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Ref. A02334

Prime Minister

MR. ALEXANDER

European Council: Reactions to the Budget Settlement

The Prime Minister has already been provided with additional briefs covering two questions which may possibly come up in Venice as a result of the Budget settlement: enlargement and the proposed review on budget restructuring. Other points were made in the public statements after the Budget settlement by the French and German Governments. It seems unlikely that these points will be raised in the Council itself but they may be raised in the corridors or by the Press. The attached notes, in the form of a Question and Answer brief together with Background Notes, have been agreed with the Departments principally concerned. They deal with:-

- (i) The Budget settlement itself.
- (ii) The attempted French link with CAP prices.
- (iii) Fisheries.
- (iv) North Sea Oil.

2. I am sending copies of this minute and these briefs to the Foreign and Commonwealth Secretary's Private Secretary, to Michael Palliser, Tom Bridges, Julian Bullard and Michael Butler and to Bernard Ingham, No. 10.



(Robert Armstrong)

(approved by Sir. R Armstrong
and signed on his behalf)

11th June, 1980



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EUROPEAN COUNCIL, VENICE: Q & A BRIEF ON THE OUTCOME OF THE
BUDGET NEGOTIATIONS

BUDGET SETTLEMENT

Q. What is the Budget settlement worth?

A. The settlement will yield a total rebate to the United Kingdom of at least £1,570 million over the two year period 1980-1981. On Commission estimates this will reduce the United Kingdom's net contributions in those two years to £370 million and £440 million respectively. Any increase over those levels resulting from higher-than-expected Community spending will be much abated by a risk-sharing formula, under which the United Kingdom will bear only a fraction of the cost of any excess.

The settlement also provides for a radical review of the Community's budgetary arrangements and of the pattern of Community spending. If this review has not of itself solved the United Kingdom's budget problem by 1982, the Community is committed to extending the arrangements negotiated for 1980 and 1981.

Q. What will be the effect on public expenditure?

A. As the latest Public Expenditure White Paper makes clear, the reduction in our Budget contribution will increase the savings in public spending which the Government has already achieved. The amount set aside for contributions to the Community Budget in Table 2.2.1 of the White Paper will be reduced.

The settlement should not be seen as opening the way to ~~increased~~ expenditure on domestic programmes, although it reduces the risk that further cuts in these programmes will be needed to keep public expenditure and borrowing within acceptable limits.

Q. What are the proposals for "Supplementary Expenditure" in the United Kingdom?

A. The new Article 235 regulation will enable the Community to participate in the financing of programmes designed to help with the problems of the disadvantaged regions of the United Kingdom and possibly certain expenditures outside those regions. It has yet to be decided exactly which programmes will benefit from Community assistance.

The next step will be for the Commission to propose a draft regulation to the Council and to the European Parliament. This will lay down the broad criteria under which the programmes will attract Community assistance.

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Q. Will this scheme enable the Community to interfere in British policies - e.g. our regional policy?

A. The Commission are proposing that the Community should help to finance the United Kingdom's own national expenditure programmes, not that it should establish a new Community policy, comparable with the CAP.

The Council will approve the broad qualifying criteria which will be embodied in the Regulation. But it will be for the United Kingdom to decide which programmes to put forward for assistance within that framework. There is no reason to suppose that the Community will refuse to assist programmes which satisfy the agreed criteria.

Q. What is the significance of the proposed review of the development of Community policies?

A. In the long term the commitment to review the development of Community policies and the operation of the Budget is perhaps the most important part of the 30 May agreement. Together with the constraints imposed by the 1 per cent ceiling, it will provide the opportunity for the Community to make fundamental structural reforms so as to prevent any recurrence of the British budgetary problem.

The review therefore offers an opportunity which has never been available before, since we joined the Community, to work with our partners for financial arrangements and Community policies, which are equitable, and reflect the interests of all Member States.

ADVANCE PAYMENTS

Q. The Germans have said that they can only finance the 30th May settlement if the 1980 payments are postponed into 1981. Is that acceptable to the United Kingdom?

A. The 30th May settlement made it clear (in paragraph 6) that the possibility of advances was part of the settlement and no exclusion was made for 1980. Even so, we are sympathetic to the current budgetary difficulties of the Federal Government and we are considering whether we can help.

Q. Is it true that the German Government has made a formal request to the United Kingdom that we make no application for advances in 1980?

A. Yes; and we are considering it.

LINK WITH 1981 CAP PRICES

Q. Is it true that the French have sewn up the financial arrangements in such a way as to force us to agree to farm price increases before the beginning of the next financial year?

A. On 30th May all the Member States undertook to do their best to ensure that decisions on agricultural price fixing were taken in time for the 1981-82 marketing season. We fully accept that undertaking. Our aim will be to work with our Community partners before the next marketing season begins for CAP decisions that will take due and proper account of all the Community interests involved.

Q. But will the French be able to deny Britain the money under the Budget settlement until we have agreed farm prices acceptable to them?

A. The 30th May decision incorporates provisions for the payments to the United Kingdom. These were agreed. I am sure that the French Government will honour their commitments under the decision just like all the other Member States.

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FISHERIES

Q. Does not Fisheries text prejudice UK position?

A. Not at all. It is a statement of general principles and in no way prejudices the vital interests of our fishermen, which we are determined to safeguard.

Q. Are HMG prepared to stand by Community's timetable of CFP settlement by 1 January 1981? Was this not a concession by the United Kingdom?

A. HMG have regularly indicated they seek early conclusion of an adequate CFP settlement. All EC fishing industries need security of a settlement; absence of Community-wide conservation and management measures in effect threatens the stocks and prejudices the long term livelihood of the fishing industry. Therefore welcome prospect of early progress on fish.

Q. Linkage. Does fisheries text mean that if no progress is made on fish, the United Kingdom will not receive its budget repayment?

A. No. Fisheries text sets the framework, but substance of CFP will now be considered on its merits. Decisions on the budget and other issues have already been taken. Budget settlement provides a satisfactory timetable for the making of payments to the United Kingdom.

Q. Do you agree that the fisheries text confirms the principle of equal conditions of access?

A. No. There is no reference in the text to these words. Certain delegations (Germany, Netherlands) sought this, but the Council chose not to use their language (which is in fact made as a unilateral statement).

Q. Has access preference now been excluded from the CFP package, and left for decision in 1982.

A. On the contrary, the text recognises in paragraph 3 that the current negotiations for the review of the CFP comprise the review (Article 103, Treaty of Accession) of the existing arrangements on access. This paragraph, which refers also to the areas designated in the 1976 Hague agreement, is fully in accordance with our negotiating objectives on access. Now for Fisheries Council to pursue all the CFP issues together, including access.

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NORTH SEA OIL

Q. Does UK export enough North Sea oil to EC partners?

A. About half our production exported and over half these exports go to Community. In 1979 it received 22 million tonnes. Germany, largest single importer, received 10 million tonnes. In first quarter of 1980 one third of our total production (two third of total exports) went to the rest of the Community. Quantity exported to other Community countries should continue to rise over next few years.

Q. Are North Sea oil prices too high?

A. Prices follow, not lead, world market for similar high quality, low sulphur crudes. Only 1 per cent of output is sold at spot prices.

Q. Will the United Kingdom increase production in sub-crisis?

A. As we agreed at Luxembourg, the possibility of this is being examined urgently as one component of a study on dealing with short-term supply problems. We should now await outcome of this study. [If necessary] Scope for increasing production from North Sea in short term would at best be very limited.

Q. What is position on HMG's discussions with the Commission on landing requirement?

A. The Commission have confirmed that in present circumstances they are satisfied with our policies and procedures.

Q. Does not North Sea oil make the United Kingdom wealthy?

A. North Sea oil contributed only 2.5 per cent to GNP in 1979 and will contribute only 6 per cent at peak production. We remain the third poorest member of the Community in terms of GNP per capita. We are not yet net exporters.

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BACKGROUND NOTES

EFFECT ON PUBLIC EXPENDITURE

1. The situation on "additionality" is delicate. The Government's intention is that our refunds will go to reduce the PSBR. On the other hand, the Commission and our partners would not want expenditure on supplementary measures to be merely a substitute for British public expenditure that would have taken place anyway. We need to be careful about what is said in public on this point. A statement that implied that none of the expenditure on supplementary measures would be additional might create problems when the draft regulation is considered by the Council of Ministers.

"SUPPLEMENTARY EXPENDITURE" IN THE UNITED KINGDOM

2. The main point is that the programmes that will receive Community assistance have not yet been decided. Supplementary expenditure will not necessarily be restricted to the Assisted Areas of the United Kingdom.

COMMUNITY INTERFERENCE

3. There may be difficult discussions ahead on this, when the draft Regulations come to the Council. Our line will be that bureaucracy must be kept to the minimum, and we hope to have the support of the Commission on this point.

THE REVIEW

4. The review is due to be completed before 1982. Commission proposals are to be submitted by mid-1981. The terms of reference are as follows:-

"The examination should concern the development of Community policies, without calling into question the common financial responsibility for these policies, which are financed from the Community's own resources, nor the basic principles of the Common Agricultural Policy. Taking account of the situations and interests of all Member States, this examination will aim to prevent the recurrence of unacceptable situations for any of them!"

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ADVANCES

5. On 6 June we received an urgent request from the Federal Government that the United Kingdom should renounce advance payments in 1980. The Chancellor of the Exchequer has been having discussions with German Ministers whom he has seen in Luxembourg and Bonn. He will be making a recommendation to the Prime Minister when he has reflected on what they tell him.

6. The first receipts under the Financial Mechanism for 1980 are not due until the first quarter of 1981 in any case. The sole question therefore is whether we insist on advance payments for the supplementary measures. It seems probable that the Commission would go along with the recommendation that we should get 300 MUA (£180 million) in this way. It is unlikely that the detailed arrangements for the supplementary measures will be completed in time to enable us to receive this money before the last quarter of 1980. The postponement of this sum into the first quarter of 1981 would not be of very great financial significance. In any case, there is likely to be much greater pressure on the PSBR in the financial year 1981-82 than in the current financial year.

7. On the other hand we want to be quite sure that anything we agree to for 1980 is not established as a precedent for later years; and we want to prevent the other Member States from exploiting any delay before we are due for our first payments to create obstacles in the design of and the administration of the supplementary measures scheme. The problem here is that, although the Germans may agree to cooperate in return for our renouncing advances, they cannot by themselves prevent others from exploiting the delay. We also need to think out more carefully the precise implications of the renouncement of 1980 advances for the imminence of the time when the 1 per cent ceiling on Community Budget expenditure will begin to bite.

8. The Chancellor will be considering all these matters before he makes a recommendation to colleagues.

LINK WITH CAP PRICES

9. The only explicit reference to CAP prices in the 30th May decision appears in paragraph 9 which reads as follows:-

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"It is important for the future well being of the Community that day to day decisions and policy making should function effectively and this particularly during the period when the review foreseen in paragraph 7 is under way. With this objective in mind all Member States undertake to do their best to ensure that Community decisions are taken expeditiously and in particular that decisions on agricultural price fixing are taken in time for the next marketing season."

10. The French have been putting it about that it is not this paragraph which will prevent the British from being difficult about farm prices in 1981 but the precise arrangements for making payments for supplementary measures. It does not appear to us at present that they have a point. The 30th May agreement clearly committed the Community to payments to the United Kingdom in respect of 1980 and the French have never said that these should be delayed until after the 1981 price review. Unless we ask for an early advance in respect of 1981, the money that we shall be due to receive in the first half of that year - i.e. in the period of the price review - would all relate to 1980. It is difficult to see what argument the French could use to delay payment of that.

11. We have no particular reason for asking for advance payments for 1981 early in the course of that year. If we requested them in the autumn, the issue would not be before the Council of Ministers at the same time as the 1981 price review. In this way we should be able to prevent the French from making a link that would restrict our room for manoeuvre in the 1981 price review.

NORTH SEA OIL

12. The German Cabinet, in agreeing to the budget settlement, included the following paragraph in its statement:

"The Federal Government expects that the British Government will pay appropriate attention to the interests of her partner countries in the EC, in her oil and gas policies and, in particular, in the use of her production potential. This should especially be the case in situations where particular demands can be made on Community solidarity."

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The 13 May Energy Council confirmed that the scope for increasing hydrocarbon production should be one element in further examination of possibilities for dealing with short term oil supply difficulties.

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