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CABINET

DEFENCE AND OVERSEA POLICY COMMITTEE

NEXT STEPS ON OUR COMMUNITY CONTRIBUTION

Memorandum by the Chancellor of the Exchequer

We shall shortly be discussing how we should handle the next stage of the negotiation on our EEC net contribution, including the forthcoming Brussels European Council and beyond.

Figures

2. We have asked the Commission to produce updated figures for our net contribution to the 1980 Budget in time for the Brussels Council. I understand that they expect to do this by about 15 March. We expect them to produce a figure of about 1700/1800 meua, or £1150m. We also expect to qualify, even under the existing mechanism, for a refund of perhaps 250 meua (£170m) in respect of the 1980 Budget, payable in 1981 (mostly in the first quarter of that year). The Commission may or may not refer to this. We shall want to say that the 1700/1800 meua is further evidence of the extent of the burden on us.

3. We will also have to adapt our thinking, and try to adapt that of our partners, to the new figures. Figures of 800 to 1,000 meua which others have mentioned as possible for a settlement would need to be compared with 1700/1800 rather than with 1550 meua. Thus 1000 meua (£650m), of which 520 meua was attributed to the reformed mechanism, would leave us with 700/800 meua (£450/£520m) as our net contribution in respect of the 1980 Community Budget. Because of delay in refunds

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our net public expenditure in 1980/81 would be a little more. To reduce our 1980 net contribution to £400m would require the 1000 meua to become 1100/1200 meua: £200m would require 1400/1500 meua and so on. However, we cannot get any of these figures clear until the Commission give us their estimates.

Way Forward

4. I think we shall want to make the point that in spite of North Sea oil the growth prospect for the UK economy in the year ahead remains relatively much worse than that of most, if not all, of our Community partners. We expect a decline in GNP of 2% or more, whereas Germany and France still expect growth of 2%. On relative GNP grounds our case in equity is as strong as ever.

5. However I think it is clear from what President Giscard has said publicly, and Chancellor Schmidt privately, that progress towards an acceptable figure for our Budget contribution may well require parallel agreement on other matters, especially on questions of special interest to France. We may not favour "packaging" because we are very clear about the merits of our case, but the French in particular will aim for it (as they were already doing in Dublin) because they see a quid pro quo as a domestic political requirement and need a solution on particular issues like sheepmeat. I conclude that we have to regard sheepmeat and the CAP price determination as particularly relevant to the negotiation on our contribution, and the terms of settlement of the 1980 Community budget will also be relevant because it will have to include the results of the decisions on agriculture and on increases in expenditure beneficial to us. There is also the question whether a "cosmetic" statement on our oil policies might be helpful. The question of some statement on the EMS is being considered separately.

6. It will not be for us to propose "linkage" of these subjects with our contribution question. Any discussion of agreement on them starts from the fact that President Giscard has made the link already. We shall not want to make settlements on these questions which cannot be justified on the merits. However, now that the French have made the

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link, we shall have to be sure that we do not settle them until we have obtained value for them in our contribution negotiation. Sheepmeat in particular provides us with a useful bargaining counter.

7. I hope that, with the assistance of Chancellor Schmidt and Prime Ministers Van Agt and Cossiga, we may achieve a solution at the Brussels Council. I think it more likely that we may achieve an advance without reaching a figure acceptable to us. This is the more likely because it may be too early for agreement on some of the parallel questions, especially CAP prices. Unpleasant as it was, Dublin was an important step forward. In addition to entrenching reform of the financial mechanism (whatever the French now say), it led directly to the Commission proposal for Article 235 provision for extra expenditure in the UK, the principle of which now seems widely accepted and for which we may seek endorsement at the Brussels Council. We need as a minimum to achieve a further advance at Brussels which could lead to an agreement at the June Council. By that time there would be much greater urgency about settling agricultural prices and savings, and the 1980 Budget.

8. An advance at Brussels might include an increase in the amount known to be on offer to us beyond the 520 meua of Dublin, and endorsement of the Commission's approach to extra expenditure. The idea of linked agreements might emerge - though not from us - and might somehow be reflected in the communique. That might indicate that a further advance towards agreement was to be expected in subsequent months, including on our contribution.

9. What will be essential is to register again at Brussels our need for a durable solution. This means both that the solution must not be confined to one or two years, even if we have to concede a review clause. It also means that some method must be found of "dynamising" the amount of proposed extra expenditure in the UK, so as to ensure that our contribution could not in the future exceed a given figure - possibly indexed. We cannot have a situation where the Council of Ministers decide each year how much we should pay.

10. There are risks in having to wait until June for a solution. The economic outlook in the Community could deteriorate. There is a problem of maintaining momentum and keeping our contribution issue in the forefront of Community attention. But it is in the nature of the Community,

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and of the European Council, that negotiations can take a long time and that ultimately a group of issues may be settled together in a semi-crisis atmosphere.

10. If we are still clearly in negotiation after Brussels but have to ensure that certain issues (like CAP prices) are kept open until the June Council, that will not represent "obstruction" and will not really be so regarded. "Means of pressure" in the sense in which we have had to consider them become relevant only if and when the negotiation is stalled. The objective then would be to persuade our partners to resume negotiation and offer us more. I do not myself have great confidence in obstruction as a means of achieving that result. Its effectiveness tends to hinge heavily on agricultural and possible budgetary questions where, in the last analysis, our partners could with determination find formal or informal ways of managing without our assent while retaining our contribution.

11. Withholding, if we were driven to it, would have the advantage that we retained (the use of) at least part of our contribution and in that sense strengthened our negotiating position. It might be the shock needed to stimulate new efforts to reach agreement with us. But it could require us, perhaps initially but possibly later, to legislate domestically and to be ready to defy (or prevaricate about) a verdict of the European Court. If we had to resort to withholding we would need to make every effort to make it a controlled sanction. We would have to explain our position very fully at home (eg a White Paper) and in the Community. We might make it clear that withholding could be promptly ended if effective negotiations were resumed. Limiting withholding to the VAT tranche might help. Above all we would need to make it abundantly clear that we were not leaving the Community, or being driven out of it.

12. Meanwhile I think we should avoid any direct threat of withholding. It would be better, and probably more effective, to limit ourselves to saying if asked that we would certainly come under pressure to take stronger steps, including withholding, if there seemed no prospect of achieving a satisfactory settlement on our contribution.

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13. A separate note is being prepared on the EMS, on which the Treasury is consulting other Departments.

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OFFICE OF THE SECRETARY OF STATE

H.M. Treasury (G.H.)
5 March 1980

Foreign and Commonwealth Secretary

The note between Deauville will deal in broad terms of the... under the chairmanship of the British Prime Minister... to make the most of the European bilateral... in the... and to... our chances of reaching an... solution at the... we need to clear up... as to what is... that... what to do if... to... at the Brussels meeting.

... which would provide a... of... in the United Kingdom... that the... of... of... of... which... the... with the... that... of a... and... of a...

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