



CONFIDENTIAL

Prime Minister

Agree - X?   
 GJM  
 31/5

PM/79/47

PRIME MINISTER

Community Budget

P.A. GJM 31/5

1. At its meeting on 23 May the Ministerial Sub-Committee on European Questions discussed a paper by the Chancellor on our inequitable net contribution to the Community Budget and on the line which we should take in bilateral contacts with other Member States. The Lord Privy Seal and I between us intend to see the Foreign Ministers of all the other Member States before the European Council in Strasbourg on 21/22 June, and the Chancellor and his colleagues will try to do the same with as many of the Finance Ministers as possible. Annex A summarises the general line we should be taking. Annex B contains a simple statement of the facts which we can all use. A fuller statement of the problem is in the Chancellor's paper circulated as OD(E)(79)7. The Sub-Committee has commissioned more work on the reasons why our net budgetary contribution has developed as unfavourably as it has. This will be helpful for our bilateral contacts and in the preparatory briefing for the European Council.

X | 2. If you agree I would suggest that you might circulate the annexes to this minute to all Cabinet Ministers and the Minister of Transport so that in using any opportunities they may have with their Community colleagues to reinforce the message they speak a common line.

3. I am sending copies of this minute to the members of OD(E) and to Sir John Hunt.

(CARRINGTON)

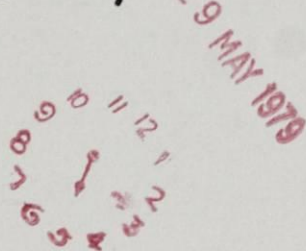
Foreign and Commonwealth Office

29 May 1979

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In principle - agree. But the annexed paper will not be understood if it has been read simply by Ministers who already know what it is trying to say. P.A.

More Schmidt look some convincing and  
protested vigorously that only 1/2 doz people  
understand M.C.A. The answers are  
not phrased in the most cogent terms - nor  
do they put the most telling figures.



(The letter I had for the Roy Jenkins  
interview - with a best conclusion - is  
much more effective?)

act

LINE TO TAKE ON OUR BUDGETARY POSITION

The following line could be taken in bilateral Ministerial contacts:

1. The Government is committed to the Community and is not seeking to re-negotiate the terms of UK membership. But Community policies have developed in such a way as to produce an inequitable and unacceptable pattern of transfers. In 1971 the original Six recognised that if unacceptable situations over the Budget should arise, 'the very survival of the Community would demand that the institutions find equitable solutions'. (Cmd 4715).
2. The UK accepts that greater convergence in economic performance requires appropriate national policies, and the new Government is determined to restore the UK economy. But Community policies should help rather than hinder these developments. It is now acknowledged that at present they do not.
3. The UK is seventh in terms of living standards, as <sup>measured</sup> by GDP per head. The UK net Budgetary transfer for 1978 was £625 million, (EEC Commission's figure) after all adjustments, even while the transitional arrangements are still operating. This was either the highest or second highest contribution, depending on the attribution of MCAs. In 1980 when the transitional period has ended the net contribution will be over £1000 million, and will exceed Germany's on any attribution of MCAs.
4. These inequities are a problem for the whole Community, as well as for the UK; until they are removed, the Community will remain unbalanced, and the commitment of Governments to Europe will be hampered by the effects on public opinion in the countries most adversely affected.

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5. The problem must be tackled now, and the Community must be seen to be taking effective measures before the end of this year.
6. We are not arguing for a juste retour: ie that we should get out of the EEC precisely what we put in. Nor that member states' net contributions or receipts should precisely reflect their relative position in relation to average Community GDP per head. But we do not consider that it is right for countries with below average GDP per head to be net contributors to the Budget.
7. The dispute over the attribution of Monetary Compensatory Amount (MCAs) cannot be resolved without regard to the total economic effects of the CAP. But for the purpose of considering budget transfers, we are ready to discuss possible solutions.
8. We are ready to examine any way by which the budgetary imbalances are corrected. We could accept a combination of methods provided that the total impact is adequate. We believe that, in the first instance, it is for the Commission to come up with proposals, but we should like to hear the views of our partners.
9. We therefore believe that the European Council at Strasbourg on 21/22 June should instruct the Commission to make proposals designed to bring about rapid, durable and effective corrective action. This should also be applicable to the conditions of an enlarged Community. These proposals should be available in sufficient time for decisions to be taken at the December European Council.

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ANNEX B

UK NET CONTRIBUTION TO THE COMMUNITY BUDGET

Key points and figures for use publicly:-

1. The net contribution on published Commission figures was £625 million (943 MEUAs)\* for 1978, after all adjustments, even while the transitional arrangements are still operating but treating MCAs as paid to the benefit of the exporter.
2. If it were not for the transitional arrangements we should have been the largest net contributor in 1978 on any basis, however MCAs are attributed.
3. It will be well over £1000 million (1506 MEUAs)\* in 1980 and we shall be the biggest net contributor after 1980.
4. But we are only seventh in terms of living standards as measured by GDP per head.
5. It is not equitable that the Community's policies should mean that the less well off make transfers to the more well off.
6. On contributions, we expect to pay  $17\frac{1}{2}$  per cent this year, and possibly 20 per cent next, though our share of the Community's GNP is about  $15\frac{1}{2}$  per cent.
7. On receipts, our share of Budget expenditure in 1978 was only about  $7\frac{1}{2}$  per cent.
8. The Guarantee Section of the CAP takes about 70 per cent of the Budget. Less than 5 per cent of this expenditure takes place in the UK.

\*The difference in the treatment of MCAs would bring the £625 million in point 1 down to £151m, and would affect the £1000m figure in point 3, but point 11 below explains why such reductions only partly offset the economic cost of the CAP to the UK.



9. We got £35 million from the Regional Fund and £63 million from the Social Fund last year.

10. The Financial Mechanism negotiated by the previous Government in 1975 was meant to mitigate unfair contributions. But it is inadequate. It works on gross contributions. It lays too much stress on a balance of payments test. It will work in 1980 to give us £30-40 million net, in respect of the 1979 Budget, and is unlikely to give us more in future years. (It is to be reviewed by 1981.)

11. The net Budgetary contribution is not all. The full economic cost of UK membership should take account of the gains and losses through the operation of Community policies in the field of agriculture, fisheries, and trade. The most important element is the cost of buying food from the EEC at prices well above those of alternative supplies in the world market. MCAs are only a partial offset to this cost. This cost can be calculated but the Community has not so far been willing to do it.

12. When the UK joined the EEC it was expected that there would be gains for the UK from trade in manufactures. There has been a significant increase in trade between the UK and the EEC in both directions.

13. But the net effect on the balance of trade between the EEC and the UK has probably been negligible. Any benefits from freer trade are much more than offset by the UK's resource losses, including its net budgetary contribution.

14. We want an early solution, to relieve public expenditure and the balance of payments. It is for the Commission to suggest ways in which the imbalance can be corrected. The impetus will have to come from the European Council in Strasbourg on 21/22 June.