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MR. CARTLEDGE

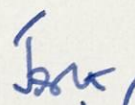
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Community Budget

Prime Minister  
HJ  
1/6

The Prime Minister may find it helpful to read the attached note by Mr. Franklin on our short and medium-term strategy in the Community before the briefing meeting for her visit to Paris. The note was discussed at a meeting of the Official Steering Committee on European Questions this afternoon and will need to be revised in the light of the discussion. The intention is then to submit it to the Foreign and Commonwealth Secretary. This means he will not have seen it by the time of your briefing meeting on Monday, so it would be best not to refer to it.

2. The main criticisms of the paper, mainly from the FCO, were:-
- (a) Given the intrinsic complexity and political importance of defence issues, it was very unlikely that they could be directly used to further our Community objectives (paragraph 4).
  - (b) At this stage in the Government's relationship with the Community it would be inappropriate to think of the tough measures described in paragraph 6 as possible means of achieving our main objectives. Their use would require very careful consideration of the long-term consequences.

  
JOHN HUNT

1st June, 1979



## EEC STRATEGY AND TIMING

### Ground Clearing

1. OD(E) has called for studies on cases where the UK has reservations on Community proposals, where we might be able to take new Community initiatives and the scope for closer bilateral co-operation with our Community partners. This should remove some irritants and may throw up proposals which will give practical demonstration to the Government's greater European commitment, we should thus be able to achieve an appreciable improvement in the atmosphere against which to pursue our main objectives inside the Community - correction of our net budgetary contribution, reduction in agricultural surpluses, and a satisfactory settlement on fisheries. It is however unlikely that this exercise will produce potential "concessions" which would have significant bargaining power in relation to these objectives.

2. It has to be recognised that our three principal objectives - the budget, CAP and fish are in no sense complementary. While a reduction in the cost of the CAP will undoubtedly help our budget position it is not true that attacking the CAP will help us to secure a change in the budget mechanism itself.

3. Moreover, our objectives run counter to the interests of most other member states. On the budget, attainment of our aim will increase the net budget contributions of all other member states except Italy and possibly Ireland. Holding down prices on agricultural products in structural surplus until the surpluses are eliminated, although it makes economic sense, will be opposed by the Irish, French, Germans and Benelux. On fisheries, our interests conflict with those of the Danes, French and Germans. The Irish who were formerly our allies have been bought off. Only the Italians are our allies on the budget, and in a limited sense on the Common Agricultural Policy. In concert with them we can block many Community proposals in the agricultural area, but we shall put the alliance in jeopardy if we oppose them on greater help for Mediterranean agriculture where their interests are contrary to ours. Moreover, while a vigorous and useful ally at present on the Budget, our friends in the Commission warn us that the Italian budget problem will disappear within a few years and that it will not help our case if too much



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is asked for Italy as well. However, for the time being it is plainly to our advantage to retain the Italians firmly on our side.

### Scope for Trade-offs

4. As suggested already, it does not seem likely that we will have major cards to put down which the rest of the Community want from us. However, there may well be some scope for trade-offs. The current review of energy policy may suggest ways in which given the current anxieties, we may be able to offer worthwhile assurances<sup>on</sup>/supplies of interest to some of our Community partners eg France and Germany. For Denmark, fish is very important and on the budget she is vulnerable: the better the fisheries deal is for her, the easier it should be to concede on the Budget. The attitude of both the Irish and the French to our budget demands will be influenced by how strongly we appear to be threatening the Common Agricultural Policy. There were clearly indications from the recent visit of Chancellor Schmidt that there could be room for real bargaining between our contribution to the budget and our contribution to European defence, not just in the narrow confines of "offset". This may perhaps also be true of the French: defence co-operation could be very important in lending substance to the UK/French bilateral relationship. The potential links between defence and our specific Community objectives merit further study.

5. Finally there is the EMS - while not directly a trade-off there is no doubt that it will be seen, perhaps more than any other single issue as a touchstone of the Government's commitment to the Community. The Government will want to consider the merits of joining in the light of its overall economic policies, the prospect for the exchange markets and what it wishes to see happen to the pound. A decision not to join would undoubtedly be criticised within the Community even if our reasons were understood. Conversely, a decision to join would be generally welcomed - even if unenthusiastically by the French - and would enable us to secure some contribution to our budgetary problem through interest rate subsidies. The tactical handling of any decision to join EMS in relation to our overall budget objective would need consideration nearer the time.

### Getting Rough

6. Even with the full exploitation of these possibilities it will not be easy to achieve any, let alone all three, of our objectives. In the first instance, the Government will want to exploit the goodwill which its more



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constructive attitude has generated. It would not be compatible with such an approach to threaten blocking tactics at the outset. But at some stage these tactics may prove to be necessary. Various possibilities could then be considered:

- i) withholding part of our assessed contribution to the Community budget;
- ii) refusing to participate in Community activities: the de Gaulle "empty chair";
- iii) blocking some part of the Community's budget procedures
- iv) blocking agricultural price increases
- v) blocking an increase in Community own resources when the 1 per cent limit on VAT contributions is reached.

It is not easy to see how we could resort to i) without speedy legal challenge. It would certainly dissipate any goodwill for us inside the Community. Resort to ii) would also antagonise other member states as well as carrying risks for our own influence within the Community. The efficacy of iii) would depend on how much support we could get eg from the Italians in the Council, or, in the end on our willingness to invoke the Luxembourg compromise. Given the French attitudes on the Luxembourg compromise, other member states could reasonably be relied upon to respect it. Similar arguments apply to iv). The tougher the price settlement this year, the greater will be the pressure for price increases next year. We might then have a very effective threat to secure our objective on the budget. Blocking an increase in own resources could certainly be made effective and would have the support of the Germans, but it may be several years yet before that situation is reached.

### TIMING

7. Several factors point to a settlement on fish sooner rather than later. The absence of any agreed Community policy on conservation is leading to over-fishing and generating uncertainty about the industry's long term future. Our ability to take national conservation measures is likely to be increasingly circumscribed by judgements of the European Court. This points to an attempted settlement as early as possible in the autumn, preferably before the budget



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issue comes to a head. Our aim on the CAP can probably only be effectively achieved during the annual struggles linked to each price fixing. Results will come only slowly. On the budget, the Chancellor said at the last Council that we wanted to see some <sup>decisions</sup> by the end of this year. We should maintain the pressure on the Commission to come up with proposed solution in time for the November European Council. In the event, we may slip into the first half of 1980 and, as explained in paragraph 6 we may have more leverage then than at the end of this year. On the other hand, the later it gets the closer we come to the German elections (November 1980) and the demise of the present rather helpful Commission. Moreover, while the Irish Presidency may not be helpful, it may equally be difficult to settle the budgetary issue under the Italian Presidency in ways which exactly suit our interests. Spring 1980 should therefore be a fall-back.

CONCLUSIONS

8. This preliminary analysis suggests the following :-

- a) we should avoid unnecessary minor irritants but the timing of any major constructive initiatives or concessions should be decided in relation to our major objectives.
- b) there is a case for an early (ie autumn) settlement on fisheries.
- c) A budget settlement at the end of 1979 (with spring 1980 as a fall-back) should be a priority objective and we should play the hand on the CAP in the way most likely to assist that objective.
- d) We should begin by pursuing our objectives on their merits and building up goodwill in the rest of the Community but be ready to consider blocking tactics at a later stage if necessary.
- e) Further consideration should be given to exploiting German and French defence requirements to secure their support for our Community objectives, especially on the budget.