

# CONFIDENTIAL

Ref. A0209

PRIME MINISTER

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## EEC Budget Contribution: The Next Steps

(OD(79) 24)

The Chancellor of the Exchequer's paper (OD(79) 24) seeks approval to the next steps in the negotiations to reduce our net contribution to the Community budget. In one respect (see paragraph 4 below) I find it very disappointing.

2. The Commission has now produced its "reference paper" in response to the first stage of the Strasbourg remit. The final version omits conclusions which were favourable to our case and includes sections designed to muddy the waters. But it still retains the essential figures and, as Le Monde says, assures us, at the outset of the great debate, of "un avantage incontestable". The key figures are set out in a table attached. They show our net contribution in 1980 as 1,814 million EUA (if MCAs are attributed to the exporting country), compared with 1,048 MEUA for Germany. The Italians emerge as major net beneficiaries.

3. The "reference paper" will be discussed at the Finance Council next Monday. The Chancellor sets out the line he proposes to take in paragraph 12 of his paper. By spelling out the magnitude of the problem as we see it, discussing a number of false or unacceptable routes to its solution and saying clearly that some form of corrective mechanism dealing both with our excessive contribution and our inadequate receipts he hopes to respond to the invitation from the Strasbourg Council to "present our requests in concrete form" without pinning ourselves down prematurely to one particular form of solution. Paragraphs 12(iii)-(v) are the most important sections.

4. I think this is all right for the Finance Council on Monday. Nevertheless it seems to me extraordinary (and all the more unfortunate in view of the Chancellor's forthcoming absence from the country from 25th September to 3rd October) that the Treasury can still make no concrete recommendation on what solution would suit us best (in all probability that in his paragraph 16 ~~(ii)~~ (iii). If we are to keep to the timetable, the Commission will need to come forward with its proposals for solutions by end-October at the latest and ideally before the next

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Finance Council on 15th October. It is vital that the Commission's proposals come as close as possible to satisfying the Chancellor's conditions (paragraph 12(iii)) -

- (a) act on our net contribution
- (b) last as long as the problem
- (c) avoid increased Community expenditure

and we shall need to feed our own preference into the Commission soon. The Chancellor suggests merely that officials should sound out our contacts in the Commission before the Government makes up its mind. I suggest that you emphasise that it will be vital to do this well before the Finance Council on 15th October.

5. Besides working on the Commission, the Chancellor suggests further bilateral discussions leading up to your bilateral meetings with Chancellor Schmidt and President Giscard. The Italians present a difficulty. Since they no longer appear to have a budget problem, they will criticise the Commission's reference paper because it says too little about the resource costs of the CAP to them. Some Italians want to hold down CAP prices (we agree); others to concentrate on expanding Italian temperate production (less helpful); all of them to get yet more support for Mediterranean agriculture (expensive). In any case the Chancellor is suggesting (paragraph 13) that we should not get in the lead on the CAP. His suggested line with the Italians (paragraph 10) is that at least we should avoid knocking each other.

6. Looking further ahead, it is too soon to decide what the tactics at the November European Council in Dublin should be or what other cards should or may be on the table. But you may feel that the time has come to call for work on what leverage we might have. The Chancellor has already told you that he is looking into the legal possibilities of withholding our contributions, but there may be other ways of putting on the pressure. This work needs to be done discreetly but you may want to ask the Chancellor and the Foreign and Commonwealth Secretary to make sure that, by the time of the Dublin Summit, you at least know what the possibilities are.

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## HANDLING

7. When the Chancellor of the Exchequer has introduced his paper, you might focus discussion first on the line to be taken at the Finance Council. The Foreign and Commonwealth Secretary may suggest that the United Kingdom objective should be a "broad balance" rather than the blunt formulation in paragraph 12(iii) that "the United Kingdom should not be a net contributor". The point is that no country could rule out being a net contributor in all circumstances: what we cannot tolerate is being a persistent large net contributor in our present circumstances. The Lord President may also have views. Does the Committee agree that paragraph 12(v) goes far enough at this stage?

8. You might then turn to follow-up action. The Committee will presumably agree that vigorous lobbying at Ministerial level is necessary. But how do we handle the Italians? We risk losing their support if we argue that the budget issue must be settled first; but if we accept that they will need to see parallel progress on their claims, this could lead to delays and be expensive for us. And does the Committee agree with the Chancellor's line on the CAP?

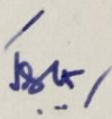
9. On the method of solving our problem, does the Committee agree that officials should explore the options without commitment? When does the Chancellor expect to be ready to report back (this should be if possible before he goes to the IMF but failing that immediately on his return)? Has the time come to commission work on what weapons we might eventually use in order to get our way?

## CONCLUSIONS

10. Your summing up will need to cover -
- (a) The Chancellor's line at the Finance Council (paragraph 12 with any changes agreed in discussion).
  - (b) Authority for officials to explore possible mechanisms and the Chancellor to report back as soon as possible with his recommendations.
  - (c) Bilateral Ministerial meetings. The programme in paragraphs 18 and 19 could be agreed. With the Italians, the best we can hope for is not to get in each other's way.

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- (d) Chancellor and Foreign and Commonwealth Secretary to consider, -  
discreetly - what means we could if necessary deploy to put pressure  
on our partners.

  
J OHN HUNT

11th September, 1979

TABLE: COMMUNITY BUDGET 1979 AND 1980  
ESTIMATED CONTRIBUTIONS AND RECEIPTS BY MEMBER STATE

EUROPEAN UNITS OF MILLIONS  
ACCOUNT (EUA) - THOUSANDS

	Belgium	Denmark	Germany	France	Ireland	Italy	Luxembourg	Netherlands	UK
1979									
Gross Contribution	871	327	3,992	2,607	98	1,579	18	1,251	2,291
Receipts (a)	1,209	551	2,837	2,285	463	2,333	269	1,323	1,764
Receipts (b)	1,239	782	2,974	2,517	676	2,060	269	1,480	1,037
Net Contribution (-) or Receipt (+) (a)	+ 338	+ 224	-1,155	- 322	+ 365	+ 754	+ 251	+ 72	- 527
Net Contribution (-) or Receipt (+) (b)	+ 368	+ 455	-1,018	- 90	+ 578	+ 481	+ 251	+ 229	-1,254
1980									
Gross Contribution	922	368	4,578	3,037	137	1,750	20	1,270	3,113
Receipts (a)	1,460	651	3,471	2,917	573	2,621	312	1,629	1,561
Receipts (b)	1,472	738	3,530	3,018	650	2,484	312	1,692	1,299
Net Contribution (-) or Receipt (+) (a)	+ 538	+ 283	-1,107	- 120	+ 436	+ 871	+ 292	+ 359	-1,552
Net Contribution (-) or Receipt (+) (b)	+ 550	+ 370	-1,048	- 19	+ 513	+ 734	+ 292	+ 422	-1,814

NOTE

(a) If UK and Italian import Monetary Compensatory Amounts (MCAs) are attributed as a benefit to the UK and Italy.

(b) If UK and Italian import MCAs are attributed as a benefit to the exporter.