

22/11/79.

Introduction

My colleagues will remember that it was in Strasbourg that we first discussed the problem of the size of the UK's net contribution to the EEC Budget in 1980 and onwards.

We asked the Commission then to find the facts and report and to suggest solutions.

Problem

Britain's position in this respect is unique in the Community. We have an income per head which is well below the average.

Yet we are expected to make the biggest net contribution to the EEC.

Six of the countries here are much better off than we are; and they are growing faster than we are.

/ But with

But with the exception of Germany, those countries either break even or benefit substantially from the budget.

Whether you calculate it as 1814 million units of account or as 1552 million, we - a less well-off country - make a huge net transfer that is unacceptable and inequitable. We therefore seek a fair and equitable solution.

Difference between Dublin now and Dublin 1975

The present financial mechanism was of course negotiated at Dublin but this was under extremely different circumstances. First, the previous Government was then renegotiating entry before a referendum.

Now, we are wholly committed to the Community for larger reasons ie it is best for us and for Europe that the countries of free Europe grow together, consult together and on many things act together.

/ Here we

Here we are and here we stay.
Second, then the problem was in
general terms about the future -
now it is about hard cash next year.

At time of Entry

May I just take colleagues back to the
assurances given us at time of entry.
Realising that the course of events
could not be predicted, the Commission prepared and the
Council of Ministers approved a
document which was then transmitted
to the UK.
Its subject was
"The financial arrangements in an
enlarged Community."

At the end of paragraph 20 the documents says:

"Indeed should unacceptable situations
arise within the present Community, or an
enlarged Community, the very survival of
the Community would demand that the
Institutions find equitable solutions."

That document was dated
13 November 1970.

/ The new

The new Commission document before us specifically reminds us of those words.

We are relying on that assurance now.

Broad Balance

Before referring to the present Commission document now before us, colleagues will note that we are asking for "broad balance" between contributions and benefits.

Some of my own people would say that being below average income and well below, we should argue that we should become net beneficiaries, and that transfers from the European budget could be expected to go more to the poorer members than the better off.

/ But I am not

But I am not arguing for that.

We are not asking for net gain from the Budget.

Britain does not expect to be financed by any of our partners.

We are asking only to be broadly in balance. At a time when we are cutting expenditure at home on things like education, housing, social services, a net contribution to Europe of £1000 m. is deeply resented as unfair.

I hope that we shall be able to complete the work we started at Strasbourg and take the requisite decisions.

Turning now to the proposals on the Commission's paper, I should like to make a number of points:

/ (i)

- (i) The precise figure for our net contribution depends on how MCAs are allocated. In our view it is the exporter who benefits from MCAs. But I know that some colleagues would argue differently, and I will therefore discuss on the importer benefits basis - 1552 million units instead of 1814 million. If I were in fact to accept that basis, I should already be accepting that we should be net contributors to the extent of 262 million units of account. I may want to come back to that point later.
- (ii) The Commission's paper to which I now refer in detail shows that the problem can be solved within the framework of Community principles. I welcome that. It means that today we can concentrate our discussion on substance. The Commission has specifically left to us decisions on amounts.

/ The Commission

The Commission paper deals first with the
structure of the budget.

It asks that we endorse the principle
of shifting some expenditure away
from agriculture to structural and
investment policies.

I believe that such a move would be in the
right direction, so long as it does
not involve us all in a great
expansion of the budget.

But I believe that its effects would only
be gradual.

It would do little or nothing to
solve immediate problems.

/ On the contributions

On the contributions side, the paper deals with the financial mechanism.

So far the mechanism has failed to benefit us.

I hope therefore that we can remove the restrictions it contains.

We should remove

- the balance of payments test
- the 3 per cent limit
- the tranche system

and we should remove also

- the test of 85 per cent GNP and substitute "below average GNP per head"
- the 120 per cent growth criterion.

If those changes were put into effect the UK contribution would be reduced by 520 meua net.

This reduction would be achieved by established Community methods.

/ That would

But that would leave us still contributing more than 1000meua net - not far short of Germany and vastly more than France (which has a GNP 40% greater than ours.

I turn therefore, as does the paper, to the other side of the budget problem: receipts.

If contributions are the resources of the Community, the distribution of receipts from the budget largely determines the pattern of burdens and benefits - who will gain and who will pay.

Here too the UK is in a unique position. Our receipts per head are less than half the Community average.

UK receipts per head:	28 eua
Community average receipts per head:	59 eua
Shortfall: receipts per head	30.6eua
total	1707 million eua
Net refund if UK contributes	1408 million eua

/ From the Commission

From the Commission report at the time of accession (approved by the Council and to which I have already referred) - we expected, and so did our colleagues who endorsed it, that we should by now be getting a much higher share of receipts.

The 3rd Commission proposal - that on expenditure to help UK receipts - is therefore a necessary component in any solution.

The method we ourselves have suggested would be straightforward, simple and effective.

Alternatively we could follow the Commission's idea of payments linked to expenditure in the UK of a structural character, which would qualify under Community policies.

They have suggested some examples.

/ Whatever the

Whatever the methods, if UK receipts per head were brought into line with the Community average, the UK would benefit by an extra 1400 million units of account.

I could easily justify such a sum.

Indeed, since we are well below average income, I could justify more.

I hope that at least the gap between our receipts per head and the Community average can be reduced by three quarters - not closed completely but narrowed by about 75%. That would mean that UK receipts would need to be increased by about 1000 million units of account net.

/ The two methods

The two methods, the removal of constraints on the financial mechanism and raising receipts to a level which would bring us nearer to the average would relieve the UK of having to transfer 1550 million units of account net of her income to the Community. As I said at the outset, looking at it on the exporter benefits basis, we should still be a net contributor to the extent of 200-300 million units of account.

The Commission has suggested the methods of dealing with the problem - Communautaire methods which I accept.

The details and amounts have to be determined here.

I believe that the amounts I have suggested would be fair.

The arrangement would last as long as the problem.

If and when the UK income per head becomes above average, we should expect to pay above average net contributions.

Finally

I must leave you in no doubt about the great political problem at home caused by this budget question.

If any other country were in the same position as we are, they would be making the same case with the same force and conviction.

And they would expect the same sort of response from their partners as we are expecting today.

/ Deeply

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Deeply committed to Europe as we are, we
should find it difficult to explain
to our people if we do not
succeed in remedying our problems.

When there is so much trouble in the world,
the last thing we need or want is
a crisis within the Community.
I hope therefore that here today
we can prevent that happening,
because there is so much for us to
do together in the larger world.