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Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

CABINET OFFICE

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8th June, 1979

INSTRUCTIONS

*Dr Pde*

*WJG*

THE UK NET CONTRIBUTION TO THE EEC BUDGET

I think the time has come for us to review the line of argument we should use with our EEC partners in seeking to redress the injustice of our present net contribution to the EEC Budget. I believe we need a line which more closely reflects our own views as a Government and the better relationship with our EEC partners which we can hope to enjoy compared with our predecessors. In addition, I think we have reached a stage in the negotiation where a change of emphasis would be right.

My first point is that we are in a position to approach this problem in a more direct, forthright and confident way than our predecessors. As you know, Graf Lambsdorff, the German Economics Minister, put the point well when he told me that it was more dangerous for his government to face a tough stance on the Budget by a Conservative Government than it had been to resist the demands of our predecessors. Since we are unequivocal supporters of Community membership, our partners know they have got to face the issue. Opposition to the present net contribution position is common to both main UK parties.

This means that we need not be frightened by attempts to use pejorative formulae to rule us out of order like "renegotiation", "juste retour" or "acquis communautaire." We should be ready to say - as we said in the Conservative Manifesto in 1974 - that "renegotiation" of a kind is a continuous process, essential if the Community is to evolve and survive. What the process is called is neither here nor there. But it is a quite different process from "renegotiation" in the sense of British withdrawal, which is what part of the Labour Party still hankers after.

/Similarly,

The Rt. Hon.  
Lord Carrington, KCMG, MC.

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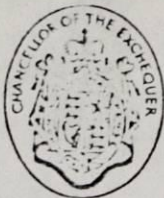
Similarly, what the Community has "acquis" cannot be treated as immutable if the Community is not to ossify. And to the extent that any principle governs the net contribution position of the Budget, our complaint is that it is the exact opposite of the "juste retour."

Secondly, I think we should now try to talk less about resource transfers and convergence, and more about the simple proposition that our net budgetary contribution is unjust. I do not suggest that we resile from what has hitherto been said about convergence. In particular, that could put us into difficulty with our Italian friends who are at the moment our one clear ally in this argument. We must also be ready to use the argument about resource transfers at our expense outside the Budget in order to buttress our view of how MCAs should be treated. We must stand ready to say, when our view of MCAs is challenged, that, far from representing a Community subsidy to our consumers, they simply reduce the penalty imposed on us by the difference between CAP and world prices. I nevertheless believe strongly that in the budgetary context we should put all the emphasis on the injustice of our net budgetary contribution relative to our GNP per head. I say this for two reasons. First, it is likely in the end to be easier for our partners to accept the proposition rather than all the complex arguments about resource transfers and convergence which supply endless scope for argument. We must get across this message in language which points directly to the rectification we seek, avoiding oblique propositions which enable our partners to say that they are not quite clear what we want. The central plank of our case is that those below average GNP per head should not be net contributors to the Budget. This is the direct language we should use since it points directly to the rectification we seek.

My third point with which I know you and colleagues agree, is that we should not seek a solution through a major inflation of Community spending, intended to make room for a bigger share of receipts to the UK. A satisfactory solution is not possible by that route. It would in any case be contrary to our domestic views about public spending, and might well not give us the kind of reduction in UK public expenditure which would open the way to tax relief. At the right time, and as part of a bargain, we might be ready to give assurances eg to the Germans that we were not seeking inflated Community spending. You will recall that German Ministers canvassed our support for adhering to the 1 per cent VAT ceiling on "own resources" during

/Chancellor





Chancellor Schmidt's visit soon after we took office. The Italians might be more ready to seek a solution by the expenditure route and there might be a point at which their interests diverge from ours on levels of spending. I am however convinced that this is not the right route for us.

Underlying all this is the political argument. Our partners are of course well aware of this. But at the right time and at the right level it is a strong card, particularly perhaps in dealing with the Germans. That there is a real risk that if little or nothing is done to right the budgetary wrong, the Labour Party will become committed to taking Britain out of the EEC if and when it returns to power and will use the budgetary argument to gain support for this.

For my part I should like to recommend that the Prime Minister consider adopting this more forthright and direct approach at the European Council meeting on 21st/22nd June. There is a case too for preparing the way for it at the Finance Council on 18th June, but it is <sup>at</sup> the Strasbourg Council that we should aim to make most impact.

I hope you will agree that this change of emphasis is right. It is obviously extremely important to get the presentation of our case right because this is the main issue outstanding between us and the rest of the Community. You may like to know that in recognition of this, I have asked the Financial Secretary, with whom I have discussed this fully, to devote a considerable part of his time to our efforts to redress our contribution, once our own Budget is out of the way.

I am copying this minute to the Prime Minister, to our colleagues on OD(E) and to Sir John Hunt.

A handwritten signature in cursive script, appearing to read 'Geoffrey Howe', with a horizontal line underneath.

GEOFFREY HOWE