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PRIME MINISTER

United Kingdom Community Budget Contribution:  
Corrective Mechanisms  
(OD(79) 25)

PURPOSE OF THIS DISCUSSION

You agreed earlier that Sir Donald Maitland might draw on the conclusions in paragraphs 22 and 23 of this Note by Officials in talking to the Commission, on a personal basis and without committing Ministers, in advance of the Commission's formal meeting on 5th October to discuss the Budget issue. Ministers now need to decide whether they endorse these conclusions so that we can continue to lobby accordingly with the Commission and with other member states. A further meeting of OD after the Party Conference (on 24th October) will take two papers on (i) the leverage we can exercise and (ii) the action we can take if we don't get our way.

BACKGROUND

2. As agreed at OD(79) 6th Meeting, the Chancellor of the Exchequer made our requirements clear at the 18th September Finance Council (text of his statement attached):

A corrective mechanism dealing with both our excess contributions and inadequate receipts in order to achieve broad balance.

Action as from 1980.

The corrective to last as long as the problem lasts.

Not to invoke major increases in the Budget.

The same OD meeting charged officials to report urgently on the merits and de-merits of the different mechanisms and how they would work in practice. OD(79) 25 was prepared by officials of the Treasury and the FCO under Cabinet Office chairmanship. It shows that, in theory, we could achieve broad balance through any of the four options which the Chancellor identified in an earlier paper. (paragraph 7). But in terms of negotiability, the most promising approach looks like being one of the so-called hybrid solutions - making the Financial Mechanism work and adding on to it a mechanism to compensate us



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for our low receipts. The Foreign and Commonwealth Secretary will probably favour this approach. It has the great merit within the Community of building on something which exists and in domestic political terms of being a significant improvement of something negotiated by the previous Government. The Chancellor of the Exchequer, however, may prefer to go for a straight ceiling on our net contribution, fearing that if we follow the approach of the Financial Mechanism we may end up with only a partial solution. Both solutions will involve getting the Community to accept a correction on account of our low receipts, which will certainly be the hardest nut to crack. The Commission will be tempted to offer us a mechanism to bring our contribution into line with our GNP share plus a promise that we can expect to improve our receipts position gradually as the share of the budget swallowed up by the CAP is reduced. To guard against this we have to insist that any mechanism must deal with both the causes of our imbalance. This is stressed in paragraph 22 of the paper.

HANDLING

3. The Chancellor of the Exchequer should be asked first to comment on the general approach in OD(79) 25, followed by the Foreign and Commonwealth Secretary. The discussion thereafter might focus on:-

- (i) qualifying criteria (paragraphs 5 and 6)
- (ii) acceptable mechanisms (paragraphs 7 - 18)
- (iii) the method of payment and financing (paragraphs 19-21)

Qualifying Criteria

4. On (i) the paper suggests that countries which are both below average GNP and net contributors should benefit and that phasing-out arrangements (paragraph 6) should be sufficient to meet the (unlikely) contingency that our GNP could rise above the Community average. The Chancellor of the Exchequer admits that this is unlikely to happen but wants a guarantee that, if it did, the United Kingdom would still get, indefinitely, an abatement of its net contribution. The Foreign and Commonwealth Secretary will probably say that this is non-negotiable and the chances of it happening so remote as not to justify expenditure of negotiating capital.



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Acceptable Mechanisms

5. On (ii), is there any advantage in fixing on one method now? We should certainly remain free to suggest our own remedy if the Commission's proposals are unsatisfactory. But is it agreed that we should steer the Commission towards a revised Financial Mechanism subject to conditions recommended in paragraph 22? Or is it better to start with something even more radical like an overriding no net contribution rule expecting to be driven off it.

Financing

6. On (iii) the advice of officials is that we should not open up the question of how our rebate is financed until we have got further in negotiating the size of the rebate we are going to get. In the meantime we should have discussions with the Commission at expert level. You will want to call for a further paper on this. The Chancellor, understandably concerned to get immediate relief, may suggest that we ask for monthly repayments so as to get the best possible cash flow. This is obviously desirable but is it essential? The system under the Financial Mechanism gives us 75 per cent of what is estimated to be due after the end of the Community calendar year but before the end of our financial year. Thus even for the 1980 Budget, we should get largely repaid before the end of the 1980-81 financial year. Thereafter, getting repaid in arrears becomes less serious.

CONCLUSIONS

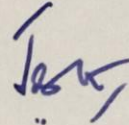
7. You may wish to sum up that:-

- (i) Subject to points made in discussion the approach described in paragraphs 22-23 of OD(79) 25 is agreed for use in future contacts with the Commission (including your talk with Mr. Jenkins on 22nd October) and in subsequent bilateral discussions with member states.
- (ii) The Chancellor should bring a further paper to the Committee, with recommendations, once the Commission's proposals are known.



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- (iii) Officials should produce further advice on the financing of any refund mechanism after discussion with Commission experts.
- (iv) The Committee to meet on 24th October to consider the weapons we can use in order to get our way.



(John Hunt)

5th October 1979

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- (iii) Original should produce further advice on financing of any related work.
- (ii) The Committee to meet on 2.2.80 to consider the response we can take in order to get our way.

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(John Burt)

20 October 1979



BRIEF RECORD OF MAIN POINTS DISCUSSED AT THE TETE-A-TETE BETWEEN THE PRIME MINISTER AND SIGNOR COSSIGA AT 1900 ON 4 OCTOBER AT THE PALAZZO CHIGI.

Signor Cossiga said he was most grateful for this opportunity of a meeting with the Prime Minister, the first he had had with the Head of a foreign government. He spoke of the traditional friendly relations between Britain and Italy and of his own personal interest in British constitutional history.

Signor Cossiga said he would shortly meet Chancellor Schmidt and the Dutch Prime Minister, Mr van Agt, and then President Giscard in preparation for the Dublin Summit and to discuss TNF.

Italy had been shocked by the death of Lord Mountbatten. Both countries had a common obligation to fight terrorism. He was grateful for British collaboration in this field.

Signor Cossiga hoped that Anglo-Italian meetings could now be placed on an institutional basis. There were meetings between himself, the German and French leaders twice a year, and he hoped the same pattern could be established between Britain and Italy.

The Prime Minister thought that we should examine this idea. Such meetings should not be too long. Her present visit to Rome was the right length, ie inside 24 hours. We too had regular meetings with the Germans and French, and the more preparation that took place before European Council Meetings the better. Italy had a very important defence burden. Italy would also be the host at the forthcoming Economic Summit in Venice.

Signor Cossiga congratulated the Prime Minister on the British initiative on Rhodesia. In this problem, as in the very delicate question of South African relations with the rest of the world, Britain had a key role.

/The Prime Minister