



(A minute from the
Secretary of State for Trade).

PRIME MINISTER

THE COMMUNITY BUDGET

Few issues of greater political importance or with wider international implications can have confronted us since taking office than our approach to the Community Budget. I had hoped to be able to comment in some detail on this subject, but the short notice of the meeting and my commitment to a visit to the North West today allows the circulation of only a short summary of my views.

The considerations which I believe are important are:-

(a) whether we should have placed ourselves out on a limb with regard to the net budgetary contribution is now a discussion for historians. The fact is that we have emphasised our determination to achieve a fair settlement, and each time we defer the use of a firm sanction we contribute further still to what I regard as our principal national trait - a lack of national self-confidence. Only the British could see the role of paymaster as one of weakness. It is inconceivable that the French would fail to exploit the position of strength in which we find ourselves;

(b) in economic terms I believe that we badly need a £1,000m for the next financial year. I do not know of the Chancellor's Budgetary plans, but if we are to arrive at a borrowing requirement which is financeable on non-inflationary terms I cannot see any room for a significant reduction in direct taxation, particularly at the lower end. The combination of a pending recession coupled with a Budget which will be painted as being highly regressive, not least because of the reforms in capital taxation, will in my view be damaging to the Government - and not just in the long term. The availability



of an additional £1,000m enabling a 2p reduction in income tax or comparable broadly based benefits would make an enormous psychological difference to the country's mood;

(c) the British public have a figure of £1,000m fixed in their minds. It is around that figure that you personally will be regarded as having achieved a victory or suffered a defeat;

(d) so far as the future of Europe is concerned, the combination of enlargement with the prospect of yet more subsidy for backward agricultural economies, the runaway costs of the CAP in providing dear food for the EC and surpluses to be dumped outside, the intransigent French pursuit of short-term self interests, the forthcoming collision between Community expenditure and the VAT ceiling, have set the stage for Britain to take a positive role. These problems are for the Community and not for Britain alone.

I therefore draw two conclusions. First, it would seem to me out of the question that we could accept any linkage with the Budget question. To allow the Budgetary problem to influence our thinking on EMS would be folly; the EMS decision must rest solely on its merits. To allow the French to buy us off on sheepmeat or to purchase our fishing rights or energy supplies with our own money would be depicted as a defeat, and seen as such in the country.

Secondly, my inclination is that if we cannot accept whatever settlement is offered at the March summit we should announce plans for withholding on our return. The proposals set out in paragraph 6 of Annex A to OD(80)18 seem to me to be well presented and thought through. Obviously the risks are very great but having nailed our colours to the mast at Dublin we cannot afford to haul them down again now. We should not under-estimate the strength or our position



in the Community or in the political field at home. The Community is dependent upon us both to provide a £1,000m subsidy and a protective market for its overpriced agricultural produce. The Community is on the verge of admitting Portugal, Spain and Greece; the notion that it might expel us to admit new net cash beneficiaries is ridiculous. Criticism of a determined attempt to protect our national interest even at the expense of breaking the club rules would be regarded by the public, and in the Conservative Party, as unpatriotic. Our critics would be portrayed as fighting under the French flag.

We would of course be highly unpopular in provoking a major summit to consider the future of the Community, but I do believe that there is now a clear advantage in forcing a more positive approach rather than tagging along in what the electors see to be a shambles.

I am copying this minute to all members of OD and Sir Robert Armstrong.

Department of Trade
1 Victoria Street
London, SW1

7 March 1980

JN
(Dictated by the Secretary of State and signed in his absence.)

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