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Prime Minister

This is the revised version which you took with you to Paris.

Are you now content with it?

It is better. But let it go out. ?

Foreign and Commonwealth Office

London SW1A 2AH

7 June 1979

Dear Bryan,

Community Budget

In your letter of 31 May you recorded the Prime Minister's wish to see a more cogent presentation of the facts about our net contribution to the Community Budget. I now attach a revised note, which has been agreed with the Treasury, the FCO and the Cabinet Office. It combines the two annexes attached to Lord Carrington's minute of 29 May, incorporates the table of budget costs but omits the paragraphs in the original two annexes dealing with resource costs of membership.

The figures used however differ somewhat from those which the Prime Minister has previously seen. The briefing material prepared for her meeting on 21 May with Mr Jenkins (and the original briefing material prepared for her meeting with President Giscard) was based on earlier Commission estimates which showed the UK as the second largest net contributor in 1978 if monetary compensation amounts (MCAs) were attributed to the importing country. These figures did not allow for the final payment in respect of 1978 of the refunds which accrue to the UK from the transitional budget arrangements established under Article 131 of the Treaty of Accession. This final refund has only recently been paid. It applies, however, to the year 1978 and the Commission has accordingly revised its budgetary figures for 1978 to take it into account: as a result the UK now appears as the fourth, rather than the second, largest net contributor, falling behind France and Italy as well as Germany, if MCAs are attributed in this way.

The new table of budget costs therefore shows the position in 1978 both before and after the full Article 131 adjustments as well as the position with and without the inclusion of MCAs. Article 131 adjustments will continue only until the end of 1979. Thereafter the only mitigating factor on the British budget contribution to the Community will be the financial corrective mechanism, in so far as its provisions apply.

I should be grateful to know whether the Prime Minister now considers the attached note suitable for general use by Ministers, in which case the Cabinet Office will arrange for its circulation.

Yours ever,

Paul

P Lever

B G Cartledge Esq
10 Downing Street

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LINE TO TAKE ON OUR BUDGETARY POSITION

1. The attached table contains the Commission's own figures for 1978. The United Kingdom is seventh in the list of member states in terms of Gross Domestic Product per head but these figures show (column 1) that in 1978 we were already the largest net contributor to the Community budget at 943m EUA, or £625 million.

2. The figures in column 3 have been adjusted to attribute MCAs to the importing country and on this basis we become fourth largest contributor. But MCAs cannot be treated as budget receipts by importing countries like the UK and Italy. They are not consumer subsidies because they serve only as a partial offset to the cost to us of buying food at CAP prices and not world prices. They allow producers in high cost countries to sell to low cost countries while getting the same high return as in their domestic market.

3. As the table shows, we benefited in 1978 from the transitional arrangements (Article 131). Without them we should have been the largest net contributor however MCAs are treated (column 6).

4. In 1980, when the transitional period has ended, our net contribution will be well over £1000 (1500m EUAs) and we shall be far and away the biggest net contributor.

5. The problem is two-fold. First, we provide 17½ per cent of the Community's income this year, and expect to provide 20 per cent next, whereas our share of the Community's GNP is only about 15½ per cent. Second, we get back in receipts only about 7½ per cent of the Budget.

6. The main reason for our low receipts is the CAP. It persistently takes more than 70 per cent of a growing Budget. Because our agriculture is small and efficient, less than 5 per cent of this expenditure takes place in the United Kingdom. We do rather better out of the Regional and Social Funds, but together they account for only 10 per cent of the Budget.

7. As a result the budget bears no relation to ability to pay. We and Italy are large contributors, whereas richer countries like Denmark and Belgium are substantial beneficiaries.

8. The United Kingdom accepts that greater convergence in economic performance is primarily a matter of the right national policies. The new Government is determined to restore the United Kingdom economy. But Community policies should help those efforts rather than hinder them. At present they do not.

9. These inequities are a problem for the whole Community, as well as for the United Kingdom; until they are removed, the Community will remain unbalanced, and the commitments of Governments to Europe will be hampered by the effects on public opinion in the countries most adversely affected. In 1971 the original Six recognised that if unacceptable situations [over the Budget] should arise, 'the very survival of the Community would demand that the institutions find equitable solutions' (Cmnd 4715).

10. We are not arguing for a juste retour: ie that we should get out of the EEC precisely what we put in. Nor that member states' net contributions or receipts should precisely reflect their position in relation to average Community GDP per head. But we do not consider that it is right for countries with below average GDP per head to be net contributors to the Budget.

11. We want an early solution. It is for the Commission to suggest ways in which the imbalance can be corrected. The impetus will have to come from the European Council in Strasbourg on 21/22 June.

TABLE 1

NET TRANSFERS BY (TO) MEMBER STATES IN 1978

million eua

	1978 - Actual position			1978 - Without Article 131 adjustments		
	1 Recorded transfers	2 MCAs	3 Adjusted transfers	4 Recorded transfers	5 MCAs	6 Adjusted transfers
Belgium/Luxembourg	+ 380.4	- 43.1	+ 337.3	+ 415.4	- 43.1	+ 372.3
Denmark	+ 620.4	- 239.1	+ 381.3	+ 620.4	- 239.1	+ 381.3
Federal Republic of Germany	- 423.8	- 173.0	- 596.8	- 213.6	- 173.0	- 386.6
France	- 82.9	- 287.7	- 370.6	+ 47.4	- 287.7	- 240.3
Ireland	+ 536.2	- 210.4	+ 325.8	+ 517.8	- 210.4	+ 307.4
Italy	- 752.3	+ 418.5	- 333.8	- 672.9	+ 418.5	- 254.4
Netherlands	+ 220.5	- 179.8	+ 40.7	+ 265.4	- 179.8	+ 85.6
United Kingdom	- 942.5	+ 714.6	- 227.9	-1423.9	+ 714.6	- 709.3
Direct aid to Third Countries	+ 39.0		+ 39.0	+ 39.0		+ 39.0
Change in Commission's balances with national treasuries (2)	+ 393.9		+ 393.9	+ 393.9		+ 393.9
Differences on exchange rates (3)	+ 11.1		+ 11.1	+ 11.1		+ 11.1
	0	0	0	0	0	0

(1) At the average exchange rates for the years in question

(2) The national treasuries maintain accounts in the name of the Commission. Although the 1976 and 1977 budgets were in balance and executed, the balances on these accounts changed during the year. These balances do not earn interest and can be used by the Commission only to meet approved budgetary expenditure.

(3) These are accounting differences which arise because of the use of average exchange rates.

Personal

Mr. Cartledge
In case this does not reach you before Paris – and you need it – here is an advance copy. [initials] 3/6

QZ 01091

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MR LEVER (FCO)

Community Budget

In his letter of 31 May, Mr Cartledge said the Prime Minister would like a more cogent presentation of the facts about our net contributions, making use of the table which she had when she saw Mr Roy Jenkins. I now attach a revised note which has been discussed with Treasury and FCO. You will see it conflates the two annexes attached to the Foreign and Commonwealth Secretary's minute of 29 May, uses the table of budget costs and omits the paragraphs dealing with the resource costs of membership.

2. One other word of explanation is, however, necessary. In her briefing for Mr Jenkins (and for President Giscard) the Prime Minister had earlier Commission estimates which showed the UK as second largest net contributor in 1978 if MCAs were attributed to the importing country. However, these figures did not allow for the final Article 131 adjustment which benefits us and which has only recently been paid. The Commission has revised its figures to take this into account, which we think reasonable enough, and this has the result of putting us behind France and Italy as well as Germany, as the fourth largest net contributor. The brief for President Giscard is being amended.

3. The Prime Minister has asked to see the note in draft before it is circulated to Cabinet Ministers. If the Foreign and Commonwealth Secretary is content you will wish to submit it to No 10. In doing so, you will wish to draw attention to the changes which have now been made, and the correction to the figures. In this form, the note should be suitable for general use. But the Foreign and Commonwealth Secretary and other Ministers who get involved in discussion with their Community opposite numbers will inevitably have to go into more detail. It is therefore important that, in addition to approving the note for general circulation, the Prime Minister should be asked to say whether she is generally content with the line in Annex A to the Foreign and Commonwealth Secretary's minute, which was the line suggested by the Chancellor and endorsed by OD(E).

[signature]

M D M FRANKLIN
CABINET OFFICE SW1
4 June 1979