

Extract from the Prime Ministers talk with
the PM of Belgium, Mr Martens - 12.9.79
at No 10.

Community Budget

The Prime Minister said that the United Kingdom had not entered the Community in the expectation of getting back every penny that it contributed. Partnership did not work like that. But it was essential that every member was given a fair and reasonable deal. Britain's per capita GNP was lower than that of Belgium. But, as the Commission's Reference Paper had made clear, our net contribution would be the highest made by anyone this year. The situation would deteriorate progressively in subsequent years. It was unacceptable that the third poorest member should be the largest contributor. The budget problem was creating substantial political difficulties in this country. If the excess contribution to the Community budget was available to the Government, it would be possible to bring tax levels down towards the levels existing in France and the Federal Republic. The electorate were being told that the Government were having to economise on housing, education, social security and the like at the same time as ever more money was being paid into the Community budget. The biggest single increase in this year's national budget had been our contribution to the Community budget. Consciousness of this situation was causing resentment and would have an increasingly adverse effect on attitudes towards the Community.

The Prime Minister said that her Government fervently supported the Community. There was no question of their determination to remain members. If the Community did not exist, the future of democracy would be significantly more doubtful than it now was. She felt strongly that the free countries had to stick together and work together.

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The Prime Minister recalled that she had raised the question at the European Council in Strasbourg. She had made it clear that if the United Kingdom did not get fair and reasonable treatment there would be trouble. For the moment the principal requirement was that the agreed timetable should not slip. The Reference Paper should be dealt with by the ECOFIN meeting on 17 September. Thereafter the Commission should put forward ^{ideas for a} reasonable and equitable solution in good time for decisions to be taken in Dublin in November.

M. Martens said that he valued the attitude of the present British Government towards the Community. He was aware of the problems raised for the United Kingdom by the Community budget. He agreed that the European Council's timetable must be observed. His Government would examine the Commission's Reference Paper objectively. But the Paper posed a problem for them: they did not accept that Belgium derived a benefit, in terms of resource transfer, from the location of the Community's administrative headquarters in Brussels. The Chancellor of the Exchequer said that disagreements about the Commission's analysis would no doubt be subject to discussion. What mattered was that Finance Ministers should soon address themselves to the question of identifying solutions to the major problem.

M. Simonet said that the question of Britain's contribution to the Community budget was a major political issue. Britain had embarked on a programme of economic and industrial rationalisation which would necessitate sacrifices on the part of a major section of the population. At the same time increased contributions to the Community were being called for. This undoubtedly posed a substantial problem for the British Government and hence for the Community as a whole. Moreover, it came at an unwelcome moment in the evolution of the Community. At the very least HMG was entitled to see that the timetable was kept. M. Simonet said that he would argue in favour of this in the Foreign Affairs Council where, he thought, the issue would probably arise since he doubted whether agreement would be found at the technical level. A political solution would be required and this would have to be prepared by the Foreign Ministers.

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/M. Simonet

M. Simonet went on to say that the budget issue evoked three major questions:-

- (a) The United Kingdom's conception of its contribution called in question the "own resources" system. This was a major issue of principle;
- (b) A solution of the British problem would require that other members of the Community should pay more to the budget than they did at present. Belgium would be happy for other Governments to increase their contribution but would be reluctant to do so herself at a time of retrenchment. No doubt other Governments would feel the same;
- (c) Much ill-will had been generated by the policies of the previous British Government. Some other members of the Community had concluded that the Community was a one-way street. It was inevitable that they would look for a gesture ^{from HMG}/in other areas, e.g. on energy policy, in return for making a move on the budget.

M. Simonet concluded by saying that the budget issue should certainly be tackled on its merits but that the other aspects which he had mentioned would have to be discussed in Dublin. The Lord Privy Seal said that he had reminded M. Simonet earlier in the day that the present Government's attitude was very different from that of its predecessor. There was no question now of a one-way street. Nor was the United Kingdom seeking to overturn the own resources system. But the present working of the budget was clearly wrong. The own resources system would be more soundly based if the budgetary problem had been resolved.

The Prime Minister concluded the discussion of the Community budget by saying that her Government was passionately committed to Europe but that it was coming under attack because of the inequities of the budget. Members of the Community should not be deflected from the timetable. It was tempting to delay decisions

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but on this occasion they had to be taken. A fair and reasonable deal and equity among partners was all that was being asked for.