Note: I have passed the PM's comments to Cabinet Office so that they can be taken into account in briefing. CAR 26/8

Prime Minister

Europe 2 PS7

Cabinet Office will advise on these points when briefing for OD, but you may wish to see this now. WR 24/8

CONFIDENTIAL

PRIME MINISTER

BUDGET RESTRUCTURING: NEXT PHASE OD(81)40

I shall be away when this paper is discussed on 4 September together with the Chancellor's associated minute to you (dated 4 August). I should have liked to make two points.

First, I share naturally the Chancellor's wish to obtain a more predictable and satisfactory financial outcome than that resulting from the 30 May settlement. But even taking the obliging observations of the Federal Chancellor and the Commission's report at their face value, I fear that we must face up to the danger of our position being quickly overrun by the strong pressures to breach the 1% ceiling in exchange for new financial mechanisms. Too many Member States are conscious that within that ceiling, rectification of our position (and even more so that of Germany) simply means transferring a burden to them with nothing to show in return. If we are not to be left, once again, in a Nine to One situation, in which hostile critics claim we are simply seeking an illogical juste retour, we need a sharper battle order than that presented in the conclusions of the note by officials, though one which still looks communautaire.

redressing a benefit to them.

No

Second, I am persuaded that the Special Mandate Group are very soon going to need something crisper from their governments than the programme and timetable set out in paragraph 27 of the note. The forces for cupidity and inertia which match the need for fundamental reform of CAP are those which will put the 1% ceiling in jeopardy. The Commission's report says some useful things about market realities; about the competing claims of efficiency, social needs, deprived regions and the rights of the consumer; and about structural surpluses. But unless Member Governments can agree that market realities and the interest of the consumer will not be met by financing social needs from price fixing (or perhaps even from the CAP budget) and that structural surpluses will continue until there are production controls, then we shall quickly watch the familiar spectacle of expert wrangles about modalities with no central coherence. The chance for reform will slip by, perhaps for the last time. This will not simply mean that allocation of the Community budget will be determined by agricultural ambitions (and you will have seen the recent representations of the CBI to the Foreign Secretary). More immediately Member States will not have the chance to measure the room for balancing activities in other fields - limited as these may be - which will enable them securely to appraise unacceptable situations, the appropriate mechanisms for dealing with them or ultimately the significance of the 1% ceiling itself.

I agree

I am all too conscious of the problems but I imagine you will be anxious to use the opportunity of Mitterand's visit to sound out his conception of some of these basic issues. I, myself, should be particularly ready to probe French thinking on the world market background, particularly on the prospects for a more dynamic export policy which as Trade Minister I must deeply suspect.

I am sending copies of this to Peter Carrington, Geoffrey Howe, Peter Walker, other Members of OD and to Sir Robert Armstorng.

W. J. B.

JB

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21 August 1981