

QZ 01206

PRIME MINISTER

CONFIDENTIAL

Community Budget

This is a copy. The original has been extracted from Prime Minister: You asked me and retained under Section 3(4) this morning for a note of where we stand on preparation for the Finance Ministers' forthcoming discussion of the Community Budget. You will see (para 4) that the Chancellor's paper is still in preparation.

Thurs 3/9

The Foreign and Commonwealth Secretary mentioned in Cabinet last Thursday that, thanks to good British contacts inside the Commission, we knew something about how the Commission's "reference paper" called for by the European Council in Strasbourg, was shaping up. This paper, you will remember, is to bring out the likely Budget allocations in 1979 and 1980 and report on the operations of the Financial Mechanism. It is due to be presented to the Council for discussion at the Finance Ministers meeting on 18 September. Only after that will the Commission get down to the second part of their remit which is to produce proposals for solutions. We have been pressing the Commission very hard to keep to the timetable laid down in Strasbourg and one of the objects of your EEC discussion with Mr Lynch on Wednesday will be to see that the Irish Presidency sticks to it as well. The Commission were due to consider the draft paper at their regular Wednesday meeting on 5 September but, in view of Mr Roy Jenkins' wish to attend the Mountbatten Funeral, the discussion has been brought forward to tomorrow, Tuesday. The draft will no doubt then be subject to modification and the figures themselves may be revised. I will see that you are informed about the outcome before your meeting with Mr Lynch.

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2. As drafted, the Commission paper showed a UK net contribution in 1980 (1979 is less important because we are still on the transitional arrangements) of 1368 million EUA, or £845 million at the current exchange rate. This makes us far and away the largest net contributor with Germany's net contribution only about £520 million. The Commission's figures will also suggest that Italy will become a large net beneficiary which, if confirmed, will mean that we can no longer count on Italian support in getting a change in the budget mechanisms. The Commission figures are

* sentence deleted and retained under Section 3(4)
 (W)Dayland
 19 November 2009

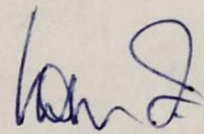
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lower than our calculations for two reasons. First, they attribute MCAs to the benefit of the UK and Italy and probably over estimate the likely level of UK MCAs. Secondly, administrative costs and aid expenditure have been excluded on the grounds that they do not benefit any particular Community country. There is also a slight difference in the treatment of our (small) refund under the Financial Mechanism. But generally it seems that we and the Commission are likely to be pretty close on the figures.

3. As to the text of the report (of which we have not seen an actual copy) there may be some disposition to challenge the argument that the balance of payments effect of the net contribution acts as a significant drag on UK domestic economic policies. On the other hand, the report, as at present drafted, does expressly acknowledge that the UK's large net contribution constitutes a serious anomaly in the Community's finance and, very helpfully, recognises that that is due not only to our making an excess contribution but also (and in fact to a greater extent) because our receipts are so much below the Community average. These are indeed very significant elements and, if maintained in the final version, will provide an important and indeed essential basis for us to argue our case.

4. The Chancellor of the Exchequer will be preparing a paper, which should probably come to OD rather than OD(E), about the Commission's document and about the line he should take at the Finance Council on 18 September. The main purpose there will be to get an acknowledgment of the reality and magnitude of our problem. It is clear that some new mechanism will be necessary but whether we should put precise proposals on the table or feed our ideas into the Commission will be a matter for consideration.

*The Chancellor
informed.*



3 September 1979

M D M FRANKLIN



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the likely cost of U.S. aid. Secondly, administrative costs and
... expenditure have been excluded on the grounds that they do not
benefit any particular "priority" country. There is also a slight
difference in the treatment of our (small) report under the "Priority
Mechanism". But generally it seems that we and the Commission are
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copy, there may be some disposition to challenge the argument that the
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factor on U.S. domestic economic policies. On the other hand, the report
as at present drafted, does expressly acknowledge that the U.S. large
net contribution necessarily involves a serious sacrifice to the Community's
... and, while it is true that the fact that it is not only to
our benefit but also a contribution to the fact to a greater
extent, because our receipts are so much below the Community average,
these are indeed very significant elements and it is maintained in the
final version, will provide an important and useful basis for
to argue our case.

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