cc PS/CST
PS/FST
Sir D Wass
Sir K Couzens
Mr [illegible]rie
Mr [illegible]rratt
Mr F Jones
Mr Hancock
Mr Britton
Mrs Hedley-Miller
Mr Monck
Mr Ashford

Subject in Euro Pol: Pt 6 Budget

MO/BA seen

Mrs Lomax
Mr P G Davies
Mr Wicks
Mr Mower
Mr Thomson
Mr Ridley
Mr Cropper
Mr Cardona


Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000


6 March 1980

Dear Paul,

NORTH SEA OIL AND THE COMMUNITY BUDGET

Treasury Ministers have been considering for some weeks the case for publishing an article to underline the strength of our arguments for relief from the burden of our net contribution and the unreasonableness of remarks made by other Member States about North Sea oil. A copy of the latest draft of this article is attached. As you will see, the main new point is a comparison between the financial effects of the CAP and what the effects would be if the Community treated oil in the same way.

The Chancellor has concluded that this is not a good time to publish such an article. Its value would be as a robust counter to any intemperate attack on our case. Between now and the European Summit at the end of March we shall be trying to build up sympathy for our case and the tone of the article is somewhat too aggressive for that purpose. Furthermore comment by the other Member States on North Sea oil seems to have abated and it might be unwise to stir up that controversy again.

/The Chancellor

P Lever Esq, FCO

The Chancellor therefore suggests that the article should be added to our collection of briefs on Community Budget issues ready to be drawn upon if an appropriate occasion should arise in the future.

I am sending copies of this letter to Michael Alexander, Michael Richardson, Bill Burroughs, Garth Waters, Richard Prescott and David Wright.

Yours sincerely

John Wiggins

A J WIGGINS
Private Secretary

NORTH SEA OIL AND THE COMMUNITY BUDGET

The time has come to set the record straight on the true nature of the relationship between North Sea Oil and the British case for a substantial change in the European Community Budget arrangements.

The Government has stressed on a number of occasions that North Sea oil, although undoubtedly welcome, does not transform our economy nor do away with our economic problems. In 1979 oil production contributed only about 2 per cent to our national income. At peak production in the mid-1980s this figure will be larger but oil will still be a small sector of our economy. We will only solve our problems if we can improve the productivity of the rest of the economy, the other 98 per cent.

This message is widely understood at home. But abroad - and in particular in other Community countries - the significance of North Sea oil is often absurdly exaggerated. It is suggested, for example, that every time the price of oil goes up Britain benefits.

We do not. We are still net importers of oil and when the oil price goes up our balance of trade in oil products gets worse, not better. Furthermore, higher oil prices depress the world economy and our export markets thus causing a loss of output in the UK. Yet we are still told that recent increases in the price of oil weaken our case for the change in the Community Budget arrangements.

There is no logic in such arguments. Our case is that we are obliged by the present Community arrangements to transfer a large and growing stream of income to other Community countries. If we were among the richest Community countries this might be fair enough. Bur we are not among the richer countries. Our GNP per head, however the calculation is made, makes us only the seventh richest, in other words the third poorest, member of the Community. Yet we are faced with the prospect of making the larget net contribution to Community finances.

These calculations of national income per head take full account of the benefits of North Sea oil. It is therefore untrue that North Sea oil invalidates our case for changes in the Community Budget arrangements. There are no rational grounds for focussing attention on one sector of the economy. Every economy has its growth sectors.

Indeed, to single out North Sea oil in the context of the Community Budget is especially anomalous because the present Budget arrangements give a special privilege to those with a comparative advantage in another natural resource, namely agricultural land. Those who say that our case on the Community Budget is unfounded might like to think what would happen if the Community treated oil in the way it treats food.

There have been a number of reports that the Commission are studying the idea of an oil or energy import levy as a way of raising finance for the Community and encouraging conservation. I do not propose to comment on such possibilities here. If the Commission come forward with ideas, we shall of course examine them in a constructive spirit; and we shall look for an outcome which will promote Community objectives and the interests of member states. But however helpful such ideas may be, they can have no relevance to our immediate Budget problems. As the Commission have made clear, any oil levy scheme would take some years to implement and could have no early effect on the existing financial arrangements.

But let us suppose, for the sake of argument, that there was in fact a Community oil policy with the same key feature as the Common Agricultural Policy: an artificially-determined price enforced through a machinery of import levies and export restitutions and massive expenditure programmes to the benefit of oil producers.

The Community price for oil would thus be maintained at a level higher than the world market price. Community countries that produced oil would obviously benefit from the higher prices. They would sell oil at higher prices to their Community partners. And they could also expect to gain a further advantage under the Community Budget arrangements. Levies would be charged on oil imports from outside the Community and countries importing oil would pay over the proceeds of those levies to the Community. Countries that imported no oil from outside the Community would pay nothing. Countries that relied exclusively on imports would pay a very great deal. And on the expenditure side an oil producing country would gain from direct expenditure to benefit producers and also from the restitutions on oil exported outside the Community. Thus on both counts any country that was self sufficient in oil would do very nicely indeed out of the Community arrangements.

Clearly any such Community oil policy would produce dramatically favourable consequences for an oil-producing state such as Britain. Countries which were heavily dependent on imported oil would by contrast lose out substantially. The extra money that their consumers would pay for their oil would pass either to the Community Budget or to oil-producers in other Member States. And of course they would get none of the benefit of the Community expenditure whether to the direct advantage of producers or on export restitutions.

Such a policy, however, might not commend itself to other, non oil-producing, member countries. Some might even consider it absurd. Yet the plain fact is that the Community already possesses, in the Common Agricultural Policy, a policy which has all the effects I have been describing. It brings enormous advantages to Community countries which are net exporters of food. It bears very heavily on those which are not. And when the latter include two countries, the UK and Italy, which are amongst the poorest in the Community, then it is surely palpably inequitable.

It is no answer to say the objectives of the Common Agricultural Policy are worthy ones. That it has helped to free the Community from an unhealthy dependence on imported food. That it has thereby reduced the risks to political stability that would have resulted from a fevered scramble for the world's scarce food supplies.

All these things may indeed be true. But the argument for an effective Community oil policy is at least as compelling. It is oil not food, that is now in desperately short supply in the world. It is its dependence on imported energy, not on imported food, that the Community must be most concerned to reduce. A high Community price for oil would help to reduce that dependence, to encourage conservation and to stimulate the development of new sources of energy.

An incidental effect of such a policy would be a significant gain to the UK. Just as the food-producing Member States have secured a special advantage from the Community's pursuit of its agricultural objectives, so Britain would benefit from its pursuit of its energy objectives. The one would be as legitimate as the other. Anyone who argues that it would be unfair for the Community thus to reward a country for its possession of a valuable, but wasting, natural endowment, might like to dwell on the analogy with a CAP - bearing in mind, of course, that "green oil" unlike black oil is inexhaustible. It is just conceivable that this might lead them, not only to abandon the argument that the possession of North Sea oil - in the absence of such a policy - undermines the UK case against the present Community Budget arrangements: it might even lead them to question, the nature of the CAP itself, which lies at the root of that problem.