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Italy: Cossiga visit
Jan 80.

LORD PRIVY SEAL

Prime Minister

COMMUNITY BUDGET : VISIT OF SIGNOR COSSIGA

Signor Cossiga was asked by the European Council to decide when the Council should reconvene to 'pursue the search for appropriate solutions' to the United Kingdom budget problem. When he meets you on 29/30 January he will be looking for some movement on our part. Without it, he is unlikely to be able to secure any corresponding movement from our partners. You have therefore agreed that we should give him some indication that we would settle for less than we were asking for in Dublin, although we should obviously not reveal a final position. In this minute, I suggest what our approach might be.

The absence of a Commission proposal is unfortunate, but if we are to get any value out of the meeting on 29/30 January, we cannot wait for it before we show something of our hand. In any case, we have a fair idea what they are likely to say, and they will almost certainly not propose a figure at this stage.

It will probably be better to set the indication of our figure in some slightly wider framework and, particularly because it is an Italian Presidency, in the context of medium term restructuring of the budget.

Our proposition could be expressed as the amount of reduction in our net contribution that we want (eg a refund of £800m instead of £1,000m) or as the level of net contribution we are prepared to pay. The latter is safer since we do not know exactly what our net contribution would otherwise be in 1980 (or later years). Moreover, there are presentational advantages in stating what we are prepared to pay rather than how much we 'want back'.

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Although we are basing our calculation on figures for 1980, we are asking for a solution which lasts. We could not expect to get an absolute ceiling on our net contribution irrespective of developments, but we do need a continuing limitation on its future growth.

Taking these considerations into account, the possible ways in which we could express our requirement seem to be:

(i) that our net contribution in 1980 should not exceed, say, 300 meua and should not grow faster than the Budget as a whole in future years; or

(ii) that our net contribution should not exceed a given proportion of our GNP; or

(iii) that our net contribution should be linked in some way to that of the French (how this might be done, with the necessary calculations, is in a separate note at Annex A).

Each of these has some merit as an indicator of what would be acceptable to us. We would not be asking for them to be written into any legal text, but that the revised Financial Mechanism and whatever is agreed for measures on the receipts side should together produce that result. Option (i) is the simplest; option (ii) has some economic logic but would be criticised as another form of juste retour; option (iii) taken by itself could turn the negotiations into too much of an Anglo-French battle.

Taking all this into account Annex B sets out the line I think we should take. It could be used as a speaking note, or possibly handed over. As you will see, it combines the ideas of (i) and (iii) in expressing what we are asking for. If it were decided to hand over a note, I think the figure we decide on should be given to him orally. If it is 300 meua (roughly £200m) then we would be paying about two-thirds of what the French would have to pay. This is what the draft implies because that is approximately the difference between the French GNP per head and ours. If we were

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to pay the same as the French we would make a net contribution of £304 ~~£290~~ million on the existing Commission figures. ~~and £368 million on the latest Treasury forecasts.~~ This is too high for an opening bid.

Annex B does not deal with the question of financing nor whether Italy and Ireland should be expected to pay. We want to remain neutral on this; but if it were thought necessary to give the Italians something, it would be possible to add an additional paragraph along the lines of:

> '5. Other member states with below Community average GNP should also benefit from supplementary measures so that their budgetary position was unaffected by the changes envisaged under (1) above.'

Nor does the note deal with the 1 per cent VAT ceiling. It is better from our point of view not to raise it specifically in the context of our Budget problem. If necessary, we can argue that it is covered by the Dublin remit to the Commission.

Finally, the note sticks to our existing line on the question of duration, ie indefinite, subject to review; but the reference in (4) is intended to establish a link between the special measures for the United Kingdom and progress with restructuring the budget.

I am sending copies of this minute to Members of OD, to the Minister of Agriculture, Fisheries and Food, the Secretary of State for Energy, the Attorney General, and to Sir R Armstrong and Sir M Butler.

I.H.G.

24 January 1980

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ANNEX A

UNITED KINGDOM 1980 NET CONTRIBUTION TO THE COMMUNITY BUDGET
COMPARISONS WITH FRANCE

1. On the existing Commission figures for 1980, the United Kingdom will make a net contribution of 1814 meua/£1225 million (exporter benefits) or 1552 meua/£1048 million (importer benefits). The corresponding figures for France are 19 meua/£13 million and 120 meua/£81 million.

2. If the United Kingdom and France were to make exactly the same net contribution, the result would be:

	meua	£m
mca exporter benefits	431	291
mca importer benefits	450	304

3. If we wish to propose that the United Kingdom should be a net contributor of the order of £200 million, then our net contribution would need to be approximately two-thirds of that of France. This could be justified on the basis of relative GDP per head (5786 eua in the United Kingdom and 8356 eua in France).

4. The figures in this annex assume that all Member States, including the United Kingdom, will contribute to our refund and our additional receipts.

ANNEX B

UNITED KINGDOM BUDGET PROBLEM:
NOTE TO BE GIVEN TO SIGNOR COSSIGA

Drawing on the conclusions of the Dublin European Council, the following basis of settlement is suggested:

(1) Removal of the existing constraints on the operation of the Financial Mechanism. Regulation 1172/76 to be extended indefinitely with provision for a new review clause not later than the end of the sixth year.

(2) Supplementary measures leading to greater participation by the United Kingdom in Community expenditure. The method or methods should be decided in the light of Commission proposals and be subject to review as in (1) above.

(3) The combined effect of (1) and (2) above should be such as to leave the United Kingdom a modest net contributor [say 300 meua in 1980]. The United Kingdom's net contribution should be in an appropriate relationship with the member state having the next highest GNP per head in the Community.

(4) The European Council should instruct the Commission to make proposals for achieving a better balance within the Community budget and ensuring that, by 1986, the proportion devoted to the Common Agricultural Policy (FEOGA Guarantee Section) would not exceed 55 per cent of the total. The Council should take account of the effect of implementing such proposals on the United Kingdom's net contribution at the time of the review called for under (1) above.