



PM/79/92

THE PRIME MINISTER
The Community Budget

1. I have seen a copy of Geoffrey Howe's minute of 13 November about MCAs and the 1% VAT ceiling.
2. I agree with what he says about the attribution of MCAs.
3. The 1% ceiling problem will not be easy to handle in Dublin. Some Member States may invoke the ceiling as a reason for limiting both the scale and duration of budgetary refunds to the UK. Others, who have an interest in the growth of Community expenditure, may try to secure our acquiescence in lifting the ceiling in order to accommodate our refunds. I do not think we shall face concerted pressure on this: Chancellor Schmidt appears to be firm on ~~maintaining~~ maintaining the ceiling; and Giscard is unlikely to shift at this stage. But we obviously have to be careful about our own line.
4. I agree with Geoffrey Howe that we should not take the lead on the inviolability of the 1% ceiling until we have got a settlement. But it is of major importance to our long term Community strategy that we should not agree to anything in Dublin which would weaken our ability to maintain the ceiling. If one day we agree to raise the ceiling we should exact a substantial price beyond what we have secured in Dublin on a budgetary refund. The ceiling can only be raised by agreement of all nine Member States, duly ratified in accordance with each of their constitutional requirements. What is involved is in effect a new Treaty. So the ceiling provides a powerful lever for securing control over CAP expenditure and a more favourable arrangement for raising new Community revenues; and in due course we should insist on these conditions as the price for raising the ceiling. In the shorter term we may want to point out after Dublin that in addition to obtaining substantial alleviation of our budgetary problem we have retained this lever for securing more fundamental reform in the Community.

*We have already done so.*

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5. Against this background I suggest that our best tactic at Dublin will be to try to defer discussion of how our budgetary mechanism is financed until we have agreement on its other elements. We could then suggest the possibility of financing outside the budget, but there is little prospect of support and it would be very risky to leave such a basic question unresolved at the European Council. A better solution I suggest, would be to accept financing through the budget and to throw our weight behind the Italian proposals to bring down the share of agricultural expenditure. If the Italians, with our support, can obtain a commitment on the limitation and indeed reduction of agricultural expenditure, we should be able to argue that there will be headroom for our refunds within the existing 1% VAT ceiling. In this sense the Italian proposals can be regarded as a valuable adjunct to our own requirements on the budget.

6. I am sending copies of this minute to the members of OD(E) and to Sir Robert Armstrong.

(CARRINGTON)

Foreign and Commonwealth Office

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