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MR FRANKLIN

The Budget Problem

The Prime Minister has seen your minute to me of 22 March on this subject. She has commented that we could not possibly accept the examination of each expenditure programme referred to in the last sentence of paragraph 13 of the attachment to your minute.

I am sending a copy of this minute to David Wright.

Michael Alexander

24 March 1980

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Prime Minister.
We cannot possibly accept the examination of each programme. JRB 22/3/80

MR. ALEXANDER

THE BUDGET PROBLEM: A NEW COMMISSION PAPER AND REVISED FIGURES

I attach the latest Commission paper for the European Council. It brings together in a single document their various proposals for the solution of our budget problem; and revised estimates for net contributions and benefits for 1979 and 1980. There is no need for the Prime Minister to read the document but she will want to know what are the latest figures for 1980 - 1683 meua on an importer benefits basis and 1813 meua on an exporter pays basis (the Commission have assumed a negative mca for the UK of 3%). The French emerge as small net beneficiaries before adjustment to meet us. The value to us of a revised financial mechanism is now put at 495 meua (net) instead of 520 meua.

The paper itself is generally helpful. In particular

- it provides a peg on which we can hang our demand for budget restructuring (paragraph 5 and the last two lines of paragraph 14).

- it confirms that there is no shortage of eligible UK projects for any amount the European Council may agree for supplementary receipts measures in the UK (paragraph 11) and allows for spending on non-regional and social infra-structure projects, as well as those conforming to the Community's regional policies (paragraphs 12 and 13).

- it reaffirms the need to take decisions that will avoid an early recurrence of the present difficulties (paragraph 14) and says "It can be to the advantage of no-one to see an early recurrence of present difficulties".

There are two less palatable features. The last sentence of paragraph 13 refers to the need for a consultative procedure to be developed under which the Council would be formally associated with

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the examination of our expenditure programmes. In practice the Commission intend this to mean no more than discussion in the Regional Policy Committee, whose views will not be binding on the Commission or the UK. We are unlikely to get away with anything less than this. Second, the Commission have maintained their views on duration, i.e. a fixed period of "perhaps three or four years" with a review before their expiry. But paragraph 14 also contains the thought that the test to be applied in the review should be that of progress towards a better balance between Community policies and expenditure within the budget, i.e. restructuring.

MICHAEL FRANKLIN

22 March 1980