

Ref A01634

PRIME MINISTER

OD: COMMUNITY BUDGET: OBJECTIVES AND TACTICS
(OD(80) 18, 19 and 20)

1. When OD last discussed our budget problem on 25 January the Committee
 - reached no conclusion as to the relative merits of withholding or obstruction but instructed officials to work up detailed contingency plans for both possible courses
 - agreed that you should give Signor Cossiga a note indicating what we would be prepared to settle for and expressing our revised requirement in terms of the net contribution we were prepared to pay. (The six points - copy attached.)
2. Since then officials have completed their work on contingency planning, the Commission have produced their paper on supplementary receipts measures, Signor Ruffini has made a rather ineffective tour of Community capitals on behalf of the Presidency, and a wide range of bilateral contacts has taken place at Ministerial and official level with most of our partners.
3. Monday's OD meeting should thus provide an opportunity for the Committee to review these developments and to agree our negotiating objectives and tactics for the 31 March/1 April European Council and the preceding visit of Chancellor Schmidt on 27 March. The Committee's conclusions could then be endorsed by the full Cabinet on 20 March.
4. OD has before it -
 - (a) a memorandum by the Foreign and Commonwealth Secretary (OD(80) 20) setting out his assessment of the current state of play on the budget and related issues, together with his proposals on objectives and tactics;

- (b) a memorandum from the Chancellor of the Exchequer (OD(80) 19) on the same theme;
- (c) a note by the Secretaries (OD(80) 18) covering notes by officials on contingency planning for withholding and obstruction.

HANDLING

5. The two Ministerial papers cover much the same ground. The note by officials can be regarded as background. You might therefore call on the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer to open and then focus the discussion first on the budget negotiations themselves -

- (i) Amount. Until we have the revised Community figures it is difficult to be precise but the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer might be invited to give their views on an acceptable minimum figure for 1980 on the assumption that the revised forecast will work out in the Chancellor of the Exchequer's range (1700 - 1800 meua). If a provisional conclusion is reached on the amount you will wish to stress the need for the utmost secrecy.
- (ii) Duration. In the Cossiga paper we said the arrangements could be reviewed in 1986. The Chancellor of the Exchequer says we must have some form of dynamism to make sure that the relief we get in future years is neither too little nor too much. The Foreign and Commonwealth Secretary suggests that we continue to press our 'receipts mechanism' but be ready to consider alternative methods. You may want officials to do more work on what these might be. The objective should presumably be to settle upon arrangements which will not need to be renewed in this Parliament.
- (iii) Restructuring of the Budget (paragraph 5 of OD(80) 18). Is it agreed that in the end we should not insist on a quantified target of the kind put to the Italians but go for a general commitment to restructuring?

6. You might then move on to the related issues. Annex A of the Foreign and Commonwealth Secretary's paper follows the line already agreed in OD(E) so far as fish, sheepmeat and energy are concerned (although the Secretary of State for Energy reserved his position on the draft energy statement at Annex B). Taking the issues in turn -

- (i) Fish. The Committee will no doubt agree that it would be politically damaging if there was a link with the budget. It may be more difficult to keep the issues separate if the final settlement slips to June. Mr Walker to comment.
- (ii) Sheepmeat. We have built up a useful negotiating position with the French. Other member states will resist going too far to meet the French on intervention.
- (iii) Energy. The Energy Secretary will be worried that a largely cosmetic statement such as Annex B will in the event become a substantive one; and that if it does not, then there will be recriminations. The suggestion is that you should try it out on Chancellor Schmidt when he comes, although we may well need to feed some of the ideas to the Italian Presidency sooner, to stop them producing unacceptable proposals.
- (iv) CAP prices. OD(E) will have to consider the Commission's proposals in detail but is it agreed that we should accept the tactical linkage, which would mean our readiness to concede some price increases - even on surplus products - as part of a satisfactory budget settlement? You have a note showing what the cost might be. (The Minister of Agriculture, the Chancellor of the Exchequer and the Trade Secretary will have views.)
- (v) EMS. You have asked the Chancellor of the Exchequer for a paper on the options. It is not on the agenda and you may want to avoid a substantive discussion until you have been able to discuss it with him, the Governor and other Ministers immediately involved. Decisions could then be taken by Cabinet on 20 March.

I have put
this in folder 3,
though it is not
on the agenda.

Pl.

7. Finally, on tactics, the Chancellor of the Exchequer and the Foreign and Commonwealth Secretary are agreed that, if we do not get a satisfactory solution on 1 April, the first step would be to refuse to settle agricultural prices. Other measures, including withholding, should be held in reserve. If this is the general view, there would be no need for a detailed discussion on the withholding option. (The Attorney General now advises that, if we were to withhold, it would improve our legal credibility if at the same time we initiated action under Article 175 of the Treaty; but the effects of such an action on our partners has not been considered.) The paper by Officials recommends that obstructing the price fixing should be accompanied by obstructing the 1980 Budget and possibly also the 1981 Budget and other decisions with significant financial implications. In practice, the 1980 Budget is unlikely to be adopted before the price fixing; but should the recommendation of the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer be understood in this wider sense?

CONCLUSIONS

8. Subject to the discussion, your summing up should be able to cover -
- (i) general agreement that we should continue to press hard for a settlement at the next European Council on 31 March/1 April;
 - (ii) the minimum terms on which we should be willing to settle - a figure for 1980, and some assurance that there will be a commensurate ie dynamic result for future years subject to review after 4-5 years, ~~and after the 1980 Budget~~.
 - (iii) if these minimum terms are not attainable, we should block the agricultural price package; and the 1980 Budget.
 - (iv) no decisions needed at this stage on withholding or other forms of obstruction (take the public line in paragraph 12 of the Chancellor of the Exchequer's paper);

- (v) stress the damage to our negotiating position if discussion of figures leak or if there are Press stories (like Julia Longdon in the Guardian on 6 March) of divided counsels within the Government;
- (vi) [you will report accordingly to Cabinet on 20 March] or [the Foreign and Commonwealth Secretary should put a paper to Cabinet on 20 March in the light of the discussion].



ROBERT ARMSTRONG

7 March 1980

UNITED KINGDOM BUDGET PROBLEM

1. The communique of the Dublin European Council provided the framework for a possible solution. There are no issues of principle outstanding. A satisfactory settlement might contain the following elements.
2. First, the removal of the existing constraints on the operations of the Financial Mechanism. The Regulation embodying this Mechanism (1172/76) should be extended with the existing review clause replaced by a new one with a similar timescale ie a review not later than the end of the sixth year.
3. Second, there must be supplementary measures, as foreseen in the Dublin communique, leading to greater participation by the United Kingdom in Community expenditure. We can decide on the method or methods in the light of the Commission's proposals. They would be subject to review at the same time as the Financial Mechanism.
4. Thirdly, we are willing to accept that the United Kingdom should be a modest net contributor to the Community Budget. The combination of the Financial Mechanism and the improved receipts in the United Kingdom from Community expenditure should be devised in such a way that the United Kingdom would remain a modest net contributor not only for 1980 but in future years.
5. The United Kingdom believes that its net contribution should be below that of the Member State having the next highest GNP per head in the Community. The difference should be at least proportionate to the difference in levels of GNP per head.
6. For the medium term, the European Council should instruct the Commission to make proposals for achieving a better balance within the Community budget and ensuring that, by 1986, the proportion devoted to the Common Agricultural Policy (FEOGA Guarantee Section) would not exceed 55 per cent of the total. The Council should take account of the effect of implementing such proposals on the United Kingdom's net contribution at the time of the review of the Financial Mechanism and the supplementary measures.
7. I hope you can agree that this would represent a reasonable compromise and will be willing to consult our partners on this basis.



The undersigned of the Public Health Service, Department of Health, Education and Welfare, hereby certifies that the following information is true and correct to the best of his knowledge and belief.

1. The undersigned is a duly qualified and licensed physician and surgeon in the State of California, and is duly qualified and licensed in the State of New York.

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