



FCS/78/119

CHANCELLOR OF THE EXCHEQUERUnited Kingdom Net Contributions to the Community Budget

1. Thank you for your letter of 28 June. I was glad to see that work on one aspect of the programme suggested in my Private Secretary's letter of 19 April has been completed and practical conclusions reached.
2. It emerges clearly from the analysis in your letter that our main task in the revision of the revenue raising side of Community finances must be to see an element of progressivity introduced, whether it applies to an extension of VAT or to further GNP-based contributions. I agree the former solution is more likely to run. I also think we should argue the case for extension of the progressivity factor to the whole VAT tranche, at least as an opening position, though this may not prove negotiable: the prospects would be partly dependent on our general negotiating position in the Community at the time. Moreover, as you point out, our main aim will be to get the balance within the Budget as a whole right and constrain CAP expenditure. This could make a difference in at least our initial negotiating posture and we might want to use deliberate blocking tactics against any extension of own resources at some stage.
3. Meanwhile I agree that we should concentrate on seeing that the Commission present the problem in the way most helpful to us; and that an approach should be made to Christopher Tugendhat. Subject to the Prime Minister's view Sir D Maitland will be instructed accordingly.
4. I agree we should continue studies on possible changes in the Financial Mechanism. We should certainly watch for any opportunity to secure a review although, as with the supplementing of own resources,

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our best tactic will be to wait until events require a review rather than to raise the question simply as a UK initiative. Official studies on our position in relation to the major Budget funds, including CAP expenditure, should also be pressed forward although there are obviously large issues here which cannot be hastily resolved.

5. Any reduction in our net contribution will mean an increase in that of other Member States, or a cut in the benefits they now derive from Community policies, especially the CAP. So we cannot expect an enthusiastic response. Our first task must be to get our case clearly understood by the other Governments. We have to convince them that the present arrangements are unsatisfactory both because of the unfair disadvantage they impose on the United Kingdom and because in the long run they are inimical to the development of the Community as a whole. For instance I think it is legitimate for us to point out, in the context of discussion of new monetary arrangements, that if we are seeking currency stability we need to strengthen the weaker economies and not to channel resources from them to the more prosperous economies, which is the effect of present Community policies and financial arrangements. Stability requires convergence and that requires a revision of policies which add to divergence. If you agree, I think this is a point which might be made at Bremen. There may also be an opportunity at Bremen to press for cuts in CAP expenditure on surplus production when we discuss the Italian plea to spend more on Mediterranean products and to change the balance of the CAP. After Bremen we can consider further how to keep up the pressure, for instance in your discussions on economic and monetary policy in the Finance Council.

6. I am sending a copy of this minute to the Prime Minister and to Sir John Hunt.

*John*

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