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OD(80) 7th Meeting

COPY NO 43

CABINET

DEFENCE AND OVERSEA POLICY COMMITTEE

MINUTES of a Meeting held at
10 Downing Street on
MONDAY 10 MARCH 1980 at 4.00 pm

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon William Whitelaw MP
Secretary of State for the
Home Department

The Rt Hon Lord Hailsham
Lord Chancellor

The Rt Hon Lord Carrington
Secretary of State for Foreign
and Commonwealth Affairs

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

The Rt Hon Francis Pym MP
Secretary of State for Defence

The Rt Hon Sir Ian Gilmour MP
Lord Privy Seal

The Rt Hon John Nott MP
Secretary of State for Trade

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Sir Keith Joseph MP
Secretary of State for Industry

The Rt Hon Peter Walker MP
Minister of Agriculture, Fisheries
and Food

The Rt Hon David Howell MP
Secretary of State for Energy

The Rt Hon Sir Michael Havers QC MP
Attorney General

The Rt Hon Lord Mackay of Clashfern QC
Lord Advocate

Sir Michael Butler
United Kingdom Permanent Representative
to the European Communities

SECRETARIAT

Sir Robert Armstrong
Mr M D M Franklin
Mr D M Elliott

SUBJECT

COMMUNITY BUDGET

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COMMUNITY BUDGET

The Committee considered memoranda by the Secretary of State for Foreign and Commonwealth Affairs (OD(80) 20) and the Chancellor of the Exchequer (OD(80) 19), together with a minute dated 7 March from the Secretary of State for Trade to the Prime Minister, and two Notes by the Secretaries (OD(80) 18 and OD(80) 21).

Their discussion and the conclusions reached are recorded separately.

Michael Alexander Esq
Private Secretary
20 Downing Street
Whitehall
SW1

CABINET OFFICE
20 DOWNING STREET
WHITEHALL
LONDON SW1A 2AA

March 1980

Dear Michael

THE COMMUNITY BUDGET

I attach a minute from my Secretary of State to the Prime Minister which is relevant to the OD meeting of 12 March. In view of the extreme sensitivity of the subject it should be given the same restricted circulation as the papers already circulated for the meeting.

Cabinet Office
12 March 1980

I am copying this letter to the Private Secretaries to all members of OD and to David Wright (Cabinet Office).

Yours sincerely

Stuart Hampson

STUART HAMPSON
Private Secretary

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M. Bureau



*Handwritten signature: M. Bamber
M. Eriott.*

From the Secretary of State

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Handwritten flourish or signature

Michael Alexander Esq
Private Secretary
10 Downing Street
Whitehall
SW1

March 1980

Handwritten initials: JS

Dear Michael

THE COMMUNITY BUDGET

I attach a minute from my Secretary of State to the Prime Minister which is relevant to the OD meeting on Monday. In view of the extreme sensitivity of the subject it should be given the same restricted distribution as the papers already circulated for the meeting.

I am copying this letter to the Private Secretaries to all members of OD and to David Wright (Cabinet Office).

Yours sincerely,

Handwritten signature: Stuart Hampson

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Private Secretary

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PRIME MINISTER

THE COMMUNITY BUDGET

Few issues of greater political importance or with wider international implications can have confronted us since taking office than our approach to the Community Budget. I had hoped to be able to comment in some detail on this subject, but the short notice of the meeting and my commitment to a visit to the North West today allows the circulation of only a short summary of my views.

The considerations which I believe are important are:-

(a) whether we should have placed ourselves out on a limb with regard to the net budgetary contribution is now a discussion for historians. The fact is that we have emphasised our determination to achieve a fair settlement, and each time we defer the use of a firm sanction we contribute further still to what I regard as our principal national trait - a lack of national self-confidence. Only the British could see the role of paymaster as one of weakness. It is inconceivable that the French would fail to exploit the position of strength in which we find ourselves;

(b) in economic terms I believe that we badly need a £1,000m for the next financial year. I do not know of the Chancellor's Budgetary plans, but if we are to arrive at a borrowing requirement which is financeable on non-inflationary terms I cannot see any room for a significant reduction in direct taxation, particularly at the lower end. The combination of a pending recession coupled with a Budget which will be painted as being highly regressive, not least because of the reforms in capital taxation, will in my view be damaging to the Government - and not just in the long term. The availability

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of an additional £1,000m enabling a 2p reduction in income tax or comparable broadly based benefits would make an enormous psychological difference to the country's mood;

(c) the British public have a figure of £1,000m fixed in their minds. It is around that figure that you personally will be regarded as having achieved a victory or suffered a defeat;

(d) so far as the future of Europe is concerned, the combination of enlargement with the prospect of yet more subsidy for backward agricultural economies, the runaway costs of the CAP in providing dear food for the EC and surpluses to be dumped outside, the intransigent French pursuit of short-term self interests, the forthcoming collision between Community expenditure and the VAT ceiling, have set the stage for Britain to take a positive role. These problems are for the Community and not for Britain alone.

I therefore draw two conclusions. First, it would seem to me out of the question that we could accept any linkage with the Budget question. To allow the Budgetary problem to influence our thinking on EMS would be folly; the EMS decision must rest solely on its merits. To allow the French to buy us off on sheepmeat or to purchase our fishing rights or energy supplies with our own money would be depicted as a defeat, and seen as such in the country.

Secondly, my inclination is that if we cannot accept whatever settlement is offered at the March summit we should announce plans for withholding on our return. The proposals set out in paragraph 6 of Annex A to OD(80)18 seem to me to be well presented and thought through. Obviously the risks are very great but having nailed our colours to the mast at Dublin we cannot afford to haul them down again now. We should not under-estimate the strength of our position

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in the Community or in the political field at home. The Community is dependent upon us both to provide a £1,000m subsidy and a protective market for its overpriced agricultural produce. The Community is on the verge of admitting Portugal, Spain and Greece; the notion that it might expel us to admit new net cash beneficiaries is ridiculous. Criticism of a determined attempt to protect our national interest even at the expense of breaking the club rules would be regarded by the public, and in the Conservative Party, as unpatriotic. Our critics would be portrayed as fighting under the French flag.

We would of course be highly unpopular in provoking a major summit to consider the future of the Community, but I do believe that there is now a clear advantage in forcing a more positive approach rather than tagging along in what the electors see to be a shambles.

I am copying this minute to all members of OD and Sir Robert Armstrong.

JN

(Dictated by the Secretary of State and signed in his absence.)

Department of Trade
1 Victoria Street
London, SW1

7 March 1980

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MEMORANDUM

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THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

COPY NO 12

CABINET

DEFENCE AND OVERSEA POLICY COMMITTEE

LIMITED CIRCULATION ANNEX
OD(80) 7th MEETING MINUTES
MONDAY 10 MARCH 1980 at 4.00 pm

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COMMUNITY BUDGET

Previous Reference: OD(80) 2nd Meeting

The Committee considered memoranda by the Foreign and Commonwealth Secretary (OD(80) 20) and the Chancellor of the Exchequer (OD(80) 19) setting out their views on the next stage of the negotiations on the United Kingdom net contribution problem at the 31 March/1 April European Council and beyond; a minute of 7 March on the same subject from the Secretary of State for Trade to the Prime Minister; a note by the Secretaries (OD(80) 18) covering Notes by officials on contingency planning for withholding and obstruction; and a Note by the Secretaries (OD(80) 21) covering advice from the Law Officers on the question of the possible recourse by the United Kingdom to proceedings under Article 175 of the Treaty of Rome.

THE FOREIGN AND COMMONWEALTH SECRETARY said that since the Dublin European Council the Commission had put forward useful proposals for increasing Community expenditure in the United Kingdom. Only the French questioned that the 520 MEUA (£350 million) on offer at Dublin through amending the 1975 Financial Mechanism still remained on the table as part of an overall solution. In bilateral consultations since then the target area for a total refund had crept up to 900 to 950 MEUA for a number of our partners, but these figures still fell short of an acceptable compromise. Our first task at the Brussels European Council should therefore be to get that figure up, in line with the revised objective set out in the six points the Prime Minister had given to Signor Cossiga on 29-30 January, with an agreed fallback position if the total adjustment of 1550 to 1600 MEUA which that formula might now produce proved to be unattainable in the last resort. We should continue to argue for a receipts mechanism which

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would bring Community expenditure in the United Kingdom up to a stated percentage of the Community average and keep it there, but we should be ready to consider alternative ways of adjusting our refund in future years if, as was likely, the receipts mechanism proved unacceptable to our partners on doctrinal grounds. On general budget restructuring, our interest lay rather in getting a clear commitment than in pressing for it to be precisely quantified. As to related issues, we had not ourselves sought any linkages but almost all our partners needed a package deal to justify concessions to us on the budget. With the exception of fish, which should be kept separate from the budget discussions, we should therefore be ready to make modest concessions along the lines set out in Annexes A and B to his paper on sheepmeat, energy and agricultural prices. We should also reappraise our approach to participation in the exchange rate mechanism of the European Monetary System (EMS). Although the French seemed to be working for decisions at the June rather than the March European Council, we should work vigorously for a settlement at the March European Council, block the Common Agricultural Policy (CAP) price fixing between then and the June Council if no agreement were reached, and keep the withholding and systematic obstruction options in reserve at this stage.

THE CHANCELLOR OF THE EXCHEQUER said that he largely concurred with the Foreign and Commonwealth Secretary. Our minimum requirement at Brussels must be an advance on the Dublin 520 MEUA which could lead to a final settlement at the June European Council. We should thus need some specific commitment on the size of the special fund proposed by the Commission for extra spending in the United Kingdom, and some means must be found of ensuring that our contribution could not in the future exceed a given amount. If we could get a minimum advance of this kind, with the prospect of more to come in June, we should not need to break off the negotiations but should use the CAP price fixing as a lever in the meantime. If we could not, we should have to consider withholding explaining our position fully at home and in the Community. Meanwhile we should avoid any direct threat of withholding.

In discussion on the budget issue itself the following points were made -

a. Amount

It was suggested that, pending receipt of revised figures from the Commission, we should not at this stage move away from the formula conveyed to Signor Cossiga, under which we would be ready to make a

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small net contribution of 200 to 250 MEUA (£170 million). It was not necessary at this stage to decide what figure might ultimately be acceptable as a basis of a settlement. Discussions at the Council were likely to be based on the amount of our refund rather than the amount of our net contribution.

b. Duration

Although before Dublin we had argued for an automatic receipts mechanism which would reduce our net contribution without involving additional Community involvement in public expenditure in the United Kingdom and ensure that the solution lasted as long as our problem, this concept was unlikely to be acceptable to our partners. We had agreed at Dublin to pursue the alternative idea of supplementary receipts measures. But a supplementary expenditure solution alone provided only a fragile foundation for the future, and could be politically objectionable if we had to identify certain Government programmes as being funded by the Community. Against this, it was argued that the idea of a special fund was no more than a device for boosting our receipts and thus reducing our net contribution; it would in practice (though we should seek not to overemphasise this point in public) involve no additionality and would leave the Government free to decide how the money should be spent. It should nevertheless now be our aim to build an adapted receipts mechanism into the framework proposed by the Commission, if only as a yardstick, in such a way that our future contributions were effectively indexed. This might be done by expressing whatever figure was arrived at for extra spending in the United Kingdom in 1980 as a percentage of Community receipts per head for that year and then applying the same percentage to future years. It would be essential to get some element of dynamism into the settlement on the receipts side.

c. Restructuring

It was suggested that it would be wrong to place much reliance on reforming the CAP as a means of reducing the proportion of the budget spent on agriculture. We were alone in having any serious desire to change the CAP; most of our partners would much prefer to find other ways of solving our net contribution problem. The Commission's present economy proposals demonstrated in any case that a reduction in the CAP budget would not necessarily work to our interests if for example the

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savings were achieved through higher coresponsibility levies or led to pressure for extra taxes on vegetable oils to encourage sales of surplus butter. The 1 per cent VAT ceiling would inevitably constrain CAP expenditure, but we could not expect restructuring to solve our problem. At the next European Council we might continue to press for a commitment to restructuring, but be prepared to concede that it would not be a quantified one.

In discussion of related issues the following points were made -

d. Fish

It was agreed that linkage in this case (beyond any general commitment to make progress) would be unhelpful to an eventual settlement on the Common Fisheries Policy and that we should therefore seek to keep it out of the budget negotiations.

e. Sheepmeat

It was agreed that we could if necessary concede some limited intervention and Community financed premia to meet the French so long as the permanent regime gave the United Kingdom a resource benefit.

f. Energy

It was suggested that the draft statement at Annex B to OD(80) 20 would either be exposed by our partners as hollow or would involve substantive concessions, and that the passage in paragraph F of Annex B was in any case unacceptable as it stood. The passage at paragraph E could also be read as running counter to impending Government decisions on depletion policy. On the other hand it was argued that no budget settlement would be possible without some gesture of reassurance to our partners on energy supply and that a purely presentational statement of the kind which had been worked out by the Sub-Committee on European Questions would meet this need.

g. Agricultural Prices

It was noted that the Commission's price proposals were unlikely to be agreed in their present form, since all other member states regarded them as inadequate to meet their farmers' needs; and that our ability to block the price fixing depended in the last resort on the acquiescence

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of the other member states in our invoking the Luxembourg compromise. Despite the rising pressure from British farmers for price increases, we should nevertheless be ready to block a price settlement until we got what we wanted on the budget. We should be prepared to concede something as part of an overall settlement, but it would be important to bear in mind the effect on the housewife and on the retail price index as well as the effect on farm incomes.

h. EMS

It was noted that separate consideration would be given to the possibility of our participating in the exchange rate mechanism.

In discussion of action in the event of failure to get our way at the March European Council, it was suggested that it might be prudent to prepare a contingent case for proceeding against the Council or the Commission under Article 175 of the Treaty of Rome. We were unlikely to win such a case but it would have the merit of enabling us to present the arguments on our side in full before withholding led to our being taken to the Court by the Commission under Article 169. An action under Article 175 was not however admissible until the Council or the Commission had first been called upon to act; the institution concerned was then required to "define its position" within two months. There would be no need to withhold if our problem were solved in March, or if we made sufficient progress then to offer a firm prospect of a solution in June, using the agricultural price settlement as a lever meanwhile. If the results were totally unsatisfactory, the Cabinet would need to consider the possibility of withholding. If this discussion took place before the European Council and it became known that we were not prepared to withhold our contribution, the Prime Minister's and Foreign Secretary's hands would be weakened in the negotiations. On the other hand, any move towards withholding would raise fundamental questions about the Government's European policy which would call for the most careful consideration by the Cabinet. The introduction of the primary legislation that we might need to put in hand to safeguard ourselves at home might make a negotiated settlement on the budget still more difficult; and if we then went on to withhold we might expose ourselves to an irreversible process of gradual isolation in the Community and in Europe at large. All these considerations suggested that the time for the Cabinet to consider whether or not to withhold would be after the meeting of the European Council.

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THE PRIME MINISTER, summing up the discussion, said that the Committee broadly endorsed the line recommended by the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer in their papers, subject to the points made in discussion. It was not necessary to decide at this meeting what might be an acceptable outcome for the reduction in our net contribution to the Community budget; she would consider further with the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer the question of our possible participation in the EMS exchange rate mechanism. It would be important to build some element of dynamism into whatever arrangements were agreed for supplementary receipts measures for the United Kingdom ^{and} to ensure that these did not involve "additional". The Ministerial Sub-Committee on European Questions should revise the draft presentational statement on energy, taking account of the points made in discussion. The Committee had not reached a decision on whether or at what point we might withhold part of our contribution, but noted that the Attorney General, in consultation with the Lord Advocate, would put in hand the preparation of a United Kingdom case under Article 175 of the Treaty of Rome against the possibility that we might wish to initiate such proceedings.

The Committee -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.
2. Invited the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer to be guided accordingly in continuing bilateral and Community discussions of our net contribution problem.
3. Invited the Ministerial Sub-Committee on European Questions to prepare a revised draft of the presentational statement on energy policies.
4. Invited the Attorney General, in consultation with the Lord Advocate, to prepare a case under Article 175 of the Treaty of Rome calling on the Commission or the Council to define their position, for possible use after the March European Council.

Cabinet Office

12 March 1980

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