

*(for inclusion in brief for OD, on Monday.)**Prime Minister**Euro Fed**Ant - 10/7x*

PRIME MINISTER

FUTURE COMMUNITY STRATEGY: RESTRUCTURING THE COMMUNITY BUDGET

As I shall be abroad when OD meets on Monday to discuss the report by officials on Restructuring of the Community Budget, I am writing to give you a few personal observations.

2. I liked the report by officials: I found the careful examination of our objectives and options valuable and interesting. But the remit given to officials was a narrow one, and we cannot sensibly decide our negotiating tactics without deciding how we want the Community to develop as a political organism.

3. I realise that there are deep but genuine differences of opinion about the Community among colleagues: an excellent demonstration of that division of views arose in Cabinet when two weeks ago we discussed a minor issue relating to Commission powers under Article 90. But it is clear from the whole tenor of the officials' report that, had its authors participated in that interesting debate, they would have come to an opposite conclusion to that reached by Cabinet. Nothing wrong with that - but it is relevant to our approach to budget restructuring which must be wholly political - and not economic.

4. For my part I believe that far too much power already resides with the institutions of the Community (particularly the unelected Commission) and not enough with the elected tribunes of the people. The Council often meets too late to influence decisions which have already been pre-empted by officials. The onward march of unnecessary bureaucracy and harmonisation proceeds regardless



of Ministerial misgivings. This is a central criticism of the Community by the British Parliament, and it is in my view the intuitive reason for the growing disenchantment with the EC in this country. The Commission, which people confuse in their minds with the Community, seems to the majority of British people to be a fundamentally anti-democratic body (beside the British Parliament) because the administrative machine proceeds remorselessly forward, often unchecked.

5. Thus at this very early stage (and I agree it is much too early to decide on our tactics) I would make the following comments.

6. It would be quite contrary to the instincts and views of the British electorate - and therefore damaging to our place in the Community in the longer term - if we were to modify our approach to the VAT ceiling even in order to gain some possible economic advantage as through progressive VAT contributions. It would involve a greater volume of own resources and therefore of "taxation without representation" and prove counter-productive with United Kingdom electoral opinion. The same arguments apply (quite apart from the legal dangers) to oil levies, co-responsibility levies and all the other devices for increasing Community resources whether they bring net benefits to us or not.

7. Similarly proposals to increase expenditure in non-CAP areas, even if they proved to be of minor economic benefit to the United Kingdom, diminish our capacity to control the level of public expenditure and involve a continuing re-distribution of resources by taxation from private spending to public provision. This is in complete contradiction to our domestic policies.



8. My own view therefore is that we should hold absolutely firm as a matter of principle (we need not say this publicly) against any increase in own resources by whatever device even if an increase had some ephemeral Treasury benefit in the short term. It follows that, by whatever tactics are thought appropriate, we should reduce CAP expenditure by every means - price, standard quantities, etc - with the aim of achieving a return to a major degree of national financing (see my minute of 14 November 1979). Only in this way will a proper discipline ever be exerted on the present net beneficiaries of the CAP. One of the misfortunes for me of the Budget negotiations was that we had very nearly achieved this objective as a result of French threats, but we lost the opportunity when we accepted a temporary settlement.

9. Furthermore, it follows that I favour slowing down the move towards enlargement until such time as this objective is achieved: otherwise we will be assuring for ourselves either intolerable friction with Spain and Portugal or intolerable burdens.

10. I realise that some colleagues will profoundly disagree with this approach which is of course "anti-Communitarie" as that phrase is sometimes defined. But I strongly favour our place in the Community; it is inconceivable that we could leave it. My fear is that under pressure from some colleagues the Conservative Government will so distance itself from electoral opinion on Community issues that we will create a real anti-Communitaire spirit in the country as a whole. In the reform of the Budget structure we have a unique opportunity to reform the Community in our own domestic image. If we throw away that chance either for narrow economic gains or for the sake of some easy consensus with our partners it will be the Community, the UK and the Conservative Party that loses in the longer term.



11. I am copying this minute to other members of OD, to Keith Joseph, Jim Prior, Peter Walker, David Howell, John Biffen and to Sir Robert Armstrong.

J. N.
(dictated by the Secretary of
State and signed in his absence)

Department of Trade
10 October 1980