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Pt 7 Budget



P/W European Council briefs.

Prime Minister

Paul

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PRIME MINISTER

EC BUDGET: PREPARATIONS FOR EUROPEAN COUNCIL

We have already discussed what was said on our EC Budget contribution at the meetings of Community Finance Ministers in Sicily and in Luxembourg. I expect you will now have seen the detailed accounts in Luxembourg telegrams 106 and 99 of 21 April, and perhaps also the useful 'cover note' circulated by the Italian presidency after the Finance Council and included in telegram 98 of 21 April. At both meetings the French, as well as others, accepted the use of the Financial Mechanism with the removal of the 3 'brakes' and of supplementary expenditure under Article 235, as the instruments of a solution for the UK. However, the French were in the lead in trying to obfuscate the scale of our contribution, in arguing for the retention of some ceiling on the yield to us of the reformed Financial Mechanism, and in proposing to limit the duration of both the mechanism and the supplementary expenditure to a 3 year period ending on 31 December 1982.

2. I am sorry that I shall not be able to attend your briefing meeting for the European Council on Friday since that is the day of the IMF Interim Committee meeting in /Hamburg but



Hamburg but I have asked Sir Kenneth Couzens to return for your meeting. It may be helpful however if I record my comments on some outstanding questions on the budget negotiation.

3. Although the French may go on trying to cast doubt on the Commission figures, I hope and believe that the discussion will take place mainly on the basis that the UK net contribution to the 1980 Budget will be 1683 meua. You will yourself want to judge what would be an acceptable and defensible reduction and residual contribution. In fact, as you know, the net contribution before any relief looks likely to be higher - perhaps as high as 1900 meua - because 1683 assumes 3% negative MCA's throughout the year and acceptance of the Commission's agricultural proposals, including a 2.4% average price increase.

4. There remain the difficult interlocking questions of duration and 'dynamism'. A 6 year period with no hope of dynamism would probably be less advantageous than a 3 year period with dynamism, followed by a review with the right terms of reference ie one that focussed on the question whether our problem of low GNP per head and high net contribution remained. The choice is however unlikely to present itself in those terms. I expect that you will need to argue both aspects together and consider what is on offer on the two together.

5. On duration, 3 years would mean arguing for extension in 1982. It would mean no extension now of the present time limit of 31 December 1982 on the existing Financial /Mechanism.



Mechanism. I argued in the Finance Council that that would be illogical because the review 'before the end of 1981' contemplated in the mechanism would now have taken place. The 6 year period from January 1980 which we have sought would extend the mechanism for 3 years to end-1985.

6. I see a 5 year extension (end-1984) as an acceptable but unwelcome fall-back position. If a shorter period were to be acceptable at all - and I should be very reluctant so to conclude, it would have to be linked to a review explicitly related to whether our problem remained. Some of our partners would no doubt want to bring in other factors, like the implications of enlargement and UK public revenues from North Sea oil: these have been argued as reasons for a 3 year limit.

7. On dynamism, possible formulae are rehearsed in the Treasury brief (paragraphs 21-26 of EHG(1)(80)3). The Financial Mechanism, with the removal of the 3 'brakes', will be 'self-dynamising', provided the French argument for some new ceiling is not accepted. On the new expenditure Regulation the brief proposes the following 3 options:-

- i. maintain UK receipts in years after 1980 at the same proportion of the Community average as emerges from the decision for 1980;
- ii. ask the Commission to make proposals to deal with this aspect of the problem, in terms which require them to avoid re-emergence of our problem;
- iii. seek agreement that a change in our net contribution by more than 100 meua from the new 1980 level would trigger a review by the Commission and the Council.

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8. I think that at your meeting on Friday you will wish to consider in particular the order in which you deploy these options and what might be acceptable as the outcome. I will be discussing this further with Sir Kenneth Couzens in Hamburg and he will know my views.

9. I am sending copies of this letter to the Foreign and Commonwealth Secretary and Sir Robert Armstrong.

*Mark Hall*

*ff.*

GEOFFREY HOWE

*( Approved by the Chancellor of the Exchequer  
and signed in his absence )*



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