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PRIME MINISTER

Cabinet, 2 June: United Kingdom Community Budget Contribution
and Related Questions

Background

The Foreign and Commonwealth Secretary's paper comes at the end of a long process of negotiation to improve the UK's net budgetary position within the Community: commitment in principle at Strasbourg; too little movement at Dublin; considerable progress at the European Council in Luxembourg on 27 April but the figures offered for 1981 were inadequate and there was no commitment to a third year.

The proposals in the paper which emerged from a nineteen hour negotiating session in Brussels on 29/30 May were accepted by some Foreign Ministers there and then but Lord Carrington reserved the Government's position. It is likely that all other Governments will agree if we do; and the new agricultural prices will then come into effect from 1 June.

Handling

You will want to invite the Foreign and Commonwealth Secretary to introduce his paper (the factual annex to which was agreed with Treasury and MAFF). He will probably stress that, while not ideal, the proposals represent as much as can be extracted by negotiation; and he will no doubt recommend their acceptance. The Lord Privy Seal also attended the Foreign Affairs Council.

You might then suggest that the Cabinet should look at the individual elements in the package before taking a final view.

Budget

You will want to have the Chancellor of the Exchequer's assessment as to whether the relief offered is acceptable given public expenditure commitments. There are really two questions:-

- are the (slightly complicated) proposals a significant improvement on what was on offer in Luxembourg?
- do they bring us back to a tolerable financial position within the Community?

/Positive factors

Positive factors -

- three year arrangement although third year not quantified.
- better figures for 1981 and overall relief for 1980 and 1981 higher than on offer at Luxembourg.
- mandate for restructuring the Budget within the one per cent ceiling.

Negative -

- a higher level of net contribution for 1980, could be as much as 713 mua compared with 538 offered in Luxembourg.
- not a fixed ceiling but a risk sharing arrangement restricting the rise in our net contribution.

CAP Prices

The Minister of Agriculture will no doubt say that the linkage with the Budget issue (not of our making) has paid off and referred to the relatively modest effect on food prices. The Secretary of State for Trade may have the view that we would have been better off continuing to block price increases. We should probably have had to accept some price increases this year even without the linkage with the Budget. It is possible that the Chief Secretary will argue that we could offset the domestic effects by revaluing the Green Pound. This will be resisted by Mr. Walker and, if raised, should be referred to OD(E).

Sheepmeat

The Minister of Agriculture will argue that the outcome is in line with his negotiating mandate approved by OD(E). You will be able to report on the New Zealand reaction from your talks with Mr. Muldoon. The inclusion of export refunds is unsatisfactory but the quantity of sheepmeat going intervention is likely to be relatively small.

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/Eisheries

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Fisheries

The Minister of Agriculture and the Secretary of State for Scotland should be invited to report on reactions of the fishing industry. The text (annexed to the memorandum) avoids any specific reference to "equal conditions of access" and includes acceptable guidelines but the fishing industry, already in economic difficulty, will be suspicious of a sell out.

Energy

During the latter stages of the negotiations, energy questions dropped out of the package and we have not been pressed to accept commitments over North Sea oil.

On the general assessment of the outcome the Cabinet will want to review the alternatives. Could we continue to block CAP prices and reopen the negotiations at the European Council in Naples? Or would this result in a general Community crisis? What would be the consequences for us, and the Community? The Lord President and others will have views.

If the general view is that the Government should accept the proposals, presentation will be important, beginning with the Statement in the House. It should be presented as a solid achievement bringing substantial financial relief, but the prospect of a major review of the Community's policies should also be stressed. The settlement is not the end of the story: we shall have to exploit the review in order to bring about lasting improvements in the Common Agricultural Policy ~~in so far as~~ that the Community can develop other more productive policies without raising the limit on its financial resources. It might be helpful if the Cabinet endorses the need for preparations for us to take a constructive role in the review (a remit to OD(E)?).

/Conclusion

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Conclusion

If the Cabinet decides to endorse the outcome of the negotiations, the Italian Presidency (whose helpful role could be acknowledged) should be notified immediately i.e. before the Statement in the House.

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31 May 1980

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