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OD(81) 15th Meeting

COPY NO 46

CABINET

DEFENCE AND OVERSEA POLICY COMMITTEE

MINUTES of a Meeting held at
10 Downing Street on
WEDNESDAY 9 SEPTEMBER 1981 at 3.30 pm

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon Lord Hailsham
Lord Chancellor

The Rt Hon Lord Carrington
Secretary of State for Foreign
and Commonwealth Affairs

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

The Rt Hon Lord Soames
Lord President of the Council

The Rt Hon John Nott MP
Secretary of State for Defence

The Rt Hon Sir Ian Gilmour MP
Lord Privy Seal

The Rt Hon John Biffen MP
Secretary of State for Trade

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Sir Keith Joseph MP
Secretary of State for Industry

The Rt Hon Peter Walker MP
Minister of Agriculture,
Fisheries and Food

The Rt Hon David Howell MP
Secretary of State for Energy

SECRETARIAT

Sir Robert Armstrong
Mr M D M Franklin
Mr D M Elliott

SUBJECT

EC BUDGET RESTRUCTURING: THE NEXT PHASE OF THE NEGOTIATIONS

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EC BUDGET RESTRUCTURING: THE NEXT PHASE OF THE NEGOTIATIONS

Previous Reference: OD(81) 20th Meeting

The Committee considered a Note by the Secretaries (OD(81) 40) covering a Note by Officials reviewing the Commission's Report under the 30 May Mandate, and suggesting the approach the United Kingdom should take on the main substantive and tactical issues expected to arise in the months ahead in the budget restructuring negotiations. It also had before it minutes on the same subject from the Chancellor of the Exchequer and the Secretary of State for Trade, dated 4 and 21 August respectively, to the Prime Minister.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the Government's general strategy for the budget restructuring negotiations had already been agreed in earlier meetings of the Committee and the Sub-Committee on European Questions. There had been no significant developments since then, although the immediate timetable of work proposed by the United Kingdom Presidency had received general approval at the 5-6 September informal meeting of Foreign Ministers at Brompton Hall. A second reading debate on the Commission's mandate report would therefore take place at the ¹⁴ September Foreign Affairs Council and the Mandate Group would start work the following day. Officials now needed a steer for the forthcoming negotiations. He invited the Committee's endorsement of the conclusions set out in paragraph 27 of the note attached to OD(81) 40.

THE CHANCELLOR OF THE EXCHEQUER said that, so far as our objectives were concerned, it was not sufficient to aim for a level of net contribution for the United Kingdom no higher than that resulting from the 30 May settlement. That settlement had left the United Kingdom with a net contribution which rose from year to year. With colleagues' agreement, he had committed the Government publicly in his 3 June speech in The Hague to the argument that the Community should adopt the principle that the direction of net transfers should take account of relative prosperity ie that resources should flow from more to less prosperous regions and not vice versa. If successful, this approach would imply that the United Kingdom would end up as a net beneficiary (at least before enlargement). He realised the difficulties in achieving such a result but in private we should regard a zero net contribution as our objective.

In discussion the following points were made -

- a. Britain's public objectives should continue to be those expounded by the Chancellor in his Hague speech. It was an approach justified on grounds of equity, and did not commit Her Majesty's Government to the principle of a juste retour for each member state. Account needed to be taken of all forms of levies in assessing what was an acceptable net position. It was essential this time round to secure a fundamental and lasting solution to the budget problem. It would be premature at this stage to be too precise.
- b. On the Common Agriculture Policy (CAP), the United Kingdom should work for guidelines to be set at the November European Council. The Government should not place overmuch reliance on German support, since German views on CAP reform were in many respects contrary to British interests and they might no longer be interested in CAP reform if they secured a limit on the German net contribution. Nor would it be realistic to expect the many and diverse vested agricultural interests in the Community to tolerate radical changes in the CAP. It was more likely that the main strain of restructuring would have to be borne by budget adjustment mechanisms. Nevertheless the Government should aim to get guidelines laid down by the European Council.
- c. There was no objection to the line proposed by officials on other Community policies. It would be necessary to ensure that the development of Community policies did not threaten the one per cent VAT ceiling or lead to an unacceptable loss of control over domestic policies eg in the sphere of industry.
- d. On timing and procedure, it was agreed that the United Kingdom should continue to work for decisions at the November European Council, although it was recognised that the prospects for achieving this objective were not good. The French appeared to be adopting deliberate delaying tactics, no doubt in the hope of creating linkages with eg the Common Fisheries Policy negotiations; and both they and the Danes seemed likely to argue that budget restructuring could only be tackled after decisions had been taken on the CAP and other Community policies. This was nonsense and the United Kingdom would have to resist it forcefully, calling attention to the impossibility

of solving the unacceptable situations problem by this means in the short term and within the one per cent ceiling. It would be important to carry the Germans with us in arguing for guidelines on budget restructuring to be agreed in November.

THE PRIME MINISTER, summing up the discussion, said the Committee recognised that it might not prove possible in the event for the United Kingdom to carry the budget restructuring negotiations as far forward as could be wished during our Presidency. It was nevertheless essential, not least in domestic electoral terms, that the United Kingdom should push hard for progress at the November European Council towards a fair and lasting solution of the United Kingdom's net contribution problem. The Government's approach should continue to be based on the Chancellor's speech of 3 June in The Hague, with the aim of a nil net contribution for the United Kingdom as a private fall-back position. Subject to these points, the Committee accepted the conclusions in the Note by Officials.

The Committee -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.
2. Instructed Officials to be guided accordingly in the next stages of the Community budget negotiations.

Cabinet Office

10 September 1981