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Ref. A09933

PRIME MINISTER

EEC Budget: Post-Strasbourg Strategy

(OD(79) 18)

PURPOSE

To decide, on the basis of the Chancellor of the Exchequer's paper OD(79) 18, how best to follow up the procedure agreed in Strasbourg to achieve our objective of reducing the United Kingdom net contribution to the Community budget. The conclusion reached on the preceding agenda item on defence costs in Germany will affect the tactics.

BACKGROUND

2. The procedure agreed at the Strasbourg European Council (copy attached) provides first for the Commission to submit to the Finance Council a reference paper describing the financial consequences for each member state of applying the existing budgetary system; second for the member states to comment on this paper at the Council and to put forward concrete requests; and third for the Commission to present proposals to the November European Council in the light of this debate and any guidelines that emerge from it.

3. You have persuaded Mr. Jenkins to do his best to have the Commission's reference paper ready for the September Finance Council. Left to themselves the Commission would have gone for the October Council but this leaves very little time for the Commission to make their proposals and for these to be discussed and prepared for the Dublin Summit. A calendar of relevant meetings is at Annex A to the Chancellor's paper.

4. The Chancellor's paper argues that we now need to define more closely what we should go for and how we should set about getting it. His conclusions are:-

- (i) Only a new form of corrective mechanism, adequate to deal with our twin problems of an excessive gross contribution and low receipts, is likely to produce an effective solution in the timescale needed. (The note by officials at Annex B of the paper sets out the supporting arguments, which need not be discussed in detail by the Committee.)

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- (ii) We need not at this stage spell out precisely what form this corrective mechanism might take, but we should base ourselves on the proposition that the effects of the budget ought at least to be neutral for a country like the United Kingdom with below average GNP per head.
- (iii) At the Finance Council, we should aim to get agreement that an unacceptable situation exists and that the Commission should produce remedial proposals which will be effective immediately. To achieve this the idea of a radical corrective mechanism would have to be in the air by the time of the Finance Council discussion.
- (iv) We should maintain our alliance with the Italians as long as possible, but bear in mind that our budgetary aims may diverge as the November European Council approaches.
- (v) We should resist the likely pressure from our partners to link a solution to our budget problem with concessions by the United Kingdom on other matters. But we need not object to decisions being taken at the November European Council on any other issue which may be ripe for settlement.

5. As to tactics, the Chancellor proposes that we should embark on an early programme of bilateral discussions, involving both Ministers and officials, with our partners and the Commission. These discussions should be designed to disabuse them of the notion that our problem can be solved by anything short of a radical corrective mechanism and to create the right climate for the Finance Council discussions and the ensuing Commission proposals. In talking to the Commission, we should at the right time be ready to explore with them the four possible corrective mechanisms identified in Annex B to the Chancellor's paper.

HANDLING

6. You will wish to invite the Chancellor of the Exchequer to introduce his paper.

7. Thereafter you might find it convenient to focus the discussion first on the guiding principles set out in paragraph 3 of the paper and summarised in paragraph 4 above. The Foreign and Commonwealth Secretary, as the Chairman of OD(E), and the Lord President of the Council, may have general comments.

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8. The Committee should find little difficulty in agreeing that some form of corrective mechanism is the only acceptable answer to our problem. Minor changes to the existing Financial Mechanism would not, by themselves, be enough; reductions in CAP expenditure would be welcome but too slow; increases in the Community funds from which we gain a net benefit should not be rejected but cannot solve our problem, certainly within the present budget limit of 1 per cent VAT.

9. The proposed negotiating basis might provoke more discussion. Is the formula in the last two sentences of paragraph 3(c) a realistic objective? It implies a saving for the United Kingdom of about £1,000 million per annum across the exchanges, with a corresponding reduction in the current benefits received by our partners. But we must establish a strong opening position if we are to have any impact. The Committee's decision on Anglo-German offset costs will also be relevant to how hard we push our budget case. The Chancellor's paper deliberately focuses on what our opening position should be. It would be premature to decide now what might ultimately be acceptable to the Government and in any case unwise to put it in papers which are widely circulated.

10. On the alliance with the Italians, you agreed with Signor Andreotti at Strasbourg to keep in touch, but we must be careful that the Commission's proposals are not distorted unacceptably for us by the need to cater for different Italian interests.

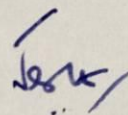
11. As to possible linkages, there is a clear risk that if our partners are eventually persuaded of the need to act on our budgetary problems they will want some compensating concessions to enable them to justify the outcome domestically as a balanced package. The Committee is nevertheless likely to agree with the Chancellor that we should resist any attempts at linkages. This need not preclude other decisions being taken at the November European Council which would help presentationally. These are matters which could be considered by OD(E).

12. On tactics, the Foreign and Commonwealth Secretary and the Lord President of the Council may have comments but you will not want to get into too much detail. That can be left to the Chancellor and the Foreign and Commonwealth Secretary or to OD(E).

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CONCLUSION

13. Subject to the discussion, you may be able to sum up that the recommendations in paragraph 3 of OD(79) 18 are approved and that the tactical follow-up should be left to the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer.



JOHN HUNT

9th July, 1979

CONVERGENCE

The European Council noted the report submitted to it by the Council (Economic and Financial Affairs) on the convergence of Member States' economic performances.

Following comments from a number of delegations, it asked the Commission to submit to the Council a reference paper describing the financial consequences of applying the budgetary system on the situation in each Member State, especially in 1979 and 1980. The study will have to take into account the economic, financial and social effects of each Member State's participation in the Community and the Community nature of the components contributing to the formation of own resources. For 1980, it will take account of the agricultural prices for the 1979/1980 marketing year.

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

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