

SECRET

Prime Minister

ABJ  
Duty Clerk  
26.11.

Ref. A0763

PRIME MINISTER

Tactics on the Budget at Dublin and After

The purpose of your meeting with a restricted group of Ministers is to discuss tactics at and after the Dublin European Council.

2. The Defence and Overseas Policy Committee discussed this question on 24th October and concluded that we should only act within the law. This appeared to rule out withholding our contribution (I am finding out whether we could give the Bank of England a directive not to transfer monies out of an EEC account on the EEC's instruction). Instead the Committee endorsed the course proposed by the Foreign and Commonwealth Secretary, namely -

- (a) We should demand that the European Council reconvene within a month and that meanwhile the Finance and Foreign Affairs Councils should concentrate all their efforts on finding a solution to our Budget problem.
- (b) If sufficient progress was not made during that period, we should begin to let it be known that we were considering selective or general obstruction.
- (c) If we still did not get our way at the resumed meeting, we should carry out our threat flexibly in a way that would maximise uncertainty in the minds of our partners whilst minimising the risks to our own interests.
- (d) We should stress throughout our desire to return to full co-operation as soon as our Budget problem was solved.

3. Since then the Secretary of State for Trade, the Chancellor of the Exchequer and the Minister of Agriculture have each minuted you on alternative possibilities. A summary of their respective views is attached. In essence, the Secretary of State for Trade prefers an immediate attack on the CAP to the campaign of obstruction favoured by the Foreign and Commonwealth Secretary and OD; the Chancellor of the Exchequer is more concerned to carry our Budget objective through to a successful conclusion; and the Minister of Agriculture



SECRET

while opposing a general obstruction campaign as well as Mr. Nott's ideas on de-budgetisation, favours using our insistence on a price freeze for 1980 as a lever to get what we want on the Budget.

4. The important point to bear in mind is that the process of hard negotiation has not yet begun, and will not begin until well into the Dublin meeting. At that meeting the most we can expect from the partners is de-constraining the financial mechanism (say, 520 meua) and a small something on receipts (say, 200 meua). You will probably go no further than to agree to talk in terms of "importer pays MCA" (say, 262 meua). So their position may imply a United Kingdom net contribution of about 1100 meua; yours will imply one of 262 meua. The gap is enormous.

5. This will create a "crisis of the Community". This is probably necessary, to bring home to the partners the strength of your need and commitment and the seriousness of the position.

6. No-one wants such a crisis: not you, not the partners. We want to be good Europeans - if the partners will give us the help we now need to make effective the policies we are pursuing, which will in turn help us not only to be good Europeans but also to be a stronger member of the Community. This is no time - the world under threat of inflation and recession, United States leadership faltering - for the Community to be paralysed by protracted crisis.

7. Therefore we press for a resumed meeting of the Council - no lesser body will do - to resolve the crisis. Obviously this will be possible only if you have not appeared to the partners to close the door completely on negotiation: your strength has to be combined with sufficient <sup>sweet</sup>~~direct~~ reasonableness. The procedural outcome might be an invitation to the President of the Commission to explore possible solutions in the interval before the resumed Council (in fact, of course, there will be intense comings and goings). In terms of business, it could for the time being be as usual: obstruction need follow only after an unsuccessful second meeting of the Council.

8. If there was a breakdown at Dublin and no second meeting planned, we should have to think in terms of some degree of immediate obstruction. In that case one possibility could be to proceed in accordance with the decision already



SECRET

taken by OD, in the light of the list of forthcoming Community decisions being prepared separately by the Foreign and Commonwealth Office. Another would be to address our campaign of obstruction only to Community expenditure decisions which would have an adverse effect on our net contribution. This would meet the reservations voiced by the Chancellor of the Exchequer, the Secretary of State for Trade and the Minister of Agriculture about a wide-ranging campaign of obstruction; and, by linking our action directly to the cause of our dispute, would make it more comprehensible to our partners and the public and enable us to maintain our positive commitment to the Community in other areas. It would also strike directly at the 1980 price fixing and the 1981 Budget.

9. If we were to get partial satisfaction, in the form of agreement on a revised financial mechanism and a commitment to further work on the receipts side of the problem, our response should clearly be adjusted to reflect this situation. In these circumstances we could refrain from open threats of obstruction but still ask for an extraordinary meeting of the European Council in January to keep the pressure up. Alternatively, if the commitment to further work was firm enough and the other member states genuinely needed more time, we could wait until the next regular European Council in March. But this would begin to detract from the sense of urgency with which we want the problem to be treated; and it would add to the risk that the financing of any solution to our Budget problem would get entangled with the question of the 1 per cent VAT ceiling. The obstruction option - whether general or limited to decisions adversely affecting our net contribution - would of course still remain open for use after that second Council.



(Robert Armstrong)

26th November, 1979

SECRET

EEC BUDGET - AFTER DUBLIN

SUMMARY OF MINISTERIAL VIEWS

1. In the correspondence initiated by the Secretary of State for Trade's minute of 14 November on the means of pressure open to us if we fail to get our way in Dublin, the position of the three Ministers concerned is as follows.
  
2. The Secretary of State for Trade argues that, while it is right for us not to take the lead in seeking reform of the CAP up to the Dublin European Council, we should make the CAP our main target thereafter if we do not get satisfaction on the budget and say so publicly immediately after Dublin. This will be better understood by the British public than the across the board obstruction campaign suggested by the Foreign and Commonwealth Secretary, and would cause less resentment among our partners.
  
3. To this end we should
  - (i) use the imminence of the VAT ceiling to present our case as an attempt to solve a Community rather than a purely national problem;
  
  - (ii) work for a shift towards partial national financing of the CAP (de-budgetization), perhaps on a 50-50 basis; and go in particular for a substantial cut in Community aid for milk, coupled with a headage payment per cow funded from national exchequers;



SECRET

(iii) declare our resolve to block all developments in the CAP, including the 1980 price fixing, until the Community is prepared to tackle the problem of uncontrolled CAP expenditure;

(iv) bring the complex of CAP and 1% VAT ceiling issues forward for resolution in an early resumed European Council in February or March 1980.

4. The Chancellor of the Exchequer, in an undated minute, places his main continuing priority on securing a solution to our Budget problem through a corrective mechanism, and distinguishes between that and our long term objectives for reform of the CAP. He is therefore cool about de-budgetization of CAP expenditure at least until it is clear that spending cannot be kept within the 1% VAT ceiling, preferring to attack the CAP problem through a price freeze for surplus products rather than finding new means of financing extra expenditure. But he accepts that Mr Nott's ideas may have some value as a means of clothing our main budgetary objective in more European dress.

5. The Minister of Agriculture, in his minute of 21 November, opposes most of Mr Nott's ideas on the grounds that

(i) de-budgetisation will be unnegotiable, mainly because it would hit selectively at the Netherlands, Denmark and Ireland while failing to induce the Germans or French to change their agricultural policies;

SECRET

(ii) de-budgetisation would produce inadequate savings in terms of our net contribution problem: even if half of current Community expenditure on the CAP were switched to national budgets our net contribution would be cut by only about 550 meua;

(iii) anyway headage payments on cows plus a reduction in milk prices would not help. If the headage payments were financed by the Community this would nearly double the present milk bill, and national financing would not be acceptable to the net exporting countries;

(iv) with all its difficulties, budgetary reform is much easier for our partners to swallow than drastic reform of the CAP.

6. Mr Walker concludes that, provided we can get a green pound devaluation first, we should insist on a price freeze for 1980. But we should use it as a lever for securing a solution to our Budget problem rather than a means of reforming the CAP. We should not block all major Community decisions, which might work to our own disadvantage. Instead we should decline to regard an unfavourable outcome at Dublin as final; announce that we shall carry on the fight for budgetary reform; and insist on a price freeze for 1980 in order to put maximum pressure on others to agree to what we want on the Budget.

11 12 1  
2  
3  
4  
5  
6  
7  
8  
9  
10

26 NOV 1979