENTIAL

21 July 1981

Dear Financial Secretary,

1982 COMMUNITY BUDGET: GUARANTEE SECTION

Our officials have been discussing the line to be taken at the Budget Council on 23 July. Two of the proposals which the Germans have made for securing savings could result in immense damage to the UK without causing harm to German interests.

I am very concerned about the proposal to delete provision for a continuation of the butter subsidy in 1982-83. Were this to be carried it would seriously weaken our position at the next year's price review. With our continuing concern about inflation, it would be a very serious matter if we were to lose this subsidy which is worth 13p per lb. I must therefore press you to retain in the budget provision for the butter subsidy in 1982-83.

The second proposal to assume that the co-responsibility linear levy on milk will be continued by the Council in the next price review at 2½% in the marketing year 1982-83 directly conflicts with our agreed policy. We must continue to oppose this proposal as it stands. If in a compromise package to preserve the butter subsidy we have to make some concession on this second German proposal I trust that we can do so in a way which will avoid prejudicing the form or level of milk co-responsibility measures in 1982-83.

I am copying this to the Prime Minister, members of OD(E) and to Sir Robert Armstrong.

Yours sincerely,
Kate Timms

for Peter Walker
(approved by the Minister
and signed in his absence)

Rt Hon Nigel Lawson MP
Financial Secretary to the Treasury
H M Treasury
Parliament Street
SW1

FILE

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Cabinet Office
Euro Pol.
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17 July 1981

EC Budget Restructuring: 30 May Mandate Group

The Prime Minister has seen your letter to me of 15 July on this subject and has approved the proposals in it.

MICHAEL ALEXANDER

Francis Richards, Esq.,
Foreign and Commonwealth Office.

copied to Cabinet office

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Prime Minister

Foreign and Commonwealth Office

London SW1A 2AH

15 July 1981

Are you concerned with these
arrangements & in particular,
 with the nominations of Mr
 Franklin as the UK representative (he will be in his
 present post at least until the end of the year)? *Yes not*

Dear Michael, *Paul 15/7*

EC Budget Restructuring: Setting up
the 30 May Mandate Group

The Luxembourg European Council on 29-30 June decided to set up a special 30 May Mandate Group to assist the Foreign Affairs Council. It is to consist of one representative of each Member Government who shall be at least of Ambassadorial rank. It was tacitly agreed that it would not meet until September.

As Presidency we now need to set a timetable of meetings; to seek others' nominations to the Group; and to make our own nominations.

On timing, the Foreign and Commonwealth Secretary proposes a first meeting on 8 September, to prepare the discussion at the 14-15 September Foreign Affairs Council; one full day a week meetings thereafter (except in Foreign Affairs Council weeks). We have stopped the timetable just short of the November Foreign Affairs Council to leave our hands free to make additional procedural proposals for the final run-up to the November European Council.

On numbers, we suggest each representative be assisted by one adviser. But the formulation would allow the adviser to be varied, if, for example, the subject matter being discussed made the presence of an agricultural or Treasury adviser desirable. One note-taker per delegation is also envisaged.

On representation the French have now nominated M. Chandernagor, the Minister with responsibility for European Affairs in the Quai d'Orsay. All the other Member States had already informally indicated an intention to nominate their Permanent Representatives. It remains to be seen whether they will reconsider in the light of the French decision.

/As



As to our own representation, we need to provide a Chairman and a national representative. At Luxembourg the Prime Minister indicated she would like Sir M Butler to chair the group. The wide spread of subjects to be covered points towards nominating Mr Franklin as the UK representative. The Chandernagor appointment does not seem to change this (M. Chandernagor's Directeur du Cabinet told us that it was well understood that we were likely to appoint Sir M Butler, an official, to chair the Group).

If the Prime Minister agrees with these proposed arrangements, we shall proceed to inform our partners of our intentions and ask for their nominations.

I am copying this letter to Kate Timms (MAFF) and John Wiggins (Treasury).

Yours ever,

(F N Richards)
Private Secretary

A handwritten signature in dark ink, appearing to read 'Francis Richards', written over the typed name and title.

M O'D B Alexander Esq
10 Downing St

Ref: A05263

CONFIDENTIAL

PRIME MINISTER

Community Affairs

You will wish the Foreign and Commonwealth Secretary to report on the outcome of the 13th July Foreign Affairs Council, the first to be held under his chairmanship. The Council completed a long agenda, including an accession conference with the Spaniards, within the day. There was no progress in the negotiations with Spain (due to the French); but the Council agreed the Community's negotiating mandate for the renewal of the Multi-Fibre Arrangement, with satisfactory provisions for the United Kingdom; virtually agreed on new Financial Protocols for Community aid to Mediterranean countries; and discussed Japan in the run up to the Ottawa Summit. On the budget mandate, it was confirmed that the Foreign Affairs Council and the special group would have the primary responsibility for the restructuring negotiations, but that orientation debates would take place in the Finance and Agriculture Councils in October.

2. The Minister of Agriculture might be invited to report on the position finally reached on the sheepmeat clawback problem. In the event, although the Commission honoured the letter of their commitment to bring forward proposals aimed at removing the difficulties faced by United Kingdom lamb exporters, Mr. Walker rejected those proposals as inadequate, and lifted the remaining United Kingdom reserves on the price fixing package.


3. Next week the Agriculture Council meets on 20th-21st July and the Budget Council on 23rd July.

RA

Robert Armstrong

15th July, 1981


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PRIME MINISTER

Community Affairs

1. You might invite the Chancellor of the Exchequer to report on the 6 July Finance Council. This first Council meeting under UK Presidency passed off well. The Council agreed that a confrontational approach to US interest rates should be avoided and invited Community participants in the Ottawa Summit to be guided on this subject by the approach adopted by the Luxembourg European Council, reinforced by recommendations from the Monetary Committee and the Committee of Governors arguing in favour of quiet diplomacy and close international co-operation. The Council also noted, in the light of a shift in the French position, the possibility of progress on the export credits consensus later in the year.
2. The Minister of Agriculture might be invited to report on his meeting with the new French Fisheries Minister (M Pensec) on 3 July. The Ministers agreed that a bilateral meeting of officials should take place before the end of July to consider outstanding questions on the Common Fisheries Policy negotiations, followed by a renewed Ministerial meeting in mid-September and a Fisheries Council in late September or October. There may also need to be a short Council in July to deal with herring.
3. There has been no movement on sheepmeat clawback since last week's Cabinet. The Commission were due to consider the issue again at their meeting on 8 July.
4. The Foreign and Commonwealth Secretary made the customary inaugural Presidency statement to the European Parliament on 8 July.
5. Next week the Foreign Affairs Council meets on 13/14 July.



M D M FRANKLIN



8 July 1981

CONFIDENTIAL

PRIME MINISTER

Community Affairs

You will wish to inform the Cabinet of the main elements of the discussion at the 29th-30th June European Council, notably on the Commission's report on budget restructuring, the economic situation in the Community and the line to take on Japan at the Ottawa Summit. The Cabinet will also be interested to hear your impression of M. Mitterrand. The Foreign and Commonwealth Secretary will no doubt have reported on the Middle East and the Afghanistan initiative under the Foreign Affairs item. You will also wish to note that the second United Kingdom Presidency began on 1st July.

2. You might invite the Secretary of State for Industry to report on the successful outcome of the 24th-25th June Steel Council. The Council reached agreement in principle on mandatory production quotas for two additional products, on new price disciplines, on a code for controlling state aids to the Steel industry and on the financing of social measures to ease the adjustment process. The decisions were ad referendum to Governments, but it is hoped that the Germans and the Italians will agree.

3. The Minister of Agriculture might be invited to report on the current state of play on sheepmeat clawback. The 30th June special Agriculture Council did not reach agreement.

4. Next week the Finance Council meets on 6th July.

REA

Robert Armstrong

1st July, 1981

CONFIDENTIAL

Community Budget for 1981: Net Balances

The table below gives projections for net balances in respect of 1981 Community Budget in MECU. Column (A) shows Commission's February 1981 forecasts of unadjusted net balances. Column (B) gives our own (confidential) projections of adjusted net balances, after allowing for UK refunds, corresponding to (A), based on our own interpretation of 30 May agreement (which others are likely to dispute). Column (C) gives projections of adjusted net balances, after allowing for UK refunds, made at the time of 30 May agreement on basis of projections then available for unadjusted net balances.

	(A)	(B)	(C)
Germany	-1570	-2100	-1890
France	80	- 350	- 410
Netherlands	310	220	470
Belgium	480	410	530
Denmark	530	490	520
Luxembourg	290	280	310
UK	-1990	- 580	- 730
Italy	1080	850	630
Ireland	650	640	670
Greece	140	140	NA

hand

29 June 1981

Ref. A05153

PRIME MINISTER

Cabinet: Community Affairs

Of the series of Council meetings taking place this week in the last days of the Dutch Presidency only the following seem worthy of comment.

2. The Foreign and Commonwealth Secretary should report on the Foreign Affairs Council on 22 and 23 June. On the more important items in a long agenda, the Council agreed satisfactory procedures for the handling of the 30 May mandate, on which Monsieur Thorn gave a vague preview of the Commission's proposals; noted that Luxembourg might raise the question of the seat of the institutions at the European Council; took stock of the position on Japan; failed to agree on a mandate for the renewal of the Multi-Fibre Arrangement; adopted a common and largely unforthcoming position towards Mr Mintoff's demands for more Community aid for Malta; and signed a low key resolution on the Common Format Passport.

3. The Secretary of State for Industry might be invited to report on the outcome of the Steel Council on 24 June, which will have a difficult task to agree a price quota regime to follow the expiry of the present arrangements on 30 June, the regulation of state aids for steel, and the provision of funds for social measures in the steel industry.

4. The Secretary of State for Energy might report on the 24 June Energy Council, which will discuss oil supply measures, energy investment and energy pricing.

5. If the Minister of Agriculture has arrived from the airport in time for this item, you may wish him to report on the prospects for a solution to the sheepmeat clawback problem.

6. By the time Cabinet meets the Commission will have unveiled their report on budget restructuring, and Monsieur Thorn will be calling on you on Friday morning for a first exchange of views. It would be premature for the Cabinet to discuss this topic at this stage.

RIA

ROBERT ARMSTRONG

24 June 1981

CONFIDENTIAL

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(81) 324 final

Brussels, 18 June 1981

THE ECONOMIC AND SOCIAL SITUATION
IN THE COMMUNITY

(Commission communication to the European Council,
Luxembourg, 29 and 30 June 1981)

CONFIDENTIAL

COM(81) 324 final

Short-term developments and prospects

Since the last meeting of the European Council there have been some signs of improvement in the European business cycle and an easing of world oil market pressures; but also worrying movements in interest and exchange rates across the Atlantic and much too limited progress in fundamental aspects of economic policy and performance in Europe.

Production in the Community probably reached its low-point in the early months of this year. The immediate outlook is subject to conflicting influences. The business cycle is showing signs of moving into the recovery stage, with some strengthening of export and private consumption demand. Community business surveys show this. But the balance of the changing trend as between a halt to the recession and a beginning of the upturn is still difficult to discern. For 1981 as a whole the Commission expects a fall of about 1/2 % in GDP volume, with an improving second half of the year leading to positive growth in 1982 perhaps slightly in excess of 2 %. This would be barely sufficient to stop the rise in unemployment in the course of next year. For the time being unemployment is still rising sharply and has reached 7.7 % of the labour force.

A negative influence has been the higher interest rates, and the general international monetary instability. Since the beginning of this year short-term interest rates have been forced up on average in the Community by over 3 points (to 15 % for 3 month inter-bank rates), restoring approximate parity with United States rates. Nevertheless even greater movements have been seen in exchange rates, with the ECU now having depreciated 21 % against the dollar and 24 % against the Yen in twelve months.

In time this depreciation should lead to substantial European gains in world export markets. Moreover the Community's large balance of payments current account deficit (nearly 40 \$ billion in 1981, compared to a modest surplus in the United States, and a modest deficit in Japan) leaves no doubt about the need in Europe for a substantial adjustment. Some progress in reducing this deficit is likely in 1982, but a multi-year strategy adjustment in investment and world trading performance is basically necessary.

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The depreciation of the ECU means that Europe is currently experiencing a wave of import price increases as severe as last year when oil prices were the main cause. This is seriously retarding progress in reducing inflation. The average consumer price rise is now expected to be 11 1/2% in 1981 (up 1 point since the forecasts before the last European Council meeting, with the divergence between countries now ranging from 5,8% to 24%) and could well be still as high as 10 1/2% in 1982. As in the case of the oil price rise, it is vital to ensure that this unavoidable deterioration in the terms of trade does not have repercussions which lead to an increase in domestic inflation. This reinforces the importance of certain Member States to adjust extremely comprehensive and fast-acting income indexation mechanisms. As stated at the European Council's last meeting, this is in contradiction with the main aim of creating a zone of monetary stability in Europe.

The effects of the recession on public budgets is seen in an upward revision of the expected deficit of the general government accounts for 1981 from 4.0 to 4.3 % of GDP for the Community as a whole (compared to 3.6 % in 1980). For some countries, a stabilising effect from the budget should be accepted, and indeed welcomed, for example in Germany where there are already signs that stronger exports will soon take over as the main support to economic activity. In France, which alone among Community countries actually experienced a small budget surplus in 1980, some limited deficit in 1981 should not encounter financing problems if kept within prudent proportions. In several other countries, however, measures to restrict current public expenditure and deficits are overdue. Each year's delay increases the future burden of adjustment. Double-digit deficits as a share of GDP are not stable propositions, yet this is the order of magnitude of the Belgian deficit and nearly so in Italy; Denmark's deficit also appears to be increasing alarmingly, while that of Ireland, already 15% of GDP, has recently been increased by substantial subsidies to households for food and housing items.

.../...

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Medium-term challenges

The Council will shortly have to adopt a medium-term economic policy programme for the period 1981-1985. Preparatory work by experts has been completed (in the Economic Policy Committee), and on this basis the Commission plans to submit a draft programme to the Council before the summer recess.

Projections for a five-year period are notoriously difficult to make, and those done by the Commission for 1981-1985 on the basis of present policies and historical economic behaviour - remain open to surprises for better or for worse. Subject to these important reserves, and assuming a moderate economic recovery from now to 1982, the projections suggest an annual average rate of growth in the Community as a whole of 2 1/2% in the four years 1982 to 1985 (1.9% for the five years 1981-1985), which compares with around 2.2% for the years 1974 to 1980, and a trend of 4 1/2% in the preceding decade. Assuming a 5% growth in world trade the present large balance of payments current account deficit could well be reduced very substantially by 1985 even with some renewed, but gradual, increase in the real price of oil. Progress in reducing public sector deficits seems likely to be more modest; the rate of inflation might on average decelerate to about 7 1/2% compared to the present 11%. The modest rate of real growth means that there is likely to be approximate stability in the total employment level. Combined with the exceptionally fast demographic expansion of the labour force (nearly 1% per year for the whole quinquennium), unemployment is quite likely - on the basis of spontaneous trends - to continue to rise still from the present average level of 7.7%.

Of course these trends are not immutable. Policy can, and in several respects should, change. Economic behaviour can change, and must be encouraged in the right direction. The uncertainties are not all negative risks. For example, we may manage to achieve faster progress in energy adjustment than expected, and we may underrate the capacity of the economy more generally to adjust for the better once given the right signals steadily over a period of years.

.../...

But the fundamental message is that the Community cannot hope that a new cyclical recovery - itself fragile and uncertain - will lead the economy back automatically onto a satisfactory trajectory assuring a substantial and durable improvement in employment prospects. It is not a question of waiting with a little more patience for trends to improve. The European economy needs still to embark on deep and lasting changes in public policy and in the economic performance of the social partners and households before we can hope for a much better economic future; i.e. to assure the development of the competitive capacity of our economies and their aptitude to respond to the opportunities of growing markets. Investment and savings must be increased. Consumption, employment costs and current public expenditure must be moderated. Investment and employment in energy production and saving in particular must be a massive priority as also the development of industries based on new technologies. Present investment trends in the Community are not yet on a par with that seen in the United States and Japan. The Community can and should provide a financial boost to this priority (in this connection proposals for a renovation of the New Community Instrument for investment financing are before the Council awaiting decision).

While abundantly debated, these issues are still not being sufficiently acted upon in many Member States. If this state of affairs persists the risks are for a relapse of the Community into serious financial and monetary instability and thence into great losses. For the Community as a whole this could mean eroding the achievements even of the Common Market as well as of the European Monetary System, and for individual Member States there would be the prospects of the large economic and social costs that always ultimately result from excessively delayed economic adjustment. A longer period of delayed adjustment and slow growth would also endanger the social and political balance in our countries and undermine the degree of social consensus so far achieved.

Current developments demonstrate the necessity for a stable framework for international economic relations. The Community should therefore intensify its policy of cooperation with third countries, especially establishing increased monetary and financial cooperation between industrialised countries, also with a view to aiding the economic situation of developing countries.

.../...

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Summary and Conclusions

The Commission suggests to the European Council the following assessment and policy orientations:

- (i) It may be that the recession has now passed its low point in Europe, and that the chances for a moderate recovery are fairly good. However, great risks surround this uncertain and fragile improvement. With the short-term easing of the oil market, the main risks at present lie in the management of economic policy within the Community and internationally. The Social Partners also have an important rôle.
- (ii) Within the Community, particular risks follow from the failure so far of several Member States to progress with urgently required public finance and income stabilisation measures. These failures weaken the cohesion of the European Monetary System. The Commission recommends to these countries accelerated programmes of economic adjustment. On the other hand, Germany, where a strong export recovery seems now assured, should not unduly precipitate the desirable medium-term reduction of its public deficits. In general, all Member States must aim at balance in the use of monetary and budgetary policies, and desist from discriminatory measures in either domain that threaten the basic economic principles of the Community; the prospects for export-led recovery can only be based on keeping open markets for trade.
- (iii) The large depreciation of the ECU against the dollar and yen over the past months means that the Community have a new opportunity to improve its share in world markets, and increase investment and employment. But the inflationary impact of the depreciation must be contained, and this is a further reason why adjustments must urgently be made in indexation practices in some Member States, and expectations for real income gains be still lowered more generally for the time being.
- (iv) Internationally, moreover, the volatility of interest and exchange rates is of major concern; indeed it represents a serious threat to Europe's incipient economic recovery, notably because of the great fluctuations in costs and in the continuing uncertainties that the enterprise sector has to face. The Community should pursue these issues in depth in discussions with the other major monetary powers. The Community, the United States and Japan basically share the same monetary policy objectives and there is much to be done, including in the Community (as mentioned with regard to budgets and incomes) to relieve the strain on monetary policies.

CONFIDENTIAL

However the United States should also bear in mind the significant international consequences of different choices that are open to it in the framing and execution of its budgetary and monetary policies. The main policy stance of the major industrial countries does affect the functioning of the world economy and should, therefore, be discussed in the forthcoming international meetings.

- (v) The medium-term outlook reinforces the need for the accentuation of adjustment policies in many Member States, and persistence throughout the Community in efforts to promote investment in energy saving and production and in new industrial capacity, and to moderate labour costs (including both incomes and social security levies).
- (vi) The Joint Council of Ministers of Employment and Social Affairs and of Financial Affairs, which was held on 11 June 1981, discussed the unemployment situation and the type of strategy and actions which needed to be adopted in order to ensure a fundamental improvement. It was generally agreed that unemployment and inflation were problems which should be tackled jointly and that an improvement in the overall economic situation, and hence in employment, could be assisted through reinforced action at Community level. The Commission accepted to follow up certain policy issues, in particular: the review of methods for combating inflation and encouraging economic growth; the development of investment and new areas of employment growth; analysis of public expenditure and the financing of social security; the promotion of flexibility in working time; and the development of an integrated framework of education, training and work opportunities for young people. It was foreseen to follow up these questions in a further Joint Council.

CONFIDENTIAL

Table 1: Main Economic Aggregates, 1979-81

	1979	1980	1981		1979	1980	1981
	GDP volume, % change				Private consumption deflator, % change		
B	2,4	1,1	-0,6		3,5	6,3	7,2
DK	3,5	-0,8	0,1		9,5	11,0	10,0
D	4,6	1,9	-0,6		3,9	5,4	5,8
GR	3,8	1,7	1,5		17,7	23,7	23,3
F	3,2	1,8	0,5		10,5	13,5	13,0
IRL	1,9	0,9	1,9		12,2	18,2	17,5
I	5,0	4,0	-0,2		14,9	20,3	21,0
L	3,6	0,4	-3,1		5,8	6,3	7,5
NL	2,2	0,9	-0,6		4,6	6,9	7,3
UK	1,3	-1,4	-2,2		12,2	15,5	11,2
EC	3,5	1,4	-0,4		8,9	-11,7	11,5
	Unemployment rate, % of civilian labour force				Current account of balance of payments % GDP		
B	8,6	9,3	11,0		-2,9	-5,7	-7,3
DK	5,3	6,2	8,2		-4,6	-3,8	-3,8
D	3,4	3,4	4,6		-0,7	-1,7	-1,9
GR(1)	(2,2)	(2,9)	(3,2)		-2,9	-2,4	-2,6
F	6,1	6,5	7,7		+0,1	-1,4	-1,6
IRL	7,9	8,2	9,7		-10,1	-8,6	-14,2
I	7,6	8,1	8,4		+1,6	-2,5	-2,3
L	0,7	0,7	1,1		+28,7	+22,8	+20,8
NL	4,2	5,0	7,2		-1,4	-1,5	+0,7
UK	5,4	6,9	10,5		-0,9	+1,2	+0,6
EC	5,5	6,1	7,7		-0,5	-1,4	-1,7
	General government net lending (+) or borrowing (-), % GDP				Money supply, % change end of year		
B	-7,2	-9,3	-11,0	(M2H)	6,0	2,8	3,9
DK	-3,1	-5,4	-8,6	(M2)	9,9	10,9	8,1
D	-3,0	-3,5	-4,0	(M3)	6,0	6,2	5,4
GR	:	:	:	(M3)	18,4	25,2	22,4
F	-0,8	0,4	-1,6	(M2)	14,4	9,7	12,5
IRL	-11,9	-13,2	-15,2	(M3)	19,0	16,9	12,2
I	-9,4	-7,8	-8,5	(M2)	20,3	12,0	11,0
L	+0,1	-1,4	-2,5	:	:	:	:
NL	-2,0	-2,8	-3,3	(M2)	7,6	3,6	6,2
UK	-3,3	-3,7	-2,3	(M3)	12,7	18,6	8,5
EC	-3,6	-3,6	-4,3		11,9	10,2	8,8

(1) Not comparable with other countries

Source: Commission services, based on **CONFIDENTIAL** available to early June 1981

Ref. A05105

PRIME MINISTER

Cabinet: Community Affairs

The 11 June Environment Council adopted one proposal on marine oil pollution but was otherwise unproductive. No discussion seems called for.

2. You might wish the Chancellor of the Exchequer or the Secretary of State for Employment to report on the outcome of the 11 June Joint ECOFIN and Social Affairs ("Jumbo") Council, which passed off without prejudicing any United Kingdom interest. The Belgians want to hold another "Jumbo" Council under their Presidency.

3. The Chancellor of the Exchequer might also be invited to report on the 15 June Finance Council. The Council made useful progress towards freedom of services in insurance, and urged a cautious approach to the question of United States interest rate policies at the Ottawa Summit, noting that Commissioner Ortolini would report on this subject to the 29/30 June European Council.

4. The Minister of Agriculture might report on the 15 June Agriculture Council, at which Monsieur Thorn undertook to put a proposal on sheepmeat clawback to an early meeting of the Commission (but probably after the second round of the French Parliamentary elections). The French may yet insist that the eventual proposal goes to a special Council. Meanwhile Mr Walker maintained the United Kingdom reserve on the implementation of certain aspects of this year's CAP price fixing decisions, including the new sugar regime.

5. OD(E) will have met before Cabinet to decide how the United Kingdom should respond to any Commission proposal in their restructuring report for income aids to help farmers to adjust to price restraint. Next week the Development Council meets on 22 June, the Foreign Affairs Council on 22/23 June, and the Steel and Energy Councils on 24 June.

RA

ROBERT ARMSTRONG

17 June 1981

②

Ref. A05047

MR ALEXANDER

Prime Minister
 (See also attached telegrams on
 Thom's handling of the paper on restructuring)

And,

European Community

He did not raise
 them but you may
 like to read
 this note.

I understand the Foreign and Commonwealth Secretary may shortly be speaking to the Prime Minister about Community matters. You may therefore like to have this summary of where things stand.

Budget Restructuring

2. The Commission, after a slow start, is now working on a paper which will deal with the CAP, other policies and the budget itself.

3. On the CAP, discussions inside the Commission have developed fairly satisfactorily. Current thinking involves:

- (i) bringing Community prices progressively closer to world market prices,
- (ii) limiting the quantity of production to which full Community support applies,
- (iii) the possibility of some form of income aids to cushion the effect of (i),
- (iv) the possibility of restrictions on imports of oilseeds.

If achieved, (i) and (ii) would represent genuine reform of the CAP; and since they reflect some French Socialist thinking may get a serious run. But there will undoubtedly be pressure to exempt small producers from any effective discipline. OD(E) will shortly be considering what our attitude should be to the use of income aids. If they did allow the Community to pursue a really tough price policy, and provided they were largely financed nationally (though subject to common rules), they could be worthwhile. But the Minister of Agriculture doubts whether they would achieve much in terms of lower prices, and fears that, since we have only a small proportion of low-income farmers likely to be eligible, British agriculture would suffer in comparison to its competitors in the other member states. We and the Germans will of course resist any further restrictions on imports (point iv) and it is not yet certain which way the Commission

will jump. There will inevitably be a big battle between France and Italy on the one hand and Germany and ourselves on the other about what to do over Mediterranean agriculture with the prospect of Spanish and Portuguese entry.

4. On the development of other Community policies, Monsieur Thorn and some of his fellow Commissioners will be anxious to stress that the Community is about more than the budget and will want to put forward ideas for the development of Community activities in industry, energy, research and regional and social policy. We have fed in our own modest ideas. The Commission will be tempted to argue that restructuring cannot be accommodated within the 1 per cent ceiling, but if they are realistic their report will refer to the possibility of raising the ceiling only as a prospect for some time in the future.

5. On the budget issue itself, we appear to have persuaded the Commission that some form of adjustment mechanism will be needed. But there will be pressure:

- (i) to argue that it should be temporary until such time as the policies achieve the right answer,
- (ii) to restrict it to the United Kingdom and not to accept that the Germans have a case,
- (iii) to apply the financial correction to the Guarantee Section of the CAP rather than to the budget as a whole.

Mr Tugendhat is currently chairing a group of Commissioners which will produce the draft of this part of the report. We are of course lobbying hard to ensure that the Commission supports the principle that transfers should basically be from the richer to the poorer member states and that the report contains ideas for adjustment mechanisms which are capable of giving us what we need.

European Councils

6. Although the French have said they will not be ready for substantive discussion, the Commission still plans to have its report ready for the meeting in Luxembourg on 29-30 June. The Dutch seem disposed to co-operate with us in giving the discussion some impetus at the European Council; and no one disputes that the European Council under our Presidency on 26-27 November is a time for decision. The effective time available for preparation is all too short.

The Foreign Affairs (and other) Councils will have to get to work in September at the latest, with preparatory work starting in Coreper in July. We shall need to take stock of progress early in October to see whether, and if so how, we need to step up the intensity of work.

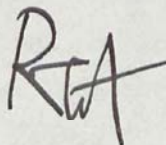
7. The other major economic topics at the forthcoming European Council will be those which also come up at Ottawa - recession, US interest rates, Japan, etc. President Mitterrand's economic policies may make it more difficult than at earlier meetings to agree on how to deal with the current economic problems. We shall of course be briefing the Prime Minister in the usual way, taking account of what comes out of the Ecofin Council on 15 June and the OECD Ministerial meeting on 17 June.

UK Presidency

8. The Foreign and Commonwealth Secretary will set out our stall at the European Parliament on 8 July, stressing the importance of the 30 May mandate but also looking for progress in other areas, including enlargement and Political co-operation. He has minuted other colleagues about the conduct of Community business where we hope at least to be efficient. The Chancellor of the Duchy of Lancaster has plans for using our Presidency to improve public understanding, but everyone is aware of the limitations.

Fisheries

9. The noises coming out of Paris are not altogether discouraging, but there will clearly be no progress before we take over the Presidency. We have told the French we are ready when they are to resume bilateral discussions on access and there is no point in a Fisheries Council until that has happened. We must do all we can to prevent the CFP getting linked up with the budget restructuring exercise.



ROBERT ARMSTRONG

11 June 1981

Ref. A05037

PRIME MINISTER

Cabinet: Community Affairs

The Secretary of State for Industry can report on the outcome of the 4 June Steel Council, which agreed that the mandatory production quotas expiring on 30 June should be extended for one year for steel coils but replaced by voluntary arrangements in respect of other products. Decisions on price levels, limitation on state aids and the financing of social measures are due to be taken at a further Steel Council on 24 June.

2. The Minister of Agriculture might confirm, in the light of the discussion in last week's Cabinet, that we have told the French that there would be little point in holding a Fisheries Council on 26 June as proposed by the Dutch Presidency unless bilateral talks before then had shown some chance of making progress. In Brussels we would, however, make clear that we were ready for a bilateral meeting with the French at any time.

3. The joint Council of Finance and Employment Ministers (the "Jumbo" Council) takes place on the day Cabinet meets, as does a meeting of the Environment Council. Next week the ECOFIN Council meets on 15 June, the Agricultural Council on 15-16 June and the Transport Council on 18 June. We are continuing to press the Commission to find at least a temporary solution to the problem of "clawback" on sheepmeat before the Agriculture Council meets.



ROBERT ARMSTRONG

10 June 1981

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GRS 600

CONFIDENTIAL [FRAME GENERAL]

FM PARIS 041450Z JUN 81

TO IMMEDIATE FCO

TELEGRAM NUMBER 461 OF 04 JUNE 1981

INFO IMMEDIATE UKREP BRUSSELS BONN

INFO PRIORITY BRUSSELS COPENHAGEN DUBLIN THE HAGUE LUXEMBOURG

ROME ATHENS

MT

YOUR TEL NO 212: FRANCE AND RESTRUCTURING IN THE COMMUNITY

1. M CHEYSSON'S WRITTEN MESSAGE IS CERTAINLY MORE AMBIGUOUS THAN THE POSITION WHICH HE CONVEYED ORALLY AND IT MAY PRESAGE SOME DIFFICULTIES. IT HAS BEEN NOTICEABLE THAT WHEN ONE TALKS TO THE NEW FRENCH MINISTERS AND TO SENIOR OFFICIALS ABOUT PROCEDURE IN THE COMMUNITY OVER THE NEXT FEW MONTHS, THEY DO NOT DEMUR WHEN ONE REFERS TO THE REPORT EXPECTED FROM THE COMMISSION IN FULFILMENT OF THEIR MANDATE AND WHEN ONE SUGGESTS THAT THERE WILL HAVE TO BE SOME PRELIMINARY DISCUSSION OF THIS AT THE EUROPEAN COUNCIL AT THE END OF JUNE, LEADING PROBABLY TO SOME GENERAL INDICATIONS FROM THE COUNCIL ABOUT THE WAY IN WHICH FUTURE WORK IS TO BE STRUCTURED. AT THE SAME TIME THEY ARE CAREFUL TO AVOID AGREEING SPECIFICALLY TO THIS PROPOSITION.

2. I HAVE LITTLE DOUBT THAT IF IT WAS LEFT TO OFFICIALS ON THE FRENCH SIDE THEY WOULD PURSUE THE SECOND AND LEAST FAVOURABLE OF THE ALTERNATIVES DESCRIBED IN MY TEL NO 420, IE THEY WOULD WANT TO MARGINALISE THE RESTRUCTURING ISSUE IN ORDER TO MANOEUVRE BRITAIN INTO THE AWKWARD POSITION OF APPEARING TO INSIST ON POINTS OF COMMUNITY HOUSEKEEPING WHEN OTHERS ARE LOOKING FOR A NEW POINT OF DEPARTURE ON GREATER AND MORE POSITIVE ISSUES. THE POSITION OF THE NEW FRENCH MINISTERS IS MORE DIFFICULT TO ASSESS. I FEAR THAT THE PRESSURE OF FRENCH INTERESTS WILL TEND TO DRAW THEM IN THE DIRECTION WHICH THEIR OFFICIALS WOULD DESIRE.

3. HERE IN PARIS WE SHALL CONTINUE TO TAKE EVERY SUITABLE OPPORTUNITY TO PUT OVER THE POINTS IN YOUR TELEGRAM UNDER REFERENCE. BUT I VENTURE TO SUGGEST THAT IT MIGHT BE WORTHWHILE CONSIDERING A DIRECT REPLY FROM YOU TO M CHEYSSON PUTTING THE BRITISH POINT OF VIEW ON RECORD IN A FRIENDLY WAY. THIS WOULD HAVE A GREATER EFFECT AND REDUCE POSSIBILITIES OF SUBSEQUENT MISREPRESENTATION. A MESSAGE MIGHT COVER SOME OR ALL OF THE FOLLOWING POINTS:

(A) YOU ENTIRELY UNDERSTAND THE NEW FRENCH GOVERNMENT'S DESIRE FOR A PAUSE FOR REFLECTION ON THEIR OWN POSITIONS ON THE WHOLE RANGE OF COMMUNITY ISSUES.

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(B) IT NEVERTHELESS REMAINS IMPORTANT, IF THE COMMUNITY IS TO BE ABLE TO MOVE FORWARD INTO WIDER OR NEW FIELDS, TO FIND EARLY SOLUTIONS TO THE RESTRUCTURING PROBLEMS WHICH THE EUROPEAN COUNCIL HAS ALREADY AGREED TO TACKLE.

(C) YOU ASSUME THAT THERE IS NO INTENTION OF SUSPENDING ALL DISCUSSION OF THE REPORT WHICH THE COMMISSION WILL BE BRINGING FORWARD THIS MONTH IN FULFILMENT OF THE MANDATE GIVEN TO IT BY THE EUROPEAN COUNCIL. IT WOULD BE UNLIKELY THAT A PERIOD OF REFLECTION WOULD LEAD TO CONSTRUCTIVE CONCLUSIONS IF THE PROBLEMS OF RESTRUCTURING DID NOT OCCUPY A PLACE IN THE FOREGROUND.

(D) IN THESE CIRCUMSTANCES YOU ARE ASSUMING THAT IT WILL BE POSSIBLE TO WORK OUT ARRANGEMENTS TO TAKE NOTE OF THE EXISTENCE OF THE COMMISSION'S REPORT AT THE EUROPEAN COUNCIL AT THE END OF JUNE AND PREFERABLY TO GIVE SOME PROCEDURAL DIRECTIONS FOR FUTURE WORK ON IT BY THE VARIOUS INSTRUMENTS OF THE COMMUNITY, SO THAT THERE CAN BE A CONTINUOUS AND SMOOTH RUN-UP TO THE DECISION-TAKING PROCESS WHICH WILL BE NEEDED AT THE THIRD EUROPEAN COUNCIL MEETING OF THE YEAR IN LONDON.

(E) IN THIS WAY THE FRENCH GOVERNMENT'S POSITION WOULD BE FULLY SAFEGUARDED, AND THE POSITIONS OF OTHERS WHO HAVE ALREADY INVESTED A GOOD DEAL OF ATTENTION AND COMMITMENT IN THE RESTRUCTURING PROBLEM WOULD BE SAFEGUARDED ALSO. THE PAUSE FOR REFLECTION WHICH FRANCE NEEDS WOULD BE HARMONISED WITH THE ON-GOING STUDY OF PRESSING PROBLEMS WHICH IS NEEDED BY OTHERS.

4. A MESSAGE ON THESE LINES WOULD MAKE IT MORE DIFFICULT FOR FRANCE TO FACE THE UK WITH A FAIT ACCOMPLI IN WHICH OTHERS WOULD SAY THAT FRANCE'S REQUEST FOR A PAUSE HAD BEEN ACCEPTED BY DEFAULT AND THAT ANY WORTHWHILE DISCUSSION OF RESTRUCTURING HAD THEREFORE TO BE SHELVED UNTIL WELL AFTER THE SUMMER HOLIDAYS.

HIBBERT

FRAME GENERAL
ECD (I)

Cons PA: Budget
Pt. 11

Burke

Ref: A04953



CONFIDENTIAL

PRIME MINISTER

Community Affairs

The Foreign and Commonwealth Secretary might wish to report on his meeting with the Commission on 18th May to discuss priorities for the forthcoming United Kingdom Presidency. He will also have seen Mr. Ersbøll, the Secretary General of the Council Secretariat, in London on 20th May for the same purpose. The Commission should have their report on budget restructuring ready by the middle of June, but are unlikely to present it before the French elections.

2. The main achievement of the 18th-19th May Foreign Affairs Council, was the adoption of a further statement on Community/Japan trade relations. The statement pressed the Japanese again to open up their own market and sought an undertaking that there should be no diversion of Japanese car exports to the Community as a result of the voluntary restraint measures recently agreed with the United States. The Secretary of State for Trade might wish to report.

3. The Minister of Agriculture had talks with the Danish and Belgian Fisheries Ministers on 19th and 20th May respectively, but it seems unlikely that anything worthy of discussion in Cabinet will have resulted.

4. The Anglo/Italian Summit will take place on 2nd-3rd June; the postponed Steel Council is likely to take place on 4th June.

Robert Armstrong

20th May 1981

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Car components
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Pd

Ref. A04886

PRIME MINISTER

Cabinet: Community Affairs

You might wish to inform the Cabinet of the highlights of your discussion on Community topics with Federal Chancellor Schmidt at Chequers on 11th-12th May, notably on budget restructuring, CAP reform and the implications for progress in these and other areas of Monsieur Mitterrand's election as the President of France.

2. The Foreign and Commonwealth Secretary might be invited to report on the discussions at the 9th-10th May Informal Meeting of Foreign Ministers at Venlo. The Dutch confirmed at the meeting that they propose to hold the Joint Council of Finance, Economic and Employment Ministers during their Presidency. There was also discussion of the timetable and procedural handling of the budget restructuring mandate, and of proposed improvements in the Political Co-operation machinery.

3. The Chancellor of the Exchequer had talks with Mr. Ivor Richard in London on 11th May, and might be invited to say briefly what emerged.

4. The Minister of Agriculture might report on the outcome of the 12th May Agriculture Council, which was almost wholly devoted to tying up loose ends from the April price fixing Council.

5. Next week the Foreign Affairs Council meets on 18th-19th May.

ROBERT ARMSTRONG

13th May, 1981

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PRIME MINISTER

Community Affairs

There have been no major Community developments since the Cabinet last met.

2. The Secretary of State for Employment, who raised the subject of the proposed Joint Council of Finance, Economic and Employment Ministers last week, is meeting the Dutch Minister for Social Affairs on 6th May.

3. An informal meeting of Foreign Ministers will take place on 9th-10th May. Next week the Anglo-German Summit takes place on 11th-12th May; the Finance Council meets on 11th May (subject to confirmation), the Agriculture Council on 11th-12th May and the Steel Council on 12th May.



Robert Armstrong

6th May 1981

CONFIDENTIAL

UK 1982 BUDGET REFUNDS

I have had a word with Michael Franklin about your manuscript note on the Foreign Secretary's minute about budget restructuring. There are, I think, two aspects of the timing issue - a procedural one and a political one.

On procedure, we have plenty of time. During 1982, we shall be getting refunds in respect of 1981. As during this year (in respect of 1980) we shall probably get some in January, the bulk in March and the remainder in the autumn. All the necessary framework exists for our refunds to reduce what we will effectively pay in 1982. As well as making provision for these (which should not cause major difficulties) we will want to ensure that the 1982 Budget contains provision for us to get advance payments in respect of 1982. We shall aim to get the Commission to propose this in the Preliminary Draft Budget (PDB) it puts forward this summer. However, since such advances would not be payable until late 1982, and could if necessary be made the subject of a supplementary budget, we would not need to die in the last ditch about getting them included in the 1982 Budget. From a purely budgetary point of view we do not need agreement on the advances of our 1982 refund before the very end of 1981. (The detail on this is at Flag B.)

From a political point of view, it is of course inconceivable that the Government could go into next year (and let the November European Council pass) without a clear understanding that we would get refunds in respect of 1982. But in securing that understanding we want to avoid diverting the Community's attention from the need for fundamental long term reform, or implying that we are not in a hurry for such reform. We hope the Commission's document will at least draw attention to the problem. But if we try to get a negotiation going on the 1982 refund, e.g. in the Foreign Affairs Council or at Ecofin during the autumn, it will cut right across our Presidency attempts to pursue the fundamental debate on the budget.

/It is

It is almost certainly unrealistic to suppose that discussions will have proceeded far enough to get decisions on fundamental reform at the European Council. That being the case it will be necessary to secure agreement on the need for the third year extension at the Council. The best way to do so may well be to introduce it towards the end of the Council meeting. Other Heads of Government will not be able to deny on 30 November that a carry forward is necessary; and agreement on that point can then emerge as a practical decision of that meeting.

30 April 1981



Guro pd
~~MODRA(O/A)~~
to see
M
22/4

H M Treasury
Parliament Street London SW1P 3AG

Switchboard 01-233 3000
Direct Dialling 01-233 3211

D J S Hancock
Deputy Secretary

CONFIDENTIAL

21 April 1981

(2)

Michael Franklin Esq CB CMG
Cabinet Office
70 Whitehall
S W 1

Rami Amster

Phd - 27/4

Dear Michael,

EC BUDGET RESTRUCTURING: THE GERMAN POSITION

The Chancellor of the Exchequer has suggested that the Cabinet Office, FCO and No 10 might be interested to see the attached analysis by Robert Culpin of Schulmann's statement about EC Budget restructuring at the informal meeting of Finance Ministers at Breda at 3/4 April. I am also sending a copy to Derek Andrews because of the reference to financial guidelines for agricultural expenditure.

I very much agree with Robert Culpin that Schulmann's statement was a significant advance on the position previously taken by the Germans in international discussion. It also shows that our lobbying of the Germans is having some effect. I think we can recognise in some of the things that Schulmann said an echo of the things that we had earlier said to him.

I have, on other occasions, thought that Schulmann is not very good at judging the effect that he is having on his audience. It is therefore possible that the impression he made was rather more dramatic than what he intended.

Copies go to Tom Bridges and David Hanny (FCO), Derek Andrews (MAFF) and Michael Alexander (No 10).

Yours sincerely,

David Hanny

D J S HANCOCK

1. MRS HEDLEY-MILLER
2. CHANCELLOR

cc Financial Secretary
 Sir K Couzens
 Mr Hancock o/r —
 Mr Edwards
 Mr Fitchew
 Mr Patterson

EC BUDGET RESTRUCTURING : THE GERMAN POSITION

Schulmann made a forthright statement on budget restructuring at Breda; yet he said afterwards that he thought he had gone no further than the German Cabinet statement of 4 June 1980. You might like a brief comparison of the two statements. The relevant part of the Cabinet declaration is at Annex A. Annex B is Sir K Couzens' account of Schulmann's intervention at Breda.

2. The two statements have much the same structure. There is a preamble about the need for restructuring and then a three point approach: reform the CAP, modify other spending programmes, and be prepared to face residual budget problems directly by limiting net contributions and receipts.

3. However, Schulmann's piece was a significant advance in the following respects:-

- a. He said it in a Community meeting, not just to a domestic German audience.
- b. He said that net contributions and receipts can no longer come about by accident, as the unplanned result of other policy decisions. This used to be a British heresy.
- c. He said that the growth of agricultural spending should be "markedly" below the growth of own resources: the Cabinet statement said only "below". He thus reverted to the formula which the Germans floated in the autumn and spring, but were not conspicuous for advancing in the price fixing.

- d. He suggested that perhaps the wealthier member states should not benefit at all from the Regional Fund.
 - e. He said that Germany would want its net contribution limited in the same way as the UK: the Cabinet declaration said only that "the question [of limits] must be put and discussed". The implication is that the Germans now think limits are respectable and here to stay.
 - f. He asked the Commission to speed up its report on restructuring, and said the Community must tackle the subject seriously in the second half of the year.
 - g. He said the Germans were committed to the 1 per cent VAT ceiling "indefinitely".
4. This firming up of the German position does not seem to have been an isolated occurrence. Chancellor Schmidt's speech to the Bundestag on 2 April included the following passage:

"I announced in Maastricht that ... the Federal Republic of Germany will demand that our net contributor position in the European Community will be just as limited as that of England. France has associated itself with this step of mine ... There are three states which make net contributions: Germany, France and England: all the other states are recipients ... I consider it absolutely necessary that a country like Ireland or like Italy should be a recipient ... but others do not have to be net recipients ... [they] have just as high, or almost as high, a standard of living as we have."

5. So far these are just words. The Germans may be less robust in negotiation - it would not be the first time. They may also desert us if they can do a deal for themselves. But at least they are talking our language. We used to be the only country which regarded net contributions and receipts as a proper subject for debate. We are not any longer.

8 April 1981

R P CULPIN

EXTRACT FROM GERMAN CABINET STATEMENT OF 4 JUNE 1980

The Federal Government emphatically agrees with the necessity expressed in the EC decision to correct existing imbalances in the budget of the Community by structural changes. It underlines in this connection the necessity, that the EC Commission should in the suggestions which it has to put forward by 1 June 1981 provide effective means for, inter alia, the elimination of agricultural surpluses: the increase in agricultural expenditure should be held below the increase in own resources of the EC. Other changes in the Community's expenditure structure must be made in good time (in the budget proposal for 1982), so that they can become effective from 1982 at the latest.

The Federal Republic believes that these measures bring about a sharing of the burdens in the Community in such a way that burdens are not put unilaterally upon a few members, while at the same time states in just as good an economic position receive net contributions from the Community. In this connection the question must be put and discussed, whether a maximum limit should be arranged for the net contribution of any individual member state and whether a similar principle should be applied to member states that are net beneficiaries.

The Federal Government addresses itself with these expectations to the Council, European Parliament and the Commission.

The Federal Government is convinced that also in future the transfer to the EEC of VAT should not exceed 1 per cent of the money taken into consideration for calculation.

Budget Restructuring

17. Somewhat surprisingly, the Chairman advanced this item, and Schulmann initiated the discussion. He began by referring to what was said in the agreement of 30 May 1980 about avoiding unacceptable situations for any member state. He hoped the Commission would put forward their ideas on budget restructuring a month earlier, at the end of May rather than the end of June. Progress really must be made on this subject in the second half of the year. We could no longer rest on the accidental growth of net contributor and net beneficiary positions. We had to restructure the budget and that meant restructuring agricultural policy. The growth of agricultural expenditure must henceforth be at a rate markedly below the growth of our resources. The Federal Republic was ready to see changes in the Regional Fund and wondered whether the wealthier states should continue to benefit from it.

18. At all events the first objective must be to restructure the budget so that no Community member was placed in an unacceptable situation. If however this were not successful, then Germany would wish to see her net payer position limited in the same way as had happened for the UK. He wished to give advance notice of the German intention in this respect. He added that it was German policy to keep to the 1% ceiling indefinitely.

CONFIDENTIAL

cc. Max Ind: Steel: Pt 10
(for item 2).

PRIME MINISTER

Community Affairs

The Chancellor of the Exchequer might report on the Informal Meeting of Finance Ministers on 3rd and 4th April, at which the Germans initiated a discussion on budget restructuring.

2. You might invite the Secretary of State for Industry to report on the outcome of the Informal Meeting of Industry Ministers on 7th April, which was expected to carry forward last week's Steel Council discussions on the Community steel recovery plan in the light of progress in the separate Eurofer producers discussions. [No details of the results of the Council are yet available.]

3. The Secretary of State for Employment might be invited to report on the outcome of the Informal Meeting of Employment Ministers on 6th and 7th April. No decision was reached on the timing of the proposed Joint Council (Ministers of Economic Affairs, Finance, Social Affairs and Employment), though Mr. Prior made clear his view that an ill-prepared meeting in June would be a mistake and suggested a target date in 1982.

4. The Joint ACP/Community Council of Ministers takes place on 9th and 10th April. The Finance and Foreign Affairs Councils scheduled for next week have both been cancelled, although Foreign Ministers may have a Political Co-operation meeting if the Polish situation warrants it.

RA

Robert Armstrong

8th April 1981

CONFIDENTIAL

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MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH



From the Minister

CONFIDENTIAL

The Rt Hon Sir Ian Gilmour Bt MP
Lord Privy Seal
Foreign and Commonwealth Office
Downing Street
London SW1

ha
Shuts 8/4

8 April 1981

AS

MANUFACTURING BEEF

at/af PERO

Thank you for your letter of 20 February about access to the market of the European Community for supplies of Australian manufacturing beef.

As you know, the Council of Agriculture Ministers agreed last week to an import quota of 60,000 tonnes of manufacturing beef for 1981. This is what the Australians wanted and I think that they should be well pleased with the outcome.

I am sending copies of this letter to the Prime Minister, to John Nott, to the other members of OD(E) and to Sir Robert Armstrong.

[Handwritten signature]

PETER WALKER



Treasury Chambers, Parliament
Street, SW1P 3AG

With the Compliments of the
Private Secretary to the
Financial Secretary



Prime Minister
For information.

Treasury Chambers, Parliament Street, SW1P 3AG

R E S Prescott Esq
PS/Paymaster-General
Privy Council Office
Whitehall
LONDON
SW1

23 March 1981

MAP
27/3.

Dear Richard,

EC BUDGET REFUNDS: ANNOUNCEMENT OF FURTHER SUPPLEMENTARY MEASURES SUPPORT

On 18 December and 26 January we announced the first instalments of budget refunds to be paid under the supplementary measures and financial mechanism regulations. The Commission plans to announce its next set of grant decisions under the supplementary measures regulation at 11am our time on Wednesday 25 March. These decisions provide for Community contributions totalling £306.8 million to the five remaining regional investment programmes submitted by the Government last autumn: Northern Ireland, Scotland, the North of England, the South-West and Yorkshire and Humberside. Some £276.2 million (90 per cent) of this will be paid over to us before the end of the financial year on 31 March. We propose to issue our own press notice giving this information in London, Brussels and the regions concerned at the same time as the Commission makes its announcement in Brussels. The Financial Secretary proposes to inform Parliament in a written reply to an arranged PQ on the same day. I understand that the Prime Minister may also wish to refer to the announcement in her statement to the House, planned for the same afternoon, on the outcome of the European Council.

... I enclose a draft of the press notice. This has already been cleared at official level between the Departments most closely involved in the supplementary measures exercise.

The Financial Secretary suggests that the main points for the Government to get across publicly should be the same as on previous occasions viz:

- i. the refunds are coming through as agreed;
- ii. they are enabling public expenditure programmes in general to be maintained at a higher level than the country could otherwise have afforded;
- iii. they do not, however, open the way to increases in domestic public expenditure programmes beyond the levels already planned.

RESTRICTED

I am copying this letter to the Private Secretaries to the Prime Minister, the Secretary of State for the Home Department, the Chancellor of the Exchequer, the Foreign Secretary, the Lord Privy Seal, the Lord President of the Council, the Secretary of State for Industry, the Secretary of State for Energy, the Secretary of State for Employment, the Minister of Agriculture, the Secretary of State for the Environment, the Secretaries of State for Scotland, Wales and Northern Ireland, the Secretary of State for Social Services, the Minister of Transport and Sir Robert Armstrong.

Yours ever,
Stephen

S A J LOCKE
Private Secretary

RESTRICTED
(until release, then unclassified)

25 March 1981

EUROPEAN COMMUNITY BUDGET REFUNDS

FURTHER PAYMENTS TO THE UNITED KINGDOM UNDER THE "SUPPLEMENTARY MEASURES" SCHEME

The Commission has today announced further decisions on payment of the United Kingdom's budget refunds. The United Kingdom is to receive in the next few days a further instalment of some £276.2 million under the "supplementary measures" scheme. This will bring our cumulative receipts under the 30 May budget refunds agreement to nearly £645 million, of which £434 million has been paid under the supplementary measures scheme and £211 million under the financial mechanism. These refunds represent 81.6 per cent of our assumed gross entitlement for 1980 in the case of the supplementary measures scheme and 75 per cent in the case of the financial mechanism.

The supplementary measures scheme provides for contributions by the Community in respect of public sector investment programmes in the United Kingdom, principally in the regions. Decisions announced by the Commission in December provided for Community contributions of £177.3 million in respect of programmes in Wales and North-West England. The decisions announced today provide for the Community to contribute ^{a total of} £306.8 million in respect of the current year's investment programmes by central government and public corporation spending authorities in Northern Ireland, Scotland, the North of England, South West England and Yorkshire and Humberside. The accompanying table shows the breakdown between these regions. The percentage figures show the Community contribution as a proportion of total estimated expenditure in 1980-81 on the programmes concerned.

COMMUNITY CONTRIBUTIONS IN RESPECT OF UK PUBLIC EXPENDITURE PROGRAMMES 1980/81

	Northern Ireland		Scotland		North		South-West		Yorkshire & Humberside		Total
	£m	%	£m	%	£m	%	£m	%	£m	%	£m
Roads	16.9	40	23.1	30	9.0	30	-	-	5.1	30	54.1
Rail	0.8	40	17.4	30	11.1	30	1.8	30	13.5	30	44.6
Water and Sewerage	10.3	40	-	-	18.9	30	5.7	30	21.3	30	56.2
Advance factories	2.5	20	6.1	20	-	-	-	-	-	-	8.6
Land reclamation	0.2	20	3.6	20	-	-	-	-	-	-	3.8
Telecommunications	19.6	40	36.5	30	18.9	30	7.8	30	38.7	30	121.5
Housing	18.0	20	-	-	-	-	-	-	-	-	18.0
TOTAL	68.3	-	86.7	-	57.9	-	15.3	-	78.6	-	306.8

The supplementary measures regulation provides that a down-payment of 90 per cent of agreed contributions may be made before certification that the expenditure in question has been carried out. Pending certification, the total amount now payable in respect of the five programmes is therefore 90 per cent of £306.8 million, ie. £276.2 million. As announced previously, similar payments totalling £157.9 million were made on 31 December and 2 February in respect of programmes for Wales and North West England. The remaining 10 per cent of the Community contributions in respect of all these programmes will be payable when the public authorities concerned have certified that the expenditure in question has been carried out.

The Community budget refunds are enabling public expenditure programmes generally in the United Kingdom to be sustained at levels higher than the country could otherwise have afforded. Expenditure programmes throughout the country are benefiting accordingly. The refunds do not, however, open the way to increases in domestic expenditure programmes beyond the levels already planned. These planned levels were set on the assumption that substantial refunds would be received from the Community budget.

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PRESS OFFICE

HM TREASURY

PARLIAMENT STREET

LONDON SW1P 3AG

01-233-3415

INVESTMENT PROGRAMMES AND APPROVAL PROCEDURES1. Approval procedures

In accordance with the supplementary measures regulation adopted on 27 October, the British Government invites the Community to participate in the financing of a range of programmes of eligible public sector investments in the UK, broken down by regions and investment category. The Commission proposes a choice of programmes and a level of Community participation in each for the financial year in question. These proposals are considered by an ad hoc committee of member states chaired by a Commission representative and are adopted unless a qualified majority of member states vote for rejection.

2. Why such a complicated procedure? Why not a cheque in favour of the UK?

The procedure is admittedly somewhat complicated. It reflects the outcome of negotiations with other member states and the Commission over a considerable period.

3. What if the ad hoc committee rejects?

The Commission can refer the matter to the Council within a month. If the Council has not taken a new decision within two months of this reference, the Commission's original proposal prevails.

4. Eligible categories of investment

The Council has agreed that the categories of investment eligible for Community support under the regulation should include energy supply, transport and communications, telecommunications, water supply and sewerage, land reclamation, and advance factories. Housing and urban renewal programmes are also eligible where these form an integral part of an economic development programme.

5. Why no local authority programmes?

As explained to local authority associations in August, the Government invited Community support in respect of central government and public corporations' investment programmes, not local authority programmes. We are anxious to keep to a minimum the administrative

burden associated with the refunds. It would in the Government's view have been wrong to set up a large administrative apparatus for the scheme, covering a large number of public sector authorities, particularly given its uncertain duration. There is no question of discrimination against local authorities. (See also Supplementary Brief 8, Points 1 and 2).

6. UK programmes or Community programmes?

The Community will be contributing to the financing of public expenditure programmes planned by public authorities in the UK and proposed by the Government for Community support. The Government will continue to decide the allocation of public expenditure between individual programmes.

7. Community powers over money once paid over

If a programme departs substantially from the plan originally submitted to the Commission, the Commission may suspend any payments still due and sums already paid may be reallocated to other sub-programmes. In such cases, the money due would not be forfeited but would be applied to another programme. A similar adjustment would be made if it turned out, because of the pattern of expenditure on a programme, that the Community contribution had risen above 70 per cent of the total cost of the programme.

8. Publication of programmes

Summaries of the programmes submitted by the British Government for Community support under the scheme have been placed in the House of Commons and House of Lords Libraries and are available on request from the address given in the Press Notice.

9. How are the programmes submitted for Community support affected by the public expenditure changes announced on 24 November?

The UK public expenditure figures shown for 1981/82 and 1982/83 in these programmes are provisional planning figures, based on and very similar to, the plans published in the March 1980 Public Expenditure White Paper, Cmnd 7841. They do not take account of the changes in expenditure programmes announced by the Chancellor of the Exchequer on 24 November 1980, nor of the Government's decisions

public expenditure in 1982/83 published on 10 March in the 1981 Public Expenditure White Paper, Cmnd 8175. It is not possible to say at this stage to what extent, if at all, the figures will be affected by these changes.

The expenditure figures for all years in these programmes are expressed at estimated 1980/81 outturn prices (a more up-to-date price basis than that used in Cmnd 7841).

10. If there are cuts in the expenditure programmes put forward by the UK for Community support, do we then receive less refunds?

No. Calculation of our total refund entitlement was settled on 30 May and is not affected by changes in UK public expenditure programmes.

H M Treasury

DOMESTIC POLICY ASPECTS

1. Additionality

There is additionality in the important sense that the refunds are making possible a higher level of public expenditure in the regions and elsewhere than would otherwise have been possible. Both the participating authorities and other spending authorities are gaining the advantage of a higher level of expenditure than the country could otherwise have afforded.

The scheme does not, however, open the way to increases in expenditure by participating authorities beyond the levels already planned. In that sense there is no additionality.

2. Will the participating regions and programmes benefit?

Yes - in the important sense explained in answer to question 1 above.

3. How can the refunds both enable a higher level of public expenditure and reduce the PSBR? (cf Prime Minister's answer on 3 June).

There is no inconsistency here. The refunds are reducing the PSBR. Without them, further cuts in domestic expenditure programmes would have been needed to reduce the PSBR.

4. Implications for regional policy?

The Government's regional policies are in no way affected by this scheme. The Government remains totally responsible for these policies. The Community will be contributing finance in respect of programmes, principally in the regions, planned by public authorities in the UK and proposed by the Government for Community support.

5. What other programmes have been submitted?

There are eight programmes in all. The Commission's decisions on Community support for the Wales and North-West Programmes were announced in December. The latest batch of decisions cover the five remaining regional programmes (Northern Ireland, Scotland,

the North, the South West and Yorkshire and Humberside). There is also a Special Roads Programme, which has not so far been the subject of a Community grant decision.

6. Why Wales and the North West first?

The order of consideration of programmes in Brussels has no significance. Community contributions in respect of two programmes had to be agreed in December so as to enable the Commission to make us advance payments under the scheme.

7. Payments arrangements

The Community payments will be made to the Government Departments with policy responsibility for the investment programmes concerned (see Supplementary Brief 9).

PAYMENT AND ACCOUNTING ARRANGEMENTS

1. Payment arrangements

Community payments under the scheme made to the Government Departments with policy responsibility for the investment programmes concerned. The payments which are to be made this month total some £276.2 million and represent 90 per cent of the total Community grants agreed in respect of the five programmes (shown in the table included in the press release and written Parliamentary answer.) The balance is payable when the public authorities concerned have certified that the expenditure in question has been carried out. Thus the Northern Ireland and Scottish Offices and the Departments of the Environment, Industry and Transport will receive this month 90 per cent of the agreed Community contributions in respect of the sub-programmes for which they have policy responsibility.

/ONLY IF PRESSED/

2. Does this mean that the spending authorities immediately concerned will not receive the Community money?

That depends on the programme. The payments will, as stated, be made to the appropriate Government Departments. In some cases these Government Departments are in fact the responsible spending authorities. In other cases, where the immediately responsible spending authority is a public corporation, payment will be made to the relevant Government sponsor Department.

/ONLY IF PRESSED/

3. Accounting arrangements

In all cases, Government Departments will formally account for the payments as Consolidated Fund Extra Receipts, and they will be paid, like other receipts, into the Consolidated Fund. This procedure is in accordance with the Government's established accounting procedures, and in particular with the European Communities Act, 1972, Section 2(3), which provides that the Consolidated Fund should be used for payments to, and receipts from, the Community.

/ONLY IF PRESSED/

4. Why can the Government or the Community not pass the monies direct to the public corporations concerned?

The Government attaches the highest importance to firm control of public expenditure and fair treatment as between different public spending authorities, with a minimum of bureaucratic complexities. It would not be compatible with these objectives for extra sums on the scale involved here to be paid direct to a considerable number of public corporations. A standard accounting procedure is laid down in any event in the European Communities Act, 1972.

We have also agreed with other member states that payments under the scheme must not be allowed to distort competition with the Community contrary to the proper functioning of the Common Market. It would be difficult to be certain of carrying out that undertaking if the monies went direct to individual public corporations.

/Some Community payments are admittedly paid direct already to public sector bodies other than Government Departments, and indeed to the private sector. But this is a departure from established practice which the Government does not want to extend, and the amounts involved are relatively small./



H. M. TREASURY

Parliament Street, London SW1P 3AG, Press Office: 01-233-3415
Telex 262405

25 March 1981

EUROPEAN COMMUNITY BUDGET REFUNDS

FURTHER PAYMENTS TO THE UNITED KINGDOM UNDER THE "SUPPLEMENTARY MEASURES" SCHEME

The Commission has today announced further decisions on payment of the United Kingdom's budget refunds. The United Kingdom is to receive in the next few days a further instalment of some £276.2 million under the "supplementary measures" scheme. This will bring our cumulative receipts under the 30 May budget refunds agreement to nearly £645 million, of which £434 million has been paid under the supplementary measures scheme and £211 million under the financial mechanism. These refunds represent 81.6 per cent of our assumed gross entitlement for 1980 in the case of the supplementary measures scheme and 75 per cent in the case of the financial mechanism.

The supplementary measures scheme provides for contributions by the Community in respect of public sector investment programmes in the United Kingdom, principally in the regions. Decisions announced by the Commission in December provided for Community contributions of £177.3 million in respect of programmes in Wales and North-West England. The decisions announced today provide for the Community to contribute ^{a total of} £306.8 million in respect of the current year's investment programmes by central government and public corporation spending authorities in Northern Ireland, Scotland, the North of England, South West England and Yorkshire and Humberside. The accompanying table shows the breakdown between these regions. The percentage figures show the Community contribution as a proportion of total estimated expenditure in 1980-81 on the programmes concerned.

COMMUNITY CONTRIBUTIONS IN RESPECT OF UK PUBLIC EXPENDITURE PROGRAMMES 1980/81

	Northern Ireland		Scotland		North		South-West		Yorkshire & Humberside		Total
	£m	%	£m	%	£m	%	£m	%	£m	%	£m
Roads	16.9	40	23.1	30	9.0	30	-	-	5.1	30	54.1
Rail	0.8	40	17.4	30	11.1	30	1.8	30	13.5	30	44.6
Water and Sewerage	10.3	40	-	-	18.9	30	5.7	30	21.3	30	56.2
Advance factories	2.5	20	6.1	20	-	-	-	-	-	-	8.6
Land reclamation	0.2	20	3.6	20	-	-	-	-	-	-	3.8
Telecommunications	19.6	40	36.5	30	18.9	30	7.8	30	38.7	30	121.5
Housing	18.0	20	-	-	-	-	-	-	-	-	18.0
TOTAL	68.3	-	86.7	-	57.9	-	15.3	-	78.6	-	306.8

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The Community budget refunds are enabling public expenditure programmes generally in the United Kingdom to be sustained at levels higher than the country could otherwise have afforded. Expenditure programmes throughout the country are benefiting accordingly. The refunds do not, however, open the way to increases in domestic expenditure programmes beyond the levels already planned. These planned levels were set on the assumption that substantial refunds would be received from the Community budget.

Projects which form part of the programmes in Northern Ireland now attracting support under the supplementary measures scheme include the construction of a new road linking the M1 and M2 in Belfast, the provision of a new bridge across the River Foyle at Londonderry and improvement of the Lagan Valley sewer. Also attracting Community support are a £90 million programme to provide new and improved housing, particularly in Belfast, Londonderry and Lisburn, and wide-ranging investment programmes on telecommunications, rail, advance factories and land reclamation.

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VMS

Foreign and Commonwealth Office
London SW1

20 March 1981

Mr Nigel

HOUSE OF COMMONS SCRUTINY COMMITTEE:
RECOMMENDATIONS ON COMMUNITY BUDGET DOCUMENTS

Thank you for your letter of 9 March to Peter Carrington about the Scrutiny Committee's recommendations for debating documents relating to the 1980 and 1981 Community budgets and to the Supplementary Measures scheme. *will request of republic*

Given the terms of reference of the Scrutiny Committee, it would be procedurally wrong to agree to debate the supplementary measures documents as such and I agree that we should not anyway welcome a debate either on this subject or on the 1980 and 1981 budgets. I expect that we shall shortly have a chance to discuss this in 'L' Committee, but I think that your suggestion that we combine the budget documents with the Court of Auditors' report is a good one. The report covers the whole range of Community policies and would allow a more general debate.

Incidentally, I think that in the penultimate line of your draft letter to Julius Silverman "1982" must be an error for "1981".

I am copying this letter to the recipients of yours.

Yours
Law

The Rt Hon Nigel Lawson MP
Financial Secretary
Treasury Chambers
Parliament Street
London SW1P 3AG

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

Cund. 8187: Statement on the 1981
Community Budget. HMSO, March 1981

Signed AWayland Date 4 April 2011

PREM Records Team

Also copied to
 Europa Bly
 Pt 17

Ref. A04494

PRIME MINISTER

Cabinet: Community Affairs

The Chancellor of the Exchequer might be invited to report on the outcome of the 16 March Finance Council. The Council gave a useful political push to further progress on the liberalisation of insurance services. But, although the Chancellor and his German colleague pressed for a markedly lower growth rate of agricultural expenditure (and Mr Walker did likewise in the Agriculture Council), no agreement was reached on a financial ceiling formula. The question will be taken up again at the April Finance Council.

2. The Minister of Agriculture might report on the 16 March Agriculture Council, which had a first reading of the Commission's CAP prices and economies proposals and resolved to meet again on 30/31 March with the aim of concluding the price fixing.

3. The Foreign and Commonwealth Secretary might be invited to report on the 16/17 March Foreign Affairs Council. At German insistence much of the Council was devoted to discussion of a marketing package designed to enable the United Kingdom reserve on the EC/Canada fisheries agreement to be lifted. The Commission were asked to put detailed proposals forward by the end of this week. Among other decisions, the Council agreed proposals for a common format passport, subject to clearance of technical points in COREPER, with a satisfactory let-out for the United Kingdom on the date of introduction; agreed a Presidency statement on Spanish accession, which later drew a reply from the Spaniards asking for the Community's political support to be translated into rapid progress in the accession negotiations; and asked the Commission to keep the pressure up on United States gas controls and textile exports.

4. OD will have met before Cabinet to discuss a possible linkage between the CAP price fixing negotiations and fish. You might wish to inform the Cabinet of any decisions taken, stressing the need for the strictest confidentiality.

5. Next week the European Council meets in Maastricht on 23/24 March; and the Steel and Transport Councils meet on 26 March.

RA

ROBERT ARMSTRONG

18 March 1981

Ref: A04448

CONFIDENTIAL

Europe
Bligh

PRIME MINISTER

Community Affairs

You will wish the Minister of Agriculture to report on the outcome of the 10th March Fisheries Council which followed the Foreign and Commonwealth Secretary's meeting with Monsieur Thorn on 9th March. The Council reached no agreement either on a comprehensive settlement or on the agreement with Canada. Discussion will be resumed on 6th-7th April. The Federal Chancellor is likely to raise fish at the Maastricht European Council, unless a solution on Canada has been found.

2. OD will have met before Cabinet to discuss our objectives and tactics for the 1981 CAP price fixing negotiations. You might wish to inform the Cabinet of the main decisions reached.

3. Next week the Agriculture, Finance and Foreign Affairs Councils all meet during the period 16th-17th March.

RIA

(Robert Armstrong)

11th March 1981

CONFIDENTIAL

Background and Purpose of White Paper

1. Q Why is a new White Paper required, and why has the Government chosen to publish it now?

A The White Paper is being published now to meet a request made in the 28th PAC Report. The Treasury minute (Cmd 8125) replying to this Report agreed to provide the information in the White Paper as soon as possible after the adoption of the Community Budget.

2. Q Didn't the PAC Report criticise the confusing variety of forms in which statistics about the Community Budget are presented to Parliament?

A Yes. We hope that the presentation in this new White Paper will be an improvement in the situation.

3. Q What other forms of presentation are available?

A The Consolidated Fund Accounts record payments of UK own resources (ie. levies, duties, and VAT) and certain other payments and receipts to and from the European Communities. The main statement about the UK contributions and receipts to the Community is in the Annual Public Expenditure White Paper, but this presentation does not provide detailed information about the Community Budget as a whole. All the main Budget documents are presented to Parliament with explanatory memoranda throughout the Budget cycle and this represents a great mass of information. Replies to Parliamentary Questions provide Parliament with supplementary material.

UK Net Contribution and Special Refunds

4. Q Why is a global estimate given for receipts from the EAGGF, Social Fund, Regional Fund and Miscellaneous Receipts?

A Forecasts of receipts are highly uncertain and particularly so in the case of receipts from individual Budget Funds; for this reason it has not been the practice to publish such a forecast. Figures for 1980-81 showing the breakdown by Budget Fund will be included in the Public Expenditure White Paper.

5. Q Would you please explain in more detail the four differences between the net contribution figure of £571 million in Table II and the figure of £500 million in the Public Expenditure White Paper?

- A (i) The 1981 budget figures in Table II for refunds to the UK under the Financial Mechanism and Supplementary Measures Refunds are the appropriations entered in the 1981 Budget which, for the most part, relate mainly to UK contributions to the 1980 Budget. The new presentation in the Public Expenditure White Paper will show the refunds against the Budget years to which they relate.
- (ii) The figure of £500 million in the Public Expenditure White Paper is based on a UK forecast of the final outcome of the 1981 Budget, whereas the figure of £571 million in Table II is based on the Budget as adopted. [The point being that the final Budget is usually different from the adopted Budget. See Question (ii) about cap price increases.]
- (iii) The Public Expenditure White Paper figure of £500 million includes a VAT adjustment in respect of 1981, whereas the figure of £571 million in Table II does not. The VAT base and relative VAT shares in the Budget which determine the level of payments by Member States throughout the year are based on provisional estimates which are later revised. Also the actual payments in terms of ecus depend on changes in Exchange Rates throughout the year. These factors mean that there can be a significant difference between estimates of VAT in the Budget and final amounts paid in respect of that Budget.
- (iv) Different Exchange Rates have been used in the two White Papers. A rate of 1.59 has been used in this White Paper for 1981 compared with a rate of 1.78 in the Public Expenditure White Paper [the latter rate in the average for the last quarter of 1980]

6. Q Is the Government Satisfied with the UK's Net Contribution?

- A It is much lower than it would have been without the 30 May Agreement. But it is now crucial to build on what has been achieved to settle the Budget problem once and for all. The 30 May Agreement gave a mandate to the Commission to report on options for restructuring the Community Budget by June this year.

7. Q How do the White Paper figures for Budget refunds square with the sums of £710 million and £860 million announced at the time of the Agreement?

A The White Paper figures are fully consistent with those announced previously. The £710 million and £860 million were the sterling equivalents at the rate of exchange then current (1.65 ECU/£) of the net refunds agreed in terms of units of account. We have to contribute to the financing of our own refunds, as with other Community expenditure, so the gross amounts entered in the Budget and paid to us are correspondingly increased. There are also timing differences since some of the refunds take the form of advance payments charged to the Budget of the year in respect of which they are payable.

8. Q Can you explain this in more detail?

A The Budget Agreement was based on Commission estimates of the UK's net contribution to the 1980 and 1981 Budgets. On this basis, it was agreed that the UK should receive net refunds of 1175 million ecus and 1410 million ecus, respectively, and more if the Commission's estimates were exceeded. The refunds come in two forms: payments under an amended Financial Mechanism and, for the balance, through increased Community spending in the UK in support of certain domestic capital expenditure programmes (supplementary measures). As agreed by the Council, UK will receive 75% of its gross entitlement under the Financial Mechanism and not less than 80% under supplementary measures before the end of the corresponding financial year (ie. 1980/81 in respect of 1980). The figures entered in the 1981 Budget also allow for the fact that part of the 80% comes in the form of advance payments which are charged to the Budget of the year in respect of which they were paid. Almost 200 million ecus of our refund for 1980 was charged to the 1980 Budget on that account. The Budget entries in ecus have been converted into £ in the White Paper at the 1981 Budget rate of 1.58894 ecu/£.

9. Q What effect does a higher £ exchange rate have on our net contribution?

A It reduces the sterling value of the refund instalments but tends also to reduce our unadjusted net contribution.

10. Q Why is the UK's net contribution to the 1981 Budget so high? Did the Budget Agreement not imply a figure of £440 million?

10. A There are a number of reasons for this. First of all, the White Paper figure takes account of our contribution to the so called 'unallocated Budget' (mostly Community overseas aid expenditure) which was not covered by the Budget Agreement. Secondly, the 1981 Budget in the main provides only for our refunds payable in respect of 1980. The figure of £440 million represented our estimated net contribution after taking account of the higher refunds payable in respect of 1981 but chargeable in the main to the 1982 Budget. Another factor is the convention of using the exchange rate from the 1981 Budget.

Cost of the Cap and Miscellaneous Points

11. Q What assumptions have been made about the Cap price fixing in the figures in Table I?

A The 1981 price fixing negotiations take place after the Community Budget has been adopted. The figures in the Table record the figures in the Budget and therefore make no allowance for the effect of the price fixing negotiations.

NB Further defensive briefing on the CAP will be provided separately.

Points on Budget Items

12. Q Would you please explain the entry of provisional refunds to the Greece in Table I?

A Yes. Under the terms negotiated for Greek accession, a reducing proportion of GNP or VAT contributions made by Greece will be refunded. The proportion in 1981 is 70%; in successive years the proportion will be 50% 30%, 20% and 10%.

13. Q Why does Greece make GNP contributions instead of VAT contributions?

A Time is required for a new Member State to implement the full own resources system; in particular National Legislation will be required before Greece can make VAT contributions.

14. Q What is the own resources refund?

A Member States are refunded 10% of their contributions of levies and duties

to pay for the administrative costs of collecting own resources on behalf of the Community.

15. Q What is the EMS interest rate subsidy?

A Interest rate subsidies on Community loans are given to less prosperous countries participating in the European Monetary System. The loans must be granted for investment projects in the countries concerned (ie. Italy and Ireland). The UK does not participate in the European Monetary System and therefore receives a refund of contributions towards the interest rate subsidies.

16. Q How are the levies and duties and VAT figures in Table II calculated?

A Forecasts of levies duties are agreed between Member States and the Commission. The size of the Community VAT base and the relative shares of Member States are similarly agreed. After allowing for miscellaneous revenue, the difference between total payment appropriations and levies and duties is financed by VAT contributions. The amount of VAT paid by each Member State is proportional to its relative share of VAT. Shares of VAT are determined in relation to a harmonised VAT base and depends on the level of consumption in the Member State.

17. Q Would you please explain why the figures in the White Paper are denominated in ecus rather than eua?

A Yes. The Financial Regulation governing the Community Budget was amended on 16 December 1980 replacing the eua by the ecu. The purpose of the change was to standardise the units of account used by the Communities. The composition of the ecu remains the same as the eua but it may be changed in the context of the European Monetary System.

18. Q Why have the ecu figures been converted to sterling at the rate applying on the 1 February 1980?

A The figures in the 1981 Community Budget are based on Exchange Rates at 1 February 1980, and this rate will apply throughout the 1981 Budget cycle, in presenting information about Community Budgets to Parliament this convention is usually applied.



with compliments

Private Secretary to the
CHANCELLOR OF THE DUCHY OF LANCASTER
70 Whitehall London SW1A 2AS
Telephone 01-930 5422

Euro 1981



PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

Chancellor of the Duchy of Lancaster

9th March 1981

Dear Worsnop

2

Developments in the European Communities
July-December 1980

Thank you for copying your letter to Nick Sanders of 27 February to Robin Birch, (Robin has now left this office and has been replaced by David Heyhoe).

I confirm we have no objection to what you propose.

Copies of this letter go to Nick Sanders (No 10) and Peter Moore (Chief Whip's Office).

Yours sincerely

N P M HUXTABLE
Private Secretary

E R Worsnop, Esq
Parliamentary Clerk
FCO
London



Euro PD
cf. Euro PD: CAP: Pt 7

CONFIDENTIAL

PRIME MINISTER

Community Affairs

You might wish the Minister of Agriculture to comment on the surprising but welcome outcome of the 23rd-24th February Agriculture Council, which reached agreement - subject to an Italian reserve - on New Zealand butter, in a package covering also sugar, beef and structural aids. The Italians have until 10th March to lift their reserve.

2. The Minister of Agriculture might report on his talks on fisheries with Commissioner Kontogeorgis on 2nd March and with Herr Rohr, the German State Secretary, on 3rd March; and the prospects for the Fisheries Council on 9th-10th March.

3. The Secretary of State for Industry might report on the 3rd March Steel Council, which worked out a satisfactory resolution laying down guidelines for further restructuring of the Community steel industry. The guidelines, which will need to be filled out for detailed decisions at a further Council on 26th March, provide for the existing production controls to be replaced by voluntary arrangements, for more energetic use of the Commission's powers to restore competitiveness, and for all State aid to the industry to be phased out by July 1983.

4. The Secretary of State for Energy might be invited to report on the 3rd March Energy Council, at which Mr. Lamont emphasised the need for economic energy pricing and pressed the Commission to investigate electricity pricing practices in France and Germany. He also urged the need for more investment in coal production. The Council agreed that the Commission should continue their study of a possible mutual aid measure in a sub-crisis.

5. OD will consider CAP prices on 12th March.

(Robert Armstrong)

4th March 1981

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PART 10 ends:-

27. 2. 81

PART 11 begins:-

4. 3. 87