PREM 19/742

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PART 18

CONFIDENTIAL FILING

THE COMMUNITY BUDGET

DEVELOPMENTS IN THE EUROPEAN COMMUNITY

EUROPEAN POLICY

PT 1: MAY 1979

PT 18: JULY 1982

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~23.7.82~~		3.11.82					
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PREM 19/742

European Communities Act 1972 filed in attached folder.

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not present.

PART 78 ends:-

3 - 11 - 82

PART 79 begins:-

4 - 11 - 82

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
EQS(82) 24	23.7.82
EQS (82) 22	28.7.82
EQS (82) 25	27.8.82
EQS (82) 26	9.9.82
CC(82) 41st Conclusions, Minute 2	9.9.82
EQS (82) 27	21.9.82
EQS (82) 28	27.9.82
CC(82) 42nd Conclusions, Minute 3	30.9.82
EQS (82) 29	7.10.82
EQS (82) 31	13.10.82
OD(82) 68	14.10.82
OD(82) 69	15.10.82
CC(82) 44th Conclusions, Minute 3	21.10.82
CC(82) 45th Conclusions, Minute 4 (extracts)	28.10.82

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 28 August 2012

PREM Records Team

Euro Pol, Budget

Euro. Pol.

Ref. A09975

PRIME MINISTER

Cabinet: Community Affairs

Unless it has already been covered under Foreign Affairs, you may like to inform the Cabinet of the Community aspects of your talks with Chancellor Kohl at the Anglo-German Summit meeting on 28-29 October.

2. There have been no other EC Ministerial meetings during the last week. The Minister of Agriculture, Fisheries and Food may, however, wish to refer to the continued pressure which has been put on the Danish Government to agree to the revised proposals for a Common Fisheries Policy and to assess the prospects for the forthcoming Fisheries Council meeting. He may also report that the Commission have imposed a fresh deadline of 9 November for the introduction of the United Kingdom's new poultry import regime, after which they intend to open infraction proceedings.

3. You will be meeting President Mitterrand at the Anglo-French Summit meeting on 4-5 November. The Research Council meets on 4 November, the Fisheries and Development Councils on 8 November and the Energy Council on 9 November.

Approved by
ROBERT ARMSTRONG
and signed in his absence

3 November 1982

PRIME MINISTER

EC BUDGET: MR. TUGENDHAT

You said that you wanted to speak to Mr. Tugendhat about the Commission's role in the Budget negotiations. He was in London on Monday and Tuesday of this week, but you were not able to see him then owing to the state of your diary.

The Commission will meet on 13/14 November to consider the Budget problem. If a discussion with Mr. Tugendhat is to take place, it should ideally happen before Mr. Pym sees Thorn on 11 November.

I attach an account of Mr. Hurd's conversation with Mr. Tugendhat on 2 November.

In the light of this:

(a) Do you still wish to see him (in which case we shall have to try to get him over early next week)? No

(b) Or would you be prepared to speak to him on the telephone? Yes

MT

A.S.C.

MT 5/11

3 November 1982

CONFIDENTIAL

Foreign and Commonwealth Office

London SW1A 2AH

3 November 1982

Dear John,

UK Budget Contribution

I enclose a telegram recording a conversation between Mr Hurd and Mr Tugendhat on 2 November.

Mr Pym suggests that it might be helpful for the Prime Minister to see this telegram before she talks to Mr Tugendhat (my letter of 1 November refers).

Yours ever

Roger Bone

(R B Bone)
Private Secretary

A J Coles Esq
10 Downing Street

CONFIDENTIAL

OUT TELEGRAM

Classification and Caveats	Precedence/Deskby
CONFIDENTIAL	IMMEDIATE

ZCZC
GRS
CLASS
CAVEATS
DESKBY
FM FCO
PRE/ADD
TEL NO

ZCZC
GRS
CONFIDENTIAL

FM FCO
TO IMMEDIATE UKREP BRUSSELS AND TO ROUTINE EC POSTS
TEL NO

Mr Tugendhat called on Mr Hurd this morning to discuss the UK budget problem and the Review. As Mr Tugendhat was unaccompanied, he has asked if we could provide him with a record of the meeting, in particular setting out clearly the points made to him about what we would like to see in the Community's paper on the British budget problem. Please therefore pass a copy of this telegram to Mr Tugendhat.

2. Mr Tugendhat said that, from his reading of the British press following the Luxembourg FAC, he had gained the impression that we would not be pressing for a settlement of the question of 1983 and later contribution until after the FRG elections in March. Mr Hurd firmly disabused him of this idea and said that he hoped to visit Bonn later this month for discussions with Dr Mertes and that Dr Mertes had been invited to visit London for further talks in December.

3. Mr Hurd made the following points to Tugendhat:

i. it was essential that the Commission produce their paper

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File number	Dept	Distribution: FRAME ECONOMIC, ECD(I)
Drafted by (Block capitals): D H A HANNAY		
Telephone number: 233 3326		
Authorised for despatch		
Comcen reference	Time of despatch	

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before the 30 November deadline, and that the Foreign Affairs Council on 22 November be given an opportunity to discuss it; if no Commission paper came forward before the deadline, the Government would be bound to criticise the Commission directly;

ii. It was important to get on negotiating a lasting solution to the British budget problem thereafter. Whether or not it was possible to reach a solution before the German elections remained to be seen. But we were likely to press at the November FAC and the Copenhagen EC for a timetable for negotiation.

iii. At this stage we were inclined to agree that it was not desirable for the Commission to propose figures for the 1983 and later settlement. There was a real risk that any figures put forward, taking account of the 'overpayment' question, would be unacceptably low. It might be better to argue for a formula along similar lines to that used in 1980-82 ie refund of a proportion of a Commission estimate of the UK unadjusted net contribution (66%) with upward and downward risk sharing.

iv. It would be helpful if the Commission could re-emphasise the analysis in its June 1981 mandate paper that the UK problem was not a transitional one deriving from a failure to adapt, but structural and requiring a lasting solution. This would help to counter arguments for degressivity in any refund system.

v. On duration it would help if the Commission made clear that the arrangement would need to run so long as a fundamental change in the Community's financing was not agreed.

vi. Assuming that the 'overpayment' issue had to be mentioned, it would be helpful if three particular points could be made in the Commission paper:

a. the 1980/81 payments were legal;

b. any adjustment to our refunds to take account of an unexpectedly low net contribution in 1981 must be a political decision and could not be usefully addressed by mathematical

Classification and Caveats		Page
CONFIDENTIAL		3

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or legalistic means;

c. a solution to the 'overpayment' question must be part of an overall settlement in 1983 and later and could not be agreed in advance.

4. On the question of Review, which Mr Tugendhat said would certainly be proposed by the Commission, Mr Hurd said we remained deeply sceptical. It was important that any proposals should deal with the question of equitable burden sharing and should not prejudge the desirability of creating new own resources. It was also important to ensure that the Commission did not give the impression that the British budget problem could be solved easily by expanding the Community's non-agricultural spending policies. A direct adjustment mechanism should not be precluded.

5. Mr Tugendhat replied that he hoped to see progress on 1983 and later as soon as possible, but thought that the Germans might be more amenable to a settlement after their March elections. The Commission would be considering the UK budget-contributions and the Review during the weekend 13/14 November, and a document would certainly be produced in time for the November FAC. He sympathised with our ~~scepticism~~ concern about the terms of reference about a review and was not optimistic that it would solve by structural means the underlying problems causing the British overpayments. It might however dispose of the belief some of our partners had that an increase in own resources would in itself solve the UK's problem. Our partners would have to be made aware that there was no easy way of solving this problem and this might bring them back to acceptance of a direct budget adjustment mechanism on a lasting basis.

6. Copy recipients should treat the above as for their information only.

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OO UKREP BRUSSELS
GRS 783
CONFIDENTIAL
FROM F C O 0211839Z NOV 82
TO IMMEDIATE UKREP BRUSSELS
TELEGRAM NUMBER 775 OF 2 NOVEMBER.
AND TO ROUTINE E.C. POSTS.

1. MR TUGENDHAT CALLED ON MR HURD THIS MORNING TO DISCUSS THE UK BUDGET PROBLEM AND THE REVIEW. AS MR TUGENDHAT WAS UNACCOMPANIED, HE HAS ASKED IF WE COULD PROVIDE HIM WITH A RECORD OF THE MEETING, IN PARTICULAR SETTING OUT CLEARLY THE POINTS MADE TO HIM ABOUT WHAT WE WOULD LIKE TO SEE IN THE COMMUNITY'S PAPER ON THE BRITISH BUDGET PROBLEM. PLEASE THEREFORE PASS A COPY OF THIS TELEGRAM TO MR TUGENDHAT.

2. MR TUGENDHAT SAID THAT, FROM HIS READING OF THE BRITISH PRESS FOLLOWING THE LUXEMBOURG FAC, HE HAD GAINED THE IMPRESSION THAT WE WOULD NOT BE PRESSING FOR A SETTLEMENT OF THE QUESTION OF L983 AND LATER CONTRIBUTION UNTIL AFTER THE FRG ELECTIONS IN MARCH. MR HURD FIRMLY DISABUSED HIM OF THIS IDEA AND SAID THAT HE HOPED TO VISIT BONN LATER THIS MONTH FOR DISCUSSIONS WITH DR MERTES AND THAT DR MERTES HAD BEEN INVITED TO VISIT LONDON FOR FURTHER TALKS IN DECEMBER.

3. MR HURD MADE THE FOLLOWING POINTS TO TUGENDHAT:

I. IT WAS ESSENTIAL THAT THE COMMISSION PRODUCE THEIR PAPER BEFORE THE 30 NOVEMBER DEADLINE, AND THAT THE FOREIGN AFFAIRS COUNCIL ON 22 NOVEMBER BE GIVEN AN OPPORTUNITY TO DISCUSS IT: IF NO COMMISSION PAPER CAME FORWARD BEFORE THE DEADLINE, THE GOVERNMENT WOULD BE BOUND TO CRITICISE THE COMMISSION DIRECTLY:

II. IT WAS IMPORTANT TO GET ON NEGOTIATING A LASTING SOLUTION TO THE BRITISH BUDGET PROBLEM THEREAFTER. WHETHER OR NOT IT WAS POSSIBLE TO REACH A SOLUTION BEFORE THE GERMAN ELECTIONS REMAINED TO BE SEEN. BUT WE WERE LIKELY TO PRESS AT THE NOVEMBER FAC AND THE COPENHAGEN EC FOR A TIMETABLE FOR NEGOTIATION.

III. AT THIS STAGE WE WERE INCLINED TO AGREE THAT IT WAS NOT DESIRABLE FOR THE COMMISSION TO PROPOSE FIGURES FOR THE 1983 AND

LATER SETTLEMENT. THERE WAS A REAL RISK THAT ANY FIGURES PUT FORWARD, TAKING ACCOUNT OF THE 'OVERPAYMENT' QUESTION, WOULD BE UNACCEPTABLY LOW. IT MIGHT BE BETTER TO ARGUE FOR A FORMULA ALONG SIMILAR LINES TO THAT USED IN 1980-82 IE REFUND OF A PROPORTION OF A COMMISSION ESTIMATE OF THE UK UNADJUSTED NET CONTRIBUTION (66 PERCENT) WITH UPWARD AND DOWNWARD RISK SHARING.

IV. IT WOULD BE HELPFUL IF THE COMMISSION COULD RE-EMPHASISE THE ANALYSIS IN ITS JUNE 1981 MANDATE PAPER THAT THE UK PROBLEM WAS NOT A TRANSITIONAL ONE DERIVING FROM A FAILURE TO ADAPT, BUT STRUCTURAL AND REQUIRING A LASTING SOLUTION. THIS WOULD HELP TO COUNTER ARGUMENTS FOR DEGRESSIVITY IN ANY REFUND SYSTEM.

V. ON DURATION IT WOULD HELP IF THE COMMISSION MADE CLEAR THAT THE ARRANGEMENT WOULD NEED TO RUN SO LONG AS A FUNDAMENTAL CHANGE IN THE COMMUNITY'S FINANCING WAS NOT AGREED.

VI. ASSUMING THAT THE 'OVERPAYMENT' ISSUE HAD TO BE MENTIONED, IT WOULD BE HELPFUL IF THREE PARTICULAR POINTS COULD BE MADE IN THE COMMISSION PAPER:

A. THE 1980/81 PAYMENTS WERE LEGAL:

B. ANY ADJUSTMENT TO OUR REFUNDS TO TAKE ACCOUNT OF AN UNEXPECTEDLY LOW NET CONTRIBUTION IN 1981 MUST BE A POLITICAL DECISION AND COULD NOT BE USEFULLY ADDRESSED BY MATHEMATICAL OR LEGALISTIC MEANS:

C. A SOLUTION TO THE 'OVERPAYMENT' QUESTION MUST BE PART OF AN OVERALL SETTLEMENT IN 1983 AND LATER AND COULD NOT BE AGREED IN ADVANCE.

4. ON THE QUESTION OF REVIEW, WHICH MR TUGENDHAT SAID WOULD CERTAINLY BE PROPOSED BY THE COMMISSION, MR HURD SAID WE REMAINED DEEPLY SCEPTICAL. IT WAS IMPORTANT THAT ANY PROPOSALS SHOULD DEAL WITH THE QUESTION OF EQUITABLE BURDEN SHARING AND SHOULD NOT PREJUDGE THE DESIRABILITY OF CREATING NEW OWN RESOURCES. IT WAS ALSO IMPORTANT TO ENSURE THAT THE COMMISSION DID NOT GIVE THE IMPRESSION THAT THE BRITISH BUDGET PROBLEM COULD BE SOLVED EASILY BY EXPANDING THE COMMUNITY'S NON-AGRICULTURAL SPENDING POLICIES. A DIRECT ADJUSTMENT MECHANISM SHOULD NOT BE PRECLUDED.

5. MR TUGENDHAT REPLIED THAT HE HOPED TO SEE PROGRESS ON 1983

AND LATER AS SOON AS POSSIBLE, BUT THOUGHT THAT THE GERMANS MIGHT BE MORE AMENABLE TO A SETTLEMENT AFTER THEIR MARCH ELECTIONS. THE COMMISSION WOULD BE CONSIDERING THE UK BUDGET CONTRIBUTIONS AND THE REVIEW DURING THE WEEKEND 13/14 NOVEMBER, AND A DOCUMENT WOULD CERTAINLY BE PRODUCED IN TIME FOR THE NOVEMBER FAC. HE SYMPATHISED WITH OUR CONCERN ABOUT TERMS OF REFERENCE ABOUT A REVIEW AND WAS NOT OPTIMISTIC THAT IT WOULD SOLVE BY STRUCTURAL MEANS THE UNDERLYING PROBLEMS CAUSING THE BRITISH OVERPAYMENTS. IT MIGHT HOWEVER DISPOSE OF THE BELIEF SOME OF OUR PARTNERS HAD THAT AN INCREASE IN OWN RESOURCES WOULD IN ITSELF SOLVE THE UK'S PROBLEM. OUR PARTNERS WOULD HAVE TO BE MADE AWARE THAT THERE WAS NO EASY WAY OF SOLVING THIS PROBLEM AND THIS MIGHT BRING THEM BACK TO ACCEPTANCE OF A DIRECT BUDGET ADJUSTMENT MECHANISM ON A LASTING BASIS.

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DISTRIBUTION

FRAME ECONOMIC

ECD(J)

Foreign and Commonwealth Office

London SW1A 2AH

1 November 1982

Dear John.

EC Budget: Mr Tugendhat

It was agreed at the Ministerial meeting on 20 October that the Prime Minister would speak to Mr Tugendhat about the Commission's role in the budget negotiations. We hope that this may be possible during this week. It would certainly be helpful if the interview took place before the Foreign and Commonwealth Secretary sees President Thorn on 11 November - ie just before the Commission meet on 13/14 November to discuss their budget proposals. We were asked to supply briefing and an explanation of the terms of the British Commissioners' appointments and period of office. The latter is covered in the enclosed note.

Some of Tugendhat's own thinking was reported in the letter of 19 October from John Kerr. The meeting agreed that it was suspect. In particular, we doubt very much that Tugendhat would in fact be able to persuade his Commission colleagues not to take legal action if we were to withhold in the context of the Council's failure to agree on a solution for 1983 and later. He would be even less likely to achieve this if we had not made, and been seen to make, every effort to achieve our objectives by negotiation. It is of course conceivable that our partners might 'not take it too tragically' if we withheld; it would have little financial impact on them for a year or more. But we consider it a great deal more likely that they would not take it quietly. They would see it as a chance to isolate us on a point where we would be on weak ground legally, and they would hope to reduce the pressure on them to take the politically unwelcome step of agreeing to further refunds.

When she speaks to Tugendhat, the Prime Minister will wish to urge him to make every effort to ensure that the Commission puts forward satisfactory proposals in mid-November which fulful the Community's past undertakings and meet the real needs of the situation. She will wish to explain the need for a budget solution which will last until such time as a more fundamental reform of Community finances is made as a result of enlargement or any other change in circumstances. Tugendhat may reply that such a solution is not on offer, and that the Prime Minister will need to convince him that he should not give up too easily.

/A

A particular objective for us will be to discredit the idea of degressivity. The Prime Minister could say how valuable it would be if Tugendhat could ensure that the Commission proposals reiterated the points made in its report of June last year, namely that the British problem was not one of transition or a failure on our part to adapt but derived from the structure of the Community budget and the relatively small size of our agricultural sector (I enclose a copy of the relevant section). She could encourage him to argue in the Commission that having accepted this, there was absolutely no basis to call for degressivity; if it was wrong in 1980-82 for Britain to be paying so much, then that would continue to be wrong for as long as the problem lasted.

If Tugendhat talks about the nature of the solution, the Prime Minister may wish to suggest that, since the 'objective indicator' solution recommended by the Commission in its June 1981 report did not find favour, the best way forward might be a refund arrangement 'within the same framework as in 1980-82'. (It would be best not to use a phrase like 'on the lines of the 30 May agreement' because the new French government has sharply criticised the 30 May agreement). If the Commission could persuade the November Foreign Affairs Council, or the Copenhagen Summit, to endorse a formula of that sort, that would lay the basis for a subsequent negotiation in which we could pursue our agreed objectives.

Tugendhat may raise the 'overpayments' issue. As Budget Commissioner he authorised the payment of the full refunds for 1980 and 1981, but he sometimes says things which imply that he has doubts about the validity of what he did. The Prime Minister will therefore wish to say that the payment of our 1980 and 1981 refunds was legally correct and in accordance with the 30 May agreement. She could urge Tugendhat to try to get the Commission to include that point in their report to the Council and to say that it is impossible to find any clear basis on which to calculate the amount of 'overpayment' so that it is a political and not a legal issue which must be settled in the context of a general solution. At the very least the Commission report should not suggest any tendentious interpretation of how to work out the size of the 'overpayment' and should not imply that it could be settled in advance of agreement on the arrangements for 1983 and later.

If Tugendhat asks about our own strategy, the Prime Minister might say that we intend to make every effort to secure our objectives by negotiation. If we were driven to withhold our contributions by the intransigence of the French, we would look to Tugendhat to hold off legal or retaliatory action by the Commission for as long as possible.

/If

If Tugendhat explains Commission thinking on a review, the Prime Minister will wish to say that she is not convinced of the need to review own resources and that our attitude will be determined by the purpose and nature of the review and the proposed terms of reference. Clearly there could be no prior commitment to any increase in own resources and one of the objectives would have to be to find a lasting solution to our problem.

Finally, we do not advise that the Prime Minister should seek to speak to Mr Richard on this subject. The Chief Whip has recently pointed out that he would be unlikely to be responsive to advice from HMG and might even welcome the chance to show his colleagues in the Labour Party that he was defying such advice. Sir M Butler will be able in the ordinary course of business to ensure that Mr Richard is aware of our views and will do his best to enlist his support.

I am copying this letter to John Kerr, Robert Lowson (MAFF) and Richard Hatfield (Cabinet Office).

Yours ever,

Roger Bone

(R B Bone)
Private Secretary

A J Coles Esq
10 Downing Street

CONSTITUTIONAL POSITION OF COMMISSIONERS

The constitutional position of Commissioners is defined in the 1967 Treaty Establishing a Single Council and a Single Commission of the European Communities. Article 10.2 says that:

> 'The Members of the Commission shall, in the general interests of the Communities, be completely independent in the performance of their duties.
>
> In the performance of these duties, they shall neither seek nor take instructions from any Government or from any other body. They shall refrain from any action incompatible with their duties. Each Member State undertakes to respect this principle and not to seek to influence the members of the Commission in the performance of their tasks'.

Practice in Brussels does not in fact live up to this ideal, at least in respect of seeking to influence Commissioners. But the principle that they are under an obligation not to take instructions from governments and that governments of member states are under an obligation not to seek to give them instructions, remains valid. It is therefore important that any such efforts should remain confidential and disavowable.

Article II says that:

> 'The members of the Commission shall be appointed by common accord of the Governments of the Member States.
>
> Their term of office shall be four years. It shall be renewable.'

/Mr

Mr Tugendhat is about to complete the second year of his present four year term.

41. The Commission has studied the likely consequences of its recommendations for the development of the Community budget. It is clear that their implementation could not have a significant impact for some time to come. The Commission has therefore proceeded to examine the budgetary position.

Scrutiny of the structure of expenditure[1], divided into six main categories, namely:

- administrative expenditure;
- reimbursements;
- support expenditure on certain common projects (industry, energy, research, etc.
- structural expenditure
  (ERDF, ESF, EAGGF Guidance Section, etc.);
- aid to non-member countries;
- EAGGF Guarantee Section,

shows that utilization of appropriations in the first five categories presents no particular problem for any Member State.

By contrast, an analysis of the destination of appropriations from the EAGGF Guarantee Section, which forms the bulk of the budget, shows that under present circumstances, the United Kingdom obtains a much smaller financial benefit from the CAP than the other Member States on account of the special features of its agriculture. Community solidarity demands that a remedy be found to this inequitable situation.

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[1] As identified in the reference paper presented by the Commission in 1979 (COM(79)462 of 12 September 1979).

42. The size of the imbalance to be corrected could, in the Commission's view, be assessed by comparing the United Kingdom's share of the Community's gross national product with the proportion it obtains of EAGGF Guarantee Section expenditure. On the basis of this data the amount of compensation could then be established following simple rules, using a reference period extending over several years, and with a view to a fairly high level of compensation.

43. As this compensation would be provided by the Community itself, it should be financed from the budget on the basis of the own resources system.

44. However, should this be rendered impracticable either by a delay in taking the decisions needed to create new own resources (exceeding the 1% limit on VAT) or by the current trend in budget expenditure, the Commission would envisage that consideration be given to a subsidiary measure by which the Member States which benefit more from the CAP than their British partne would demonstrate their solidarity. In practice, the compensation could be financed by Member States other than the United Kingdom via abatements on their receipts from the Community, based on the payments they receive under the EAGGF Guarantee Section. In establishing the abatement percentages, account should be taken of the proposals put forward by the Commission in this report, to the effect that Community policies must put emphasis on solidarity between the more prosperous Member States and the less prosperous (particularly Ireland, Greece and Italy).

45. The Commission considers that the new measure should apply for a limited period, but long enough for the effects of the new guidelines it proposes to be felt. The position would be reviewed before the compensation system expires, notably when a decision is taken on creating additional own resources needed to implement common policies.

Euro Pol, Budget, Pt 18

Ref. A09902

PRIME MINISTER

Cabinet: Community Affairs

The Foreign and Commonwealth Secretary will wish to report on the outcome of the Foreign Affairs Council on 25/26 October. This finally reached agreement, subject to a French reserve for three days, on the implementation of the 25 May Agreement on the United Kingdom's 1982 budget refunds. Under the settlement the United Kingdom will receive one billion écus gross before the end of 1982, three to six months earlier than originally agreed, and any payments under the risk sharing formula in 1983 rather than 1984; the net effect after our contribution to the German refund will be that the United Kingdom will receive the 850 mecus net originally agreed. The Council also agreed that the Danish Presidency should make a démarche to the Argentine on the reciprocal lifting of trade sanctions.

2. The Minister of Agriculture, Fisheries and Food will wish to report the outcome of the Fisheries Council on 25/26 October. Nine member states reached agreement on a Common Fisheries Policy package based on final compromise proposals tabled by the Commission. The Danes would not accept unless they were given a quota of 20,000 tonnes of western mackerel and seven licences in the Shetland box. They are considering their position over the next 10 days in the hope that they will be able to agree. If there is continued Danish opposition the Council will consider alternatives including national measures at its next session on 8 November.

3. The Secretary of State for Industry, in addition to noting the conclusion of the EC/United States agreement on steel imports on 21 October, may wish to report on his discussions in Brussels the same day with Commissioner Davignon on the need for a significant tightening of the voluntary restraint arrangements governing steel imports from non-Community countries, which come up for renewal at the end of the year, better policing within the Community of the mandatory production quotas and rules about pricing, and the

importance of other EC steel industries matching the restructuring which has already taken place in the United Kingdom. The Minister for Trade spoke similarly at the Foreign Affairs Council.

4. There were also meetings of Justice Ministers on 25 October and of the Standing Employment Committee on 26 October, but neither produced results of interest to the Cabinet.

5. Immediately after Cabinet E Committee will be considering papers on trade policy by the Secretary of State for Trade, the Foreign and Commonwealth Secretary and the CPRS, about the need to defend British industry in the face of protectionist trade policies against our exports. You will be meeting Chancellor Kohl at the Anglo-German Summit meeting on 28/29 October, and President Mitterrand at the Anglo-French Summit meeting on 4/5 November. The Research Council meets on 4 November.

RTA

ROBERT ARMSTRONG

27 October 1982

Euro Pol
Budget

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PRIME MINISTER

Statements: 27 October 1982

There were three statements this afternoon: Mr. Pym on the Foreign Affairs Council, Mr. Walker on the Fisheries Council and Mr. Lawson on Britoil.

The Foreign Affairs Council

The House was in a somewhat end-of-term mood.

It was pretty clear that the Opposition, led by Eric Heffer, had not grasped all the details of the agreement reached in the Foreign Affairs Council. They pointed out that the Council had not reached an agreement covering the long term, and sought to paint this as a failure. Mr. Pym pointed out in turn that arrangements for the long term had not been on the agenda of the Council, and would be discussed in November. The Opposition, aided by Nicholas Winterton, then turned to an attack on the Multi-Fibre Arrangement. From there, they moved on to call for firm action against unfair trade in the GATT Ministerial meeting, and some Opposition Members also called for mandatory Community measures on steel. This led Mr. Pym to say that a slide into protectionism would only make the recession worse. He hoped that the GATT Ministerial meeting would help to maintain the open trading system. Teddy Taylor asked whether the Government would consider withholding its contributions if the Community failed to reach agreement on the budget in 1983, to which Mr. Pym gave a non-commital answer. Tony Marlow ended up the questioning by saying that our trade deficit with the Community was a scandal, to which Mr. Pym replied that the recent trade figures had been very satisfactory overall.

The Fisheries Council

The questions on this statement followed a very familiar line. The Opposition, led by Norman Buchan, said that the agreement reached in Luxembourg was a retreat from the Conservative Manifesto, that the industry had only accepted the agremeent under duress, that the £15 million aid announced by Mr. Walker was

/ a

a bribe to induce the industry to accept the agreement, and that the Government should have allowed time for the proposals to be debated in the House before they signified agreement in Luxembourg. Mr. Walker replied that he had ~~told~~ offered the industry ~~he had been offered~~ the £15 million aid some time before the Council, that the leaders of the industry had all been in Luxembourg and had readily accepted the agreement, which was better than anything achieved by the Opposition while in office.

Britoil

Merlyn Rees asked a long list of questions, but his most important points were that the Government were selling Britoil at the wrong time, that they were giving Britoil a cash injection to improve their balance sheet, but that they were making no arrangements to protect Britoil acquisition by foreign investors, and that the PAC should be allowed to investigate the Government's proposals. Mr. Lawson had no difficulty in dealing with any of these points. He pointed out that the FT Actuaries' oil share index had risen considerably in the last year, that he had made no agreement to inject cash into Britoil, that he would welcome an investigation by the PAC, and that only the market could determine the value of the Company. He made play with the fact that the Opposition had sold shares in BP in 1977 with no prior consultation of Parliament, and that this sale was a financially unwise move from the point of the Exchequer. The Government would be retaining a special share in Britoil in order to ensure that it did not fall under foreign control. The only excitement was caused by Mr. Lawson's refusal to answer a suggestion from the Opposition that Ministers should not be allowed to buy shares in Britoil so as to avoid any suspicion of insider dealing. At first Mr. Lawson simply refused, with some encouragement from the Lord President, to rise to answer this question. When it was repeated by Mr. Cryer, he dismissed it as beneath contempt. The Opposition became somewhat excited and accused Mr. Lawson of arrogance, and repeated this when he dismissed another question from Frank Haynes as "far fetched."

Stephen Sealy pp Willie Rickett.

27 October 1982

Foreign Affairs Council

3.35 pm

The Secretary of State for Foreign and Commonwealth Affairs (Mr. Francis Pym): With permission, Mr. Speaker, I will make a statement on the outcome of the Foreign Affairs Council held at Luxembourg on Monday 25 and Tuesday 26 of October.

Agreement was reached yesterday on the implementation of the agreement of 25 May on refunds for the United Kingdom for 1982. This is subject to final confirmation within three days by the French Government. I am arranging for the text of the Council conclusions to be placed in the Library of the House together with a short explanatory note.

The main issue discussed by the Council was the method of financing the refunds. In particular, the agreement of 25 May provided for relief for Germany without specifying how the relief was to be given. This has now been satisfactorily resolved, and I am satisfied that the arrangements correctly implement the agreement of 25 May.

The Council had a useful discussion of East-West economic relations and of the Community dimension of the current discussions with the Americans. There was general support for the efforts being made to reach agreement on a framework for the handling of East-West trade and economic issues.

As the House will be aware, there remain certain commercial restrictions between, on the one hand, the United Kingdom, and other countries of the Community, and on the other, Argentina. We have discussed this with our partners and I am glad to report that the Council agreed that the Community should put to the Argentine Government immediately a proposal for the reciprocal lifting of these restrictions.

A ministerial conference with Spain in the margins of the Council made progress on a number of points. There will be a ministerial conference with the Portuguese in November, and the Council reviewed the preparations.

The Council agreed a mandate for the negotiation of the trade regime with Cyprus for 1983. There was also a meeting at ministerial level of the European Community Cyprus Association Council. The Community announced its agreement in principle to a second financial protocol for Cyprus to enter into effect on 1 January 1984.

The Council also discussed a number of important trade issues for which my hon. and learned Friend the Minister for Trade was present.

Points connected with the preparation of the Community position at the forthcoming GATT ministerial meeting were remitted to officials for further work. Meanwhile, the Community will continue to participate constructively in the preparations for the meeting on the basis of the guidelines endorsed by the Council in July.

On relations with Japan, the Council deplored the lack of progress so far in the consultations under the dispute settlement procedures of the GATT. A copy of the Council's conclusions is being placed in the Library of the House.

On steel, the United Kingdom pressed strongly for a tighter and more realistic import regime for 1983.

On textiles, the Commission reported on the negotiations for new bilateral agreements under the multi-fibre arrangements, and were given instructions to reopen negotiations where agreements remained to be concluded.

Mr. Eric Heffer (Liverpool, Walton): Is the right hon. Gentleman aware that his statement is very unsatisfactory? Apart from anything else, there are no figures in the third paragraph of the statement. I accept that the figures are given in the explanatory memorandum, but they are not before the House and so hon. Members cannot discuss them now. Therefore, we are unaware of the precise details of what was agreed at the meeting.

Is it not clear that what the *Financial Times* today referred to as a "tortuous Community solution" is, in reality, no solution at all, that the budgetary agreement is only for 1982 and that there are likely to be more tortuous Community discussions for a long time? Have not the Government again failed to obtain what the House voted for at least twice and what the Prime Minister said that she wanted—that the budgetary issue should be resolved speedily and permanently?

Does the right hon. Gentleman recall that it is just on three years since the Prime Minister said that she did not intend to play Lady Bountiful to the rest of the EEC? Can he therefore tell us what he meant by the statement reported in *The Guardian* today? I do not know whether the report is accurate, so I put this as a serious question. *The Guardian* states that Britain's gross payments to the EEC budget, which had been forecast at £841 million earlier this year, will in fact approach £1 billion this year. Can the right hon. Gentleman explain that? Does it mean that Britain's contribution is rising rather than falling as the Government suggest? Secondly, why did the Prime Minister tell Herr Kohl that the British Government would be pressing less urgently for a long-term solution? We are told that the 25 May agreement is being kept. That agreement stated categorically that a decision would be made before the end of November 1982 on a solution for 1983 and later. Has that now been abandoned?

Perhaps I may make one or two further comments on the right hon. Gentleman's statement. *[Interruption.]* It was a long statement which dealt with just about every issue except the budget. Very little was said about that main item.

The right hon. Gentleman's point about Argentina is most welcome. I trust that it will be a move towards stepping up trade relations with the whole of Latin America and with Argentina in particular.

The right hon. Gentleman referred to steel, but he did not mention that 67 per cent. of all our steel imports come from the EEC. What do the Government intend to do about that? Is it not time that we began to negotiate our way out of the Treaty of Rome instead of continuing to face the difficulties that membership of the Common Market brings?

Mr. Pym: The main item on the Council's agenda on this occasion was the implementation of the 25 May agreement. The longer-term budget negotiations were not part of the agenda. We shall be receiving proposals from the Commission on that next month for 1983 and later years and it will be on the agenda for the November council, but I should make it quite clear that it was not on the agenda on this occasion. I made my statement as brief as possible in view of the vast range of subjects that were

Education (Mandatory Awards) Regulations

3.30 pm

The Lord President of the Council and Leader of the House of Commons (Mr. John Biffen): On a point of order, Mr. Speaker. I should like to refer to the matter of the Education (Mandatory Awards) Regulations 1982 which was raised with you yesterday by the hon. Member for Berwick-upon-Tweed (Mr. Beith) and other right hon. and hon. Members. I undertook to look at the points that had been raised.

No undertaking was given that this subject should be debated on the Floor of the House. However, on 22 July I undertook to

"look into the possibility of taking the matter upstairs in the overspill".—[*Official Report*, 22 July 1982; Vol. 28, c. 535.]

That was in response to a request from the right hon. Member for Roxburgh, Selkirk and Peebles (Mr. Steel) and that undertaking has been met.

Nevertheless, Mr. Speaker, I understand the concern of right hon. and hon. Members. I also take account of the representation of the right hon. Gentleman the Leader of the Opposition evident in the motion on today's Order Paper that the matter should come to the Floor of the House. I am, therefore, agreeable to further discussion on this matter taking place through the usual channels.

Mr. Michael Foot (Ebbw Vale): Further to that point of order, Mr. Speaker. I think that the Leader of the House was making a statement rather than raising a point of order, but I thank him anyway for it. Naturally, we are glad that discussion is to take place through the usual channels. However, we believe and understand that that discussion must result in a debate. The House is entitled to a debate on such an extremely important subject.

Mr. A. J. Beith (Berwick-upon-Tweed): Further to that point of order, Mr. Speaker. I thank the Leader of the House for considering the matter, and I hope that the discussions will lead to a full debate on the Floor of the House on this controversial subject.

Prorogation

3.32 pm

Mr. David Winnick (Walsall, North): On a point of order, Mr. Speaker. I understand that the Session will end tomorrow and that Black Rod will come from the other place to knock three times, as usual. I believe that that demonstrates the House's independence. It is not a pantomime or something that we simply tell visitors about, but has meaning. How can we ensure that deeply-held grievances on the part of our constituents can be raised before the end of the Session? Many of my constituents—like the constituents of many of my right hon. and hon. Friends—are deeply concerned that there may shortly be another exorbitant rent increase. Now——

Mr. Speaker: Order. I have received notice of an application under Standing Order No. 9 about rent increases. Tha hon. Gentleman cannot raise that subject as a point of order. Perhaps he will come to the point.

Mr. Winnick: Hon. Members can apply for a debate under Standing Order No. 9. I was unable to give you notice of my point, Mr. Speaker because I did not know what statements would be made. However, the Minister involved is surely under an obligation to come to the House to explain what is to be done when there is a genuine grievance at issue.

Mr. Speaker: As the House knows, I do not decide who makes statements.

Scottish Parliament Bill

3.34 pm

Mr. Dennis Canavan (West Stirlingshire): On a point of order, Mr. Speaker. According to today's Order Book, the first Order of the Day is the Second Reading of the Scottish Parliament Bill, but it does not appear in the Orders of the Day or on today's Order Paper. I feel sure that there has been some oversight, and in order not to waste the time of the House, I beg to move, That the Bill be now read a Second time.

Mr. Speaker: The hon. Gentleman is incorrect. His item is No. 42 on today's Order Paper.

Television Licences (Bill)

3.35 pm

Mr. Allen McKay (Penistone): As there is to be no Business Statement today and as you know, Mr. Speaker, that the House overwhelmingly accepted my Concessionary Television Licences for Old Age Pensioners Bill, would it not be right for the Leader of the House to make a statement on when—as we cannot hold the Second Reading today—the will of the House will be carried out?

Mr. Speaker: That is not a point of order.

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TELEGRAM NUMBER 340 OF 26 OCTOBER.

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PS|Rus
Sir J Bullard
Mr Evans
Mr Hannay
Mr Stapleton, Cabinet Office.

FOLLOWING PERSONAL FROM THE SECRETARY OF STATE TO THE CHANCELLOR OF THE EXCHEQUER

PS|Chancellor
Mr Cousens
Mr Hedley-Miller.
TSY

FOREIGN AFFAIRS COUNCIL: 25 OCTOBER 1982

UK BUDGET REFUNDS 1982.

RC.

x12

1. THE COUNCIL IS MEETING AT 10.30 LONDON TIME TOMORROW MORNING TO CONSIDER A PRESIDENCY COMPROMISE WITH THE FOLLOWING ELEMENTS:-

(A) THE UK WILL RECEIVE 1092 MECU GROSS BEFORE THE END OF DECEMBER 1982.

(B) THE COMMISSION WILL MAKE THIS PAYMENT WITHOUT RUNNING DOWN THE AVERAGE BALANCE IN THEIR UK ACCOUNT - IE THE WHOLE 1092 MECU WILL BE EXTRA MONEY.

(C) THE RISK-SHARING PAYMENTS WILL BE MADE IN 1983 INSTEAD OF 1984.

(D) THE COMMISSION ARE CONFIDENT THAT THE UK CONTRIBUTION TO THE GERMAN REFUND WILL BE ELIGIBLE FOR A 75 PERCENT REFUND UNDER THE RISK-SHARING AGREEMENT. THE MISSING 25 PERCENT WILL BE THE VALUE TO THE UK OF GETTING A BILLION ECU THREE TO SIX MONTHS EARLIER THAN WAS AGREED ON 25 MAY.

2. I UNDERSTAND THAT THE PROPOSAL WAS EXPLAINED TO YOU THIS AFTERNOON AND THAT YOU THROUGH THAT WE SHOULD REJECT IT. I CERTAINLY AGREE THAT IT WOULD NOT BE AT ALL EASY TO EXPLAIN TO PARLIAMENT WHY THE 850 MECUS NET AGREED ON 25 MAY HAS TO BE SPLIT UP INTO SO MANY PIECES AND IMPLEMENTED IN SUCH A CONVOLUTED WAY. I ALSO DISLIKE THE IDEA OF COUNTING TOWARDS THE 850 MECU THE NOT EASILY QUANTIFIED BENEFIT OF RECEIVING THE MONEY 3-6 MONTHS EARLIER THAN WAS AGREED ON 25 MAY. AND THERE IS A SMALL RISK THAT OUR CONTRIBUTION BEFORE REFUNDS WILL FALL BELOW THE 75 PERCENT THRESHOLD.

BELOW THE 75 PERCENT THRESHOLD.

3. BUT WE MUST ALSO LOOK AT THE ALTERNATIVES. THE PRESIDENCY PROPOSAL GUARANTEES US A BILLION ECU GROSS BEFORE THE END OF THE YEAR. THE FRENCH HAVE SHOWN THAT THEY ARE QUITE WILLING TO GO ON BLOCKING THE IMPLEMENTATION OF THE AGREEMENT. THEY ARE UNDER NO TIME CONSTRAINT. WE ARE. THE BUDGETARY ACTION NEEDED TO PERMIT THE COMMISSION TO PAY THE MONEY BEFORE THE END OF OUR FINANCIAL YEAR WILL BE AT RISK IF WE BREAK TOMORROW WITH NO DEAL.

4. FURTHERMORE, THE FRENCH HAVE WON BACK A LOT OF SYMPATHY TODAY BY SHOWING FLEXIBILITY. WHEREAS AT THE SEPTEMBER COUNCIL THEY WERE BEING QUITE UNREASONABLE AND WERE ENTIRELY ISOLATED, THEY HAVE TODAY PROPOSED A SOLUTION WHICH THE COMMISSION HAVE ENDORSED. THEY HAVE STOPPED TRYING TO PREVENT THE UK FROM RECEIVING THE 65 MECU IN DISPUTE AND SWITCHED THEIR POSITION TO INSISTENCE THAT THE UK BE SATISIFIED WITH A SERIES OF DEVICES WHICH THE COMMISSION HAVE TOLD THE COUNCIL WILL IN THEIR JUDGEMENT GIVE THE UK WHAT WE NEED. I HAVE HAD NO SUCCESS AT ALL IN PERSUADING THE COUNCIL THAT THE RECEIPT OF ABILLION ECU THREE OR MORE MONTHS EARLY IS VALUELESS. THIS MEANS THAT THE SCENARIO HAS CHANGED VERY SIGNIFICANTLY FROM THE ONE WHICH WE DISCUSSED ON 20 OCTOBER. IF WE REJECTED THE DEAL WE SHOULD BE CONSIDERED UNREASONABLE. WE COULD EXPECT NO COOPERATION FROM THE COMMISSION OVER OUR PLAN TO WITHOLD WITHOUT LEGISLATION. AND WE WOULD BE THOUGHT TO HAVE REACTED IN A DISPROPORTIONATE WAY IF WE LEGISLATED TO WITHOLD BECAUSE WE FELT UNABLE TO ACCEPT SOMETHING WHICH SEEMS TO THE OTHERS TO GIVE US OUR ESSENTIAL REQUIREMENTS WHILE ALSO MEETING THE POLITICAL DIFFICULTIES OF FRANCE AND ITALY.

5. THE DEAL POTENTIALLY ON OFFER HAS, FOR ALL ITS OBVIOUS FAULTS, CERTAIN CLEAR MERITS. THE COMMISSION HAVE PROVIDED US WITH FIGURES FOR THE MOVEMENT OF THE COMMISSION'S CASH BALANCE IN THE UNITED KINGDOM IN 1981 AND 1982 - SEE MY IFT. THEIR FIGURES SHOW THAT THE PRESIDENCY PROPOSAL WOULD RESULT IN A LARGE BRINGING FORWARD OF MONEY BY COMPARISON WITH WHAT HAPPENED LAST YEAR WITH OUR AGREEMENT. WE HAVE ALWAYS REGARDED THE DELAYED PAYMENT OF OUR REFUNDS AS A VERY SIGNIFICANT CONCESSION BY THE UK. WE CANNOT CONSISTENTLY REGARD SUCH AN ACCELERATION AS BEING WITHOUT VALUE.

AS BEING WITHOUT VALUE.

6. A FURTHER ADVANTAGE NOW ON OFFER TO US IS THE BRINGING FORWARD OF THE PAYMENT OF THE SUM DUE UNDER THE RISK-SHARING FORMULA FROM 1984 TO 1983.

7. I HAVE CONSIDERED WHETHER WE MIGHT TRY TO PERSUADE THE GERMANS TO ACCEPT THE DELAY OF THE WHOLE OF THEIR REFUNDS UNTIL 1983 AND ACCEPT 1092 MECU GROSS IN 1982, THE REST OF THE PROBLEM BEING POSTPONED UNTIL NEXT YEAR. I FEEL THIS WOULD BE TOO RISKY. THE GERMANS WOULD VERY LIKELY REFUSE. IF THEY GOT 210 MECU IN 1982 AND WE ONLY GOT 1092 MECU, WE COULD NOT PRETEND THAT WE HAD RECEIVED 850 NET. AND EVEN IF THEY DID AGREE TO POSTPONEMENT, WE SHOULD PROBABLY FIND OURSELVES NEXT YEAR IN THE POSITION OF BLOCKING THE GERMAN REFUNDS (AN UNDENIABLE PART OF THE 25 MAY AGREEMENT) BECAUSE OF THE CONTINUED DISPUTE ABOUT OUR 65 MECU.

8. I HAVE THEREFORE REACHED THE CONCLUSION THAT IT IS IN THE UK INTEREST TO ACCEPT THE PRESIDENCY PROPOSAL, IF THE FRENCH WILL, RATHER THAN RUN THE RISKS THAT I HAVE DESCRIBED. I SHOULD BE GRATEFUL TO KNOW YOUR MIND BEFORE 1000 HOURS LONDON TIME TOMORROW.

FCO ADVANCE TO:
FCO - PS PS/PUS FALL SPRECKLEY
CAB- STAPLETON
TSY - CHANCELLOR COUSENS HEDLEY-MILLER

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FROM UKREP BRUSSELS

Press Office
No 10 Downing St.

FOREIGN AFFAIRS COUNCIL 26 OCTOBER 1982
1982 REFUNDS

SUMMARY

1. AGREEMENT REACHED SUBJECT TO A FRENCH RESERVE FOR 3 DAYS. SEVERAL DECLARATIONS REQUESTED BY UK WILL BE ENTERED IN THE COUNCIL MINUTES.

DETAIL

2. ELLEMANN-JENSEN (PRESIDENCY) ASKED IF ALL DELEGATIONS COULD ACCEPT THE REVISED TEXT PREPARED BY THE PRESIDENCY AND COMMISSION. YOU ASKED TO HEAR OTHER DELEGATIONS' POSITIONS BEFORE STATING YOUR POSITION.

3. AS THERE WERE NO DISSENTING VOICES, YOU SPOKE FIRST. YOU THANKED THE PRESIDENCY AND COMMISSION FOR THEIR EFFORTS BUT SAID THAT THE PROPOSAL WAS NOW VERY COMPLICATED. YOU DESCRIBED IT AS ''A DOG'S BREAKFAST'' AND INSISTED THAT THE COUNCIL SHOULD IN FUTURE LOOK FOR A CLEARER AND NEATER SOLUTION. BUT FOR 1982 YOU WERE PREPARED TO TAKE THE PROPOSAL AS A BASIS FOR A SETTLEMENT. YOU NOTED THAT THERE WAS NO EXPLICIT REFERENCE TO THE 25 PER CENT OF OUR CONTRIBUTION TO THE GERMAN REFUNDS NOT COVERED BY RISK-SHARING AND THAT THIS WAS NOW PROVIDED FOR BY BRINGING FORWARD THE PAYMENTS ORIGINALLY INTENDED FOR 1983 AND 1984 INTO 1982 AND 1983 RESPECTIVELY. UK AGREEMENT WAS SUBJECT TO FOUR DETAILED POINTS.

(A): THERE MUST BE A DECLARATION IN THE MINUTES THAT IN THE EVENT OF THE UK NET CONTRIBUTION FALLING BELOW 1730 M ECU, THE COMMISSION WOULD MAKE A PROPOSAL FOR MAKING GOOD THE SHORTFALL AND THE COUNCIL WOULD TAKE THE APPROPRIATE DECISION. YOU PROPOSED A FORM OF WORDS.

(B): THE DECLARATION ON PARA 6 ABOUT ANTICIPATING THE DISCUSSION OF THE ALLEGED OVERPAYMENT WAS NOW REDUNDANT AND SHOULD BE DELETED.

(C): IT SHOULD BE MADE CLEAR BY AN ENTRY IN THE MINUTES THAT THE COMPENSATION TO GERMANY WOULD BE PART OF THE ALLOCATED BUDGET FOR 1982, THUS ENABLING US TO RECEIVE 75 PER CENT REIMBOURSEMENT OF OUR CONTRIBUTION TO IT.

(D): THE REFERENCE TO A 'SUBSEQUENT SOLUTION' IN PARA 7 SHOULD BE ACCOMPANIED BY AN ENTRY IN THE MINUTES SAYING THAT THE PAPER BEFORE MINISTERS ON 25 MAY HAD REFERRED TO '1983 AND LATER' AND THAT THE FRENCH RESERVE HAD SAID THAT IN THEIR VIEW THIS MEANT 1983 AND 1984.

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4. REGARDING A THORN ACCEPTED THE PRINCIPLE OF THE PROPOSED DECLARATION ABOUT THE UK'S ESTIMATED NET CONTRIBUTION. CHANDERNAGOR OBJECTED. YOU SAID THE POINT WAS CRUCIAL. ELLEMANN-JENSEN SAID THAT AS THE COUNCIL WAS ALWAYS WILLING TO CONSIDER AND REACH CONCLUSIONS ON COMMISSION PROPOSALS HE CONCLUDED THAT THERE WAS AGREEMENT ON THIS DECLARATION.

5. REGARDING B, FIORET SAID THE DECLARATION ABOUT PARA 6 WAS ESSENTIAL. CHANDERNAGOR AGREED. LAUTENSCHLAGER (GERMANY) SUPPORTED ITS DELETION. YOU SAID THAT IF THE FRENCH AND ITALIANS INSISTED ON RETAINING THEIR DECLARATION, YOU WOULD WANT A COUNTER-DECLARATION. YOU PROVIDED A TEXT. LAUTENSCHLAGER ASKED FOR A GERMAN DECLARATION. IT WAS AGREED THAT ALL THREE DECLARATIONS WOULD APPEAR IN THE COUNCIL MINUTES.

6. A UK TEXT CONTAINING A DECLARATION ON (C) WAS AGREED.

7. REGARDING (D), CHANDERNAGOR INSISTED THAT 'SUBSEQUENT SOLUTION' WAS THE PHRASE AGREED BY MINISTERS. YOU EXPLAINED AGAIN THAT ALL YOU WANTED WAS A CLARIFICATION OF WHAT ACTUALLY HAPPENED AND WERE NOT TRYING TO REOPEN THE DISCUSSION. ELLEMANN-JENSEN CONCLUDED THAT THIS WOULD BE DONE.

8. NOTERDAEME (BELGIUM) SUGGESTED THAT 'SURPLUSES FROM EARLIER YEARS' IN PARAS 5 AND 6 SHOULD BE AMENDED TO '1981 AND 1982' AND THAT THE COMPENSATION TO GERMANY WOULD BE OBLIGATORY EXPENDITURE. THIS WAS AGREED.

9. LAUTENSCHLAGER MADE THE FOLLOWING POINTS:
- THE NET COMPENSATION TO GERMANY THROUGH THE 1982 BUDGET SHOULD BE 148 MECU NOT 146 MECU. THORN AGREED:
- HE NOTED THAT THE GERMAN COMPENSATION, THOUGH ENTERED IN THE 1982 BUDGET, WOULD BE PAID IN 1983:
- THEY WANTED THE POSSIBILITY OF ADVANCE PAYMENTS IN 1982 KEPT OPEN:
- IT WAS ESSENTIAL THAT THE IMPLEMENTING REGULATION FOR GERMAN REFUNDS BE ADOPTED BEFORE THE END OF 1982.
- FINALLY HE DREW ATTENTION TO GENSCHER'S STATEMENT ON 25 MAY THAT THE GERMAN CONTRIBUTION TO ANY REFUNDS TO THE UK IN FUTURE SHOULD BE REDUCED TO 25 PER CENT.

10. O'ROURKE (IRELAND) SAID THEIR AGREEMENT WAS CONDITIONAL ON THE COMPENSATION FOR IRELAND, AS ONE OF THE LESS PROSPEROUS, PRODUCING SATISFACTORY RESULTS.

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11. ELLEMANN-JENSEN TRIED TO CONCLUDE THAT THE COUNCIL HAD AGREED ON THE REVISED PROPOSAL AND TO THE VARIOUS ENTRIES IN THE MINUTES WHICH HAD BEEN PROPOSED. CHANDERNAGOR INTERVENED TO SAY THAT THE POSITION REACHED MARKED A CONSIDERABLE DEPARTURE FROM THE 25 MAY AGREEMENT. THEY HAD NOT AGREED YESTERDAY TO BRINGING FORWARD THE RISK-SHARING FROM 1984 TO 1983. IT WAS THEREFORE NECESSARY TO RESERVE THEIR POSITION ON THE WHOLE AGREEMENT FOR 3 DAYS. YOU MADE IT CLEAR THAT BRINGING FORWARD THE RISK-SHARING INTO 1983 WAS A PRE-CONDITION FOR UK AGREEMENT. ELLEMANN-JENSEN THEN CONCLUDED THAT THERE WAS AGREEMENT SUBJECT TO A FRENCH RESERVE FOR 3 DAYS AND INVITED THE COMMISSION TO PREPARE THE NECESSARY IMPLEMENTING ACTION.

FCO ADVANCE TO:

FCO : EVANS, SPRECKLEY, FRY, PS/SOS, STAPLETON, DURIE
CAB : PS/ARMSTRONG, HANCOCK
TSY : PS/CHANCELLOR, COUZENS, HEDLEY-MILLER, PEET

UKREP BRUSSELS: CURRIE, BUTT (FULL)

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MR EVANS

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SIR K COUZENS
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MR HANCOCK
} CABINET OFFICE

MR INGHAM
MR COLES
} NO 10 DOWNING ST

MR STAPLETON
MR DURIE
} CABINET OFFICE

Foreign and Commonwealth Office

London SW1A 2AH

26 October 1982

Dear John.

1982 Budget

We spoke. The line which is being submitted to you through the parliamentary channel is the following:

> 'Agreement was reached today, subject to final confirmation from the French, on the detailed implementation of the agreement of 25 May about refunds for the United Kingdom in respect of 1982. My right honourable Friend the Foreign and Commonwealth Secretary will report to the House tomorrow.'

Yours ever,

(B J P Fall)
Private Secretary

A J Coles Esq
10 Downing Street

NI9107 4 XXX 270

EEC BUDGET REBATE AGREED

BRITAIN'S 1982 BUDGET REBATE FROM THE COMMON MARKET WAS FINALLY AGREED TODAY IN A COMPLEX DEAL DESCRIBED AS ''SATISFACTORY'' BY A GOVERNMENT SPOKESMAN.

THE ONLY REMAINING OBSTACLE TO MRS THATCHER RECEIVING £472 MILLION IN COMPENSATION IS THE GO-AHEAD FROM FRANCE, EXPECTED TO BE GIVEN IN PARIS TOMORROW.

THE HARD-WON REBATE - THE THIRD YEAR OF SPECIAL REPAYMENT TO OFFSET THE UK'S HIGH NET CONTRIBUTION TO THE COMMUNITY - WAS HAMMERED OUT THERE BY EEC FOREIGN MINISTERS.

IF THE FRENCH APPROVE, MRS THATCHER WILL GET HER MONEY BY THE END OF THE YEAR, LEAVING A NET CONTRIBUTION FOR THIS YEAR AT ABOUT £450 MILLION. THE FINAL SUM COULD BE HIGHER, HOWEVER, DEPENDING ON THE STATE OF THE COMMUNITY ECONOMY.

THE LUXEMBOURG TALKS RAN INTO DIFFICULTIES OVER A COMPLICATED AGREEMENT WHICH EFFECTIVELY INVOLVED BRITAIN HELPING TO FINANCE ITS OWN REBATE.

WEST GERMANY, THE HIGHEST NET CONTRIBUTOR TO THE COMMUNITY, AND THE ONLY OTHER NET CONTRIBUTOR APART FROM THE U.K. WILL HAVE TO STUMP UP HALF ITS NORMAL SHARE OF THE BRITISH REPAYMENT.

THE AGREEMENT MEANS THAT THE U.K. WILL HAVE TO PAY BACK WEST GERMANY NEXT YEAR. NEVERTHELESS, FOREIGN SECRETARY FRANCIS PYM CAN TELL THE HOUSE OF COMMONS THAT FOR THIS YEAR AT ANY RATE BRITAIN HAS BEEN GIVEN ITS AGREED REPAYMENT IN FULL.

THE OUTCOME CLEARS THE DECKS IN READINESS FOR MORE COMPLICATED ARITHMETIC NEXT MONTH WHEN THE EEC COMMISSION IS DUE TO PROPOSE MAJOR COMMON MARKET BUDGET CHANGES.

THESE WILL BE DESIGNED TO CLEAR UP ONCE AND FOR ALL THE PROBLEM OF POORER MEMBER STATES LIKE BRITAIN PAYING A DISPROPORTIONATELY LARGE SHARE OF THE EEC'S RUNNING COSTS.

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SUBJECT

bcc: D. Hancock (CO)

10 DOWNING STREET

From the Private Secretary

21 October 1982

Dear Brian,

COMMUNITY BUDGET

The Prime Minister held a meeting at No. 10 Downing Street on Wednesday 20 October to discuss the Foreign and Commonwealth Secretary's minute of 15 October on the Community budget problem and the papers circulated to OD (OD(82)68 and OD(82)69). The Chancellor of the Exchequer, the Foreign and Commonwealth Secretary and the Minister of Agriculture attended, each accompanied by an official.

1982 refunds

The meeting agreed that, if no decisions had been taken to implement the 25 May Agreement by the time of the European Council, the United Kingdom would have a strong moral case for withholding. It was possible that the Commission and other member states, except France, would consider that such action had been justified by the French reneging on the Agreement. On the other hand, legislation setting aside the Treaty would cause anxieties even among those who sympathised with our predicament and the sum in dispute was likely to be less than 65 million ecus.

Summing up this part of the discussion, the Prime Minister asked the Chancellor of the Exchequer to consider how soon withholding would need to start in order to secure before the end of the financial year 1982/83 the money to which the United Kingdom was entitled under the 25 May Agreement. Consideration should also be given to the practicability of withholding without legislation - for example with the cooperation of the Commission.

1983 and later

The meeting agreed that, even though it might be true that the rest of the Community, except France, would tolerate withholding in relation to the 25 May Agreement, it should not be assumed that the same tolerance would be shown for withholding in relation to an agreement for 1983 and later. The view attributed to Mr. Tugendhat and his cabinet in Mr. Kerr's letter to Mr. Coles of 19 October was suspect. The view of one Commissioner was not necessarily a dependable guide. The French Commissioner and the French Government would almost certainly exploit withholding for their political ends and in the absence of a negotiated agreement would probably carry the general opinion of the rest of the Community along with them.

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The Minister of Agriculture said that he had reconsidered the possibilities for exploiting the 1983 farm price negotiations to create a bargaining position over the budget. Clearly, in the light of the vote on 18 May 1982, no such link should be made overtly. On the other hand, it would be possible for the United Kingdom to register opposition commodity by commodity on merits until such time as a budget deal had been done. At that point we could, without admitting why we had changed our minds, agree to accept the majority view in order to enable the price agreement to be implemented. Our bargaining position was strong because all the other member states would need, for political reasons, a higher price settlement than would be acceptable to the UK. France, Greece and Italy had an inflation rate way above that of the United Kingdom. Ireland, Denmark and Belgium all had minority governments and their farmers were in serious financial difficulties. Even the new German government would require a substantial price increase. They would not wish to alienate the farmers' vote in the period before the election in March. It was pointed out that under the terms of the "gentlemen's agreement" Germany would be obliged to reduce their positive MCA by 3.8%. Thus, if the average price increase were 5%, German farmers would receive only 1.2%.

In discussion it was agreed that this tactical possibility might have advantages over an early threat to withhold in respect of 1983 and later. It would not be without cost at home. The Minister of Agriculture would be required to say that he disagreed with proposals on merits and then suddenly say that he accepted them. It would be essential to ensure that the negotiations on the price review and the negotiations on the budget proceeded in parallel so that the other member states would have the incentive to meet us on the budget at the right time. One of the things that had gone wrong in 1982 was that the budget negotiations had lost momentum just as the price negotiations were reaching their climax. It was for consideration whether we should confine our opposition to the main commodities under discussion, so that we were not in a minority of one in relation to them all.

In discussion of the review, the Foreign Secretary said that we could not be sure that M. Thorn would in fact propose one in November. At the Informal Meeting of Foreign Ministers over the weekend Thorn had indicated that he might not make such a proposal until after the German elections. This would present the Government with a problem because Thorn would not propose a lasting solution for the United Kingdom either.

The meeting agreed that it was not possible to predict when the Community would run out of money. The latest assessment was that the ceiling on own resources would not be hit in 1983 and possibly not in 1984 either, but that it probably would be hit in 1985. Co-responsibility levies were a means of avoiding the constraint and would figure substantially in the Commission proposals for 1983. It should not be assumed that the only proposal that would be discussed was a straight increase in the 1% ceiling. There were other ways of increasing revenue from own resources, for example by an oil levy. If an oil levy were

/ introduced

introduced and the revenue used to reduce the rate of VAT called up from member states, then it could be argued to be in the United Kingdom's financial interest. On the other hand, the latest advice from our Embassies in Paris and Bonn was that the French and German governments would veto an oil levy. The arguments against it on grounds of industrial costs were in any case strong.

In further discussion it was agreed that the United Kingdom should now put the pressure on and get a negotiation going. The British Commissioners had not been active in furthering our interests and there was a good case for the Prime Minister talking to at least Mr. Tugendhat in the near future.

Summing up the discussion, the Prime Minister said that the solution potentially on offer would be a very bad deal for the United Kingdom and very difficult to defend to Parliament and the country. The United Kingdom's negotiators should, therefore, never attempt to secure too little. We should not encourage the Commission to propose a review or hasten to welcome one if it were proposed. We should only agree to a review on the clear conditions that one of its objectives should be to find a lasting solution to the British budget problem and that there was absolutely no commitment to any increase in own resources as a result of the review. The proposals in paragraphs 12(i) and (ii) of the Foreign Secretary's minute of 15 October were essential conditions for any settlement for 1983 and later years. A further 250 million ecu could be conceded in full and final settlement of the "over-payment" claim if the Community agreed to 66% refunds plus satisfactory risk-sharing, as proposed by the Foreign Secretary, for an indefinite period up until such time as there was agreement on a fundamental change in the system. The United Kingdom should argue strongly for such an indefinite commitment. Without such a commitment no further restitution of over-payments should be conceded without further discussion in the Ministerial group. The tactical plan to exploit the 1983 price review suggested by the Minister of Agriculture should be further pursued - the United Kingdom would retain the option of withholding if it failed.

The Prime Minister said that she would interview Mr. Tugendhat on a convenient occasion and seek to convince him of the need to fight more effectively for British interests within the Commission. The Foreign and Commonwealth Office should supply briefing on how such an interview might most effectively be conducted with an explanation of the terms of the British Commissioners' appointments and period of office.

I am sending copies of this letter to John Kerr (HM Treasury), Robert Lowson (MAFF) and to Richard Hatfield (Cabinet Office).

Yours ever

John Coles.

Brian Fall, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

Qz.02759

Please type letter 21/10

AR 21/10.

MR COLES

cc: Sir Robert Armstrong

PRIME MINISTER'S MEETING, 20 OCTOBER

I attach a draft Private Secretary letter recording the Prime Minister's meeting last night on the Community budget.

D.H.

D J S HANCOCK

21 October 1982

Draft Private Secretary letter from Mr Coles

To: Mr Fall, FCO

cc: Mr Kerr, H M Treasury
Mr Lowson, MAFF
Sir Robert Armstrong

Blind copy to: Mr Hancock

COMMUNITY BUDGET

The Prime Minister held a meeting at No 10 Downing Street on Wednesday, 20 October to discuss the Foreign and Commonwealth Secretary's minute of 15 October on the Community budget problem and the papers circulated to OD (OD(82) 68 and OD(82) 69). The Chancellor of the Exchequer, the Foreign and Commonwealth Secretary, the Minister of Agriculture, ~~Sir K Couzens, Sir A Acland, Sir B Hayes, Sir R Armstrong and Mr Hancock were present.~~ attended, each accompanied by an official.

~~2. The Prime Minister explained that she had decided that it would be better to discuss the issues in a smaller group than OD.~~

1982 refunds

2. The meeting agreed that, if no decisions had been taken to implement the 25 May Agreement by the time of the European Council, the United Kingdom would have a strong moral case for withholding. It was possible that the Commission and other member states, except France, would consider that such action had been justified by the French reneging on the Agreement. On

/the

the other hand, legislation setting aside the Treaty would cause anxieties even among those who sympathised with our predicament and the sum in dispute was likely to be ~~some figure~~ less than 65 million ecus.

3. Summing up this part of the discussion, the Prime Minister asked the ~~Treasury~~ Chancellor of the Exchequer to consider how soon withholding would need to start in order to secure before the end of the financial year 1982/83 the money to which the United Kingdom was entitled under the 25 May Agreement. Consideration should also be given to the practicability of withholding without legislation - for example with the cooperation of the Commission.

1983 and later

4. The meeting agreed that, even though it might be true that the rest of the Community, except France, would tolerate withholding ~~to implement~~ in relation to the 25 May Agreement, ~~the Government~~ it should not be assumed that the same tolerance would be shown for withholding ~~to anticipate~~ in relation to an agreement for 1983 and later. The view attributed to Mr Tugendhat and his cabinet in Mr Kerr's letter to Mr Coles of 19 October was suspect. The French Commissioner and the French government would almost certainly exploit withholding for their political ends and in the absence of a negotiated agreement would probably carry the general opinion of the rest of the Community along with them.

The view of one Commissioner was not ~~a~~ generally a dependable guide.

5. The Minister of Agriculture said that he had reconsidered the possibilities for exploiting the 1983

/farm

farm price negotiations to create a bargaining position over the budget. Clearly, in the light of the vote on 18 May 1982, no such link should be made overtly. On the other hand, it would be possible for the United Kingdom to ~~oppose the general desire~~ register opposition commodity by commodity on merits until such time as a budget deal had been done, at ~~which~~ that point we could agree to accept the majority view in order to enable the price agreement to be implemented without admitting why we had changed our minds. Our bargaining position was strong because all the other member states would need, for political reasons, a higher price settlement than would be acceptable to the UK. France, Greece and Italy had an inflation rate way above that of the United Kingdom. Ireland, Denmark and Belgium all had minority governments and their farmers were in serious financial difficulties. Even the new German government would require a substantial price increase. They would not wish to alienate the farmers' vote in the period before the election in March. ~~Sir Brian Hayes~~ It was pointed out that under the terms of the "gentlemen's agreement" Germany would be obliged to reduce their positive MCA by 3.8%. Thus, if the average price increase were 5%, German farmers would receive only 1.2%.

8. In discussion it was agreed that this tactical possibility might have advantages over an early threat to withhold in respect of 1983 and later. It would not be without cost at home. The Minister of Agriculture

/would

would be required to say that he disagreed with proposals on merits and then suddenly say that he accepted them. It would be essential to ensure that the negotiations on the price review and the negotiations on the budget proceeded in parallel so that the other member states would have the incentive to meet us on the budget at the right time. One of the things that had gone wrong in 1982 was that the budget negotiations had lost momentum just as the price negotiations were reaching their climax. It was for consideration whether we should confine our opposition to the main commodities under discussion, so that we were not in a minority of one in relation to them all.

7. In discussion of the review, the Foreign Secretary said that we could not be sure that M. Thorn would in fact propose one in November. At the Informal Meeting of Foreign Ministers over the weekend Thorn had indicated that he ~~would~~ might not make such a proposal until after the German elections. This would present the Government with a problem because Thorn would not propose a lasting solution for the United Kingdom either.

8. The meeting agreed that it was not possible to predict when the Community would run out of money. The latest assessment was that the ceiling on own resources would not be hit in 1983 and possibly not in 1984 either, but that it probably would be hit in 1985. Co-responsibility levies were a means of avoiding the constraint and would figure substantially in the Commission proposals for 1983. ~~The Government~~ It should not be assumed that the only proposal that would be discussed was a straight increase in the 1% ceiling. There were other ways of

increasing revenue from own resources, for example by an ~~The~~ oil levy was one possibility. If an oil levy were introduced and the revenue used to reduce the rate of VAT called up from member states, then it ~~would be~~ would be argued to be in the United Kingdom's financial interest. On the other hand, the latest advice from our Embassies in Paris and Bonn was that the French and German governments would veto an oil levy. The arguments against it on grounds of industrial costs were in any case ~~valid~~ strong.

9. In further discussion it was agreed that the United Kingdom should now put the pressure on and get a negotiation going. The British Commissioners had not been active in furthering our interests and there was a good case for the Prime Minister ~~to interview~~ talking to at least Mr Tugendhat in the near future. ~~It would be unwise to say anything to Mr Richard which he would interpret as a threat, or to attack him in public, as he would welcome the excuse to criticize the Government.~~

10. Summing up the discussion, the Prime Minister said that the solution potentially on offer would be a very bad deal for the United Kingdom and very difficult to defend to Parliament and the country. The United Kingdom's negotiators should, therefore, never attempt to secure too little. ~~The United Kingdom~~ We should not encourage the Commission to propose a review or hasten to welcome one if it were proposed. We should only agree to a review on the clear conditions that one of

/its

its objectives should be to find a lasting solution to the British budget problem and that there was absolutely no commitment to any increase in own resources as a result of the review. The proposals in paragraphs 12 (i) and (ii) of the Foreign Secretary's minute of 15 October were essential conditions for any settlement for 1983 and later years. A further 250 million ecu could be conceded in full and final settlement of the "over-payment" claim if the Community agreed to 66% refunds plus satisfactory risk-sharing, as proposed by the Foreign Secretary, for an indefinite period up until such time as there was agreement on ~~to the time when enlargement or other changes in circumstances required~~ a fundamental change in the system. The United Kingdom should argue strongly for such an indefinite commitment. Without such a commitment ~~If agreement could only be achieved for 2 or 3 years~~, no further restitution of over-payments should be conceded without further discussion in the Ministerial group. The tactical plan to exploit the 1983 price review suggested by the Minister of Agriculture should be further pursued - the United Kingdom would retain the option of withholding if it failed.

12. The Prime Minister said that she would interview Mr Tugendhat on a convenient occasion and seek to convince him of the need to fight more effectively for British interests within the Commission. The Foreign and Commonwealth Office should supply briefing on how

such an interview might most effectively be conducted with an explanation of the terms of the British Commissioners' appointments and period of office.

13. I am sending copies of this letter to John Kerr (Treasury), Robert Lowson (MAFF) and to Sir Robert Armstrong.

AR 21.10

Euro Pol.

cc. Euro Pol: CAP: PC10.

Ref. A09809

PRIME MINISTER

Cabinet: Community Affairs

Unless already covered under Foreign Affairs, you may like to inform Cabinet of the Community aspects of your talks with Chancellor Kohl on 19 October.

2. The Foreign and Commonwealth Secretary will wish to report on the outcome of the informal meeting of Foreign Ministers on 16-17 October. Monsieur Thorn was prodded into giving an account of the Commission's current thinking on the Community budget issue. He urged a rapid solution of the 1982 problem without any linkage to 1983 and beyond. The Commission might make a formal proposal in November for 1983 and 1984, perhaps renewable for 1985. They might also propose a review of the Community's financial arrangements, covering both the possible creation of new own resources and new Community policies. You discussed all these aspects with the Chancellor, the Foreign and Commonwealth Secretary and the Minister of Agriculture today.

3. The Secretary of State for Industry will wish to report on whether an agreement has finally been reached with the USA about EC steel imports. Modifications to the August agreement were drafted by COREPER on 19 October, together with a parallel exchange of letters on pipes and tubes. The German Cabinet this morning agreed to the texts subject to a number of conditions which, in the case of pipes and tubes, may cause problems with the United States industry.

4. The Minister of Agriculture, Fisheries and Food will wish to report that the Agriculture Council on 18-19 October agreed arrangements for the import of New Zealand butter in 1983. The agreed figure is 87,000 tonnes (90,000 tonnes in 1982), with a reduction in the import levy to offset any fall in income. The New Zealand Government was consulted and is content with this deal.

5. The Minister of Agriculture, Fisheries and Food may also wish to report that his meeting on fisheries with France, Germany and the Netherlands in the margins of the Agriculture Council agreed to send a joint message to the Danish

Government stressing the need for a settlement at the next Fisheries Council on the basis of the present proposals. The meeting also discussed possible ways of proceeding at the end of the year should no agreement be reached: a regulation introducing the proposed regime for nine member states; national measures blessed by the Commission; or stopping the clock. Officials are studying these in detail.

6. The Fisheries and Foreign Affairs Councils will meet on 25-26 October and the Standing Employment Committee on 26 October. E Committee will consider on 26 October the trade problems raised by the Secretary of State for Trade at last week's Cabinet. The Anglo-German Summit will take place on 28-29 October.

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repl: 9.

Danes. –

Approved by
ROBERT ARMSTRONG
and signed in his absence

20 October 1982

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(2)

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

19 October 1982

Prime Minister

A.J. Coles, Esq.,
10, Downing Street

A.J.C. 20/10.

Dear John,

EUROPEAN COMMUNITY BUDGET : WITHHOLDING

The Chancellor has asked me to pass to you the following account of recent comments by Christopher Tugendhat on the subject of withholding.

In a talk with the Chief Secretary during the Party Conference, Tugendhat focussed on what the UK should do if negotiations ran into difficulties and we were to contemplate withholding our contribution. He suggested - and this is in fact what our contingency plans envisage - that the best move would be to continue to pay revenues into the Commission account in the UK but to use "exchange control" to prevent transfers overseas. (Read as a reference to the 1947 Exchange Control Act, this will not do; but an exchange control type of operation is what we have in mind.) Interestingly, he had evidently given some thought to the consequences, pointing out that it would be possible in these circumstances for the Community to avoid a financial crisis for some months, although it would be subject to growing pressure. He indicated that he might be able to persuade the rest of the Commission not to institute immediate legal action, but to take the matter forward on a political level.

Separately, in a talk with officials, Tugendhat's Chef de Cabinet went a little further in reporting that Tugendhat thought "that the chances of our getting a remotely satisfactory solution for 1983 and later were so low that we should simply withhold without making too much fuss. In his view most other member states would not take this too tragically, and would privately welcome our taking the decision for them."

/I understand

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I understand that we have in fact allowed the odd hint about our planning to get to the Commission. In case we should be driven to this step, it is helpful that the Commission should have been thinking along the same lines: we would positively want to avoid escalation, and to maintain normal business as widely as possible, while allowing the growing financial pressure to exert its effect. The Chancellor believes that it would be useful in the event to have Commission co-operation in keeping normal business going.

Copies of this letter go to Brian Fall in the FCO, Robert Lowson at MAFF, and Richard Hatfield in the Cabinet Office.

Yours ever,

J.O. Kerr.

J.O. KERR

Prime Minister

CONFIDENTIAL

Qz.02757

MR COLES

cc: Sir Robert Armstrong

COMMUNITY BUDGET: AD HOC MEETING 5pm WEDNESDAY 20 OCTOBER

You are to discuss the Community budget issue with the Chancellor, Foreign Secretary and Minister of Agriculture, each supported by one official, at 5pm tomorrow. The following papers are relevant:-

(i) The Foreign Secretary's minute "Community Budget Problem", dated 15 October.

[will you Kohl papers]

(ii) The Foreign Secretary's minute "Informal Meeting of Foreign Ministers 16/17 October", dated 18 October.

(iii) OD(82) 68, a note by the Official Steering Committee on the Review of the Community's Financial Arrangements.

(iv) OD(82) 69, the progress report by the Treasury and the Foreign Office on the campaign to change expectations in other member states.

2. Following my talk with the Prime Minister this morning, I suggest that she might aim to steer tomorrow's meeting to the following conclusions.

Review

cautious

3. When Thorn proposes a review in November (as he says he will) the United Kingdom's reaction should be cautious. We should point out the difficulties - the time it would take and the danger that the exercise would run into difficulties because it was over-ambitious as did the 30 May Mandate. We should not commit ourselves to it until we were sure that the bandwagon was rolling strongly in favour of it. Meanwhile, we should privately consult the Germans about the conditions on which we might go along with it if the majority were in favour (as they probably will be). These conditions might, subject to German views, include:-

/(i)

CONFIDENTIAL

(i) A commitment to seek lasting solutions to the United Kingdom and German budget problems as a part of the review;

(ii) An effective means of controlling the rate of growth of agricultural expenditure; and

(iii) No presumption of any increase in own resources as a result of the review. (I would recommend against a declaration that we would never in any circumstances agree to an increase in own resources. Sir J Taylor is not at all sure that the new Government would stick to this line and we might find ourselves isolated.)

Interim soltuion

4. If Thorn proposes an interim solution for 1983, 1984 and "possibly" 1985 (as he says he will), we should make it quite clear that this would only be acceptable if it respected the principle of the 30 May Agreement, namely:-

(i) A basic 66% refund of the Commission estimate of the United Kingdom's unadjusted net contribution for each year.

(ii) A risk-sharing formula compatible with the 30 May Agreement.

We should say that our attitude to over-payments would be determined by other Governments' attitude to the basic nature of the settlement as defined above.

Withholding

5. No decision on withholding should be taken until the second half of November. The decision would probably need to be endorsed by Cabinet. The contingency planning should proceed so as to ensure that the necessary legislation could, if Ministers so decided, be enacted before Christmas.

/Anglo/German Summit

Anglo/German Summit - 28/29 October

6. At the Anglo/German Summit the Prime Minister should emphasise the Government's commitment to the Community and sympathy with the new German government's desire to give it a new impetus but stress that a fair and lasting solution to the budget problem was a necessary condition for any successful impetus. The Prime Minister should aim to convince Chancellor Kohl that the development of the Community depended on effective cooperation between the German, United Kingdom and French governments and that the German government shared with the UK an interest in establishing a better system of control over Community expenditure and a permanent check on the size of the net contributions of the net contributors.

7. The Chancellor of the Exchequer should go into greater detail with Herr Stoltenberg on ways in which a check on the size of the net contributions of net contributors might be achieved.

Subsequent meetings

8. The line to take at the Anglo/French Summit would be influenced by the reaction of the Germans. There is no point in deciding the line at the European Council until after we have seen what Thorn proposes and how others react to those proposals.

9. It seems to me that conclusions on the above lines would give the Foreign Secretary and officials all the guidance they need for the rest of this month. A further meeting of the ad hoc group might be arranged for 1st, 2nd or 3rd November. There is no pressing need for a meeting of OD on this subject at present.

D.H.

D J S HANCOCK

19 October 1982

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

PRIME MINISTER

COMMUNITY BUDGET PROBLEM

I confirm that I agree with the approach recommended by the Foreign and Commonwealth Secretary in his minute to you of 15 October.

2. I think we have to try this approach. But I remain doubtful of the chance of it leading to a satisfactory result. Attitudes of other countries seem, if anything, to be hardening, which makes it rather more likely that, if we are to get them to face the kind of radical and structural changes we want, we shall need at some point to move to "withholding".

3. If that stage is reached, we shall want to present our move as a response to the unreasonableness of others. It makes sense, therefore, to test their reasonableness as far as we can on the lines suggested by the Foreign and Commonwealth Secretary, but to be prepared to take stock and adopt a different strategy if it looks as if we are not going to be able to secure our minimum requirements. The early December European Council will be a critical occasion to take stock, and decide either to reinforce the Foreign and Commonwealth Secretary's efforts, or move to a new strategy.

4. I am sending copies of this minute to the Foreign and Commonwealth Secretary, the Minister of Agriculture and Sir Robert Armstrong.

G.H.

19 October 1982

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Francis Pym MC MP
Secretary of State
Foreign & Commonwealth Office
Downing Street
London SW1A 2AL

N.B.P.M

AR 20/10

19 October 1982

Dear Francis,

Additionality

Your minute of ~~18~~ 16? September raised a number of points on follow-up to the OD(E) meeting on 27 July.

Net contribution before refunds

There is no disagreement between us on the importance of reducing our net budget contribution before refunds (paragraph 2 of your minute).

Social Fund

I see no objection to circulating the conclusions of discussions between the Treasury and the Department of Employment concerning ways of maximising receipts from the Social Fund as an OD(E) paper.

Regional Fund

On the Regional Fund I do not believe there is much between us. My formulation was that we should be sympathetic to bids which would lead to a net reduction in public expenditure relative to what would happen if we rejected the bid. Your formulation is that we should be sympathetic to bids where the EC receipts would not otherwise be obtainable and net public expenditure would not be increased. These formulations seem to be very similar: both are simplified summaries of the approach set out in the Treasury paper mentioned in my earlier letter (EQS(82)8).

Presentational changes

You suggested that the Public Expenditure White Paper tables for Regional and Social programmes should be disaggregated to show receipts from the Regional and Social Funds separately. I see merit in this and my officials have work in hand. As to method,

I propose that, beneath the 'programme total' lines in each of the relevant sections of the tables, we should insert new lines showing how much of the total programme has been, or will be, financed from EC sources.

The report to OD(E) did, as you say, propose the inclusion of a new table in the Chief Secretary's Memorandum (not the PEWP) showing total Regional Fund receipts. As noted in my earlier letter to you of 17 August, we are laying plans accordingly.

Once all the presentational changes have been fully worked out, my officials will, as you suggest, circulate a note in the PESC series summarising the new arrangements.

New Policy Statement

Finally, I agree with you in not favouring Patrick Jenkin's suggestion that we make an announcement linking our refusal to implement additionality to our budget problem.

I am copying this minute to the recipients of yours.

Yours ever
Leon

LEON BRITTAN

Euro Pol

Budget

FILE

RM

10 DOWNING STREET

From the Private Secretary

19 October, 1982

EC BUDGET

The Prime Minister has decided not to hold a meeting of OD on this question tomorrow. Instead, she would be grateful if the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and the Minister for Agriculture could attend a meeting at the time originally set aside for OD (1700 hrs) to discuss not only the two papers which were on OD's agenda (OD82 No. 68 and 69) but also Mr. Pym's minute of 15 October. Each Minister may be accompanied by an official. In addition, Mr Hancock is invited to attend.

I am copying this letter to John Kerr (HM Treasury), Robert Lowson (Ministry of Agriculture, Fisheries and Food) and Richard Hatfield (Cabinet Office).

A. J. COLES

Sy

B. Fall, Esq.,
Foreign and Commonwealth Office

CONFIDENTIAL

(1).

May I have letter going back to 1979 – a unanimous net contribution of all Community members. My recollection is that we were the certainly our predecessors for not negotiating a better regime. MT

PRIME MINISTER

EC BUDGET

OD on Wednesday will discuss papers on:-

a) The campaign to change expectations.

b) The review of the Community's financial arrangements.

Both of these are attached and you may care to read them over the weekend.

Meanwhile, in the attached minute, which has been agreed with the Chancellor of the Exchequer and the Minister of Agriculture, the Foreign Secretary asks whether you are content with the broad approach which he proposes to adopt to the problem of our 1982 refunds and our refunds for 1983/84 and (possibly) 1985. Are you content with Mr. Pym's proposals?

May I see the Hansard

Re 07/82/68 No – this goes against everything we have pledged in the past. A.J.C.

15 October 1982

i.e. No interest in our persons. The point is that gross contributions matter as well as net. MT

We must look at our remedies before decision intervenes for the previous govt. MT

PM/82/82

PRIME MINISTER

Community Budget Problem

1. A meeting of OD has been arranged for Wednesday 20 October to consider a progress report on action taken since the Committee's last discussion of the Community budget problem and a paper by officials on what the UK might aim to get out of the fundamental review of Community finances which the Commission are likely to propose some time this autumn.

2. This minute is principally concerned with the more immediate problem of UK refunds for 1982, 1983, 1984 and (possibly) 1985. I have discussed it with the Chancellor of the Exchequer and the Minister of Agriculture who are, I understand, in general agreement with what it says.

1982 Refunds

3. Our first aim, in the immediate future, must be to overcome French back-sliding and secure the implementation of the 1982 agreement reached on 25 May. There are some signs that the French may be seeking agreement and I shall do everything possible to get one at the October Foreign Affairs Council.

The solution for later years

4. Our objective must continue to be a lasting solution to the problem. But I think that we must realistically recognise that there are difficulties in the way of securing that objective in one bite:

(i) Many of the other member states will do all they can to avoid a lasting solution; and the prospect of a wide-ranging review made necessary by

/enlargement

enlargement and the potential exhaustion of own resources gives them a perfect excuse for refusing to discuss the possibility in advance of the review.

(ii) The French in particular will be adamant in refusing commitment to anything beyond 1984. (They have even tried to go back on that date.) The others will contentedly hide behind the French.

(iii) Political changes in a number of other member states and the general economic climate will make it virtually impossible for their governments to commit themselves to far-reaching decisions this year or in the early months of next year.

5. When the negotiations on the post-1982 arrangements begin, we must obviously continue to insist on the need for a durable and definitive solution. The initiative lies with Thorn who, in view of the difficulties mentioned in paragraph 4 above, is likely to propose that the solution be sought in two stages, namely (i) a major review which would look at the problems of enlargement and own resources as well as the problem of unacceptable situations and (ii) an interim solution for the United Kingdom while the review is going on.

6. If he does make such a proposal, I consider that it would be in our interest to agree to negotiate on that basis and seek to ensure that the terms of reference for the review make it clear that a lasting solution to our problem will be one of its objectives and that the interim solution meets our requirements. On the second point, it is obviously crucial that the terms of the interim settlement do not prejudice our chances of obtaining a satisfactory long term solution as a result of the review.

/7. If the

7. If the Thorn proposals fail, as well they might, and the end-November deadline is passed with no sign of progress towards agreement, then we shall have to consider our policy again. One possibility, in such circumstances, would be to make it quite clear that we were no longer prepared to participate in successive negotiations of short term solutions and that the Community should immediately proceed to negotiate a lasting solution independently of the questions of enlargement and the possible exhaustion of own resources. We should need to think further about precisely how and when to make such a change in our position and also whether we should at any stage threaten to withhold our contribution if the Community failed to agree on a lasting solution by any particular date.

8. In the meantime the following decisions are needed:

(i) what our requirements are for the scope of the review. This is for decision at OD on 20 October on the basis of the report by officials, OD(82)68;

(ii) what our requirements are for the years while the review is going on - ie the 'interim solution' is discussed below.

The interim solution

9. A review would take time. The Commission might reasonably be asked to submit their proposals by the spring of 1983. But experience suggests that the subsequent negotiations would take at least a year. In other words, we could not realistically hope to be able to report the outcome of a successful review before the next election.

10. At Chevening Thorn mentioned the possibility of an interim solution lasting 2 or 3 years. Obviously if a 3 year deal were on offer on satisfactory terms we should agree; but the French position makes it unlikely that we should get an agreement for longer than 2 years.

/11. We have

11. We have received no official indication of what the Commission are likely to say about figures. From what we have picked up in informal contacts it appears that the most they are likely to propose is a refund of around 1,000 mecu in 1983 towards an estimated unadjusted net contribution of some 1,800 - 1,900 mecu. Assuming a two-thirds basic refund this would imply a further restitution of some 200 - 270 mecu in respect of the alleged over-payments. They may not suggest any figure for refunds for 1984 on the grounds that the Commission are quite unable to forecast the unadjusted net contribution so far in advance.

12. This is clearly not good enough. We must do what we can to persuade the Commission to improve on these ideas before Thorn tables them. Both in this lobbying campaign and in subsequent negotiation, our requirements should be as follows:

(i) A basic 66% refund of the Commission estimate of our unadjusted net contribution for each year.

(ii) The best risk-sharing formula obtainable. Our opening position should be that we require a formula mid-way between those agreed for 1980 and 1981. Our fall-back should be a formula no worse than that for 1982.

(iii) The smallest possible further restitution of the alleged 'over-payments'. Our first objective should be to discredit the French argument that the other member states have a legal right to restitution. But we should at the appropriate time indicate that we are prepared to make a further gesture comparable in size to the restitution of 158 mecu which we agreed on 25 May provided that others meet us on (i) and (ii) above. If it would clinch the deal we should be prepared to agree to a further restitution of 250 mecu in full and final settlement divided equally between the 2 years

/1983

1983 and 1984 (or, if appropriate, the 3 years 1983 - 85).

Forthcoming meetings

13. I now turn to the three key meetings that you will be attending between now and mid-December.

Anglo/German Summit - 28/29 October

14. Your meeting with Chancellor Kohl on 19 October is unlikely to get into detail on Community issues. The Anglo/German Summit on 28/29 October will be our first opportunity to convince Chancellor Kohl and his CDU/CSU colleagues of the need to find a lasting solution to the budget problem that is fair to both Germany and to the United Kingdom. The Schmidt government was largely responsible for the breakdown in the negotiations in the spring. They declined to co-operate with us in finding a lasting and Community solution to the problem and they took the line that Germany only had a problem because of the need to contribute to refunds insisted on by the United Kingdom. They led the pack in pressing for a low figure for our basic refund and then in addition refused to pay their normal share of it.

15. It will clearly be very difficult for the Kohl government to concede a normal financing share for UK refunds in respect of 1983 and 1984, given what their predecessors achieved for 1982. But we must not miss this opportunity to persuade them to be more constructive than their predecessors. We need to convince them that it is in their interest to make the review an occasion for establishing both a better system of control over Community expenditure and also a permanent check on the size of the net contributions of the net contributors. In doing this we must be very careful not to give them the impression that we are trying to gang up against France. Kohl will not co-operate in an explicitly anti-French policy.

and gross contributors as well.

/Anglo

Anglo/French Summit - 4/5 November

16. Mitterrand will, no doubt, attempt to confine his remarks about the budget problem to a broad general statement of his position. He can be expected to listen without much comment to what you say and to suggest moving on to other business. This would accord with his policy of containing contentious issues so that they do not damage the broad pattern of Anglo/French relations. He will thus leave himself free to encourage his Ministers to be exceedingly tough in the detailed negotiations.

17. It will not be in our interest to allow him to conduct the Summit in this way. The French President must be made to realise that the budget issue, if unresolved, would do profound damage to relations between Britain and France, France and Germany and the future of the whole Community. He must be convinced that there is no way in which France will avoid contributing to refunds for the UK in respect of 1983 and 1984. If at all possible, we should also persuade him to co-operate with the UK and Germany in working out a viable system for the longer term. We should point out that French interests would be served by such a system, since in the longer term after enlargement the French might well become permanent net contributors to the budget.

European Council - 3/4 December

18. If the 1982 issue is not solved by then or, even though that issue is solved, there has been no progress towards a solution for the longer term, the UK will have no alternative but to make the Budget problem a major subject on the agenda of the European Council. Our policy would need to be reviewed as I have suggested in para 7 above.

/19. A more

19. A more favourable possibility is that the 1982 refunds will have been settled and, although no decision has been taken about later years, there seem good prospects of getting a satisfactory two-stage solution. Our aim at the Council on this hypothesis must be to get a procedure agreed for solving the problem along the lines of paras 5-6 and paras 8-12 above before the first European Council under German Presidency (whenever that is - the date currently planned, 21/22 March, may be affected by the General Elections in Germany).

Conclusion

20. I should be glad to have your confirmation that you are content with the broad approach recommended above.

21. I am sending copies of this minute to the Chancellor of the Exchequer, the Minister of Agriculture and Sir Robert Armstrong.

(FRANCIS PYM)

Foreign and Commonwealth Office
15 October, 1982

3.14

Euro Pol (2)

Prime Minister

You may like to be aware of this publication.

A.J.C. 13/10

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

13 October 1982

R B Bone Esq.
Private Secretary to the
Secretary of State for Foreign and Commonwealth Affairs

Dear Roger,

MT

THE COMMUNITY BUDGET

As you know, the October issue of the Treasury's Economic Progress Report, published this afternoon, will include a self-contained supplementary article (copy enclosed) on "The Community Budget: Net contributions and receipts".

It discusses how satisfactorily the net budget contributions and receipts of individual member states measure their financial benefits or burdens from Community policies and the budget, and concludes that net contributions and receipts do provide a valid measure but that it is important not to lose sight of net gains and losses outside the budget on trade in agricultural products, which make the UK's problem worse.

Clearly the article is not obligatory ministerial reading; but copy addressees may wish to be aware of its existence and of the reasons for publishing it. It is designed as much for the overseas audience of Community experts in Brussels and other European capitals as for our own domestic audience. Its main purpose is to pre-empt, as far as possible, further attempts by the Commission and other member states to do away with the concept of net contributions. (A special effort is being made to ensure suitable distribution in other member capitals.) The purpose of the article is thus different from, but complementary to, that of the brief on the EC Budget problem which was published recently by the FCO. It provides a technical assessment of the net budget contributions concept, whereas the brief directly states the UK's case.

Copies of this letter and the article go to John Coles at No.10, David Heyhoe (Lord President's Office), John Rhodes (DOT), Robert Lowson (MAFF), Jonathon Spencer (DOI), Barnaby Shaw (D.E.), Richard Bird (Transport), Muir Russell (Scottish Office), Adam Peat (Welsh Office), Stephen Boys Smith (NIO) and Richard Hatfield (Cabinet Office.)

Yours ever,

John Kerr

J O KERR
Principal Private Secretary

Economic Progress Report Supplement/October 1982

The European Community budget: net contributions and receipts

H M Treasury

The European Community budget: net contributions and receipts

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

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

Community budget

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

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

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

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

These revenues belong to the Community.

Net contributions and receipts defined

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

Scale and pattern

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

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

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

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

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

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

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

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

Source: EC Commission

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

Note

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

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

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

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

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

Significance of net budgetary contribution and receipt figures

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

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

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

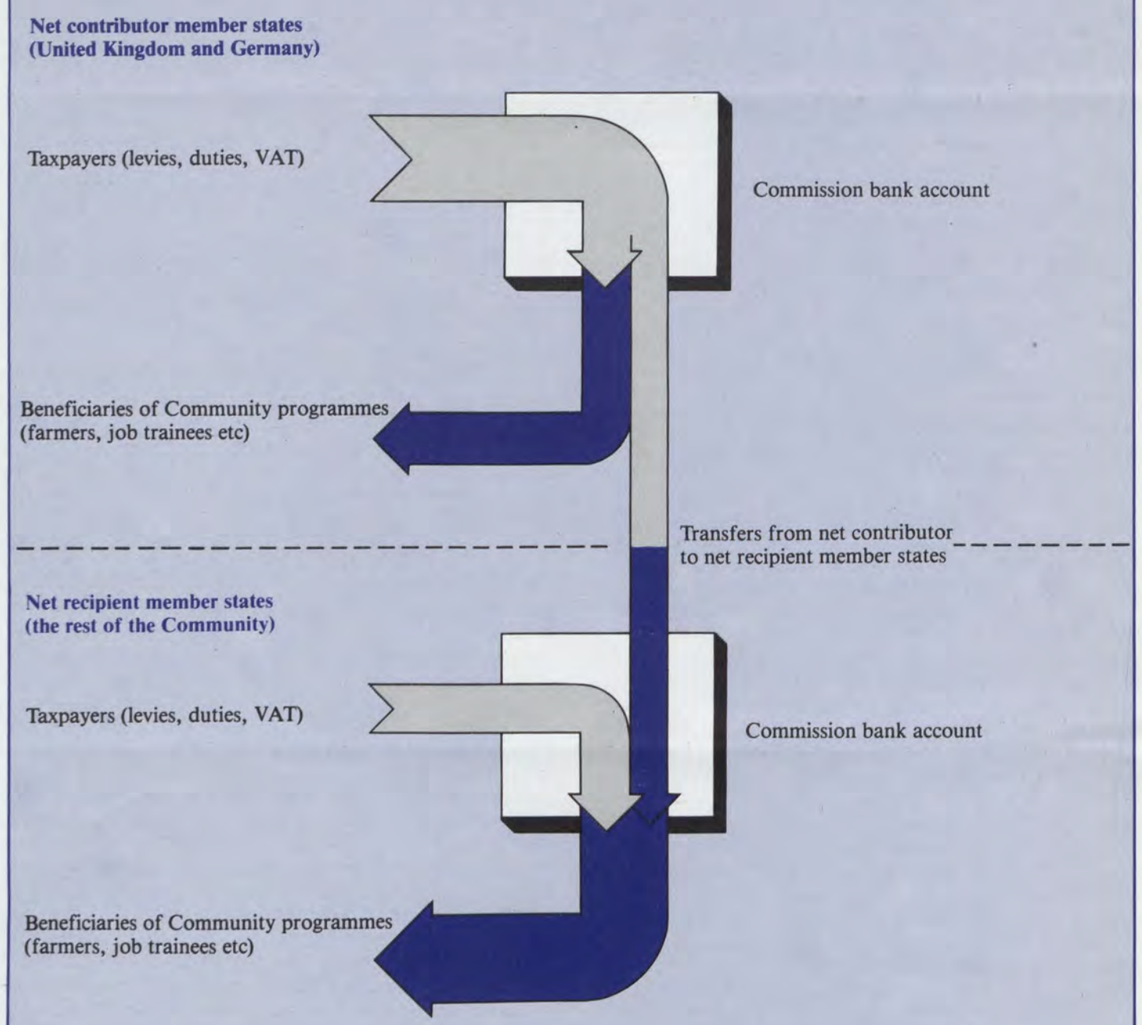
It is sometimes suggested that these net transfers between member states are no more than a statistical artefact.* They can certainly be expressed in statistics. But they are no mere artefact. They are reflected in actual flows of money from one member state to another. They represent a transfer of resources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

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

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

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

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



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

Limitations of net contribution and receipt figures

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

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

i *gross contributions* collected in a member state may not accurately reflect the burden on taxpayers of that state;

ii similarly, *gross receipts* paid to residents of a member state may not accurately reflect the benefits to citizens of that state; and

iii it is not immediately obvious how *monetary compensatory amounts* (MCAs) should be treated.

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

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

Gross contributions (the 'Rotterdam/Antwerp effect')

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

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

Gross receipts

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

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

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

Monetary compensatory amounts (MCAs)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Other non-budgetary gains and losses

Other Community policies, as well as the CAP, may generate economic costs and benefits as between member states which are not reflected in net contributions to or receipts from the budget. The most important of these is the customs union in industrial goods, where the common external tariff may tend to raise the prices of manufactured goods traded inside the Community. The customs union in industrial goods differs, however, from the CAP in not providing a system of price support backed up by budgetary subsidies for the disposal of surplus production. Where the common external tariff affords some protection, the differences between world and Community prices are generally small, so that there is little extra cost in buying from Community suppliers rather than the rest of the world. In addition to these static effects, moreover, all member states are likely to enjoy, in some measure, the dynamic benefits generally associated with a free market in industrial goods. Thus, although the costs and benefits of other Community policies for different member states are extremely difficult to quantify, there must be a presumption that the costs are small and the benefits widely spread. There is certainly no presumption that gains and losses by member states arising from Community preference in industrial trade will offset those on agriculture and the budget. Net importers of Community foods are not always net exporters of manufactures to the rest of the Community. The UK, for example, is a net importer of Community manufactures as well as of Community food.

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

Relevance and avoidability

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

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

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

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

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

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

Conclusion

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

- Subject to some technical qualifications noted below, net budget contributions and receipts *do provide a valid measure of member states' net burdens and benefits from the budget.* They are reflected in outflows of real money from the taxpayers of the net contributor countries to beneficiaries in the net recipient countries.

- The main technical qualification is that import levies are likely to be allocated to the wrong country in cases where imports from outside the Community come via another Community country. A similar problem of *misallocation* may arise with receipts from the Community budget in respect of agricultural products exported from the Community via another Community country. These problems are likely to mean that the net contribution of Germany and the net receipts of the Netherlands and Belgium are all understated. The figures for the UK are unlikely to be much affected either by these problems or by the precise treatment of expenditure on Community institutions.

- Figures for the net budgetary positions of member states *do not, however, give a complete picture.* In particular, they take no account of net gains and losses outside the budget on intra-Community trade in agricultural products receiving Community price support (with which net budgetary contributions and receipts are in practice to some extent interchangeable). The total financial impact of the Community's policies on member states who are net importers of temperate products, including Italy and the UK, is less favourable than the net budget contribution figures imply; while the total impact on member states producing surpluses of these products is more favourable.

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CONFIDENTIAL

PRIME MINISTER

Community Affairs

The Minister of Agriculture, Fisheries and Food will wish to report the outcome of the Fisheries Council on 4th October. As expected, the new Danish Minister maintained his country's demands for further concessions on quotas, particularly for mackerel, and on access to United Kingdom waters as their price for agreement to a Common Fisheries Policy. Mr. Walker is meeting his colleagues from France, Germany and the Netherlands in Rotterdam on 18th October to agree on a joint demarche to Denmark to stress the importance of agreement at the next Fisheries Council on 25th-26th October. The Minister will be continuing his strenuous efforts to reach a settlement before the derogations in the Treaty of Accession run out on 1st January 1983, but precautionary consideration is being given to the action which would then need to be taken to prevent uncontrolled fishing. The Minister will be consulting his colleagues on the various options and their implications.

2. The Minister of Agriculture may also wish to report that he has communicated to the Commission and other member states the United Kingdom's measures for controlling poultry imports. These comply fully with the European Court's judgment on Newcastle disease and will permit a substantial resumption of trade while safeguarding the health of our national poultry flock.

3. The Minister of Agriculture may also wish to refer to the informal meeting of Agriculture Ministers in Copenhagen on 11th-12th October which was largely devoted to the Community's butter surplus, New Zealand butter imports, and possible butter exports to the USSR.

4. The Secretary of State for Industry may wish to report the latest state of play on the Community's dispute with the United States over steel imports. The decisions on the countervailing duties are now expected to go to the United States Department of Commerce on 21st October. The Commission believe that there is a possibility of the United States Administration persuading its industry to accept its August agreement with the Community subject to a few relatively small changes.

COMMUNITY

Unresolved problems are the Americans' wish for an associated arrangement on pipes and tubes and new action by United States industry against stainless steel imports from the United Kingdom. The outcome is likely to remain uncertain right up to the deadline; officials will be putting forward to Ministers a note of the options available to the United Kingdom if the negotiations for a voluntary settlement fail.

5. The Secretary of State for Trade may wish to report on the difficulties created for British industry (and especially the car industry) by President Mitterrand's moves to delay Spanish accession. Officials are now preparing submissions to Ministers seeking approval for:-

(i) New proposals to speed up the reduction of Spanish tariffs on certain critical products after accession; and

(ii) insistence that the Community consider retaliating against Spain in the period before accession either by invoking the safeguard clause of the 1970 Trade Agreement or by imposing countervailing duties on certain Spanish exports or both.

6. Next week there will be an informal meeting of Foreign Ministers on 16th-17th October and of the Agriculture Council on 18th-19th October. OD will meet on 20th October to consider a paper by officials on what the United Kingdom might aim to get out of the fundamental review of Community finances which the Commission are likely to propose this autumn. A progress report on action since the Committee's last discussion of the Community Budget problem will also be on the agenda.

RCA

Robert Armstrong

13th October 1982

Copy filed on Euro Pol: Cap: Part 10

Euro Pol.

Ref: A09579

CONFIDENTIAL

PRIME MINISTER

Community Affairs

The Foreign and Commonwealth Secretary has already reported to you by telegram on the outcome of the Foreign Affairs Council on 20th-21st September, when the French prevented agreement on the implementation of the 25th May agreement on the United Kingdom's 1982 Budget refunds. He may, in Cabinet, wish to report on his talks with the French Foreign Minister on 22nd September, when he pointed out that all other member states and the Commission agreed that the United Kingdom should receive 850 million ecu net for 1982 and that the alleged overpayments should be considered in relation to future years. In the Foreign Affairs Council France had argued that part of the United Kingdom's refunds should be deducted from the restitution of the alleged overpayments; but in his discussion with the Foreign and Commonwealth Secretary the French Foreign Minister failed to make this point and suggested instead that their difficulties were with the proposed compensation for Germany.

2. The Minister of Agriculture, Fisheries and Food may wish to report on the outcome of the Agriculture Council on 20th-21st September when the French pressed him to introduce a new regime for poultry imports by 30th September so that French exporters could take advantage of the Christmas turkey trade. Mr. Walker made it clear that the United Kingdom was acting speedily to comply with the European Court's judgment on Newcastle disease and had put proposals to the Commission and other member states which, while allowing poultry imports to resume, would protect the United Kingdom flock. The United Kingdom protested at the French blocking British lamb exports by delays for hormone tests. The Commission promised action. French and Irish opposition prevented agreement on New Zealand butter imports for 1983.

3. The Minister of Agriculture, Fisheries and Food may also wish to report on the talks on 21st September between his Minister of State and the new Danish Fisheries Minister, who maintained the previous Administration's uncompromising line on the Common Fisheries Policy.

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4. The Secretary of State for Industry may wish to report on the dispute with the United States over steel imports. The deadline for the introduction of the United States measures has been postponed to 15th October, and the United States Administration is still trying to persuade the United States industry to go along with the 5th August agreement with the Community. The Foreign Affairs Council on 20th-21st September reaffirmed the Community's intention to implement the agreement, thus putting the ball back in the United States Government's court. The United States is still pressing for a cut in EC exports of steel pipes and tubes, and the Council authorised Commissioner Davignon to see what the Community could do to meet this request.

5. There was an Informal Meeting of Labour and Social Affairs Ministers on 27th-28th September, but the Secretary of State for Employment is unlikely to wish to say anything about it in Cabinet.

6. There will be a Fisheries Council on 4th October to try and agree on the Common Fisheries Policy, though the attitude of the new Danish Government makes agreement unlikely. There is also likely to be a special Foreign Affairs Council early in the month to consider the latest developments on EC/United States steel.

RTA

Robert Armstrong

27th September 1982

010 Eur Pol Budget

CONFIDENTIAL

cc: PM TOURS: ANGLO/GERMAN BILATERAL: MAY 1982. cc Press Office ii) Anglo/French Summit iii) European Council: Copenhagen

Foreign and Commonwealth Office

London SW1A 2AH

Mr Coles 010

24 September, 1982

Dear Michael,

Speeches in Europe

At OD on 22 July it was agreed that there would be value in a series of Ministerial speeches during the autumn, which would both firmly state our case on the budget but would, at the same time, set out in a positive fashion our views on the future development of the Community. Our principal aim would be to influence Community opinion in the context of the budget negotiations.

The first two speeches in this series - Mr Pym's in Copenhagen on 10 September, and Mr Hurd's in Brussels on 20 September - have now been delivered. The rest of the programme is shaping up as follows:

Mr Baker	Paris	28 September
Mr Tebbit	The Hague	4 October
Mr Walker	Paris	5 October (not yet confirmed)
Mr Prior	Rome	12 October
Mr Rees	Bremen	Mid-October (not yet confirmed)
Sir Geoffrey Howe	Frankfurt	28 October (not yet confirmed)
Mr Heseltine	Antwerp	3 November
Mr Rifkind	Luxembourg	11 November
Mr Lawson	Bonn	29 November

The first two speeches have set the stage for a more detailed elaboration of positive British thinking in the fields for which the individual Ministers concerned are responsible. Mr Pym does not suppose that such a programme of speeches will make the budget negotiations less tough and difficult than they would otherwise be; but he remains convinced that we should do all we can to influence European opinion if we are to achieve our aims. As the going on the budget gets rough, as it certainly will, it will become all the more important to bring out the positive role we wish to play in the Community as an antidote to the negative response which the budget negotiations will certainly arouse.

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/Mr Pym

Mr Pym feels that the exercise would pay much greater dividends if the Prime Minister were seen to be personally involved in it. He therefore hopes that she will agree to appear on German and French TV at the time of the Anglo-German Summit on 28/29 October and the Anglo-French Summit of 4/5 November. Press interviews and signed articles for the press, to coincide with these Summits, would also be most valuable. In addition the Prime Minister may wish to consider using a speech - or part of a speech - to bring together the various themes and ideas developed by other Ministers. This could be done either in Europe or at home. Late November must be the ideal time to wrap up the programme of speeches before the Copenhagen Summit on 3/4 December; but there would be value in such a speech even after the Copenhagen Summit - perhaps to mark the 10th anniversary of British Community membership (which falls in the new year), in a way which lays emphasis on the challenges of the future.

Yours ever,

(B J P Fall)
Private Secretary

M Scholar Esq
Private Secretary
10 Downing Street

GRS 1038

CONFIDENTIAL

IMMEDIATE

FM FCO 232230Z SEP 82

TO PEKING

TELEGRAM NUMBER 441 OF 23 SEPTEMBER

FOLLOWING TELEGRAM NOW REPEATED TO YOU FOR P.M.'S PARTY AT REQUEST OF PRIVATE OFFICE, WAS RECEIVED FROM PARIS TELNO 914 OF 23 SEPT.

AND TO IMMEDIATE UKREP BRUSSELS WASHINGTON UKMIS NEW YORK

INFO ROUTINE ATHENS BRUSSELS COPENHAGEN THE HAGUE LUXEMBOURG

ROME DUBLIN BONN

YOUR VISIT TO PARIS: 22 SEPTEMBER

1. YOU VISITED PARIS YESTERDAY EVENING FOR TALKS WITH CHEYSSON FOLLOWED BY ANNER, A TOTAL OF F14 £974' ⌖8':7''89,. CHANDERNAGOR WAS PRESENT DURING DISCUSSIONS ON COMMUNITY AFFAIRS. THIS TLEGRAM SUMMARISES THE MAIN TOPICS COVERED AND MIFT CONTAINS BRIEF COMMENTS, FULLER RECORD FOLLOWS BY BAGWM

A. COMMUNITY AFFAIRS

1. 1982 BUDGET REFUNDS.

2. IN A PRIVATE WORD WITH CHEYSSON BEFORE THE TALKS YOU EXPRESSED CONCERN AT CHANDERNAGOR'S PERFORMANCE ON THIS ITEM AT THE 20 SEPTEMBER COUNCIL (UKREP ZRUSSETS TEL NO 3446). YOU THEN OPENED THE TALKS BY RECALLING THAT THE 25 MAY AGREEMENT WAS CLEAR: THE UK WOULD RECIEVE 850 MILLION ECU NET AND ALEGED OVER-PAYMENTS WOULD BE CONSIDERED IN RELATION TO FUTURE YEARS. EIGHT MEMBER STATES AND THE COMMISSION SHYJED OUR VIEW. ONLY CHANDERNAGOR HAD ARGUED AGAINST THAT INTERPRETATION IN BRUSSELS.

3. CHEYSSON ARGUED THAT HIS GOVERNMENT HAD INHERITED AN ARRANGEMENT WHICH IT HAD ALWAYS CONTESTED. IT DID NOT ACCEPT THE CONCEPT THAT THERE WAS AN UNACCEPTABLE SITUATION WHICH SHOULD QUALIFY FOR AUTOMATIC COMPENSATION THROUGH THE COMMUNITY BUDGET. THE SOLUTION TO BUDGET IMBALANCES LAY IN THE EVOLUTION OF NEW COMMUNITY POLICIES OF INTEREST TO NET CONTRIBUTORS. FRANCE HAD RELUCTANTLY AGREED THAT THE UK SHOULD RECEIVE 850 MILLION ECU, BUT NEVER THAT GERMANY SHOULD RECEIVE COMPENSATION THROUGH BUDGETARY TRANSFERS. THE CREATION OF POLICIES OF INTEREST TO

GERMANY SHOULD BE CONSIDERED IN CONJUNCTION WITH THE OVERPAYMENTS TO THE UK AND WITH ARRANGEMENTS FOR SUBSEQUENT YEARS. THE FRENCH ECONOMY HAD RUN INTO ROUGH WATERS AND IT WAS POLITICALLY IMPOSSIBLE FOR HIM TO GO BEYOND THE STRICT TERMS OF THE 25 MAY AGREEMENT. FINALLY A BUDGETARY ARRANGEMENT FOR GERMANY WOBGJ LEAD TO CLAIMS FROM THE LESS PROSPEROUS FOR DIRECT COMPENSATION THROUGH THE BUDGET. USE SHOULD BE MADE OF THE 1981-82 BUDGET SAVINGS TO HELP FIND A SOLUTION.

4. YOU RETORTED THAT IT WAS IMPOSSIBLE TO GO BACK ON THE 25 MAY AGREEMENT. THE AGREEMENT WAS REACHED AND ONE COULD NOT RESILE ON IT. EVERYONE INTERPRETED IT IN THE SAME WAS EXCEPT FRANCE. NEW POLICIES WERE NEEDED, BUT ALL THIS WOULD TAKE TIME. USE OF THE 1981-2 SURPLUSES SHOULD BE EXPLORED AND FURTHER IDEAS FOR SOLVING THE PROBLEM OF THE 65 HECU FOR THE UK COULD BE CONSIDERED, BUT THE ESSENTIAL POINT WAS TO BRING THE 25 MAY AGREEMENT INTO EFFECT AT OR BEFORE THE NEXT COUNCIL.

2. FUTURE BUDGETS AND FUTURE COMMUNITY ACTIVITY

5. YOU RESTATED THE IMPORTANCE OF REACHING A BUDGET AGREEMENT TO COVER AT LEAST THE NEXT TWO TO THREE YEARS. CHEYSSON ADVOCATED A WIDER BRAINSTORMING SESSION ON THE COMMUNITY'S FUTURE, COVERING OWN RESOURCES, ENLARGEMENT AND THE EUROPEAN DIMENSION OF INDUSTRIAL DEVELOPMENT. THE COMMUNITY COUNTRIES SUCCEEDED IN STANDING TOGETHER TO FACE EXTERNAL ECONOMIC THREATS AND TO ASSIST DECLINING INDUSTRIES. THEY SHOULD ALSO TAKE THE INITIATIVE IN ADVANCED TECHNOLOGY. SUCH TECHNOLOGY SHOULD BE PRESENTED AT THE COMMUNITY LEVEL TO INDUSTRIALISING NATIONS, LEAVING EUROPEAN COMPANIES TO COMPETE FREELY AMONG THEMSELVES IN THE MARKET THEREAFTER. YOU AGREED THAT IT WOULD BE WORTH CONSIDERING WHETHER COLLECTIVE ACTION MIGHT HELP THE COMMUNITY TO WEATHER RECESSION, STAND UP TO COMPETITION AND PROMOTE NEW TECHNOLOGY DIRECT BROADCASTING SATELLITE (DBS) WAS A CASE IN WHICH BOTH BRITAIN AND FRANCE HAD AN INTEREST. BUT NONE OF THIS COULD CHANGE THE IMMEEIATE SITUATION AND WE SHOULD AIM FOR A BUDGETARY SETTLEMENT, AS PREVIOUSLY AGREED , BY NOVEMBER.

3. ENLARGEMENT

6. CHANDERNAGOR (IN CHEYSSON'S TEMPORARY ABSENCE) SAID FRANCE WOULD INSIST THAT INTERNAL COMMUNITY WORK ON THE IMPLICATIONS OF ENLARGEMENT PROCEED AT THE SAME PACE AS NEGOTIATIONS WITH CANDIDATE MEMBERS. THE COMMUNITY'S MEDITERRANEEN ASSOCIATES WOULD NEED TO BE HELPED TO FACE PROBLEMS OF ADJUSTMENT CAUSED BY THE ACCESSION OF SPAIN AND PORTUGAL.

B. THE SIBERIAN PIPELINE

7. CHEYSSON DECLINED, SOMEWHAT APOLOGETICALLY, TO COMMIT HIMSELF IN ADVANCE TO A MEETING A CINQ IN NEW YORK, MAINTAINING THAT EUROPEAN GOVERNMENTS SHOULD NOT PUBLICLY MAKE THE FIRST MOVE TOWARDS REAGAN. BUT HE EXPRESSED CONFIDENCE THAT THROUGH BILATERAL CONTACTS WITH SHULTZ A WAY TOWARDS SUCH A MEETING WOULD BE FOUND. HE AGREED WITH YOUR SUGGESTION THAT THERE SHOULD BE A COLLECTIVE ATTEMPT BY WESTERN GOVERNMENTS TO ANALYSE THE SOVIET ECONOMY AND CREATE A FRAMEWORK FOR AGREEMENT ABOUT THE EFFECTS OF EAST/WEST TRADE. HE SAID THAT FRANCO/US RELATIONS, THE PIPELINE APART, WERE SATISFACTORY.

ON THE QUESTION OF WHAT MIGHT BE OFFERED TO HELP DEFUSE THE PROBLEM HE COULD ONLY SUGGEST MAKING USE OF THE ACTUAL DECLINE IN FRENCH TRADE WITH THE SOVIET UNION AND OF THE GREATER CAUTION NOW EXERCISED BY THE BANKSIN GIVING CREDITS: HE REITERATED THAT FRANCE COULD NOT COMMIT ITSELF TO THE PRINCIPLE OF DISCRIMINATORY ACTION AGAINST THE SOVIET UNION.

C. THE MIDDLE EAST

8. AFTER A TELEPHONE CONVERSATION WITH SHULTZ CHEYSSON SAID THAT THE ISRAELIS WERE REFUSING TO EVACUATE BEIRUT UPON THE ARRIVAL OF THE MULTINATIONAL FORCE. WHEN THE FIRST FRENCH TROOPS ARRIVED LATER TODAY THE ISRAELIS WOULD STILL BE THERE. THE ISRAELI GOVERNMENT HAD EVEN OFFERED TO MAKE TROOPS AVAILABLE TO THE MULTINATIONAL FORCE. BOTH YOU AND CHEYSSON COMMENTED ON THE PASSIVITY SHOWN BY THE SOVIET UNION DURING RECENT DEVELOPMENTS.

D. FALKLANDS

9. YOU TOOK THE OPORTUNITY TO EMPHASISE TO CHEYSSON THAT BRITISH PUBLIC OPINION WOULD NOT UNDERSTAND IT IF ONE OF OUR PARTNERS SUPPORTED A GENERAL ASSEMBLY RESOLUTION CALLING UPON US TO NEGOTIATE WITH ARGENTINA. CHEYSSON DID NOT REFER DIRECTLY TO LIKELY FRENCH VOTING INTENTIONS, BUT SUGGESTED THAT A GENERAL ASSEMBLY RESOLUTION WOULD HAVE LITTLE IMPORTANCE. HE SAID THAT FRANCE'S RELATIONS WITH OTHER LATIN AMERICAN COUNTRIES HAD BEEN NOT AT ALL AFFECTED BY THE FALKLANDS CONFLICT.

E. SOUTH EAST ASIA

10. CHEYSSON DESCRIBED CONFIDENTIAL INDICATIONS RECEIVED FROM THE VIETNAMESE THAT THEY WERE ABOUT TO PROMOTE PROPOSALS WHICH MIGHT ENABLE THEM TO WITHDRAW FROM CAMBODIA WITHOUT LOSS OF FACE. LAOS WOULD PROPOSE AN INTERNATIONAL CONFERENCE, WITHOUT ANY OFFICIAL CAMBODIAN REPRESENTATION, TO DISCUSS THE NEUTRALISATION OF CAMBODIA AND THE HOLDING OF FREE ELECTIONS. (DETAILS IN MY SECOND IFT, NOT TO ALL.)

FRETWELL

NNNN

GRS 329

CONFIDENTIAL

FRAME ECONOMIC

FM FCO 2118ØØZ SEP 82

Prime Minister

A.J.C. 22/9

TO IMMEDIATE PEKING (FOR THE PRIME MINISTER'S PARTY)

TELEGRAM NUMBER 429 OF 21 SEPTEMBER

AND TO IMMEDIATE TOKYO (FOR THE PRIME MINISTER'S PARTY), AND

WASHINGTON (FOR THE CHANCELLOR OF THE EXCHEQUER)

REPEATED FOR INFORMATION TO UKREP BRUSSELS, PARIS

COMMUNITY BUDGET: 1982 REFUNDS

1. PLEASE PASS THE FOLLOWING PERSONAL MESSAGE FROM ME TO THE PRIME MINISTER AND THE CHANCELLOR OF THE EXCHEQUER:

BEGINS: THE FOREIGN AFFAIRS COUNCIL LAST NIGHT WERE UNABLE TO AGREE TO THE PRECISE ARRANGEMENTS FOR THE IMPLEMENTATION OF THE 25 MAY AGREEMENT FOR UNITED KINGDOM REFUNDS IN RESPECT OF THE 1982 COMMUNITY BUDGET OWING TO THE OBSTRUCTIVE TACTICS OF THE FRENCH WHO WERE VIRTUALLY ISOLATED. THE FRENCH MINISTER

CHANDERNAGOR, MADE REPEATED ATTEMPTS TO GET THE COUNCIL TO AGREE THAT PART OF THE REFUNDS DUE TO THE UNITED KINGDOM SHOULD BE DEDUCTED FROM THE RESTITUTION OF THE ALLEGED OVER-PAYMENTS IN RESPECT OF 1980 AND 1981. THIS WOULD HAVE BEEN HIGHLY PREJUDICIAL TO THE FORTHCOMING NECGOTIATIONS. I POINTED OUT THAT THE 25 MAY AGREEMENT STATED CLEARLY THAT THE QUESTION OF ANY CORRECTIONS FOR 1980 AND 1981 WOULD BE TAKEN INTO ACCOUNT DURING THE NEGOTIATIONS ABOUT 1983 AND LATER. BY THE END OF A LONG AND TEDIOUS MEETING, SKILFULLY CHAIRED BY THE NEW DANISH FOREIGN MINISTER, ELLEMANN-JENSEN, ALL THE OTHER MEMBER STATES AND THE COMMISSION ACCEPTED A FORMULA WHICH WAS CONSISTENT WITH THE UNITED KINGDOM'S INTERPRETATION.

MY IMPRESSION FROM CHANDERNAGOR'S BEHAVIOUR WAS THAT HE WAS UNDER INSTRUCTIONS FROM THE FRENCH GOVERNMENT NOT TO AGREE. WHEN I SEE CHEYSSON IN PARIS TOMORROW I WILL DRIVE HOME THE POINT THAT THE 1982 SETTLEMENT IS SELF-CONTAINED AND THAT THE FRENCH GOVERNMENT WILL BE RUNNING SERIOUS RISKS IF THEY PERSIST IN THEIR ATTEMPTS TO RENEGE ON ITS TERMS.

IT IS NOW THE GENERAL DESIRE TO USE SAVINGS IN THE 1981 AND 1982 BUDGETS TO FINANCE OUR 1982 REFUNDS. FOR TECHNICAL REASONS THIS GIVES US A LITTLE MORE TIME TO SORT THINGS OUT.

ENDS

PYM

CONFIDENTIAL

Foreign and Commonwealth Office

London SW1A 2AH

21 September 1982

Dear John.

22/9.

Community Budget: 1982 Refunds

As there is no meeting of Cabinet this week, the Foreign and Commonwealth Secretary thought that the Home Secretary and other colleagues might be interested to see the personal message which he has sent to the Prime Minister and the Chancellor of the Exchequer reporting the outcome of the discussion about United Kingdom refunds in the Foreign Affairs Council in Brussels on the nigl night of 20/21 September.

I am sending copies of this letter and the enclosure to the Private Secretaries of all the members of the Cabinet and Sir Robert Armstrong.

Yours ever.

(F N Richards)
Private Secretary

J F Halliday Esq
PS/Secretary of State for the Home Department
50 Queen Anne's Gate
LONDON SW1

OUT TELEGRAM

Classification and Caveats	Precedence/Deskby
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FM FCO 211800Z SEPTEMBER 82
TO IMMEDIATE PEKING (FOR THE PRIME MINISTER'S PARTY)
TELEGRAM NUMBER
AND TO IMMEDIATE TOKYO (FOR THE PRIME MINISTER'S PARTY), AND
WASHINGTON (FOR THE CHANCELLOR OF THE EXCHEQUER)
REPEATED FOR INFORMATION TO UKREP BRUSSELS, PARIS
COMMUNITY BUDGET: 1982 REFUNDS

1. Please pass the following personal message from me to the Prime Minister and the Chancellor of the Exchequer:

BEGINS: The Foreign Affairs Council last night were unable to agree to the precise arrangements for the implementation of the 25 May agreement for United Kingdom refunds in respect of the 1982 Community Budget owing to the obstructive tactics of the French who were virtually isolated. The French Minister, Chandernagor, made repeated attempts to get the Council to agree that part of the refunds due to the United Kingdom should be deducted from the restitution of the alleged over-payments in respect of 1980 and 1981. This would have been highly prejudicial to the forthcoming necgotiations. I pointed out that the 25 May agreement stated clearly that the question

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of any corrections for 1980 and 1981 would be taken into account during the negotiations about 1983 and later. By the end of a long and tedious meeting,skilfully chaired by the new Danish Foreign Minister, Ellemann-Jensen, all the other member states and the Commission accepted a formula which was consistent with the United Kingdom's interpretation.

My impression from Chandernagor's behaviour was that he was under instructions from the French Government not to agree. When I see Cheysson in Paris tomorrow I will drive home the point that the 1982 settlement is self-contained and that the French Government will be running serious risks if they persist in their attempts to renege on its terms.

It is now the general desire to use savings in the 1981 and 1982 budgets to finance our 1982 refunds. For technical reasons this gives us a little more time to sort things out.

ENDS

PYM

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Prime Minister (2)

MCS 16/9

FCS/82/133

CHIEF SECRETARY TO THE TREASURY

MT

Additionality

1. Thank you for your letter of 17 August about the follow-up action after the OD(E) discussion of additionality and the treatment of receipts from the Regional and Social Fund. I have also seen your letter to Michael Alison of 13 August, Norman Tebbit's reply of 6 September and have received Patrick Jenkin's letter of 2 September. — will request if required

2. First, I should like to make one general comment on the connection between the conclusions of OD(E) and our policy for the control of public expenditure. Your letter seems to me to understate the case on public expenditure grounds for making a change in our policy as at present applied. I do not of course dispute the objective of reducing public expenditure wherever possible; but the case for change goes well beyond the need to improve the implementation of the policy and its appearance in Brussels. Recent experience has clearly shown the resistance of public and parliamentary opinion in the other member states to direct refunds to the United Kingdom to reduce our unadjusted net contribution. It is therefore probable that the lower we can make our unadjusted net contribution by attracting receipts from orthodox Community policies, the easier it will be to secure special refunds sufficient in size to make our net contribution after adjustment acceptable to the Government. Furthermore, OD on 22 July reached the tentative conclusion that our aim should be to secure a refund of at least two-thirds of our unadjusted net contribution. Obviously the smaller the unadjusted net contribution the less we would pay even after a two-thirds refund. The objective of maximising receipts from orthodox Community policies is not therefore in conflict with the need to reduce public expenditure but complementary to it.

/Social Fund

Social Fund

3. I agree with Norman Tebbit that it would help the policy of maximising potential receipts from the Social Fund if we could give programme managers an incentive to take more trouble to get what is potentially on offer. I hope that the Treasury will bear in mind the point I have made above during your further discussions with the Department of Employment, as well as the points made in your letter to Michael Alison. It would be helpful if you could report your joint conclusions about the Social Fund flexibility margin in the form of an OD(E) paper.

Regional Fund

4. In the case of the Regional Fund you propose the criterion that Treasury "sympathy" for additional bids would be limited to cases where it could be shown that rejection of the bid would actually lead to an increase in the public expenditure total. That goes too far to be consistent with the OD(E) discussion. Stated precisely, the criterion should surely be that other things being equal, the bid should be accepted if the receipts would not otherwise be obtainable and public expenditure would not thereby be increased. For the reason given in my second paragraph above, there is a distinct possibility that reducing our unadjusted net contribution will result in a lower net contribution after refunds. That being so, it would be a mistake to insist on an actual reduction in the level of public expenditure as a direct result of each particular proposal. And in some cases it could be right, on public expenditure grounds, to accept a small charge on the contingency reserve or addition to a specific programme in the survey.

/Presentational

Presentational Changes

5. I agree with you that it would be a mistake to do away with programme 2.7 in the Public Expenditure White Paper and the tables which show the make-up of the United Kingdom's net contribution to the Community budget. I suggest that the tables for the Regional and Social Programmes should retain the gross programme totals as at present but disaggregate them so that the Regional and Social Fund receipts are shown as separate lines. Such a presentation would be similar to that already used for agriculture in table 2.3 of the Public Expenditure White Paper and would give more credibility to our claim that Community expenditures influence the scale of our programmes. Clearly, as Patrick Jenkin says in his letter of 2 September, each commentary must be drafted with care to ensure that it is consistent with the facts.

6. The report by officials which we considered at OD(E) made a further proposal on which you do not comment in your letter. This was to include in the White Paper a new table showing in one place all Regional Fund receipts wherever allocated. By implication OD(E) approved this suggestion, and I hope that you will implement it.

7. These presentational points are of considerable importance and it would be helpful if the Treasury could in due course circulate to all the departments concerned a note explaining the presentational changes that you propose to make to the next Public Expenditure White Paper.

New Policy Statement

8. Finally, I am not attracted by Patrick Jenkin's suggestion that we say outright in Brussels that we cannot implement

/additionality

additionality while our budget problem remains unsolved. Apart from the artificiality of the linkage, the effect would, I suspect, be not to increase the pressure for a solution to our budget problem, but to make it very difficult for us to maintain our present share of receipts from the Regional Fund, let alone increase it.

9. I am copying this letter to the recipients of yours, and also, with the earlier correspondence, to the Secretaries of State for Northern Ireland, the Environment, Scotland, Wales and Transport, since they also have an interest in these matters.

FP

(FRANCIS PYM)

Foreign and Commonwealth Office

16 September 1982

Euro Pol. Budget, Pt 18

NBPM

MCS 17/9

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Norman Tebbit MP
Secretary of State
Department of Employment
Caxton House
Tothill Street
London SW1H 9NA

16 September 1982

Dear Norman,

EUROPEAN SOCIAL FUND RECEIPTS

Thank you for your letter of 6 September.

I share your view that the MSC should do all it reasonably can to tailor its programmes to the guidelines of the Social Fund. To this end, there may well be a need for the sort of incentive discussed at OD(E) on 27 July. But I am concerned to ensure that any incentive is both consistent with the control of public expenditure, and genuinely effective in leading to increased receipts from the Fund. There does seem to be an important difficulty here. On the one hand, I should have thought it unlikely that the Commission would be very impressed with a level of incentive which was small in relation to the total size of the relevant programmes; indeed, this could be counter-productive in presentational terms. But on the other hand, a larger incentive might have arbitrary public expenditure consequences and go much further than I believe was envisaged at OD(E) towards compromising the principla of non-additionality.

In view of this, and of the other problems which I outlined in my letter to Michael Alison of 13 August, I welcome your agreement that the proposal should be studied further. I understand our officials are already in touch and will report back to us as soon as possible.

I am copying this letter to the recipients of yours.

Yours ever,
Leon

LEON BRITTAN

CONFIDENTIAL

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N. B. P. R.

AR 10/9

FOREIGN AND COMMONWEALTH SECRETARY

COMMUNITY BUDGET

We agreed that I would try to have a go at both Delors and Lahnstein on the Community Budget in the margins of the IMF/IBRD meetings in Toronto. In the event, preoccupations with banking issues, and with Mexico and the Argentines, ruled out a substantive meeting with Lahnstein, who left early: I shall try to fix something for next month. I was however able to talk at some length to Jacques Delors, and to have short exchanges with Andreatta and van der Stee.

2. Delors proved surprisingly receptive to the argument that the 25 May agreement was unsatisfactory to us, and that a lasting long-term solution should have been found before and must be found soon. Curiously, he himself referred to the speech I made at the Hague last summer, and said that he had himself put some ideas - which he implied might have been similar - to the President. I warned him that the Opposition here were now talking of the case for the UK "withholding" its Budget contribution: he took note of this without comment.

3. So far, so good; though of course it's not very far. A record of the conversation has been sent to your office.

4. van der Stee was, as always, sympathetic to the case for a satisfactory long-term solution, but whether he will be around to negotiate one is I suppose now in considerable doubt. Andreatta too made friendly, though non-committal, noises.

5. I explained to all three the importance of firm decisions at your Foreign Affairs Council on 20/21 September on the implementation of the 25 May agreement to give the Commission time to prepare and propose the necessary amendment to the 1983 Draft Budget. All three agreed to speak to their Foreign Ministry colleagues.

CONFIDENTIAL

6. Copies of this minute go to the Prime Minister and to Sir Robert Armstrong.

G.H.

10th September 1982

Ref. A09401

PRIME MINISTER

Cabinet: Community Affairs

The Foreign and Commonwealth Secretary may wish to report on discussions with his Community colleagues on the EC budget problem. He saw Herr Genscher on 30 August, and Signor Colombo on 7 September, and Mr Hurd saw Monsieur Chandernagor on 7 September. The Foreign Secretary is due to make a speech in Denmark on 9 September (even though the Danish Government has fallen) and Monsieur Thorn is coming to the United Kingdom for discussions on 13 September. You are giving Monsieur Thorn lunch on 14 September. Ministers' objectives will be to persuade Monsieur Thorn of:

(i) the need to secure decisions on our 1982 refunds at the September Foreign Affairs Council; and

(ii) the duty of the Commission to pave the way for a satisfactory settlement for 1983 and later by the promised date of 30 November 1982.

2. The Chancellor of the Exchequer may wish to report whether he was able to raise the EC budget problem with Community Finance Ministers in Toronto, and, if so, with what result.

3. The Minister of Agriculture, Fisheries and Food may wish to report on progress towards agreement on a Common Fisheries Policy. As a result of the Danish Government crisis it is not certain whether the planned meeting of the Fisheries Council on 21 September will take place, but there is still hope that it will, and that it could lead to a settlement, if not in September then at least well before the end of the year.

4. The Minister of Agriculture, Fisheries and Food may also wish to report on the problem of poultry imports, following the European Court of Justice's adverse ruling on the United Kingdom's import restrictions to prevent the spread of Newcastle Disease. The Commission have now formally asked the United Kingdom to agree by 16 September to introduce new regulations by 20 September.

MAFF's initial reaction is that the new regulations proposed by the Commission are unacceptable, and are preparing a counter-proposal. The subsequent negotiations are likely to prove difficult.

5. The Secretary of State for Trade may wish to report on the latest developments in the dispute with the United States over steel imports. The Commission made a deal with the United States Administration on 5 August; but the United States industry has yet to accept it, and they have come up with counter-proposals which would reduce the EC market share for the products concerned from 5.75 per cent to 5.25 per cent. However, the United States Administration has dropped hints that the United States industry can be induced to come into line provided that the Community agrees to include pipes and tubes in the agreement. Within the Community, the steel industries have not yet agreed on the share of export quotas between member states; but Department of Trade officials seem reasonably confident that this problem can be resolved with at least the grudging acquiescence of British Steel.

20% finding.

RTA

ROBERT ARMSTRONG

8 September 1982

CONFIDENTIAL

Th Coles, No10

Prime Minister

A.J.C. 10/9

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

Present:

Chancellor	M. Jacques Delors
Sir Kenneth Couzens	M. Michel Camdessus
Mr Kerr	

COMMUNITY BUDGET

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

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

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

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

CAP REFORM

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

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

SIBERIAN PIPELINE

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

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

J O KERR
9 September 1982

Distribution:

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

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

FILE SW

SUBJECT cc Mallis

Eno. Pol.

10 DOWNING STREET

From the Private Secretary

6 September, 1982

EC Budget

The Foreign and Commonwealth Secretary discussed this subject informally with the Prime Minister today. Mr. Pym said that his object was to let the Prime Minister know the line he would be taking in the various bilateral meetings which he would be having with his European counterparts in the near future. He was not, of course, seeking any fresh decisions, particularly as the Chancellor of the Exchequer was not able to be present.

Our first objective must be to complete the arrangements for the 1982 settlement at the next meeting of EC Foreign Ministers on 20 September. The German Foreign Minister had recently made it clear that he was totally behind us in our approach to this problem. But whether satisfactory arrangements would be made depended very much on the Danish presidency.

The next question would be the nature of the Commission's proposal for subsequent years. The President of the Commission was engaged on a round of consultations and would be visiting London at the beginning of next week. Mr. Pym thought that M. Thorn would probably agree to a review of the longer term financing problems in the context of enlargement and a possible breach of the 1 per cent VAT ceiling. The Prime Minister expressed some doubt as to whether either of these two considerations would lead to an effective solution of the budgetary problem. She thought it would be necessary to stiffen M. Thorn during his visit to London.

On timing, Mr. Pym said that the Commission ought to make their proposal to the October meeting of EC Foreign Ministers. Herr Genscher had made it clear that he wished the problem to be resolved at that meeting but doubted whether it would be; Genscher was inclined to think that the German presidency in the first half of 1983 might have to produce a solution. Genscher agreed with him that the solution should be based on a 66 per cent refund, together with a satisfactory risk sharing formula. As regards the problem of over-payments, Mr. Pym would be making it clear that the extent to which these could be taken into account depended on the nature of the overall agreement which was

/being

63

being proposed.

The Prime Minister commented that the overall settlement must be a good one from our point of view. Otherwise it would set a disastrous precedent for the future. She wondered whether we should not begin by seeking a refund higher than 66 per cent - there was otherwise a danger that we should be pushed below our starting point. We could not go below 66 per cent, plus a satisfactory risk sharing formula, or we should be in great difficulty. Mr. Pym pointed out that 66 per cent had been the figure in many people's minds for a very considerable period; if we now talked of a higher one, it would be dismissed as a crude negotiating ploy.

The Prime Minister suggested that, if the Ten agreed to 66 per cent plus a risk sharing formula, there was no reason why this should not apply without a time limit. Mr. Pym said that the Nine were wedded to the idea of degressivity. We rejected that notion. But it led the Nine to wish to limit any settlement to the years 1983 and 1984.

The Prime Minister said that we must not be pushed into an unsatisfactory settlement. The amount of money at stake was sizeable.

The Foreign and Commonwealth Secretary suggested that there should be a further discussion in about mid-October, with the Chancellor of the Exchequer present.

I am copying this letter to John Kerr (Treasury) and Richard Hatfield (Cabinet Office).

A. J. COLES

B. Fall, Esq.,
Foreign and Commonwealth Office

MB

CONFIDENTIAL

Euro Pol

Caxton House Tothill Street London SW1H 9NAF
Telephone Direct Line 01-213 6400
Switchboard 01-213 3000

N. B. P. M.

MR 6/9.

Rt Hon Leon Brittan QC MP
Chief Secretary
Treasury
Great George Street
LONDON
SW1

6 September 1982

Dear Leon.

EUROPEAN SOCIAL FUND RECEIPTS

Thank you for your letter of 13 August, following up our discussion at OD(E) on 27 July about the future handling of the ESF receipts.

Leave a top of file

PE 17

It might be helpful if I began by recalling the arguments put forward in OD(E)82(5) for modifying our present practice, as regards the substance as well as the presentation of EC receipts. Para 9 of the paper referred to the intense competition between member states for Social Fund aid, which seems likely to continue even if the Fund is greatly increased, and to critical discretionary role of the European Commission in attributing bids to different levels of priority. The MSC (together with the Northern Ireland manpower authorities) currently accounts for about 90% of Fund receipts and it is clearly of the greatest importance that in formulating its programmes it should give full consideration to the prospect of attracting Fund aid. This means, for example, that the MSC should consider tailoring them where this is consistent with domestic objectives, to meet the guidelines under which the Fund operates. In our experience, MSC programme managers do not at present have an effective incentive to do this. We have no doubt that the possibility of the MSC's retaining part of the Fund receipts attributed to its programmes and surplus to a forecast target would go a long way towards providing such an incentive. We therefore cannot accept the suggestion in your letter that there is "little the MSC can actually do off its own bat to stimulate higher receipts". Although receipts must as you say ultimately be determined largely by the decisions of the European Commission, the Commission is sensitive to developments in member states and we will be better able to influence its decisions in our favour if it can be assured that the possibility of Fund aid is an important factor in the manpower authorities' planning. I would

also hope that some of the uncertainty attached to the present operations of the Fund might be reduced over time if the Fund which emerges from the forthcoming review is designed to operate in a more stable and predictable way from year to year. Against this background, I do not see why we should be unable to work out satisfactory rules of thumb for assessing how far the results for a given year can be attributed to the MSC's own efforts.

I agree that the questions raised in your letter need more study and that we should ask officials to examine them further. However, I would stress again that the examination should take as its starting point the need to provide an effective incentive for programme managers to maximise receipts, and for us to be able to demonstrate this to the Commission in pressing our claims for a generous share of the Fund's resources.

I am copying this letter to those who received yours and to the Secretary of State for Northern Ireland.

Norman

PRIME MINISTER c Sir Robert Armstrong

COMMUNITY BUDGET PROBLEM

1. The Foreign Secretary is coming to see you at 5.30 pm on Monday 6 September to talk about the Community Budget negotiations. Unfortunately the Chancellor of the Exchequer will not be present as he will be in Toronto. Ministers' programmes in September make it unlikely that you will be able to discuss the Budget problem with the Foreign Secretary and the Chancellor together before 14 October when a further meeting of OD has provisionally been arranged in case it is needed.

2. The Foreign Secretary's purpose will be to check that the line which he intends to take at his forthcoming meetings with Olesen, Thorn and other Foreign Ministers is acceptable to you. He will also wish to explain his views on the prospects for the negotiations and the risks he sees in too early or too explicit a threat to withhold.

Points that the Foreign Secretary is likely to make

3. The Foreign Secretary will no doubt report on action taken since OD on 22 July. Arrangements for a campaign to convince the other member states and the Commission of the validity of the United Kingdom's case for relief from its Budget burden are well in hand. A programme of bilateral talks has been laid on. The Foreign Secretary saw Genscher at the end of August. He will see Colombo on 7 September, Olesen on 10 September and Thorn on 13 September. (You are giving Thorn lunch the next day). Later he will see Tindemans and Cheysson. The Chancellor will be talking to a number of key Finance Ministers in Toronto. Several other Cabinet Ministers have agreed to make speeches in

Community capitals during the autumn, and the Chancellor and the Foreign Secretary have circulated the draft of a robust statement of our case for inclusion in these speeches. A basic background brief explaining our case to Continental readers has been drafted and will be distributed widely in Community capitals at the end of September.

4. The Foreign Secretary will argue that the best hope of securing a lasting solution to the Budget problem will be in the context of the review of the Community's own resources system which will be made necessary by enlargement and the approach of the 1 per cent ceiling. A settlement to cover 1983 and 1984 will therefore be needed to protect the UK's position while the review is going on. There is no hope of agreement on a settlement for 4 or 5 years independent of the review.

5. He will also be likely to explain his worries about withholding - namely that it would cause the other nine member states to join ranks in resisting our demands and that it would stimulate hostility to the Community in the United Kingdom with consequential political difficulties for a Government committed to membership.

6. Finally the Foreign Secretary is likely to stress that, although he believes that the United Kingdom should continue to press for a settlement by the end of November, that deadline is not in fact crucial. It may be in our interest to allow the matter to be brought to a head during the German presidency.

Points you could make in reply

7. In reply to these points you could speak on the following lines:-

(i) A bad settlement for 1983 and 1984 would constitute a disastrous precedent for the longer term. The UK must therefore fight for a basic refund of 66 per cent plus a satisfactory risk-sharing formula in 1983 and 1984. Further compensation for the alleged over-payments should only be agreed in return for a 66 per cent basic refund and a satisfactory risk-sharing formula. Getting this right is just as important as getting suitable terms of reference for the review.

Bad settlement - a disastrous precedent.

(ii) OD agreed on 22 July that the Government should "make clear its resolve to fight for British interests, with the implication that, if the other member states did not take proper account of these interests, the Government was likely to come under domestic political pressure to withhold". It was most important that Colombo, Olesen and Thorn should realize the seriousness of the crisis that would result from a failure of these negotiations.

Resolve to fight for British interests

(iii) The German Government had not been at all helpful to the UK in the negotiations leading up to 25 May and it would be unwise to assume that they would sort the problem out to our satisfaction during their Presidency. The UK should not therefore give any sign - whether to the Germans, the Danes or the Commission - that we would be prepared to see the end-November deadline ignored. Delay would not make the problem easier to solve.

German govt will not be helpful

Conclusions of the Meeting

8. I suggest that, after these preliminary exchanges, you steer the discussion round to the following conclusions which

could be incorporated in a Private Secretary letter recording the meeting, a copy of which could be sent to the Chancellor of the Exchequer's Private Secretary:-

(i) The Government's quantitative objectives for the size of refunds in 1983 and later years - including the treatment of over-payments - would need to be discussed with the Chancellor of the Exchequer when all three Ministers were available in London which was not likely to be before 14 October. It would no doubt be useful to have a small meeting confined to these three Ministers (plus possibly the Minister of Agriculture) before any further discussion in OD.

(ii) Until such further Ministerial discussion had taken place, the UK should not commit itself to making any further restitution of over-payments but should confine itself to pointing out that the other member states had no legal case for any further restitution at all and that the Government's attitude to demands for further restitution by the other member states would be influenced by the attitude that they took to the nature of the problem and the basic solution for 1983 and later years.

(iii) No decision should be taken on withholding until OD had had the opportunity to consider in detail the contingency plan prepared by officials and also to discuss the domestic and international implications in greater depth than had been possible on 22 July.

(iv) At the talks with Colombo, Olesen, Thorn, Tindemans and Cheysson, the Foreign Secretary and the Prime Minister should concentrate on convincing them of the following points:-

(a) The need for decisions at the next Foreign Affairs Council on 22 September to implement the 25 May agreement for 1982; and the disastrous consequences of any backsliding.

(b) The need to find a lasting solution to the Budget problem so as to do away with divisive negotiations every year or six months.

(c) If the solution had to be secured in 2 stages, then two conditions must be respected : first, the refunds for 1983 and 1984 must be satisfactory; and, second, finding a lasting solution to the British problem must be one of the explicit objectives of the review.

(d) The time-table agreed in May should be respected. Delay would not make the problem easier to solve. The hard fact was that, if the end-November deadline were not met, the British government would come under increasing domestic pressure to withhold. The Presidency and the Commission had a responsibility to ensure that solutions were found in negotiation.

D.H.

D J S HANCOCK

3 September 1982

Prime Minister

WM
3/9

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FM FCO 310936Z AUGUST 1982
TO IMMEDIATE BONN
TELEGRAM NUMBER 395 OF 31 AUGUST
INFO PRIORITY PARIS ROME COPENHAGEN UKREP BRUSSELS
INFO ROUTINE OTHER EC POSTS LISBON MADRID
MIPT (NOT TO ALL): MY MEETING WITH GENSCHER ON 30 AUGUST:
COMMUNITY AFFAIRS

1. FOLLOWING IS SUMMARY OF MAIN POINTS ON EC MATTERS.

BUDGET

2. I REMINDED GENSCHER OF THE ROOT OF THE PROBLEM: THE BUDGET REQUIRED OF US CONTRIBUTIONS ON A SCALE WHICH WE WOULD NOT BE ABLE TO MEET IF THE FIGURES WERE NOT ADJUSTED. WE WANTED A LONG TERM SOLUTION WHICH WOULD AVOID US HAVING TO COME BACK EVERY YEAR OR SO TO THIS DIVISIVE ISSUE, AND WHICH WOULD ENABLE US ALL TO CONCENTRATE ON THE DEVELOPMENT OF COMMUNITY POLICIES. IT WAS MORE THAN EVER IMPORTANT TO COMMUNITY COUNTRIES TO WORK EFFECTIVELY TOGETHER, BUT WE NEEDED A BUDGET SOLUTION WHICH WAS DEMONSTRABLY FAIR. WE REGRETTED THAT IT HAD NOT BEEN ABLE TO ATTAIN THIS EARLIER THIS YEAR.THE ONE YEAR AGREEMENT WHICH WE HAD HAD TO FALL BACK ON IN MAY WAS VERY MUCH A SECOND BEST, AND EVEN THAT WAS CAUSING DIFFICULTY IN THIS CONTEXT. I TOOK THIS OPPORTUNITY TO THANK GENSCHER FOR GERMAN SUPPORT AND TO IMPRESS ON HIM THE NEED FOR A SOLUTION AT THE SEPTEMBER FAC.

3. IN RESPONSE, GENSCHER SAID THAT ON THE 1982 SETTLEMENT OUR INTERESTS WERE IDENTICAL. WE MUST NOT ALLOW THE AGREEMENT OF 25 MAY TO BE REOPENED, AND IT WAS CLEAR THAT THE AGREEMENT DID NOT (NOT) PROVIDE THAT THE UK SHOULD CONTRIBUTE TO GERMAN REBATES. FOR THE FUTURE, HE TOO WOULD MUCH PREFER A LONG TERM SOLUTION. THE 25 MAY AGREEMENT HAD SETTLED CERTAIN POINTS (RISK SHARING AND LOWER PARTICIPATION BY GERMANY) AND LEFT OPEN OTHERS (DURATION, SIZE OF UK REFUNDS, EXTENT OF GERMANY'S REDUCED CONTRIBUTION AND OVERPAYMENT). THERE WAS NOT YET A POSITION OF THE GERMAN GOVERNMENT, BUT GENSCHER THOUGHT THAT THE RIGHT

/PROCEDURE

PROCEDURE WOULD BE TO ENCOURAGE THE COMMISSION TO PUT FORWARD A PROPOSAL.

4. FOLLOWING POINTS EMERGED FROM SUBSEQUENT DISCUSSION:

(I) GENSCHER MADE IT CLEAR THAT DEGRESSIVITY WOULD FEATURE IN THE NEGOTIATIONS ON THE SIZE OF THE COMPENSATION TO THE UK. I MADE CLEAR OUR TOTAL OPPOSITION TO THE CONCEPT. GENSCHER CONCLUDED THAT THIS WAS THE MAIN PROBLEM, AND THAT IT WOULD LEAD TO AGREEMENT FOR ONLY A SHORT PERIOD.

(II) IN RESPONSE TO GENSCHER'S REFERENCE TO OVERPAYMENT, I EMPHASISED THAT WE HAD RECEIVED IN 1980 AND 1981 NO MORE THAN HAD BEEN AGREED. WE DID HOWEVER ACCEPT THAT THE OUTCOME HAD BEEN MORE FAVOURABLE THAN HAD BEEN EXPECTED, AND HAD THEREFORE AGREED THAT THE SUBJECT SHOULD BE DISCUSSED FURTHER (WITH NO COMMITMENT ON ANY FIGURES WHICH MIGHT BE AGREED). GENSCHER DID NOT PURSUE THE MATTER.

(III) ON TIMING, I URGED QUICK NEGOTIATIONS IN ACCORDANCE WITH THE TIMETABLE. GENSCHER SAID THAT HE WOULD LIKE NOTHING BETTER THAN TO FREE THE GERMAN PRESIDENCY OF THE PROBLEM, BUT ADDED THAT HE HAD NO ILLUSIONS AND ALMOST NO HOPE THAT THIS MATTER COULD BE DISPOSED OF SO QUICKLY. (HE WAS AT FIRST INCLINED TO THINK OCTOBER TOO EARLY FOR THE TABLING OF A COMMISSION PROPOSAL, BUT APPARENTLY BECAUSE HE DOUBTED WHETHER THE OUTSTANDING QUESTIONS FOR 1982 WOULD HAVE BEEN SETTLED BY THEN).

ENLARGEMENT

5. GENSCHER EMPHASISED THE IMPORTANCE OF AN EARLY AND SATISFACTORY CONCLUSION TO THE NEGOTIATIONS WITH SPAIN AND PORTUGAL. I AGREED. HE ADDED THAT HE WOULD DO EVERYTHING HE COULD TO STICK TO THE AGREED TIMETABLE. I ASKED ABOUT PARALLELISM. GENSCHER REPLIES 'WE HAVE PINNED OURSELVES TO IT', AND COMMENTED THAT THE SITUATION IN SPAIN WAS SUCH THAT A DISAPPOINTMENT OVER THE NEGOTIATIONS MIGHT AFFECT INTERNAL STABILITY.

FISH

6. GENSCHER SAID THAT SCHMIDT HAD SEEN HIS DANISH COLLEAGUE AT A SOCIAL DEMOCRAT MEETING ON SATURDAY, BUT HAD NOT THOUGHT THE

/OCCASION

OCCASION APPROPRIATE FOR A DISCUSSION OF THE CFP. HE (GENSCHER) ACCEPTED MY POINTS ON THE NEED FOR AN EARLY SOLUTION AND AGREED TO DO WHAT HE COULD TO HELP WITH THE DANES.

COMMENT

7. THE DISCUSSION OF TRANSATLANTIC RELATIONS SUMMARISED IN MIPT, INCLUDING TELEPHONE CONVERSATIONS WITH CHEYSSON AND COLOMBO, LEFT US WITH LESS TIME THAN ANTICIPATED ON THE COMMUNITY. NEVERTHELESS I THINK THAT THIS WAS A USEFUL START. GENSCHER READILY AGREED THAT WE SHOULD KEEP IN TOUCH, AND SUGGESTED THAT WE SHOULD ARRANGE MORE FREQUENT RELATIVELY SHORT BILATERAL MEETINGS OF THIS KIND. I SHALL FOLLOW THIS UP AT THE APPROPRIATE TIME.

PYM

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ECD(I)
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Euro. Pol.

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

PS
26/8

FOREIGN AND COMMONWEALTH SECRETARY

EC BUDGET : LINE TO TAKE WITH COMMUNITY FINANCE MINISTERS

Many thanks for your minute of 19 August commenting on my letter of 11 August to Douglas Hurd. I am glad that we have found a way through.

2. Copies of this minute go to the Prime Minister and to Sir Robert Armstrong.

G.H.

25 August 1982

CONFIDENTIAL

2

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

24 August 1982

The Rt. Hon. Francis Pym, MC, MP
Secretary of State for Foreign and Commonwealth Affairs
Foreign and Commonwealth Office,
Downing Street,
LONDON S.W.1

Prime Minister:
X is elsewhere in the box, but a copy is attached.
24/8.

Dear Francis

X| Douglas Hurd wrote to me on 11 August in reply to my minute to you of 30 July about the UK's 1982 Community Budget refunds.

First, a technical amplification. He said in paragraph 3 that if the Germans were paid with money carried forward from the 1982 Budget there would be "no new entry in the 1983 Budget". There would be no new 1983 money involved, but I understand that transactions would in fact have to appear in a 1982 Supplementary and in the 1983 Budget.

On the substantive issue, I don't think that the time it took to implement the 30 May 1980 Agreement offers much consolation. That Agreement had broken new ground, and the Regulations necessary to implement it, though they did stimulate controversy, were perhaps bound to take time to work out. The worst feature of the present delays is the attempt to go back on, or at least to undermine, the Agreement of 25 May 1982.

The programme of discussions which you sketch for September does offer hope that we can get the right outcome. But it will only be in the nick of time. It looks as though we may well have to be ready for a showdown in the Foreign Affairs Council on 20/21 September.

I am sending copies of this letter to the Prime Minister and to Sir Robert Armstrong.

GEOFFREY HOWE

Euro Pol

PS
19/2.

FCS/82/116

CHANCELLOR OF THE EXCHEQUER

EC Budget: Line to take with Community Finance Ministers

1. I have seen your letter of 11 August to Douglas Hurd and the earlier correspondence about your planned talks with Community Finance Ministers.

2. I shared Douglas's reservations about your original draft and am glad that the only significant difference of view between us now concerns the paragraph on withholding. Withholding itself is far from being a new idea. It has been raised several times in the past, and we have never ruled it out although we have always stressed that it was very much a last resort and of doubtful utility. I am sceptical about whether raising it now in the way you propose would really achieve the desired shock effect.

3. Nevertheless, I do not want to prolong further discussion about detailed drafting. I do not object to making by implication the point that we might be forced into withholding. What we must in my view avoid is giving the impression to our partners that even before negotiation starts we have it in mind to withhold. That could weaken our position, both now and if in the last resort we did find that we wanted to withhold.

4. I am copying this minute to the Prime Minister and to Sir Robert Armstrong.

(FRANCIS PYM)

Foreign and Commonwealth Office
19 August, 1982

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Francis Pym MC MP
Secretary of State
Foreign & Commonwealth Office
Downing Street
London SW1A 2AL

17 August 1982

Dear Secretary of State,

EC RECEIPTS FROM REGIONAL DEVELOPMENT AND SOCIAL FUNDS AND ADDITIONALITY

It was agreed at OD(E)(82) second meeting that Treasury Ministers would take the lead in implementing the changes proposed in OD(E)(82)5 and discussed at the meeting. I have discussed these matters with Jock Bruce-Gardyne, who was present at the meeting, and this letter records how we propose to proceed.

Before getting down to details, I should like to make a comment about our general policy on additionality. In response to your minute of 28 July about the OD(E) meeting, the Prime Minister has already underlined the point to which Treasury Ministers attach the highest importance - that any changes made must respect the Government's key objective of containing public expenditure. It is our firm understanding that the Government's general policy on additionality, as laid down in the Chancellor's minute of 17 June 1980 and the later Treasury paper on implementation (EQS(82)8), remains unchanged. As I said in my letter of 23 July to Patrick Jenkin, it is our policy to minimise our contribution to the Community Budget, which is itself a substantial addition to public expenditure. It is, however, no part of the policy to add to total public expenditure in order to do so. On the contrary, the objective is to reduce public expenditure wherever possible - to ensure that, wherever possible, expenditure financed by EC receipts substitutes for existing expenditure or is absorbed within existing programmes (not added to them).

The changes of presentation and implementation now under discussion are not intended to alter our basic policy - an objective which I would strongly oppose - but merely to improve its implementation, and, above all, its appearance in Brussels - an objective which I fully support.

In keeping with this, I report the following progress on implementation of the proposals discussed at OD(E).

First, presentation of EC receipts in the Public Expenditure White Paper. As you said in paragraph 2 of your minute of 28 July to the Prime Minister, the agreed objective is to revise the presentation so as to remove the present implication that Community receipts from the Regional Development and Social Funds have no effect on the size of the relevant domestic public expenditure programme. More positively, the White Paper could say specifically that the Government's decisions on the relevant programmes have been influenced by the expected levels of Community receipts. This should help those UK representatives who have to negotiate about these receipts in Brussels with the Commission and with other member states.

As regards implementation, the Economic Secretary and I have decided that the choice must be option i. in paragraph 16 of OD(86)5, which changes the presentation but preserves the basic White Paper arithmetic, rather than option ii. which would extract Regional Development and Social Fund receipts from programme 2.7 and net them off from domestic programmes such as industry, energy and employment instead.

The Economic Secretary made clear at OD(E) that we must not obscure the UK's net financial contribution to the Community as currently shown in the White Paper. Option ii. does obscure it. Programme 2.7 would show only a mish-mash of "various transactions with EC institutions". No footnotes or other explanation could prevent the net contribution from being lost from all the main public expenditure presentations. It would be a great mistake to allow this to happen, and to demote the concept of a net contribution, especially at this time when the UK is insisting in Brussels on retaining the concept while most other member states are doing their utmost to kill it. Moreover, option ii. compromises the functional presentation of expenditure in the White Paper. The industry, employment etc programmes would no longer show total expenditure from public funds on these programmes. Even in terms of presentation to the rest of the Community, option i. is superior. Option ii. would have the perverse result that total expenditure on the relevant domestic programmes would fall whenever Community receipts rose.

I have asked officials, accordingly, to work up the following specific changes for next year's White Paper and Estimates:

i. Extend the "gross receipts" table in Chapter 2.2 to show expected receipts for future years; and mention in the text that these expected levels of receipts have influenced decisions on the domestic programmes concerned.

ii. Insert a new paragraph and table in the introduction to Chapter 2.4 which says that "The Government's decisions on the industry, employment and energy programmes have been made on the basis of the levels of receipts expected from the Community's Regional Development and Social Funds, which are shown in table 2.4.1 below ....."

iii. Insert similar sentences in the other programme chapters affected, notably on transport and Northern Ireland; and

iv. Include in the Chief Secretary's memorandum on the Supply Estimates a table drawing together expected receipts from the Regional Development and Social Funds scattered through the various Estimates.

Second, the treatment of Social Fund receipts. Further examination of the flexibility margin proposal discussed at OD(E) has revealed some problems of efficacy, equity, presentation and expenditure control. As agreed by OD(E) I am discussing with Ministerial colleagues at the Department of Employment what can be done about these. I will write again in due course about this.

Third, the treatment of Regional Development Fund receipts. I am content to proceed as suggested, subject to two points. First, the presumption of Treasury "sympathy" for additional bids by departments is limited to cases where it can be shown that rejection of the bid would actually lead to an increase in the published agreed public expenditure total because of Community receipts lost. Bids for additional expenditure in excess of the net increase in Community receipts must remain subject to exactly the same discipline as all other bids on the contingency reserve or in the survey (see further my le-ter of 23 July to Patrick Jenkin).

Second, I am prepared as a general rule not to press for savings to offset Regional Development Fund receipts for private sector ports and similar bodies; but this blind eye must be subject to the important caveat which Jock Bruce-Gardyne made at the meeting - that the sums involved remain small, as at present.

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

Yours sincerely

LEON BRITTAN

[Approved by the Chief Secretary and signed in his absence]

Treasury Chambers, Parliament Street, SW1P 3AG

JA
18/8

Rt Hon Michael Alison MP
Minister of State
Department of Employment
Caxton House
Tothill Street
London SW1H 9NA

13 August 1982

Dear Michael,

EUROPEAN SOCIAL FUND RECEIPTS

It was agreed at OD(E) on 27 July that you and Jock Bruce-Gardyne should consider further the proposed flexibility margin in respect of ESF receipts. I have discussed this with Jock and we have agreed that, since the proposal had public expenditure implications, I should take matters forward on the Treasury side.

I believe there are a number of difficulties with the proposed flexibility margin, some technical, others rather more substantive. As a first step, I thought it would be useful if I outlined the potential problems as I see them; we could then consider in detail whether these are such as to cast doubt on the feasibility of the proposal.

My main concern is that the flexibility margin - at whatever level - should operate in a way which is symmetrical in practice, as well as in theory. This means that if some part of ESF receipts in excess of the target is to be passed on to the MSC, then the MSC should also have to meet some part of any shortfall by savings in its expenditure elsewhere. It is easy to see how this could happen in respect of a surplus. But less so when there is a deficit. In recent years, the cash limit on the MSC's grant-in-aid has been fairly regularly underspent (by as much as £65 million in 1981-82). Were this to continue, I would imagine that a shortfall in ESF receipts could be accommodated without any readily identifiable savings in MSC expenditure. In which case, the flexibility margin might turn out to be little more than a device for increasing the resources available to the MSC in some years.

Given the relatively small amounts likely to be involved this might be acceptable, so long as there was a corresponding increase in receipts from the EC Budget. But can this reasonably be expected? In the first place, the mere fact that the sums are likely to be small in relation to the total grant-in-aid of around £1300 million,

does not seem likely to provide programme managers with much of an incentive to go after higher ESF payments. And in any case it is not clear that, at the margin, there is a great deal more the MSC can actually do off its own bat to stimulate higher receipts. As I understand it, the level of receipts depends mainly on the European Commission's setting of priorities and interpretation of the rules; this is apparently not very predictable. So there is an evident risk of a windfall gain for the MSC, unmatched by an offsetting benefit in the form of receipts from the EC. I believe there has been some examination of the possibility of defining the flexibility margin in terms of surpluses or shortfalls which can be directly attributed to the MSC's efforts. In theory, this might answer part of my concern; but I should be interested in your views on whether it is practicable.

There may also be technical problems. For instance, it is very difficult to forecast ESF receipts, and translating these into a target seems bound to be an imprecise business. Even then, the receipts in question would represent a miscellany of very different items; payments in advance for some projects, payments in arrears for others and adjustments to take account of over or under payment in previous years. This could be an exceedingly random basis on which to decide whether to increase or reduce the MSC's grant-in-aid; especially as it would probably not be possible to adjust the grant-in-aid until the financial year following the calendar year to which the targets relate.

All this, of course, ignores the important questions of the size of the flexibility margin, and the treatment of any surplus or shortfall outside it. I hope you will agree that we cannot consider these questions until we are clear about the wider implications of the proposal. I would suggest that we ask our officials to examine these in greater detail before we report back to OD(E).

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

Yours ever

Leon

LEON BRITTAN

2

Foreign and Commonwealth Office

London SW1A 2AH

11 August 1982

From The Minister of State
Rt Hon Douglas Hurd CBE MP

Dear Geoffrey,

Prime Minister

JR 14/8

EC BUDGET: 1982 REFUNDS

Francis Pym has seen your minute of 30 July about our 1982 refunds and has asked me to reply in his absence. I have also seen John Coles' letter of 2 August, asking for an account of the proceedings at the last Foreign Affairs Council.

The main problem over the 25 May agreement is that, although it was agreed that Germany should pay only half its normal own resources share to finance our refunds and that the least prosperous Member States should also be assisted, the agreement did not lay down with any precision how this was to be done. The Commission have proposed that Germany, Italy, Greece and Ireland should be paid refunds similar to those for the UK, to compensate them for part of their share of financing the UK refunds. The French, supported by the Italians and the Danes, have, however, argued strongly against the Commission proposal. These Governments are particularly worried by the domestic political effects of being seen to pay refunds to Germany. In France, M. Cheysson has told his Parliament that France will pay only its normal own resources share: under the Commission proposal, it would pay nearly 45% of the total. We have also heard that, when he reported on the agreement to the French Cabinet, he said that the cost to France would be 1.8 billion francs. In Italy, the Foreign Ministry has, we heard, been compelled to pay the Italian contribution from a new Foreign Ministry vote.

In discussion in Brussels, it has been proposed that the German refunds be paid with money carried forward into 1983 from the 1982 Community budget, so that there would be no new entry in the 1983 budget; and that the least prosperous, instead of being paid refunds, should simply be given special help from the structural funds. Neither of these proposals would seriously affect British interests, as long as we are compensated in full for our share of financing them, so that we receive a net refund of 850m ecu as agreed. The French and Italians argue, however, that we should not be compensated. They say that the help for Germany and the least propserous is independent of the UK refunds and that 'net' does not mean net of financing German refunds. Our contribution to the German refund would be 65m ecu.

At the Foreign Affairs Council on 19 July, the Presidency focussed discussion on this issue. Francis Pym firmly rejected the French/Italian arguments as being totally contrary to what had been agreed on 24/25 May. He was supported unequivocally by the Commission (Thorn), Belgium (Tindemans, past-President), Germany, the Netherlands and Ireland. Denmark and Luxembourg supported France. As a compromise,

/ ....

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
The Treasury
Parliament Street
London SW1

Tindemans suggested that the 65m ecu, instead of being paid to the UK, should be taken into account with the 'overpayments' issue in the subsequent solution. The UK, with German and Irish support, rejected this as inconsistent with the 25 May agreement. After some brief exchanges (at Greek insistence) on the treatment of the least prosperous, Olesen, whose chairmanship throughout appeared to be influenced by the Danish national position, noted the differences of view and postponed discussion until later.

You will recall that it took nearly 5 months to get the regulations implementing the 30 May 1980 Agreement passed. There were moments during that period when we thought the French were about to veto the Agreement; but it came out all right in the end. I do not want to belittle the difficulties this time - the controversy about financing the refunds has added an extra dimension to them. But there can be no real doubt over the intention of the 25 May Agreement and this puts us in a strong negotiating position. As soon as people return from the summer break we shall mount a determined campaign to get the result we need at the Foreign Affairs Council on 20/21 September.

Sir Michael Butler has already arranged for the matter to be discussed by the Permanent Representatives in Brussels on 9 and 14 September, and 14 September could be an all-day session. Francis Pym will be seeing Olesen in Copenhagen on 9/10 September and will leave him in no doubt of the need to get a decision at the September Council which is consistent with the Agreement on 25 May. He will also be seeing Thorn on 13 September and will stress the dangers to the Community of a failure to implement the 25 May Agreement and the duty of the Commission to ensure that this does not happen. (The Prime Minister will have a chance to reinforce this the following day.) Francis Pym will also be seeing a number of other Foreign Ministers before 20 September and will speak on similar lines to each of them. No doubt you will be doing the same when you see your colleagues in Toronto.

I am copying this minute to the Prime Minister and Sir Robert Armstrong.

Yours ever,

Roy Hattersley

Euro Pol.

DT
11/8

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

11 August 1982

Rt Hon Douglas Hurd CBE, MP
Minister of State
Foreign & Commonwealth Office

Dear Douglas

EC BUDGET: LINE TO TAKE WITH COMMUNITY FINANCE MINISTERS

Thank you for your letter of 5 August about the line which I proposed to take in speaking about the UK's Budget contribution in talks with Community Finance Ministers.

There is clearly one main difference between us. Paragraph 3 of your letter says that the key points to get across are "the seriousness of the problem and our desire to achieve a solution which protects British interests through negotiation within the Community". But this seems to me to offer nothing different from the past. I am convinced, as I indicated in my letter of 30 July, that we have now got to jolt expectations, and get into a different gear. Therefore I am not at all happy about the generally softer outline which emerges from some of your redrafting of the line to take.

This is perhaps not very significant in respect of paragraphs 1 and 2, where there is not very much between us. And I find your redrafts of paragraphs 3 and 4 an improvement, for which I am grateful.

But on the crucial point about withholding your redraft gives a more muted impression than I was - deliberately - seeking, though I was not, I think, going further than the OD Conclusions would permit. Specifically, I believe that the formulation in my paragraph 6 is well worth using with Finance Ministers. So while I would be content to follow your

/paragraphs

paragraphs 6 and 7, I would also intend to use also the material in my own paragraph 6: as well as keeping the rather sharp last sentence of my original text, which could come before your final plea for a constructive spirit from the other Community partners.

I am sending copies of this letter to the Prime Minister and to Sir Robert Armstrong.

GEOFFREY HOWE

10 DOWNING STREET

MR. COLES - O/R

The Foreign Secretary wants to come in on Monday, 6 September to have a general chat with the Prime Minister about Europe.

C.S.

5 August 1982

2

Foreign and Commonwealth Office

London SW1A 2AH

Euro Pol

5 August 1982

From The Minister of State

Rt Hon Douglas Hurd CBE MP

Prime Minister:

IF

MT 5/8.

Dear Geoffrey,

EC BUDGET

Thank you for your letter of 30 July about the Community budget to Francis Pym. Francis is at present on leave, but he has seen your letter and this reply reflects his comments.

It will be a valuable exercise if you were able to talk to your Finance Minister colleagues in the early autumn. We are particularly glad that you intend to speak to Lahnstein, since he will be a key figure. Delors is also important as he seems to have his President's confidence.

However, we are not entirely happy with the line you propose to take. At this stage of the negotiation the key points for us to get across are the seriousness of the problem and our desire to achieve a solution which protects British interests, through negotiation within the Community. I enclose a suggested re-draft of parts of your line to take which is intended to bring out more clearly the severe political difficulties which the problem causes us in Britain. I have also suggested deleting one sentence of your paragraph 3 since I think it is dangerous to concede by implication that France and Germany did achieve degressivity in 1982.

I have also suggested some amendment to your last two paragraphs on withholding. This is designed to keep close to the conclusions of the OD meeting on 22 July, when it was decided not at this stage to make an explicit threat to withhold, but to imply that under certain circumstances we might come under domestic political pressure to do so.

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

Yours ever

Douglas

The Rt Hon
Sir Geoffrey Howe, QC,MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON SW1P

LINE TO TAKE

1. No doubt about commitment of present UK Government to the European Community. Government is doing all it can to explain the facts and encourage public support for Community membership.

2. Have made some progress, but that could easily be reversed if no acceptable solution to budget problem. Public remain dubious about Community membership, and no doubt about strength of feeling over budget issue.

3. 25 May 1982 Agreement deeply unsatisfactory, because it marked the Community's failure to achieve lasting solution to this divisive problem in spite of 1980 agreement to find one. Not helped by subsequent attempts by others to erode commitment even to what was agreed on 25 May. Agreement accepted at time of major pre-occupation with Falkland Islands. UK Government said that a solution confined to 1982 was satisfactory to avoid undermining public support for the Community. In fact, it was a major disappointment.

4. Need to get back to the basic problem already recognised by all Member States: that an unacceptable financial situation for a Member State must be corrected - whenever it arises, not just for a year or two. If you think it through, there cannot really be a case for a Member with less than average prosperity paying more than a modest net contribution.

5. Vital for others to realise that future harmony in the Community is not going to be achieved while the budget remains as running sore.

6. Wonder if our partners realise how much difficulty they cause for a Government which is firmly committed to making a success of British membership, faced with an Opposition which wants Britain to withdraw and whose policies in other

/areas

areas, e.g. defence, are thoroughly unhelpful.

7. For example, the Opposition are now campaigning for UK to 'withhold' its budget contributions (cf their Commons amendment of 26 May), and even some Conservative back-benchers now favour this. Naturally realise what a troublesome prospect any resort to 'withholding' would create. Hence extreme reluctance of UK Government, and desire to restrain pressures to this end. Hope other governments will also approach the autumn negotiations in a constructive spirit.

EEC Budget
CAP
Luxembourg Compromise

Notes for Supplementaries

IS THIS A SELL-OUT ON THE BUDGET?

No. The 30 May agreement includes a clear commitment to refunds for 1982. If the Commission proposal on the table were agreed, we should still have received back over the three years about three-quarters of our unadjusted net contribution.

WILL YOU WITHHOLD CONTRIBUTIONS NOW?

As I have said the Community is in a very difficult situation. We must consider all the implications of what has been done in the Agriculture Council before deciding our reaction.

ARE YOU GIVING IN ON BUDGET BECAUSE OF FALKLANDS?

All Member States have made it clear that there is no link between the budget problem and the renewal of sanctions.

WHY DID WE SEEK TO VETO THE FARM PRICE PACKAGE?

Apart from specific agricultural objections, the overall cost of the settlement would have increased yet further the inequitable share of the EC budget that we have to shoulder.

WHAT ACTION ARE YOU NOW TAKING?

We considered that our important national interests were involved. A majority of Member States refused to accept this. This creates a very serious situation within the Community. We have to think very carefully about our next steps.

LUXEMBOURG COMPROMISE

1. The Luxembourg Compromise was introduced in 1966 and was therefore part of the Community acquis when the UK joined the Community. The 1971 White Paper on the conditions of our accession said in paragraph 30:-

> "All the countries concerned recognise that an attempt to impose a majority view in a case where one or more members considered their vital interests to be at stake would impril the very fabric of the Community."

EEC Budget
CAP
Luxembourg Compromise

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DO OTHERS SHARE OUR VIEW?

Denmark and Greece joined us in opposing the use of a vote in the Agriculture Council.

DO WE ACCEPT THE OUTCOME OF THE MAJORITY VOTE?

Decisions taken by majority vote are in this case legally valid according to the Treaties. What we reject is the validity of the vote ever being taken.

ARE WE GOING TO IMPLEMENT THE NEW PRICES?

This is one of the things the Government has to consider urgently.

DID THE OTHERS HAVE ANY ALTERNATIVE?

We had made clear our readiness to extend the old marketing years as necessary, until agreement was reached.

HAS THE UK LOST ITS VETO?

This is a new and serious development for Member States within the Community. We shall have to consider carefully the best course of action to ensure that the UK's important national interests are protected.

WHAT HAPPENS NEXT ON THE BUDGET?

My Right hon Friend has put forward our views on the correct interpretation of the provisions in the 30 May agreement for the third year of refunds.

JQ Euro Pol

10 DOWNING STREET

4 August 1982

From the Private Secretary

EC AID FOR NORTHERN IRELAND HOUSING

The Prime Minister has noted without comment your letter of 2 August.

A. J. COLES

Mike Hopkins, Esq.,
Northern Ireland Office.

(2)

From: THE PRIVATE SECRETARY

CONFIDENTIAL

NORTHERN IRELAND OFFICE
GREAT GEORGE STREET,
LONDON SW1P 3AJ

2 August, 1982.

A J Coles, Esq
PS/Prime Minister
10 Downing Street
LONDON SW1

Prime Minister

To note.

A.J.C. 3/8.

Dear John,

EC AID FOR NI HOUSING

You wrote to Stephen Boys Smith on 23 July enclosing a copy of the message which the Prime Minister had received from Chancellor Schmidt.

There is clearly nothing to be gained by any further approach to the Germans at this stage. Chancellor Schmidt's reply is uncompromising and there seems no likelihood of being able to persuade him to change his mind, and we suggest that no response be sent to his message. The Foreign and Commonwealth Office concur.

On the other hand Chancellor Schmidt's third paragraph seems helpful and forthcoming in stressing (as have all the other Member States who have considered the Housing Regulation) a general desire to help Northern Ireland. We think we should, as Chancellor Schmidt suggests, seek a different channel for that assistance. If we can find another project in Northern Ireland which could be given special Community assistance funded from those monies already set aside for the housing project, then we could still give Northern Ireland the net benefit which the Community wish to provide; and we could probably find internal means of ensuring that that net benefit was reflected in the NI housing programme. Officials are considering possible ways forward, but the most promising idea to emerge so far is that we should seek Community assistance for the cost of bringing gas from Kinsale in the Republic of Ireland to the Belfast area, about which my Secretary of State will be putting proposals to his colleagues shortly.

I am copying this letter to the Private Secretaries to members of OD(E) and to David Wright.

Yours sincerely

Mike Hopkins

M W HOPKINS

IV

CONFIDENTIAL

File CONFIDENTIAL Euro Pol

10 DOWNING STREET

From the Private Secretary 2 August 1982

EC Budget: 1982 Refunds

The Prime Minister saw over the weekend the minute of 30 July by the Chancellor of the Exchequer to the Foreign and Commonwealth Secretary. She has noted its contents but will be grateful for an account of the proceedings at the last Foreign Affairs Council which resulted in failure to agree to implement the 25 May agreement on the EC Budget. The Prime Minister has further commented that the consequential situation looks very serious.

I am copying this letter to John Kerr (HM Treasury) and Richard Hatfield (Cabinet Office).

A. J. COLES

Francis Richards, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

OD(E)
(FCO)
DTrade LPS
MAFF HMT
AGO CO

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Econ Pol

10 DOWNING STREET

From the Private Secretary

2 August 1982

Dear Francis,

EC Receipts from the Regional and Social Funds Additionality

The Prime Minister has noted the minute of 28 July by the Foreign and Commonwealth Secretary on this subject. She has stated that there must be no increase in public expenditure arising from these changes.

I am copying this letter to the Private Secretaries to members of OD(E) and to Richard Hatfield (Cabinet Office).

Yours ever

John Coles.

Francis Richards, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

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CONFIDENTIAL

(2)

Prime Minister

To note.

A.J.C. 30/7

SECRETARY OF STATE FOR FOREIGN &
COMMONWEALTH AFFAIRS

I think I am mistaken. What happened? It looks very serious. MT

EC BUDGET : 1982 REFUNDS

It was disappointing that, despite your efforts, the last Foreign Affairs Council failed to agree to the implementation of the 25 May EC Budget agreement. It will be a serious matter if the next Council also fails. We might then not get provision for our refunds into the Community's Budget for 1983, and we would therefore not get the receipts in our own 1982-83 financial year, as we need to do if we are to avoid our net contribution for 1982-83 rising to around £1 billion.

2. It may be helpful to recall why it is that the timetable is now so tight. The procedure for adoption of the Budget is a lengthy one involving the Commission, the Council and the European Parliament. The Budget Council establishes a draft Budget on the basis of a preliminary draft proposed by the Commission - this part of the procedure for 1983 was completed earlier this week. The draft established by the Council then goes to the European Parliament. Once this has happened, the initiative for further amendment to it lies largely with the Parliament. There can be further Council proposals by means of what is know as an amending letter. But the Regulation prescribes that, save in very exceptional circumstances, such an amending letter must be proposed by the Commission at least 30 days, and adopted by the Council at least 15 days, before Parliament's first reading.

3. Since the Parliament's first reading of the Budget this year begins on 26 October, the Commision must be able to propose an amending letter incorporating the relevant provisions relating to the UK's refunds in respect of 1982 by 26 September. Final decisions on the substance at the Foreign Affairs Council on 20/21 September are thus crucial.

4. It is small consolation that, if the 26 September deadline is missed, we could try to invoke the exceptional circumstances clause of the relevant Regulation. Such an attempt could well run into trouble. Last year, the Commission proposed an amending letter on an agricultural matter 16 days before Parliament's first reading. Nicholas Ridley, as Chairman of the Budget Council, had the greatest difficulty in persuading the European Parliament that the invocation of the exceptional circumstances clause was justified even though the relevant information had only recently become available. It would be difficult to argue convincingly for invoking the clause in connection with the implementation of an agreement made as long ago as 25 May. We would be offering the Parliament - and perhaps other member states who might not be sorry if the matter came adrift - a good opportunity to muddy the waters. If Parliament chose to ignore the amending letter incorporating UK refunds, we would have great difficulty reinstating them.

5. If we missed the main Budget for 1983, we would have to seek provision in a Supplementary Budget. But there would be no guarantee that the Parliament would be prepared to act quickly and adopt such a Supplementary in time for us to receive the money before 31 March. There is equally no solution via any proposition that refunds should be financed out of savings in the 1982 (not the 1983) Budget. The problem would still arise of leaving enough time for Parliament to scrutinise and adopt the necessary Supplementary Budget. This course would anyway involve another risk.

We would have to be sure of agreement to enter the money in 1982 before the deadline for 1983 is past: otherwise we could fail to get the money into either Budget.

6. Nicholas Ridley took the opportunity of making these points to his colleagues in the Budget Council this week, and he was supported by the Germans. The Council subsequently agreed on a text for despatch to the European Parliament explaining to them that they can expect further budgetary proposals arising from the 25 May agreement shortly. Our partners should now be taking seriously the need for urgency.

7. Nevertheless, I think it may be necessary for you to take Olesen through the timetable constraints when you meet early in September: he was quite wrong to pretend, as he did at the last Council, that decisions are not urgent. Neither was he right in implying that there is only one main issue outstanding: the points which need to be settled include downward risk-sharing, the treatment of the less prosperous, and the choice between the 1982 and 1983 Budgets as well as the financing of the German refund. The Presidency has a clear duty to arrange for preparatory discussions by officials in the early part of September and then to push matters to a conclusion on 20/21 September. You could put it to Olesen that further delays over implementation of the 1982 Agreement could do nothing but harm to the Community as a whole.

8. Copies of this minute go to the Prime Minister and to Sir Robert Armstrong.

GEOFFREY HOWE

30 July 1980

2 PPS

Prime Minister

AR 30/7

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

30 July 1982

The Rt Hon Francis Pym, MP
Secretary of State for Foreign & Commonwealth Affairs

Dear Francis

EC BUDGET

/P17

I have been reflecting since our discussion in OD Committee last week on the role I could play to support your efforts in the prospective negotiations with our Community partners.

The proper forum for these negotiations is the Council of Foreign ~~Finance~~ Ministers, and I think it would be a mistake for me to attempt general parallel discussion among Finance Ministers. At the same time, the attitudes of other Finance Ministers are plainly important in the formation of views of each of their Governments, and I think I ought to take the various opportunities which will be available to me in the coming months - e.g. with Lahnstein and Delors in Toronto in early September - to get home to them, on an informal and bilateral basis, the very severe trouble which this budget problem could create for us and for them.

The problem is that, if we are to get the right kind of reaction to enable you to achieve a satisfactory negotiated solution, we need something of a step change in their expectations. We must obviously plug on with the kinds of arguments we have used in the past, which have good validity. But if we are to jolt expectations, as I believe to be necessary, we need them to realise that we could be driven to withholding.

In our OD discussion, we agreed that it would be wrong to make an explicit threat to withhold, but right to emphasise our resolve and convey the implication that the Government could come under domestic political pressure to withhold if proper account is not taken of our interests.

I have sketched the attached line which I would propose to adopt. As I see it, the immediate object would be to try to

influence opinion of our partners in the direction of negotiating more helpfully in the forthcoming round. Behind this, however, there would be the objective of paving the way for a better understanding of the depth of feeling which an unsatisfactory outcome could provoke here and the risks that would entail. If, in the process, I were able to elicit any indication of the way in which others would see the possibility of our withholding, that could be useful to us in our own future thinking.

I hope you would agree with this approach. In many ways, it will be close to the approach I expect you will be adopting yourself. Our briefing for all Ministers in all contacts with Community leaders over the coming months needs to be tough. But I may perhaps be freer than you will be, not being directly involved in the detail of negotiations, to emphasise repeatedly our overall position and the major risk.

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

GEOFFREY HOWE

LINE TO TAKE

1. No doubt about commitment of present UK Government to the European Community. Wider public attitude less enthusiastic, potentially hostile.

2. No doubt also about strength of feeling over budget issue. Repeated failures to solve it satisfactorily give repeated risk of provoking hostility. Recent quiescence of public opinion helped by fortunate out-turn after 1980 Agreement.

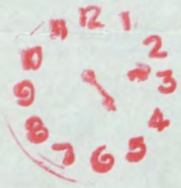
3. 25 May 1982 Agreement deeply unsatisfactory. Not helped by subsequent attempts by others to erode commitment even to that. Impression of Franco-German alliance to achieve effective degressivity very damaging. Agreement accepted at time of major pre-occupation with Falkland Islands. Do not be misled by UK Government attempts to present agreement as satisfactory to avoid provoking domestic opinion.

4. Need to get back to principles, already to some extent accepted by others: that an intolerable financial situation for a Member State must be corrected - whenever it arises, not just for a year or two; and that there can be no case for a Member with less than average prosperity paying more than a modest net contribution.

5. Vital for others to realise that future harmony in the Community is not going to be achieved while the budget remains as running sore.

6. It is increasingly realised in the United Kingdom that the mechanism of Community financing involves periodic substantial transfers of funds from the UK to other EC partners, and that there could be scope for the UK to suspend or limit such transfers, thus obliging other countries to face the problem of funding Community expenditures on themselves (not repayments to the UK).

7. Naturally realise what a troublesome prospect any resort to "withholding" would create. Hence extreme reluctance of UK Government, and desire to restrain pressures to this end. But those pressures could be unavoidable if actions of others foster the sense of a bad bargain.



Ref. A09146

PRIME MINISTER

Cabinet: Community Affairs

The Secretary of State for Industry may wish to report on the special Foreign Affairs Council on 24 July, which discussed the dispute with the United States over steel imports. With the expiry of the 24 July deadline for the United States Administration to suspend the current complaints by the United States industry, and the Foreign Affairs Council's decision to ask the Commission to negotiate a global steel arrangement with the United States Government, the bilateral negotiations, which the United Kingdom and France were carrying on separately, came to nothing. Officials in Brussels this week have been working on a detailed mandate for the Commission, concentrating on product coverage, market share, and how any agreement would operate.

2. The Minister of Agriculture, Fisheries and Food may wish to report that the Budget Council on 27-28 July finally confirmed the wine reform package after a discontented statement for the record from the Germans.

3. The Chancellor of the Exchequer may wish to report on the outcome of the Budget Council itself, at which the United Kingdom were seeking an amending budget for 1982 involving CAP savings of 500 MECUs, and improvements in the structural balance of the 1983 preliminary draft budget to provide for proportionately greater increases in those parts of the budget which best serve United Kingdom interests.

4. OD(E) met on 27 July to consider possible changes of presentation and substance in the treatment of receipts from the Regional and Social Funds to meet the Commission's line on additionality. In the absence of the Foreign and Commonwealth Secretary in Washington, you may wish to invite the Minister of State, Foreign and Commonwealth Office, to report briefly on the Sub-Committee's conclusions.

5. There will be a special Foreign Affairs Council in the week beginning 9 August to consider the latest developments on European Community/United States steel, and there will be an informal meeting of Finance Ministers on 29-30 August.

RTA

ROBERT ARMSTRONG

28 July 1982

(4)

Prime Minister

To note.

A.J.C. 29/7.

There must be no increase in public expenditure arising from this change

CONFIDENTIAL

PM/82/67

PRIME MINISTER

EC Receipts from the Regional and Social Funds Additionality

1. The Sub-Committee on European Questions of the Defence and Overseas Policy Committee, OD(E), has considered a report by officials on the precise application of our additionality rules to the Regional and Social Funds. This report followed advice from the Departments responsible for negotiating the current reviews of these two funds that our additionality policy, unless amended, was likely to be an obstacle to obtaining the maximum receipts potentially available for the UK. The Commission and a number of other member states are pressing for evidence that Community expenditures bring a clear extra benefit to the regional and social policies of the recipient member states. The Sub-Committee agreed that it was important to secure the maximum possible receipts from these funds so as to keep to the minimum the size of our unadjusted net contribution to the Community budget - thus reducing the size of the special refunds we need to secure in the budget negotiations. The Sub-Committee has therefore approved four modest changes in our current practice which are designed to help our negotiators get more money from the Regional and Social Funds without damaging control over public expenditure at home. The changes are as follows.

2. First, the way the figures are presented in the Public Expenditure White Paper will be revised so as to remove the present implication that the receipts have no effect on the size of the relevant domestic programmes, but are simply netted off our contribution to the Community. But there will continue to be a table giving figures for our net contribution to the Community institutions so that the receipts will in future appear in two places.

/3.

CONFIDENTIAL

3. Second, the treatment of Social Fund receipts will be changed so as to give potential applicants in this country a greater incentive to secure the maximum amount available. The precise way in which this will be done is to be worked out between the Department of Employment and the Treasury.

4. Third, the Committee agreed that sympathetic consideration should be given in future to public expenditure survey bids necessary to secure receipts for purposes which do not have priority in United Kingdom spending plans. The problem arises where Departments cannot find room within their existing programmes for these expenditures so that, without some topping-up to cover the receipts, we risk losing very considerable sums otherwise obtainable from the Community. The Treasury has agreed that it would be right to consider such bids sympathetically if the receipts would not otherwise be obtainable but will seek to ensure that total public expenditure is not increased - ie that the increase in the departmental programme is offset by the reduction in our net transfers to the Community.

5. Finally Departments will not in future be asked to find savings to offset receipts by private sector bodies like private ports. Departments have no control over the expenditure of these bodies and so, under the present rules, have to find the savings from their public sector programmes. The sums at stake are very small and the Treasury have accepted this change de minimis.

6. These modest changes will allow our negotiators to show more flexibility in Brussels. We may find it necessary to make further adjustments at a later stage in the negotiations. Some more ideas are to be considered by the group reviewing UK regional policy in case they are needed.

/7.

7. I am sending copies of this minute to the members of OD(E) and Sir Robert Armstrong.

(FRANCIS PYM)

Foreign and Commonwealth Office
28 July 1982

Euro Pol
Budget

(2)

Prime Minister

To note.

A.J.C. 23/7.

DER BOTSCHAFTER
DER BUNDESREPUBLIK DEUTSCHLAND

London, 23 July 1982

See my letter to N.I.O.

A.J.C. 26/7.

Dear Prime Minister

I have the honour to transmit to you the enclosed message from Herr Helmut Schmidt, Federal Chancellor of the Federal Republic of Germany. The message refers to the project of a special action by the European Economic Community in the field of housing in Belfast and to your message to Chancellor Schmidt dated 2 July 1982.

I am, dear Prime Minister,
Yours sincerely
Jürgen Ruhfus

Jürgen Ruhfus

The Rt. Hon. Margaret Thatcher, MP
Her Majesty's Prime Minister and
First Lord of the Treasury
London

Subject

cc Mr Mortimer
OPS

Von: Helmut Schmidt, Bundeskanzler der Bundesrepublik Deutschland

T 149/82

An : The Rt.Hon.Margaret Thatcher, MP
Her Majesty's Prime Minister and
First Lord of the Treasury

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T 149/82

Sehr verehrte Frau Premierminister,

mit Ihrer Botschaft vom 2. Juli 1982 haben Sie mir Ihre Erwartungen dargelegt, die Sie mit einer Sonderaktion der Europäischen Gemeinschaft zugunsten des Wohnungsbaus in Nordirland verbinden. Ich räume ein, dass die besonders schwierige Lage der Bevölkerung Nordirlands einen Akt gemeinschaftlicher Solidarität wünschenswert erscheinen liesse.

Gleichwohl kann ich der Förderung des Wohnungsbaus aus Mitteln der Gemeinschaft aus grundsätzlichen Erwägungen nicht zustimmen. Äusserungen einiger Mitgliedstaaten haben deutlich gemacht, dass sie über diese Massnahme den Einstieg in eine Wohnungsbaupolitik der Gemeinschaft suchen, die wir nicht zuletzt wegen der nicht absehbaren finanziellen Konsequenzen für den EG-Haushalt ablehnen müssen.

In dem Wunsch, der gesamten nordirischen Bevölkerung dennoch das Gefühl unserer solidarischen Verbundenheit zu vermitteln, möchte ich trotz der von Ihnen geschilderten Schwierigkeiten anregen, in Zusammenarbeit mit dem Ratspräsidenten und der Kommission neue Vorstellungen für eine geeignete Sonderaktion zu entwickeln, die sich in den Rahmen der bestehenden Gemeinschaftspolitiken einfügt.

Ich versichere, dass die Bundesregierung einen entsprechenden Vorschlag mit Sympathie und Aufgeschlossenheit prüfen wird.

Mit freundlichen Grüssen,
stets Ihr Helmut Schmidt

Courtesy Translation

T 149/82

From: Helmut Schmidt, Chancellor of the Federal Republic of Germany

To : The Rt.Hon. Margaret Thatcher, MP
Her Majesty's Prime Minister and
First Lord of the Treasury

Dear Prime Minister,

In your message of 2 July 1982 you explained to me what you expect of a special action by the European Community in favour of housing in Northern Ireland. I admit that the particularly difficult situation of the population of Northern Ireland would make an act of Community solidarity seem desirable.

Nevertheless I cannot agree, because of considerations of principle, to the promotion of housing out of Community funds. Remarks made by several member states have made it plain that through this measure they seek an entry into a housing policy of the Community, a policy which we have to reject, not least because of the unpredictable financial consequences for the EC budget.

Out of the desire to give the whole population of Northern Ireland nevertheless the feeling that we stand in solidarity by their side, I should like to suggest in spite of the difficulties which you described to develop, in conjunction with the President of the Council and the Commission, new ideas for a suitable special action which fits into the framework of the existing Community policies.

I assure you that the Government of the Federal Republic of Germany will examine such a proposal with sympathy and an open mind.

With kind regards,
Yours ever
sgd. Helmut Schmidt

Courtesy Translation

From: Helmut Schmidt, Chancellor of the Federal Republic of Germany

To : The Rt.Hon. Margaret Thatcher, MP Her Majesty's Prime Minister and First Lord of the Treasury

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With kind regards,

Yours ever

sgd. Helmut Schmidt

File BC
Euro Pol

10 DOWNING STREET

From the Private Secretary

23 July 1982

The Prime Minister has asked me to thank you for your letter of 23 July enclosing a message from the Federal Chancellor about European Community action in the field of housing in Northern Ireland.

A. J. COLES

His Excellency Dr. Jurgen Ruhfus, K.B.E.

With the Compliments

of the

Chief Secretary to the Treasury

Treasury Chambers,
Parliament Street,
SW1P 3AG

cc PPS
FST
MST (R)
Sir Kenneth Couzens
Sir Anthony Rawlinson
Mr Quinlan
Mr Lovell
Mr Mountfield
Mr A J C Edwards
Mr Hart
Mr Withers
Mr Chivers

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Patrick Jenkin MP
Secretary of State
Department of Industry
Ashdown House
123 Victoria Street
London SW1E 6RB

23 July 1982

Dear Secretary of State,

EUROPEAN REGIONAL DEVELOPMENT FUND: NON QUOTA SECTION

Norman Lamont wrote to you on 6 July about a second tranche of assistance under the non-quota section of the ERDF for steel, shipbuilding and textile closure areas. I have seen Nick Edwards' letter of 13 July and George Younger's of the same date.

It is our policy to minimise our net contribution to the Community Budget, which is excessive and which is itself a substantial addition to public expenditure. It is however no part of the policy to add to total public expenditure in order to do so. On the contrary, a main object in minimising our net contribution is precisely to reduce public expenditure. Hence our policy on "non-additionality".

As I understand it, there is an opportunity here to secure £37 million of Community receipts over 5 years for steel and textile closure areas but only if the £37 million is matched by £7 to £17 million of UK expenditure, or something of the order of £2½ million, a year for 5 years. I can of course see the attractions of such a proposition but it is for you and our other colleagues to decide whether it is a good bargain to find this amount within your existing allocations in order to attract these receipts. What I cannot do is add to total public expenditure so as to ensure that you can secure the £37 million without any matching contribution from your existing allocations. I could only agree to what is proposed if you and the other Ministers concerned can find identifiable offsetting savings of at least £2.5 million a year. On that basis I would be happy for you to proceed.

This approach would seem to accord with what George Younger proposed in his letter. I am, most exceptionally prepared to agree to this on that basis in advance of the main Survey discussions

because I see its attractions for you, although it does to a limited extent pre-empt decisions which remain to be taken about your programme. My agreement to the additional expenditure must, therefore, be without prejudice to any wider decisions reached in this year's Survey and to the treatment of the other additional bids which you have put forward.

On a separate point, I have some concern about the novel use of Section 8 to support a scheme of an essentially regional nature going outside the assisted areas, and I can see that there could be difficulties of the sort which Nicholas Edwards mentions. Provided you think that this use of the Act can be defended, however, and our line on assisted areas generally held I would not wish to press the point.

I am sending copies of this letter to other members of E(EA) and OD(E) Committees and to Sir Robert Armstrong.

yours sincerely

for LEON BRITTAN

[Approved by the Chief Secretary
and signed in his absence]

BH

10 DOWNING STREET

From the Private Secretary

23 July 1982

EC AID FOR NORTHERN IRELAND HOUSING

I enclose a copy of a message which the Prime Minister has received from Chancellor Schmidt in reply to her own message of 2 July. As you will see, Chancellor Schmidt is unable to accept the existing draft regulation but suggests that a new proposal should be developed which accords with Community policies.

I am copying this letter and enclosure to the Private Secretaries to members of OD(E) as well as to Nicholas McInnes (Department of Trade) and David Wright (Cabinet Office).

A. J. COLES

Stephen Boys-Smith, Esq.,
Northern Ireland Office

Courtesy Translation

T 149/82

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To : The Rt.Hon. Margaret Thatcher, MP
Her Majesty's Prime Minister and
First Lord of the Treasury

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With kind regards,
Yours ever
sgd. Helmut Schmidt

PART 17 ends:-

CC(82) 39th Item 3 22.7.82

PART 18 begins:-

Arc to N10 + alt Schmidt to PM 23/7/82

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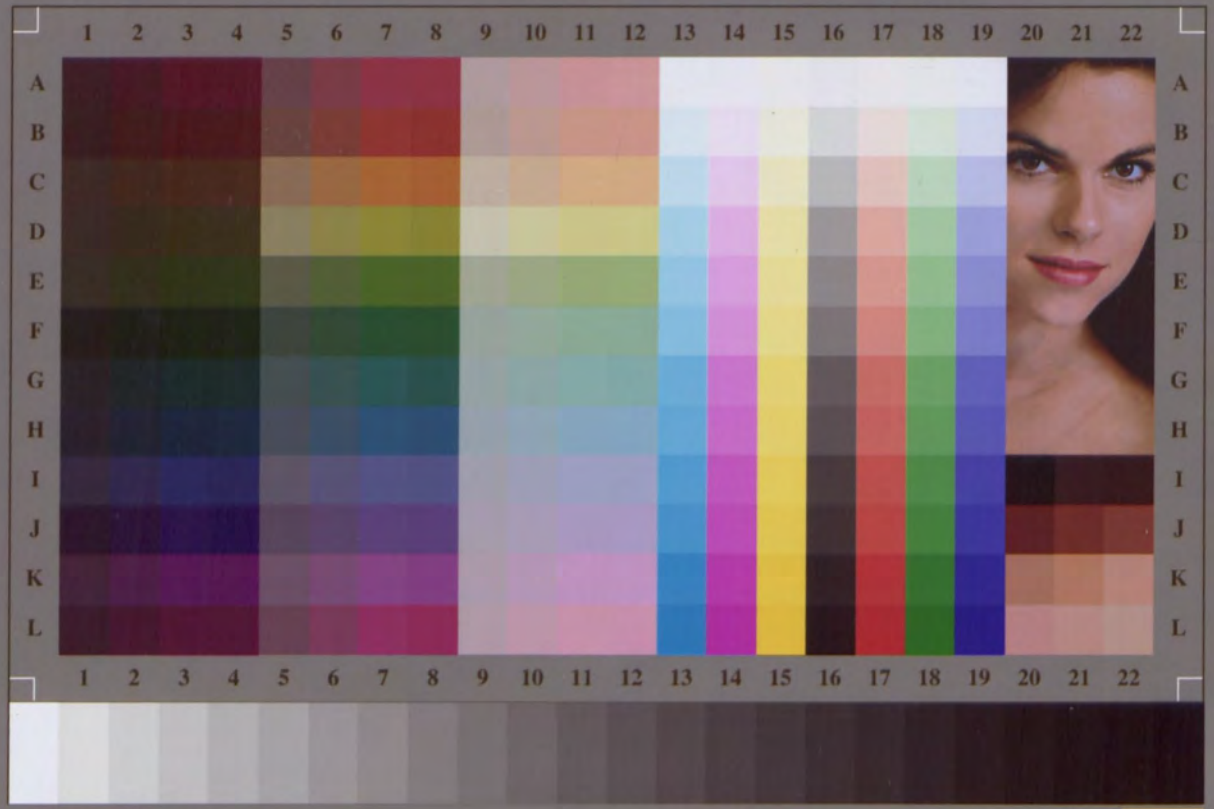

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