CONFIDENTIAL

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PRIME MINISTER

Prmt

Community Budget: Additional Receipts

I attach a paper prepared by the Official Steering Committee on European Questions on how we can hope to improve our budget position on the receipts side.

2. Some of the figures are still subject to final checking but I am sending it to you tonight in view of the desirability of influencing the Commission's thinking before the Christmas break. For this purpose I also attach a draft note which is based on the paper and which has been prepared by Cabinet Office, Treasury, FCO and Mr. Butler (UKREP). Its main purpose, as you will see, is to give the Commission an indication of the type of existing United Kingdom public expenditure programmes which, in our view, the Community could reasonably finance. But it also argues the merits of a more straightforward receipts mechanism. It does not at this stage indicate what level of additional receipts would be acceptable to us. The figures in the accompanying tables are still being worked out but they will add up to something over 2 billion eua, i.e. well in excess of what we are asking for let alone what we may be offered. This is to avoid being pinned down to a precise figure at this stage.

Agreed no

3. I should be glad to know whether you would be content for such a note to be given informally to the Commission early next week; and for the paper to be included in the dossier for your meeting on 21st December. I am also sending copies of both the paper and the draft note to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and the Lord Privy Seal.

RtA

(Robert Armstrong)

14th December, 1979

COMMUNITY BUDGET: SUPPLEMENTARY MEASURES TO INCREASE UK RECEIPTS

Note by the United Kingdom

1. The Dublin European Council requested the Commission "to pursue the examination of proposals for developing supplementary Community measures within the United Kingdom which will contribute to greater economic convergence and which will also lead to greater participation by the United Kingdom in Community expenditure".

2. This informal note sets out the United Kingdom's views on a number of possible approaches to the objective defined in the European Council remit. It is concerned with means, and does not seek at this stage to put figures on the financial yield required from supplementary receipts measures. The United Kingdom is ready to consider any suggestions the Commission may wish to put forward, provided that they result in an acceptable adjustment in our inadequate receipts. It will also be important that the solution arrived at is so conceived as to avoid the Community having to face the same problem again after a few years.

3. We continue to believe that an enhanced receipts mechanism linked to the Financial Mechanism offers the simplest and most effective approach. It would be building on an existing Community instrument. It would also be communautaire in a wider sense, as the money paid through the mechanism to the member state in question would be used for purposes in line with Community policies. If in addition it provided that a member state would have to have below say 80% of the

Community average in receipts per head to qualify, it would virtually exclude the risk of establishing an expensive precedent for the other member states or Greece, Spain and Portugal. It would be self-correcting in that the refund would fall if, for example, economies in CAP expenditure reduced average Community receipts per head or if extra Community expenditure in the UK under existing policies raised our receipts per head towards the Community average.

4. We nevertheless want to work closely with the Commission in exploring other forms of supplementary measures which could meet our needs. In principle these measures could take two forms: enlarging existing funds to the benefit of the UK, or creating a special fund devoted exclusively to the UK.

5. In the first category, the possibilities are:-

(i) increased Community participation in existing projects or programmes under the Regional and Social Funds and the Guidance Section of FEOGA;

(ii) a special window for the UK within an enlarged Regional Fund, with more flexible qualifying criteria;

(iii) increasing the UK's share in an enlarged quota section of the Regional Fund.

6. This approach, and especially (ii) above, may have a useful role to play in contributing to the desired objective. Illustrative figures are set out in Annex A. But it is unlikely to yield enough because the existing funds are small in relation to our requirements. Further, if other member states were to demand comparable treatment the scale of expenditure would be unacceptable to the Community as a whole, and the resulting totals would come up against the 1% VAT ceiling.

7. In the second category, additional receipts could be provided for the UK outside existing funds and policies using a special Council regulation under Article 235 (on the analogy of the Financial Mechanism or the regulation setting up the EMS interest rate subsidies). This could provide for payments to the UK in the form of direct grants. It would be essential that the sums should be available for an adequate period. The Fund would be designed to promote convergence and to be used for purposes in line with Community policies, in consultation with the Commission.

8. The Commission identified, in their paper for the Dublin Summit, three areas in which spending could be designated for special treatment: coal investment, transport infrastructure and agricultural improvement. Of these coal investment and transport infrastructure hold the most appeal for the UK and in relation to the test of compatibility with Community objectives. Northern Ireland and urban renewal in declining industrial areas are also strong candidates. Northern Ireland is demonstrably in a special situation, in which extra Community aid

would be readily identified and credited; and the problems of industrial and urban decay are particularly serious in the UK. Illustrative figures covering these possibilities are in Annex B.

INCREASED COMMUNITY EXPENDITURE IN THE UK UNDER EXISTING POLICIES

The figures below shew the refund which would accrue to the UK assuming that the Community provided 70% of total costs (instead of the present 25-30%) of existing projects under the Regional, Social, Guidance and Research Funds.

	MEUAs at current prices (£m at 1979 survey prices) 1980/81
Regional Fund	230 (150)
Social Fund	140 (95)
Guidance	80 (55)
Other	20 (15)
	470 (315)

LIST OF PROGRAMMES AND PROJECTS IN THE UK TO WHICH THE COMMUNITY COULD CONTRIBUTE*

	UK Public Expenditure 1980/81, £m at 1979 Survey Prices	Rate of Grant which EEC might pay	Refund from Commission
1. TRANSPORT INFRASTRUCTURE			
"E" roads linking directly to EEC ports	≠		
- less directly linked			
Other motorways and trunk roads			
Capital Spending on local roads			
Capital spending on railways			
Airports capital investment			
Ports, docks and waterways investment			
TOTAL			
2. COAL INVESTMENT			
Investment in new mines and major extensions.			
Other investment in coal.			

3. REGIONAL INFRASTRUCTURE

Road construction and improvement.
Railways investment.
Investment in ports, harbours and waterways.
Investment in electricity generation.

[In addition to three columns as for 1 and 2 above, there would be additional columns breaking down column 1 to shew separate figures for Scotland, Wales, Northern Ireland and North-East England.]

*Note: the above categories are not mutually exclusive. Individual items may thus appear under more than one head.

≠Assuming that the full refund implied by the rate of expenditure and proposed grant rate could be claimed in 1980-81.

3. REGIONAL INFRASTRUCTURE (cont'd)

Investment in coal mines.

Educational investment.

Hospitals and health service investment.

Urban programme.

TOTAL

4. NORTHERN IRELAND

Capital and infrastructure investment.

Aid for trade, industry and employment.

Current expenditure on:

Roads and transport

Housing

Environmental Services

Education, libraries

Health and social services

Social security

TOTAL

5. URBAN AREAS IN INDUSTRIAL DECLINE

[Items to be supplied]