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Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

27th March, 1980

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Paul

M. O'D B. Alexander, Esq.,
Private Secretary,
10, Downing Street

Dear Michael,

CONTRIBUTIONS TO THE COMMUNITY BUDGET AND UK TRADE PATTERNS

Paul Lever's letter to you of 7th March enclosed some defensive briefing on trade patterns within the Community for Ministers to deploy if their Community colleagues tried to suggest that the cause of the UK's budget problems was failure to reorient our trade towards the Community, and that the solution therefore lay in our own hands. ^{attached}

The note he attached contains the most telling arguments against this proposition, but in one respect it is incomplete. It does not provide an answer to those in the Community who argue, as on occasion the Germans have done, that the statistics on trade shares which we have quoted do not provide a true guide to the development of trade within the Community because they are dominated by two events on the energy front: the rise in the prices of imported energy and the emergence of the UK as a substantial oil producer.

There is some truth in this argument, but it is very far from the whole story. Increased energy prices and the arrival of North Sea oil are one reason for the changes described in paragraph 4 of the earlier note, but they are not the major factor..

.....
The attached revised note analyses the figures in somewhat greater detail and demonstrates that the reorientation described in the earlier note has also occurred in the two sectors of particular concern to our Community partners: agriculture and manufactures. It is these sectors which matter, both as regards the scale of Own Resource payments to the Community, and in terms of the export opportunities that they can afford to other Member States.

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I am copying this letter to the Private Secretaries of Members of the Cabinet, to Genie Flanagan (Department of Transport) and David Wright (Cabinet Office).

Yours ever

John Wiggins

A.J. WIGGINS

UK TRADE PATTERNS AND THE COMMUNITY BUDGET

It is often alleged that our high contribution to the EC Budget is our own fault for importing too much from outside the Community.

Background

It is true that the UK is a heavy importer from third countries. This reflects in part our high overall import propensity relative to eg. Germany and France. But the main reason is that a relatively high proportion of our imports come from outside the Community:-

% imports from outside the EC 1978

	UK	EC
Total imports	62	50
Imports of manufactures	60	40

But this is not the whole story. Nor do we accept the implication that our Budget problem is one that we can solve for ourselves.

Points to make

1. Excessive payments to the EC account for only one-third of our budget problem - the greatest part arises from the low level of Community expenditure in the UK.
2. Any suggestion that we are not 'playing the Community game' is without foundation. Our scrupulous implementation of 'Community preference' gives Community exporters a competitive edge in the UK market. We cannot compel traders not to buy outside the Community; it would contravene Article 100 of the Treaty
3. Even if it were possible overnight to switch 5% of our imports from non-EC (and EFTA) to EC sources the reduction in duty payments would probably be only some 140 MEUA (£90m). The reduction in our total contribution would be even less since we

(and other EC Members) would have to pay more VAT.

4. Since 1973 the proportion of our trade with the Community has increased steadily. By contrast, the original six are now doing less of their trade with the rest of the EC.

All imports from EC as % total imports

	1972	1978
UK	31.6	38.0
EC(9)	52.2	50.8

5. It is not true, as has been alleged, that the fall in the proportion of UK imports from outside the Community is explained by lower imports of OPEC oil.

6. The shift in UK imports to EC sources has been particularly marked for food (where the scope for further shifts is virtually exhausted, see notes to attached table). But all product groups, with the exception of fuels, have been affected. (The figures for transport are erratic and the figures conceal a sharp rise in the UK share immediately prior to entry. For example in 1969 the UK share was 42% and in 1977 it was 54%.)

UK: % share of imports from EC

SITC		1972	1978
0,1	Food	32.4	42.9
3	Fuels	18.0	14.0
2+4	Raw Materials	11.0	14.1
5,6,8,	Manufactures (exc Transport)	28.3	39.6
7	Transport	52.3	51.1
	Total	31.6	38.0

7. Imports of oil still account for 11.6% of UK total imports as compared with 11.7% in 1972. For the EC as a whole, oil imports were 11.7% of total imports in 1972, and 16.3% in 1978.

8. The rise in other countries' oil bills is not the main reason for the shift in the pattern of their imports away from EC sources. The share of manufactured imports coming from the rest of the Community fell steadily between 1968 and 1978, especially in France and Germany (see table attached).

Table 1

Imports from EEC as percentage of total imports

	<u>1968</u>	<u>1972</u>	<u>1978</u>	<u>Change 72-78</u>
France	52.7	56.0	51.4	-4.6
Italy	41.4	49.2	44.7	-4.5
Germany	47.3	53.9	50.1	-3.8
Belgium/Luxembourg	63.0	71.1	69.0	-2.1
Netherlands	61.7	62.3	57.4	-4.9

Denmark	46.4	45.9	49.4	+3.5
Ireland	66.3	69.3	73.4	+4.1
UK	26.1	31.6	38.0	+6.4

EC average	46.1	52.2	50.8	-1.4
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Source: SEC(79) 1578 Commission "supplementary information"

Table 2

Imports of Manufactures from the EEC as a percentage of total imports of manufactures

	Transport and Machinery (SITC 7)			Other Manufactures (SITC 5,6,8)		
	<u>1968</u>	<u>1972</u>	<u>1978</u>	<u>1968</u>	<u>1973</u>	<u>1978</u>
France	71.1	72.4	65.8	72.0	74.2	68.3
Italy	69.6	74.2	71.8	39.2	36.0	37.5
Germany	63.7	66.1	59.6	58.8	61.7	56.0
Belgium/Luxembourg	83.2	85.0	82.3	68.2	76.1	74.3
Netherlands	77.3	79.5	72.9	80.1	80.5	74.4

Denmark	59.7	60.1	56.6	52.7	49.0	52.9
Ireland	87.0	81.3	74.6	82.1	81.2	80.9
UK	43.8	52.3	51.1	25.9	28.3	39.6

EC average	66.9	69.9	64.8	58.2	61.6	60.6
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Source : SEC (79) 1578 Commission "Supplementary information"

Table 3

Agriculture

Imports of food from the EEC as a percentage of total imports of food (SITC 0+1)

	<u>1968</u>	<u>1972</u>	<u>1978</u>
France	33.7	41.2	47.1 ^φ
Italy	36.9	49.7	58.3
Germany	48.1	55.6	56.8 ^φ
Belgium/Luxembourg	56.5	69.1	74.0
Netherlands	34.4	47.6	47.1
Denmark	24.1	24.3	36.8
Ireland	42.1	47.3	71.4
UK	29.7	32.4	42.9 ^φ

EEC Average	38.0	46.7	52.9

Source: SEC(89) 1578 Commission "Supplementary Information"

^φComparable figures for "indigeneous products"

(imports from outside EC as % total)

	1973	1976	1978
UK	45	28	27
Germany			31
France	Not available		28

Source: MAFF

Indigenous products: all products excluding goods not produced in EC, goods for which EC is net importer, and products covered by treaty obligations (eg. N. Zealand butter, ACP sugar).

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