

SECRET

Prime Minister

Ref. A0900

PRIME MINISTER

See vol.

1

2

Community Budget: Follow-up Action to the Dublin European Council

This minute, which reflects the conclusions of a meeting I held on 5th December with the Treasury, the Foreign and Commonwealth Office and the Ministry of Agriculture, suggests how we should prepare for the resumed European Council consideration of our Budget problem. The preparation can be considered under three heads.

Handling Community business between now and the next European Council

2. As you made clear in Cabinet yesterday, we are not in this period concerned with seeking to bring the Community to a halt. We should therefore be prepared in the Ministerial Councils immediately ahead and other Community meetings to continue to deal with business on its merits, attempting no obstruction for obstruction's sake and being ready to make progress or reach agreement where it suits our interests to do so. ^② Where it does not we should seek to play the issue long and be on the look out for issues of interest to our Community partners which might give us some leverage.

3. On certain subjects - fish, sheepmeat and energy - ^{Some} ~~more~~ member states have sought to establish linkages with our Budget problem. We shall insist that these are matters which have to be dealt with on their merits. Nonetheless, we should aim to turn this situation to account. This will mean allowing sufficient progress (where we can do so without damage to British interests) to report at the next European Council, while at the same time giving nothing of substance away that might be useful at that Council.

③ 4. On fisheries, we should be able to register useful progress on conservation by the next European Council. We should also continue to explore the basis for a possible settlement with the Danes on the pout box and with others on points of particular concern to them. We should concede nothing finally before the Council. The crunch point on access and quotas may not come before the summer of 1980, but there is a risk that others will try to accelerate this

SECRET

timetable and we may come under pressure at the European Council to make commitments which would prejudice our position. We shall have to examine whether we can better avoid this by delaying consideration of quotas and access or by establishing an informal understanding in bilateral talks on where an eventual solution might lie.

④ 5. On sheepmeat, it is clear that we must not give the French any satisfaction in advance of the European Council. We should continue to discuss a regime which would be acceptable to us, and to New Zealand. It may be desirable, say at the December or January Agriculture Council, for the Minister of Agriculture to show some willingness to contemplate a move towards Community financed premia in line with the authority he has already received from OD(E). If we do not make some move of this sort we may lose the support of other Member States, thus taking the heat off the French.

⑤ 6. On energy, ^{we must continue our own supply drive etc.} we need to do two things. One is to look at the scope for making life uncomfortable for our Community partners e.g. on oil prices as part of a possible campaign of obstruction. The other is to look again at the scope for action which, without damage to our interests, would respond to their concern about the vulnerability of their other sources of supply. Domestic security of oil supplies must clearly take priority, and it may well be that further work will only confirm the recent OD(E) conclusion that we can do nothing for the Community either on prices or on supplies. But, given the importance attached to this point by the Germans, the French and the Danes, we obviously cannot ignore it in the bargaining over a solution to our Budget problem.

7. On all the subjects where the possibility of "linkage" at the next Council arises we shall have to assess the costs to our economy of any additional concessions we might make in order to achieve a solution on the Budget.

Preparations for the next European Council

8. Of the three elements in a possible solution already identified by the Commission, we shall need to consolidate the gain on the contributions side. But the most important task now is to get something substantial on the receipts side, building on the paragraph in the Dublin communique which dealt with that subject. The Treasury are already at work on this. We should keep alive the

SECRET

✓
notion of a straight receipts mechanism, but this will clearly be extremely difficult to negotiate, and other "supplementary measures" to increase our receipts will have to be explored. For this purpose we need to identify domestic expenditure programmes which might qualify for Community aid without involving us in increased Exchequer expenditure. This will mean stretching (or by-passing) the principle of "additionality" which may present problems for the Commission. We must work closely with the Commission on all this. Once we know how far they are willing to go, we can decide whether it is best to leave them and the Italian Presidency to sell the package to other Member States or whether we ourselves should take the discussion up with the other Member States. We should in any case talk to the Italians as soon as we have our own ideas clear and approved by you and other Ministers.

9. Signor Cossiga has indicated that he would like to make London the first visit of the Italian Presidency. It would probably be better for him to know your views before talking to other Heads of Government. On the other hand, we ought to know beforehand what proposals are likely to emerge from the Commission. This points to a meeting with Signor Cossiga towards the end of January.

19.11
Jan - not
later.

10. A fourth question which may become linked with the budget negotiation in the next three months is the 1980 price fixing, including the Commission's proposals on milk and sugar. If there is deadlock in the price negotiations, with most Member States insisting on increases and the United Kingdom alone pressing for a freeze, other Member States may look for a concession by the United Kingdom as a price for further movement on the budget. The French will be strongly tempted to make a further link with the question of continued access for New Zealand butter. We shall have to consider further the substance of our position and the timing of these negotiations.

No
/
No

11. You have indicated that some commitment to structural change in the Budget could have a part to play in securing a lasting solution. The Treasury are working on this also. We need to quantify this idea and see in what form it would be most valuable to us, and how it could be most readily accepted by other Member States. It would probably involve specifying a (reduced) ceiling

(ignore
underlining)

SECRET

No increase in VAT ceiling - otherwise contributions will rise.

percentage of the Budget for CAP expenditure to be reached over a period, perhaps coupled with a specified increased proportion for structural expenditure of a kind helpful to us. Our analysis would have to take account of the scope for using the 1 per cent VAT ceiling to help achieve this. If we can secure some savings for 1980-81 in the cost to us of the CAP through the current discussions on measures to cut the surpluses of milk and sugar, so much the better. But the Commission's current proposals are unacceptable and no decisions will in any case be taken before the CAP price fixing.

12. The papers on both the receipts side and the restructuring of the Budget will be discussed interdepartmentally under Cabinet Office chairmanship. The intention is to have these available before Christmas, and ready for Ministerial consideration early in January.

Contingency Planning

13. On withholding, you have already had a preliminary paper (attached to the Chancellor's Private Secretary's letter to your Private Secretary of 28th November). The Treasury and the Treasury Solicitor are now elaborating this assessment in consultation with FCO, Cabinet Office and the Law Officers' Department. This paper will need to deal vigorously and in detail with possible methods of withholding; with the risk of challenge either in the European Court or in a United Kingdom court whether by the Commission, another Member State or some other aggrieved party; with the question whether an adverse verdict in either court could be pre-empted or nullified by domestic legislation; and whether it would be possible to avoid such legislation opening up the whole issue ~~of the use~~ of the direct applicability of Community legislation, enshrined in Section 2 of the European Communities Act, which is fundamental to Community membership. The Treasury are also reconsidering the basis on which we could deploy legal arguments in support of our case, whether generally, to justify withholding, to defend an action against the United Kingdom in the European Court, or possibly to initiate a European Court case under Article 175 of the Treaty (which has previously been examined and rejected). On all these issues you will obviously need the advice of the Attorney General. In parallel, the Foreign and Commonwealth Office will be assessing the wider Community implications: the effects of such a course of action on our position in the Community and on the

SECRET

prospects for a successful outcome of the Budget negotiations, and the retaliatory measures which our partners might take and the consequences of those measures for the United Kingdom together with the effects on our bilateral relations with individual members of the Community, especially France and Germany. I am arranging for these respective inputs to be put together by the Cabinet Office for Ministerial consideration early in January.

14. The second leg of our contingency planning should aim to take further the work already done on a possible campaign of obstruction. We shall need a detailed survey of the issues coming up for decision in Brussels up to the autumn of 1980, so as to assess how effective such a campaign could be and what impact it would have both on the United Kingdom and on the other Member States. ~~It should this time include, as already mentioned, the possibilities of putting pressure on our partners through our North Sea oil policies.~~ This work will be co-ordinated by the official committee under Cabinet Office chairmanship and, like the other papers, should be ready for submissions to Ministers early in January.

Already
have
this

No

15. We have of course considered whether we could have papers ready for Ministerial consideration before Christmas. We do not think that we can sensibly do so. They require a good deal of work (including legal advice), and of pulling together, and that cannot be done properly in time for Ministerial meetings before Christmas. In any case, the pressure on Ministers in the run-up to the Christmas recess could make it very difficult to find the required amount of time for which all those concerned could be available. The Community institutions will themselves go into recess for Christmas and the New Year and, even if we could fit in a Ministerial meeting before Christmas, we should not make any headway in discussions with the Commission or with the partners until the week beginning 7th January. I recommend therefore that we aim at Ministerial discussion early in the New Year, as soon as all the Ministers concerned are available. I want to make group before Washington

We must
have some

This is
much to
slow

16. I should be grateful to know whether you are content with these arrangements.

SECRET

17. I am sending copies of this minute to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Lord President, the Lord Privy Seal, the Minister of Agriculture and the Attorney General.

REA

(Robert Armstrong)

You will see various comments throughout the text but broadly speaking they amount to the following

7th December, 1979

- ① No linkage with other issues - each of which must be dealt with on merit on the assumption that we continue as an ordinary member of the Community. When the budget disagreement is over we shall not want to find ourselves in an awkward position.
- ② Liability - I am not prepared to bargain away our few reserves. To suggest that we might be allowed to keep our own money in return for joining up some of our oil is ridiculous.
- ③ We must get ahead faster. If the meeting is to be end Feb. it will have to be called early Feb. That means nearly all bids etc. & negotiations must be completed by end Jan.
M.I.