

CONFIDENTIAL

Prime Minister

Agree with para. 5?

Yes ✓
13/7/66

Ref. A09764

PRIME MINISTER

Community Budget

The Foreign Secretary and the Chancellor of the Exchequer have been offering advice on how we should achieve our objective on the Community Budget at the European Council next week. You approved the revised version of the text which was attached to Lord Carrington's minute of 8th June but you had not then seen the Chancellor's letter of 8th June to which Lord Carrington has now replied (copies attached).

[A]
[B,C]

2. Although the issues raised are mainly of tactics and presentation, I suspect that there is an underlying difference about our real objective. The Chancellor wants to say categorically that countries with below average GNP per head should not be net contributors to the Budget. The Foreign Secretary wants a looser formulation because he is conscious of the difficulties of coming anywhere near that objective in negotiation. This is an issue you do not need to decide upon now: the Foreign Office draft is not incompatible with the Treasury's objective nor with your making a very firm statement at Strasbourg about what you mean by "a fair balance of costs and benefits".

No
Yes

3. On the other two presentational points at issue, I think the Chancellor is right that we should put more emphasis on the basic argument of equity. The convergence argument has served its turn, but the advice we have received from Mr. Roy Jenkins and others is that, at Strasbourg, we should concentrate essentially on the imbalance and inequity of the Budget. On improving our position by increases in non-agricultural expenditure, there is no difference of substance, and the Foreign Secretary is right in saying that the German and the French will fight against undue expansion.

Yes
N

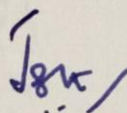
4. I understand that the Chancellor may be content that the revised Foreign Office version be shown to the Italians in advance of your meeting with Sr. Andreotti on Friday, although he thinks that, at the end of the day, we may have to settle for a shorter text. It is worth trying to agree something with the

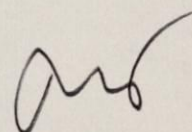
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Italians. Thereafter, and following up your meeting with President Giscard, we should try to sell it to the French. If they are willing to table something as a Presidency text the whole discussion in Strasbourg will be easier. If we have to table something it leaves the French along with the others free to try to water it down. If the Presidency text is not wholly satisfactory, you will still be able to argue for improvements during the meeting. If we discover that, despite what President Giscard said to you (and to Mr. Roy Jenkins) the French are unwilling to table anything remotely satisfactory to us, you will still be free to circulate your own text.

5. I suggest therefore that you might agree that:

- (1) The revised text could be shown to the Italians. ✓
- (2) That, subject to the outcome of your meeting with Sr. Andreotti, we should try to sell it to the French Presidency. ✓
- (3) That we should tell our Community partners early next week what your general line will be, and if necessary table a text of our own. ✓


(John Hunt)



13th June, 1979

COMMUNITY BUDGET

The European Council recognised that at present the financial consequences of the Community budget create difficulties for two of the three Member States with below-average GDP per head. In time, these difficulties should become less serious. Reductions in agricultural surpluses should reduce the cost of the c.a.p. That in itself will lighten the budgetary burden and should make it easier to switch expenditure to policies designed to reduce regional disparities. Meanwhile solutions are urgently required to ensure that the Community budget produces a fair balance of costs and benefits for all Member States and, in particular, does not continue to hinder Member States with below-average GDP per head in their efforts to improve their economic performance. The European Council invited the Commission to make proposals before the end of September to deal with this problem in order to permit decisions to be taken at the next European Council in Dublin.