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CABINET OFFICE
A 1445
13 JUN 1979
PLING INSTRUCTIONS
FILE No. _____

FCS/79/116

CHANCELLOR OF THE EXCHEQUER

UK Net Contribution to the Community Budget

1. Thank you for your letter of 8 June. As you will now know from my minute of the same date to the Prime Minister (PM/79/51) I agree that we should look most carefully at what we want to get from the Strasbourg European Council. I enclose a revised text, which I understand the Prime Minister has approved, of the formulation we should like the Council to adopt.
2. As regards the supporting arguments we should use, I agree that we should not be at all inhibited from making our position clear, particularly since we have a much better basis for doing so than our predecessors. Equally I think we should avoid the enthusiasm they sometimes showed for slaughtering other people's sacred cows. For that reason I would prefer to avoid altogether the argument about "juste retour" etc, by using the formula in the attached draft. Of course we believe that "those with below average GNP per head should not be net contributors to the Budget". But I do not believe that our partners will in fact be persuaded to subscribe to such a form of words in the European Council conclusions. Nor do I think that we need try to force them to do so. Nor too do I think we should make any verbal assault on the concept of the "acquis communautaire" even if there are things about it which we are determined to change. As for "renegotiation", Schmidt and Genscher have both advised strongly against appearing to resuscitate that unloved word and I think they are right.
3. I agree that "resource transfers" are not a helpful concept. "Convergence of economic performance" on the other hand is Community's shorthand for saying that those with below

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average GNP should make progress towards the level of living standards of the others, and this is a point that we shall from time to time find we want to make both directly and indirectly. The idea that the Community policies taken as a whole, and the Community Budget therefore in particular, should help towards this aim has only just begun to gain acceptance in the Community and I see no harm in using the phrase if it helps us to complete the process.

4. On the third point in your letter, I agree that there are several reasons why expansion of Community expenditure, even to the net benefit of the UK, would not by itself be an adequate or appropriate solution. On the other hand, it will certainly be too vigorously opposed by the Germans and French to be carried any further than we would wish. So I doubt if we need put our alliance with the Italians at risk by emphasising our own objections to it. The essential point is that, if there is to be any further Community expenditure, we should get our share.

5. I am copying this minute to the Prime Minister, to our colleagues on OD(E) and to Sir John Hunt.

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(CARRINGTON)

Foreign and Commonwealth Office

12 June 1979

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COMMUNITY BUDGET

The European Council recognised that at present the financial consequences of the Community budget create difficulties for two of the three member States with below-average GNP per head. In time, these difficulties should become less serious. Reductions in agricultural surpluses should reduce the cost of the c.a.p. That in itself will lighten the budgetary burden and should make it easier to switch expenditure to policies designed to reduce regional disparities. Meanwhile solutions are urgently required to ensure that the Community budget produces a fair balance of costs and benefits for all member states and, in particular, does not continue to hinder member States with below-average GNP per head in their efforts to improve their economic performance. The European Council invited the Commission to make proposals before the end of September to deal with this problem in order to permit decisions to be taken at the next European Council in Dublin.