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OD(79) 6th Meeting

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CABINET

DEFENCE AND OVERSEA POLICY COMMITTEE

MINUTES of a Meeting held at
10 Downing Street on
WEDNESDAY 12 SEPTEMBER 1979 at 5.15 pm

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon William Whitelaw MP
Secretary of State for
the Home Department

The Rt Hon Lord Hailsham
Lord Chancellor

The Rt Hon Lord Carrington
Secretary of State for Foreign
and Commonwealth Affairs and
Minister for Overseas Development

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

The Rt Hon Francis Pym MP
Secretary of State for Defence

The Rt Hon Lord Soames
Lord President of the Council

The Rt Hon Sir Ian Gilmour MP
Lord Privy Seal

The Rt Hon John Nott MP
Secretary of State for Trade

SECRETARIAT

Sir John Hunt
Mr M D M Franklin
Mr H G Walsh

SUBJECT

EEC BUDGET CONTRIBUTION: THE NEXT STEPS

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EEC BUDGET CONTRIBUTION: THE NEXT STEPS

Previous reference: OD(79) 4th Meeting, Minute 2

The Committee had before them a memorandum by the Chancellor of the Exchequer (OD(79) 24) which contained proposals for pursuing the objective of reducing the United Kingdom's net contribution to the Community Budget, following the receipt by member states of the Commission's reference paper on the effects of the Community's budgetary system and the Financial Mechanism.

THE CHANCELLOR OF THE EXCHEQUER said that the Council of Ministers (Ecofin) on 17 September would consider the Commission's reference paper. While the conclusions had been removed from the paper in the final stages of the Commission's discussion of it, the basic figures remained: the United Kingdom share of Community GNP in 1980 would be about 16 per cent, but we would pay 20.5 per cent of the contributions and receive only 10.3 per cent of the receipts. At the Council, he proposed to make the points in paragraph 12 of OD(79) 24: to emphasise the structural character and growing scale of the United Kingdom problem; to say that the Commission should have proposals for a solution ready by the time of the 15 October Finance Council; to dismiss a number of suggested solutions which would not be acceptable; and to say that some form of corrective mechanism dealing with our net contribution would be necessary. In speaking about our requirements for a solution, he would stress that any solution should deal both with our excess contribution and our inadequate receipts, last as long as the problem, and not require a major expansion of the Community Budget. While he would make it clear that the United Kingdom should not be making any net contribution to the Budget, it would be wrong for the United Kingdom to suggest any precise mechanism at this stage. It would be better for this to be put forward by the Commission. The possibilities were listed in paragraph 16 of OD(79) 24. From his discussions with Mr Roy Jenkins he thought the Commission now realised that changes in the existing Financial Mechanism would not be enough. But the discussion earlier that day with the Belgian Prime Minister had shown that it would not be easy to convince other member states by argument alone that they should contribute more to the Budget and the United Kingdom less. We might need to consider ways by which we could restrict the automatic monthly payments from the Consolidated Fund to the Commission's account at the Bank of England.

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In discussion, it was argued that it was intolerable when all Departments were being asked to make cuts in public expenditure that we should have to make increasing Exchequer contributions to the Community Budget. We could reasonably argue that in our economic circumstances we should be a net recipient but in fact we were only asking to break even. We should not formulate our objective in terms of a zero net contribution but instead of "broad balance", so as not to run foul of Community doctrine. While we were not saying that each member state should simply get as much back from the Budget as it put in (the so-called *juste retour*), Community doctrine surely did not involve, as in our case, the poor subsidising the rich. At the Finance Council, the Chancellor of the Exchequer should rebut the arguments which others were using against us: the high proportion of United Kingdom imports from third countries, excessive United Kingdom expenditure on consumption, the Community ownership of own resources, the benefits conferred on us by North Sea oil, etc. These arguments were only veils which thinly masked the elementary fact that other member states did not want to pay more. Although we could not carry this argument to its logical conclusion, the fact of the matter was that were it not for United Kingdom membership, the other member states would have to find the extra £1000 million a year which represent our net contribution.

In further discussion, the importance of getting an early paper from the Commission on solutions which were as favourable to the United Kingdom as possible was stressed. This would be discussed at the Prime Minister's meeting with the Commissioner responsible for the Budget (Mr Tugendhat) the following day which the Chancellor of the Exchequer and the Lord President would also attend. In preparation for influencing the Commission's second paper we needed to work out urgently and in detail what method or methods would best serve our interests. It was suggested that of the possibilities mentioned in paragraph 16 of OD(79) 24 the combined mechanism in (iii) appeared to be the most promising. The proposal in paragraph 16(iv), for a ceiling on the United Kingdom contribution, would appear to our partners as too crude a solution: it was hardly a corrective mechanism. Ideally it would suit us to make lower gross contributions so that there would be no outflow of funds across the exchanges. A rebate would involve giving the Community an interest free loan unless it were paid to us at frequent intervals.

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The Prime Minister had already met the Irish and Belgium Prime Ministers. If it proved impossible for her to arrange a meeting with the new Italian Prime Minister it would be important for the Foreign and Commonwealth Secretary to visit his Italian opposite number. It would be difficult to maintain our alliance with them since the Commission reference document showed the Italians to be net Budget beneficiaries. They suspected that we were implicated in some way in downgrading their case for favourable treatment. The Danes would also prove difficult, and had major differences with us over fisheries. The French would be the most obdurate. The Germans seemed likely to be the least hostile and the Prime Minister's 31 October bilateral with Chancellor Schmidt would be of crucial importance. In preparation for this meeting and before the European Council itself, it would be important to know what cards we had to play. Could we, for example, block decisions on the 1980 Budget? There were probably a whole range of issues where by being obstructive we could put pressure on our partners. It did not seem likely that the 1 per cent VAT Own Resources ceiling would be sufficiently imminent to be of much use at the Dublin European Council. The United Kingdom was also a demandeur on fisheries and the CAP as well as on the Budget, and we might come under pressure to make concessions here and also in the energy field.

THE PRIME MINISTER, summing up the discussion, said that the Committee endorsed the line that the Chancellor of the Exchequer proposed to take at the 17 September Finance Council set out in paragraphs 12 and 13 of OD(79) 24, although our objective should be expressed in terms of broad balance rather than a zero net contribution. Following the Finance Council, it would be essential to lobby the Commission about the solutions they would propose. For this purpose, officials should examine and report urgently to the Committee on precisely how the possible mechanisms outlined in the Chancellor of the Exchequer's paper would operate in practice and on their respective merits and demerits.

The Committee -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.

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2. Instructed the Secretary of the Cabinet to arrange for officials to report urgently on the method or methods which could best be relied upon to achieve our objective showing exactly how they would work in practice.

3. Invited the Foreign and Commonwealth Secretary to arrange for a further paper on the means by which we could if necessary put pressure on the Commission or other member states to meet our budgetary requirements.

Cabinet Office

13 September 1979

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