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20 April 1980

EUROPEAN COUNCIL, LUXEMBOURG

27/28 APRIL 1980

E C BUDGET CONTRIBUTION

Brief by HM Treasury

The Brief on the EC Budget Contribution is attached.

H M Treasury

20 April 1980

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EUROPEAN COUNCIL, LUXEMBOURG

27/28 APRIL 1980

EC BUDGET CONTRIBUTION

Brief by HM Treasury

/Note: Additional briefing may need to be submitted following meetings of the Council of Ministers and other preparatory meetings during the week before the European Council./

OBJECTIVE

1. To achieve a satisfactory settlement on the UK net budget contribution. If this is unattainable, to achieve sufficient progress towards a final settlement in June to satisfy domestic opinion.

2. More specifically to achieve:

i) endorsement in principle of the Commission's proposal for a Regulation under Article 235 governing expenditure in the UK, including endorsement of the proposed categories of expenditure; and instructions to the Commission to bring forward a draft;

ii) agreement on the amount to be spent in the UK under the Article 235 Regulation in 1980;

iii) acceptance that the Regulation must last for 6 years;

iv) acceptance that the Regulation must provide for the amount agreed for 1980 to be "dynamised" for subsequent years;

v) confirmation that the constraints in the 1975 Financial Mechanism will be removed, and instructions to the Commission to bring forward a draft Regulation;

vi) commitment to the Community concentrating its efforts on restructuring the budget.

GENERAL POINTS TO MAKE ON THE BUDGET ISSUE AS A WHOLE

i) The Commission have prepared useful papers. Their revised figures show that the UK problem is even worse than was thought at Dublin. Net contribution in 1980 now estimated at 1683 (importer pays basis) or 1813 meua (exporter pays) on the basis of a lean budget proposed by the Commission and not yet accepted by the member Governments. The eventual outcome could be worse for us.

ii) The UK fully accepts its own primary responsibility for ensuring that its economy contributes to the overall performance of the Community, as agreed at Dublin. The Government is determined to turn the UK economy round and has embarked on firm policies which have been welcomed by our partners. The Budget on 26 March reaffirmed those policies. Public Expenditure cuts have bitten deeper than in other Community countries and mean that programmes are falling in real terms. The cuts have been unpopular but necessary. The Government will not be deflected from its course.

iii) But the Government must take account of rising popular resentment at the level of the UK net contribution to the EEC budget. Cannot gain acceptance for the necessary cuts in public expenditure while the contribution to Europe is so obviously inequitable. Very strong feeling by both major parties in Parliament. If a crisis is to be avoided, the net contribution question must be settled. This issue is hampering the development of the Community as a political force in a dangerous world.

iv) We believe a solution can be reached at this meeting. As to means, the Commission's proposals are acceptable. We agree that a solution lies in a combination of a revised Financial Mechanism and a new Regulation under Article 235 governing expenditure in the UK.

v) There now needs to be agreement on the amount to be provided for 1980; and on an arrangement to ensure that the solution reached by the Council lasts as long as the problem ie until the restructuring discussed at Dublin comes about. Otherwise the Council risks having to return to the UK problem again and again.

vi) The sooner restructuring can be achieved the sooner the UK net contribution problem will disappear. We suggest the Community should aim to reduce expenditure on the CAP guarantee section to 55% of the budget by 1986.

ARTICLE 235 REGULATION

Points to Make

i) We accept the approach of an Article 235 Regulation proposed by the Commission for the reasons given in their paper COM(80)50 of 30 January (Reference A).

ii) We accept that expenditure under this Regulation should "contribute to the realisation of the objectives of the Community" (paragraph 10 of the more recent Commission paper COM(80)147 of 20 March 1980 - Reference B). We are particularly glad to see Northern Ireland mentioned (paragraph 19 of Reference A). This Community expenditure would be of great assistance to the Government's efforts to restore the economy of that troubled province and enable it to play its rightful part in the Community. But increased Community expenditure in other assisted areas of the UK will be of considerable help to their development. Other possibilities mentioned by the Commission - eg measures to link the UK more closely to the rest of the Community - should also be of considerable interest to the EEC as a whole. We hope the Council will endorse the categories of expenditure proposed in the Commission paper COM(80)50 (Reference A). In accordance with the final paragraph of the paper, UK officials have discussed details of possible programmes with the Commission, and we believe there is a basis for a satisfactory arrangement. We note that the latest Commission paper COM(80)147, paragraph 11 (Reference B) says that "it is already evident that whatever resources the European Council may decide to provide for this purpose could be fully used in accordance with the principles and criteria set out".

iii) /If raised./ We fully understand the position of Italy and Ireland as the two less prosperous member-states than ourselves.

iv) The first question is the amount for 1980. The Commission's figures show that a reformed Financial Mechanism would reduce the UK's net contribution in 1980 by about 500 meua net. We would have received 250 meua under the existing Mechanism, so Member Governments would only have to find 250m of new money under this head. But the Commission's latest figures show an estimated UK net contribution in 1980 of 1683-1813 meua. So even after the Financial Mechanism relief, we would be left with a net contribution of around 1200-1300 meua.

v) We have re-examined our position in a spirit of compromise, as we undertook at Dublin. We are ready to be modest net contributors. The question is how to decide what is reasonable. We suggest that our net contribution should be lower than that of the next member state above the UK in prosperity after net contributions have been adjusted to take account of the revised UK net contribution. Our net budgetary contribution might appropriately be in the same ratio to the net contribution of that member state as the ratio between our respective GNP per head.

vi) The amount of expenditure in the UK under the Article 235 Regulation in respect of 1980 should be the sum required to reduce our net contribution to the agreed figure. It should be disbursed before April 1981 (see page 22).

The Problem of Future Years

vii) The second question concerns the years after 1980. We are concerned lest our net contribution could once again grow to inequitable proportions unless the Council takes steps at the outset to avoid this. Others will be anxious to ensure that we do not receive excessive benefit as restructuring takes effect. Having agreed a solution for 1980, we are sure our partners do not want to have to return to the problem. And if the UK is faced with the problem again before the next General Election all the issues concerning membership of the Community could be raised again.

viii) So we agree with the Commission that "it can be to the advantage of no-one to see an early recurrence of present difficulties" (COM(80)147 paragraph 14). We also agree that the period of operation of the new Regulation should be the same as the next period of operation of the Financial Mechanism, and that the legislation covering both actions should contain provision for a review well before their expiry. And we agree that "the aim of the review would be to examine the effectiveness of the actions taken in the framework of progress towards a better balance between Community policies and expenditure" (COM(80)147 paragraph 14).

ix) We propose that the two pieces of legislation should be reviewed after six years. This would follow the precedent of the existing Financial Mechanism, which provides for a review after six years. It would also allow the review to take account of progress towards restructuring the budget - we are proposing that 1986 should also be the target year for this. Finally, it should avoid the matter becoming a major issue at the next Election.

x) But over a six year period starting from 1980, there must be more than a simple provision for a flat rate of expenditure in the UK each year. This would place entirely on the UK the risks arising from inflationary pressures and the increase in the Community budget which, even within the 1% VAT limit, will inevitably rise along with the level of own resources. We believe these risks should be shared, rather than fall on the UK alone.

xi) We want to devise an objective formula directly related to the problem itself; one which ensures that we neither receive too little nor too much. We believe the best solution might be to provide in the new Regulation that in each year subsequent to 1980 expenditure under the Regulation will be carried out to the extent required to bring the UK's receipts per head up to the same proportion of the Community average as is implied by the amount agreed for 1980. This does not involve a "juste retour" since the UK would remain a net contributor.

xii) /If others express dislike of automatic formula7 How else can we avoid an early recurrence of the problem? The Commission are surely right in saying this would be to no-one's advantage.

xiii) /Fall-back position, possibly for second day7 Either accept provision for review of the amount payable in any year if our net contribution rises by more than /100 meua7 from the adjusted 1980 level.

OR propose the Commission study alternative ways of ensuring the problem does not re-emerge in future years, and report back. But insist that some way must be found.

Procedure

xiv) The Commission should bring forward a draft Regulation giving effect to what has been agreed. The draft should contain the Commission's proposals for the role of the Council and other Community institutions in administering the arrangements. But we must not create a new bureaucracy, and the expenditure must be quick-acting if the UK problem is to be alleviated.

DEFENSIVE

i) /Others may suggest that if the Article 235 Regulation provides for the amount of expenditure in each subsequent year to be such as to bring our receipts per head to the same proportion of the Community average as is implied by the sum agreed for 1980, the UK will have no interest in the outcome of Community policy and budget negotiations./ This is nonsense. As a full and responsible member of the Community, we shall continue to play our full part in these matters. We have already made a firm quantified proposal for restructuring the budget, which no other member state has done. And we shall continue to be affected by the growth of the Community budget because we would pay our GNP share of it under the reformed Financial Mechanism.

ii) /If the point at (i) is pressed/ We are prepared if this is essential to examine alternative formulae which would solve the problem and leave the UK with an obvious incentive on the receipts side also to have a financial interest in the development of Community policies. Propose that the Commission should examine such alternative possibilities.

BACKGROUND

1. Article 235 permits the Council to take measures to attain an objective of the Community, where the Treaty has not provided the necessary powers. The 1975 Financial Mechanism is itself a Regulation under this Article.

2. The Commission's proposal is for a new Regulation under Article 235 to provide for increased expenditure in the UK to "contribute to the realisation of the objectives of the Community" (paragraph 10 of COM(80)147 - Reference B). "The basic concept is of a special, temporary and ad hoc action in the shape of a number of expenditure programmes within regions of the UK" (paragraph 11 of COM(80)147).

3. The Commission propose that in the first instance special investment programmes in the assisted areas should be developed. But they suggest that to meet particularly serious cases, or where there is a special Community interest, programmes outside these areas could be assisted. We welcome this. For example it would enable programmes to tackle urban decay outside the assisted areas to be part-financed by the Community. We also endorse the Commission's belief (paragraph 11 of COM(80)147) that "whatever resources the European Council may decide to provide for this purpose could be fully used in accordance with the principles and criteria set out". In discussions with the Commission, we have established that there

is no shortage of UK programmes eligible for Community assistance. Northern Ireland is clearly one promising area, and was specifically mentioned by the Commission in their earlier paper COM(80)50 (Reference A).

Additionality

4. It is our firm intention that this new Community expenditure in the UK should not give rise to additional public expenditure in the UK. This is a delicate point with the Commission, though privately they are sympathetic. Overt debate of the additionality point would not help the Commission and should be avoided. If it is raised, we should point to the statement at paragraph 19 of Commission paper COM(80)50 (Reference A): "This additional contribution should help the UK in the efforts it is already making in some of these fields". We are pursuing detailed discussions within that framework. Unless our net contribution is reduced, our regional programmes may have to be cut.

Italy and Ireland

5. Italy and Ireland are likely to request compensation for their share of the UK's refund, except that Italy (but not Ireland) has said she is prepared to bear her share of the refund to the UK under the revised Financial Mechanism (this would be around 70 meua).

6. This is not strictly a matter for the UK, but it would be tactically wise to give some support to these countries early in the discussion if the point is raised.

7. The compensation could _either_ be paid through increased expenditure in Italy and Ireland under A.235 Regulations on similar lines to the one proposed for the UK, _or_ through an increase in the interest-rate subsidies they already enjoy through membership of the EMS exchange rate regime. The UK would contribute to the former but not the latter. The Commission prefer the latter channel and it is clearly better from our point of view; but the amount involved is not large (around 25 meua).

Amount

8. Most of our partners seem prepared to contemplate _total_ relief to the UK of around 1000 meua, including the amount payable under the revised Financial Mechanism. If all restrictions in the existing Mechanism are removed, the Commission estimate that the UK would receive nearly 500 meua through this route in 1980. So total relief of 1000 meua would imply expenditure of a further 500 meua under the new Regulation.

9. Only the Dutch have been prepared to mention (without commitment) a figure as high as 1200 meua. Mr Jenkins appears

to have hinted at the possibility of a settlement at around 1150 meua. The last figure mentioned informally some weeks ago by the French was 750 meua: since then they have not been prepared to discuss a figure.

10. The Commission's March 1980 estimates of the net contributions of member states (COM(80)147 - Reference B) assume acceptance of the Commission's revised proposals for the 1980 budget, which have not yet been accepted by member states or the Parliament. To the extent that they are exceeded, the UK position would worsen.

11. The Commission's estimate of 1683 meua (importer pays basis) for the UK net contribution in 1980 may therefore prove to be too low. But on this basis, the formula at point (v) of the points to make (page 7 above) would lead to the UK net contribution for 1980 being adjusted down to 269 meua. This would put our net contribution in the same ratio to that of France as our respective GNP per head. The figures are given in detail at Table A on page 49, which also shows the effect on other member states of each increase or decrease of 100 meua in the UK net contribution from this starting point.

12. To achieve a UK net contribution of 269 meua in 1980, net expenditure under the new Regulation would need to be at least 920 meua this year.

13. The French may raise detailed reservations about the Commission estimates. Officials accompanying the Prime Minister will be supplied with detailed briefing for use if necessary.

Future Years

14. While our partners have in recent weeks seemed prepared to move towards us on the amount for 1980, they have not shown a similar readiness to take steps to prevent the UK problem from re-emerging in future years.

15. The Commission have said "It can be to the advantage of no-one to see an early recurrence of present difficulties" (COM(80)147 paragraph 14 - Reference B). They have proposed that the new measures to assist the UK should be limited in time "perhaps to 3 or 4 years", with provision for a review well before their expiry.

16. There is little possibility that restructuring of the budget (which in the longer term should remove the cause of the UK problem) can be successfully achieved within 3 or 4 years. Such a timescale might also coincide with the run-up to the next General Election. Since calendar year 1980 will be the first year covered by the Regulation, a period of 3 or 4 years would mean that the Regulation would expire at the end of 1982 or 1983.

17. The French have not even been prepared to go as far as the Commission. They are likely to argue that the problem is essentially temporary, and that the expenditure in the UK under Article 235 should be a fixed sum per year for 2 years with no provision for review. Others may be prepared to accept three (possibly four) years, but are likely to agree that the amount should be at a flat rate for each year.

18. On duration, the Regulation needs to last for at least 5 years (ie 1980-1984 inclusive) to avoid the whole question becoming a major issue in the next Election. But since the process of review will no doubt start well before the Regulation expires, the Regulation should last for six years to avoid any risk of the review clashing with the next Election. The Commission have proposed that the new Regulation and the revised Financial Mechanism should be reviewed at the same time. A review of both after six years would follow the precedent of the 1975 Financial Mechanism, which provided at that time for a review after six years. It would also enable the review to take account of progress towards the restructuring target for 1986 we have proposed.

19. As a fallback we could accept a review during the sixth year (ie in 1985). But any suggestion that the issue is a

purely temporary British problem should be rejected. It is a problem arising from failure to structure the budget in a properly balanced way, and should concern the Community as a whole. Short-term palliative solutions are wholly inappropriate.

20. The Commission have proposed that the review should examine the effectiveness of the action taken in the framework of progress towards a better balance between Community policies and expenditure within the budget. We can accept these general terms of reference.

"Dynamism"

21. If we get our way on the duration of the new Regulation, there remains the problem that a fixed annual sum could lead to the UK's net contribution again reaching unacceptable levels well before the arrangements are reviewed overall. Without some provision to "dynamise" the amount agreed for 1980, all the risks arising from inflation and other upward pressures on the Community budget would fall on the UK. The 1% VAT ceiling may limit these risks from 1981, but it will not eliminate them.

22. Equally if we get a sufficiently large amount to meet our needs, the others will want to ensure that budget restructuring, as it takes effect, does not put us into

surplus. The formula should be devised so as to ensure that the UK is paid neither too much nor too little; and leave the UK with a clear incentive to continue to take an interest in the outcome of Community financial policies (though we should repudiate the suggestion that we would not do so).

23. The formula we propose is that the Regulation should provide that, in each year subsequent to 1980, expenditure under the Regulation would be carried out to the extent required to bring the UK's receipts per head up to (but not above) the same proportion of the Community average as is implied by the amount agreed for 1980. This formula has not so far gained acceptance in the Community so it would be best to introduce it after a frank exposition of the problem and an invitation to our partners to help in the search for a solution.

24. If this formula proves unattainable, the Prime Minister will have three basic alternatives:

i) to invite the Community to reflect on our proposal and to consider it again at the next European Council;

ii) to suggest that the Commission should study our proposal and alternative possibilities, and report. The terms of reference of such a remit might be on the following lines: "The European Council invites the Commission to make proposals, before its next meeting in June, to ensure that the solution to the problem reached today does not result in a reappearance of a similar unacceptable situation in a later year during the period of operation of the proposed new regulation ";

iii) to say we are prepared to consider relying on flat rate payments each year at the level initially agreed, provided that level is sufficiently high. But there must also be a clear provision that the Council must review the amount payable, on the basis of a Commission proposal, if in any subsequent year before the general review of the Regulation the UK net contribution rose by more than 100 meua (say) above the adjusted level for 1980 (we could add "or falls" to make this more attractive). We would aim to tie the Council down as far as possible by writing into the Regulation that in acting on such reviews the Council (not just the Commission) must have regard to the principles underlying the settlement for 1980. We shall aim to get these set out in the Preamble to the Regulation itself.

25. If our partners will not accept any of these proposals (including (i) above) a position of impasse will be reached (see page 33).

26. If proposal (ii) - remit to the Commission - proves acceptable, we would aim to feed in our own suggestions for alternative formulae for achieving "dynamism". These would include:

i) A provision guaranteeing that the amount of expenditure in the UK each year will be equal to x% of the ex ante net UK budget contribution; <u>or</u>

ii) A provision that the UK net contribution would not exceed that of the next richest country /by more than Y meua/ whether that country's net contribution was positive or negative (this would provide a valuable safeguard for the UK, and would base the repayment to us on an objective criterion rather than a bargained formula); <u>or</u>

iii) A provision <u>indexing</u> the amount to be spent in the UK each year to some independent yardstick eg the level of budget expenditure. Such a formula could get round the objection to our preferred formula that it diminishes the incentive on the UK to take an interest in the financial outcome of Community policies. But it would not be so directly related to the problem: this could be a disadvantage to our partners as well as the UK.

Details of the Regulation

27. Once the European Council has reached agreement on the broad principles, it will be for the Commission to bring forward a Regulation to give effect to them. At this stage the French are likely to try:

i) to delay adoption of the Regulation by raising detailed points on its text - thus delaying disbursement of funds in the UK; and

ii) to restrict the benefit to the UK by insisting on a prominent role for the Council in administering the arrangements, and using their position on the Council to frustrate the operation of the scheme.

28. To guard against this as far as possible, it is important to establish certain general points at the outset:

i) the Regulation must be quick-acting. The agreed sum for 1980 must be disbursed in the UK before April 1981 (ie within the UK financial year 1980/81). The same principle should apply to subsequent years;

ii) we are prepared to consider any proposals the Commission may make for an appropriate role for the Council and other Community institutions in administering the Regulation, but we must avoid creating unnecessary bureaucracy. Once the European Council has agreed the amount payable and the scope of the Regulation, there will be no need to make these matters subject to Council approval;

iii) we need to avoid subsequent argument about such points as whether our contribution to our own relief under the new Regulation should be taken into account in assessing our relief through the Financial Mechanism (it should be); and whether our refunds under the Financial Mechanism in one year, plus supplementary expenditure under the new Regulation, should be taken into account in calculating our per capita receipts for the purposes of applying the Article 235 Regulation in the following year (they should not). These points will have to be followed up afterwards. It is important that the Prime Minister should make clear that we are not prepared to make an overall net contribution beyond a certain level.

FINANCIAL MECHANISM

Points to Make (ii(a) and (b) preferably to be introduced at a late stage)

i) We agree with the recommendations by the Commission for revision of the 1975 Mechanism (paragraph 8 of COM(80)50).

ii) It was agreed at Dublin that the adaptation of the Financial Mechanism could provide a basis for a solution to the problem. The Council should therefore ensure that the new Mechanism is fully effective. Any amounts provided under a new Article 235 Regulation will be predicated on the Financial Mechanism playing its full part. To ensure this, the Commission will no doubt bring forward a Regulation to give effect to the removal of the balance of payments and other constraints, as agreed at Dublin. In addition, to ensure that the provisions do not have an arbitrary effect at some future date, we suggest:

a) the criterion that the Member State seeking a refund should have a GNP per head less than 85% of the Community average is no longer appropriate. There is no logic in this particular number. The revised Mechanism should simply provide for the Member State to have below average GNP per head;

b) the Commission might also look critically at the other detailed provisions to see if they still make sense.

iii) The Regulation should provide for a review after 6 years,following the precedent of the 1975 Mechanism. The review should take account of the progress made towards restructuring.

Background

1. The present financial mechanism was set up in 1975 and was the principal outcome of the 1974-75 "renegotiation". It was designed expressly to correct a situation in which "A member state's economy ... is forced to bear a disproportionate burden in the financing of the Community budget", thereby creating "conditions incompatible with the proper functioning of the Community".

2. The mechanism refunds to a member state part of its excess gross contribution, ie the amount by which its share in Community revenues (<u>including customs duties and agricultural levies</u>) exceeds its share in Community GNP. The qualifying conditions were designed to ensure that only the UK ever benefitted. In fact, we have not yet done so, because the transitional arrangements have so far limited the UK's gross contribution to a level below that at which it would qualify.

3. In 1980, the UK should qualify for a refund of around 250 meua. But for the existing financial mechanism to provide worthwhile and assured relief it needs to be stripped of several of the conditions and restrictions that it at present contains:-

i. the balance of payments condition, under which a member state only qualifies for a worthwhile refund if its balance of payments has been in cumulative deficit over the three previous years;

ii. the tranche system, under which the excess contribution is refunded only in part, not in full; and

iii. the 3 per cent limit, which restricts any refund to 3 per cent of the total budget.

On the basis of the Commission's proposal, the Dublin Council agreed that abolition of these constraints "could constitute a useful basis for a solution". There is no logic in any of these restrictions, which were simply designed to cut down the potential cost of the Mechanism to other member states.

4. For the UK to be sure of qualifying in an enlarged Community, it is also important to amend the qualifying criteria:

i. by raising the GNP per head criterion from 85 per cent to "below" the Community average; and

ii. by modifying the condition that our gross share of contributions have to exceed by more than 10% our share of Community GNP.

5. There are also a number of other detailed provisions which were inserted in 1975 in order to restrict the Mechanism. Now that the severity of our problem has been recognised they also might be reviewed. We believe the Commission may be sympathetic to us on this provided they get the right general guidance from the Council.

6. The solution to the UK problem as a whole is predicated on our being able to qualify for a refund under the revised Financial Mechanism. So there is no sense in retaining these restrictive qualifications. Their abolition would <u>not</u> be dangerous in the context of enlargement. None of the new member states is likely to be a substantial net contributor.

7. The continuing strength of sterling coupled with our sustained high inflation rate inflates our GNP relative to other Community countries and gives rise to a risk that even on a market exchange rate basis of calculation we could be caught by the 85% rule in an enlarged Community.

8. The mechanism is financed through the Community budget. The UK therefore contributes to its own refund. Any amended version would probably be financed in the same way. We can accept this, but it is only the <u>net</u> benefit we get under the Mechanism that counts towards alleviating our budget problem.

Handling

9. The Prime Minister's position should be that the modifications discussed at Dublin are agreed. All except possibly the French are likely to accept this. The new points about the 85% qualification and the Commission examining the other provisions should be raised at a relatively late stage. The French may try to insist that some of the restrictions be retained. But the Prime Minister should maintain that the whole discussion of the new Article 235 Regulation is predicated on the UK getting the full benefit of an unrestrained Financial Mechanism. (More detailed briefing on possible French arguments will be supplied to officials accompanying the Prime Minister.)

STRUCTURAL REFORM

Points to Make

i) We fully support the proposal by the Commission COM(79)680 - Reference C) that a larger proportion of budgetary spending should be devoted to the improvement of structures. We note that the Commission will draw the attention of the Community to any failure to achieve a better balance between Community policies, and we urge the Commission to do this promptly and firmly (paragraph 6 of COM(79)680).

ii) We suggest that the Community should aim to reduce the proportion of the budget spent through the CAP guarantee section to 55% by 1986. The Commission should be invited to develop proposals to this end. Our calculations show that such a target would permit expenditure through the CAP guarantee section to maintain its value in real terms between now and 1986, when the expected growth of "own resources" (within the 1% ceiling) is taken into account. At the same time, it would permit a considerable expansion of expenditure through the existing (and possibly new) structural funds, including the CAP guidance section.

Background

1. The Commission urged the principle of structural reform in their paper COM(79)680 (Reference C). The Italians subsequently suggested there should be targets. We are now suggesting a target of 55% by 1986 for the proportion of the budget taken by the CAP guarantee section. This was one of the 6 points put to Sig Cossiga (reference D).

2. On reasonable assumptions about the growth of own resources (2% growth per year), and assuming that the 1% VAT ceiling is held, this target would still permit expenditure through the CAP guarantee section to be maintained in real terms, as the following table shows:-

(1980 Meua)

	1980 Budget COM(80)45	1986 Budget if Own Resources grow at 2% a year in real terms
Own Resources Ceiling	17,755	20,000
Total Budget	14,538	20,000
CAP Guarantee	$\boxed{10,400}$	
55% of total Own Resources	9.765	$\boxed{11,000}$

3. Estimates of the effect of enlargement on own resources and CAP costs suggest that it would still be possible to reduce the CAP guarantee share of the budget to 55% by 1986 without reducing the absolute level of CAP support for the existing Nine.

"LINKAGE"

Points to Make

i) The UK does not propose any "package deal". In our view our budget case rests on its own merits; and the other major issues currently facing the Community (eg CAP prices) should also be considered on their merits.

ii) But if other member states find it convenient to consider the major issues together, we do not object. We want to make progress on all the major issues, including our net contribution.

Background

Our line is that each of the current major issues should be considered on its own merits, but we are prepared to consider them at the same time if others want this. The French have increasingly been making a link between the budget issue and other major Community problems. If they choose to do this, we can use it to our advantage. We are prepared to allow some concessions (but not on all the issues concerned) provided we get a satisfactory budget settlement. /See separate briefs on agricultural prices, sheepmeat, fish and energy./ But if there is no agreement on our budget contribution, we should ensure that there is no agreement on the CAP price fixing or on sheepmeat.

DEADLOCK

Points to Make

In the event of failure to achieve the objectives on pages 1 and 2 above, or to open up any prospect of agreement, the Prime Minister could make a statement including the following points:

i) The response to the requests for equitable treatment put forward by the UK have been a sad reflection on the Community's ability to achieve the harmonious development required by the Treaty of Rome; and to be an effective, united force in its relations with the rest of the world.

ii) The UK is ready to continue the negotiations in a spirit of compromise if our partners are equally ready. But the failure to make substantial progress at this meeting will have hardened opinion in the UK.

iii) The economic prospects of the UK - let alone our overwhelming case for equitable treatment - make it intolerable for the UK to continue to bear this rapidly rising burden. There must be a solution to this issue at a political level through the normal process of Community discussion between partners.

iv) The UK has no intention of leaving the Community, boycotting its Institutions, or accepting any status other than that of a full member. But it is the essence of the Community to demonstrate a spirit of solidarity. The financial burdens placed on us are excessive and they cannot be squared with the undertaking given when we negotiated our accession. The failure to fulfil this undertaking will certainly lead to the British Government coming under considerable domestic pressure to withhold part of our contribution; and we shall with the greatest reluctance need to consider this possibility after the June Council if a satisfactory settlement is not reached there. Meanwhile we shall not spare our efforts to reach such a settlement.

DEFENSIVE POINTS

/Note: In addition to the points covered below, a Technical Annex to this brief will be supplied to all senior officials attending the European Council. This will cover further detailed points that may come up./

North Sea Oil

i) The UK's budget claim is based on the proposition that with the third lowest income per capita in the Community, we should not be the largest per capita net contributor to the Community budget. Whatever the facts of the case on North Sea oil, this is an inequitable, politically unacceptable and unsound basis for the financing of Community expenditure on common policies.

ii) North Sea oil's contribution to the UK economy is fully captured in the figures for GNP per head, which is generally recognised as the best available measure of capacity to pay in any context whether international or domestic. Obviously North Sea oil is a benefit to the UK; but we are not the only country with natural resources and unlike some other natural resources such as good agricultural land, oil is a wasting asset.

iii) North Sea oil contributed two and a half per cent of British GNP in 1979. Even at peak production in the mid-1980s we estimate that it will contribute only 6%. This is less than natural gas contributed to the Dutch economy in 1976-77 (6.5%); it is less than the share of UK GNP accounted for by construction, or by agriculture and food production. There are no grounds for supposing that it will alter the UK's relative position in the Community of Nine in terms of GNP per head at any stage in the life of the North Sea oilfields.

iv) Indeed Commission forecasts show that despite the benefit of North Sea oil, the immediate prospect for the UK economy is the bleakest in the Community. It faces a marked contraction of output (2% according to the Commission), compared with increases of over 2% forecast for Germany and France. Only the Danish economy is also expected to decline, but by a much smaller percentage than that of the UK.

v) The UK remains a predominantly manufacturing and trading country and a substantial consumer of oil. It is still a net importer of oil (and even at peak production will only be a small exporter). Its industries and consumers pay the full market price for oil and thus suffer as much as those in other member states from the depressive effects of higher oil prices. While we are net importers the effect of the dramatic increase in the price of oil has therefore been negative both on our balance of payments and on the resources available for domestic use in the economy.

vi) The rise in oil prices has transferred income from UK consumers to the oil companies (higher profits) and the Government (higher tax revenues). The increased Government revenues have been at the expense of consumer spending power and there has been no resource gain to the economy as a whole.

vii) In the immediate future the increase in PRT revenues will in any case be largely offset by the loss in other tax revenues resulting from the lower level of economic activity which higher oil prices have helped to bring about.

UK Trade Patterns and the Community Budget

/It is often alleged that our high contribution to the EC Budget is our own fault for importing too much from outside the Community./

i) Excessive payments to the EC account for only one-third of our budget problem - the greatest part arises from the low level of Community expenditure in the UK.

ii) Any suggestion that we are not 'playing the Community game' is without foundation. Our scrupulous implementation of 'Community preference' gives Community exporters a competitive edge in the UK market. We cannot compel traders not to buy outside the Community; it would contravene Article 110 of the Treaty.

iii) Even if it were possible overnight to switch 5% of our imports from non-EC (and EFTA) to EC sources the reduction in duty payments would probably be only some 140 meua (£90m). The reductions in our total contribution would be even less since we (and other EC members) would have to pay more VAT.

iv) Since 1973 the proportion of our trade with the Community has increased steadily. By contrast, the original six are now doing less of their trade with the rest of the EC, as the following table shows:-

All imports from EC as % total imports

	1972	1978
UK	31.6	38.0
EC(9)	52.2	50.8

v) It is not true, as has been alleged, that the fall in the proportion of UK imports from outside the Community is explained by lower imports of OPEC oil.

vi) The shift in UK imports to EC sources has been particularly marked for food (where the scope for further shifts is virtually exhausted; see notes to attached table). But all product groups, with the exception of fuels, have been affected. (The figures for transport are erratic and the figures conceal a sharp rise in the UK share immediately prior to entry. For example in 1969 the UK share was 42% and in 1977 it was 54%.)

SITC		UK: % share of imports from EC 1972	1978
0, 1	Food	32.4	42.9
3	Fuels	18.0	14.0
2+4	Raw Materials	11.0	14.1
5, 6, 8	Manufactures (exc. Transport)	28.3	39.6
7	Transport	52.3	51.1
	Total	31.6	38.0

vii) Imports of oil still account for 11.6% of UK total imports as compared with 11.7% in 1972. For the EC as a whole, oil imports were 11.7% of total imports in 1972, and 16.3% in 1978.

viii) The rise in other countries' oil bills is not the main reason for the shift in the pattern of their imports away from EC sources. The share of manufactured imports coming from the rest of the Community fell steadily between 1968 and 1978, especially in France and Germany (see table attached).

Background

It is true that the UK is a heavy importer from third countries. This reflects in part our high overall import propensity relative to eg Germany and France. But the main reason is that a relatively high proportion of our imports come from outside the Community:-

% Imports from outside the EC 1978

	UK	EC
Total imports	62	50
Imports of manufactures	60	40

But this is not the whole story. Nor do we accept the implication that our Budget problem is one that we can solve for ourselves.

Table 1

Imports from EEC as percentage of total imports

	1968	1972	1978	Change 72-78
France	52.7	56.0	51.4	-4.6
Italy	41.4	49.2	44.7	-4.5
Germany	47.3	53.9	50.1	-3.8
Belgium/Luxembourg	63.0	71.1	69.0	-2.1
Netherlands	61.7	62.3	57.4	-4.9
Denmark	46.4	45.9	49.4	+3.5
Ireland	66.3	69.3	73.4	+4.1
UK	26.1	31.6	38.0	+6.4
EC average	46.1	52.2	50.8	-1.4

Source: SEC(79) 1578 Commission "supplementary information"

Table 2

Imports of Manufactures from the EEC as a percentage of total imports of manufactures

	Transport and Machinery (SITC 7)			Other Manufactures (SITC 5,6,8)		
	1968	1972	1978	1968	1973	1978
France	71.1	72.4	65.8	72.0	74.2	68.3
Italy	69.6	74.2	71.8	39.2	36.0	37.5
Germany	63.7	66.1	59.6	58.8	61.7	56.0
Belgium/Luxembourg	83.2	85.0	82.3	68.2	76.1	74.3
Netherlands	77.3	79.5	72.9	80.1	80.5	74.4
Denmark	59.7	60.1	56.6	52.7	49.0	52.9
Ireland	87.0	81.3	74.6	82.1	81.2	80.9
UK	43.8	52.3	51.1	25.9	28.3	39.6
EC average	66.9	69.9	64.8	58.2	61.6	60.6

Source : SEC (79) 1578 Commission "Supplementary information"

Table 3

Agriculture

Imports of food from the EEC as a percentage of total imports of food (SITC 0+1)

	1968	1972	1978
France	33.7	41.2	47.1ø
Italy	36.9	49.7	58.3
Germany	48.1	55.6	56.8ø
Belgium/Luxembourg	56.5	69.1	74.0
Netherlands	34.4	47.6	47.1
Denmark	24.1	24.3	36.8
Ireland	42.1	47.3	71.4
UK	29.7	32.4	42.9ø
EEC Average	38.0	46.7	52.9

Source: SEC(89) 1578 Commission "Supplementary Information"

ø Comparable figures for "indigeneous products" (imports from outside EC as % total)

	1973	1976	1978
UK	45	28	27
Germany	Not available		31
France			28

Source: MAFF

Indigenous products: all products excluding goods not produced in EC, goods for which EC is net importer, and products covered by treaty obligations (eg. N. Zealand butter, ACP sugar).

Approach of the 1% VAT Limit on Own Resources

i) The question whether the Community should have access to increases sources of revenue is a general problem quite separate from the immediate issue of the UK's excessive net budget contribution. It does not affect the present discussion.

ii) The implications of the 1% limit may need to be faced by the Community before long. When the time comes, we shall need to appraise carefully all areas of Community expenditure. For example, the high cost of the present way the CAP is financed will need close scrutiny. It would certainly be illogical, unfair and unnecessary to single out in advance one area of Community expenditure such as the amount spent in the UK under the new Article 235 Regulation.

Background

1. The Own Resources Decision limits Community revenue to the total of agricultural levies and customs duties, with the product of a 1% rate of VAT Own Resources as the balancing source of funds; in consequence, it establishes a ceiling on expenditure. This is being approached. Our latest estimate is that the limit will probably not bite this year, but could do so in 1981.

2. Expenditure on the CAP guarantee section, implementing existing Council decisions, is running at a significantly higher level in 1980 than anticipated. This higher level of expenditure will reduce the margin for new expenditure within the ceiling. The French may argue that, as a result, there is no room within the Community's financial resources for measures involving additional expenditure in the UK. Our line should be that all Community policies will have to be appraised as the ceiling approaches, including the CAP where member states are currently pressing for measures that would increase budget expenditure. If it is agreed as a matter of equity that our net contribution should be reduced, it should not be assumed that, out of the whole range of Community policies, this one has to be sacrificed to the 1% ceiling.

The 1970 Undertaking

The 1970 undertaking was as follows:-

> "Should unacceptable situations arise within the present Community or an enlarged Community, the very survival of the Community would demand that the Institutions find equitable solutions."

> Source: Commission Communication to the Council GB/33/70 (Annex) of 13 November 1970, entitled "The Financial Arrangements in an Enlarged Community"

This undertaking was endorsed by the Council itself. A meeting of COREPER Deputies on 4 November 1970 decided to transmit the Commission Paper to us. The Chairman of the Deputies expressed the Community's agreement with the general lines of the Paper's conclusion and in particular their endorsement of paragraph 20. The Council's final imprimatur was also made clear in the version of the Paper (GB/33/70) handed to us which was described in the rubric as a Communication forwarded "following examination by the Council".

The Undertaking is not a Treaty obligation. But it constitutes a firm political commitment by the Six which they did not seek to withdraw at the time and can hardly repudiate now.

Article 2 of the Treaty of Rome

"The Community shall have as its task, by establishing a common market and progressively approximating the economic policies of Member States, to promote throughout the Community a harmonious development of economic activities, a continuous and balanced expansion, an increase in stability, an accelerated raising of the standard of living and closer relations between the States belonging to it."

FIGURES

The following tables are attached:

TABLE	A	:	Net Contributions to the Allocated Budget
"	B	:	The UK's Budget Problem in 1980
"	C	:	Analysis of UK Budgetary Position
"	D	:	Country Fact Sheet.

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TABLE A

NET CONTRIBUTIONS TO THE 1980 ALLOCATED BUDGET (Importer Benefits basis for MCA's)

	March Commission estimates	Revised Net Contributions*	Effect of 100 Meua change in UK net contribution on net contributions of other member states	
			If all members contribute	If Italy and Ireland do not contribute
UK	-1683	-269	∓100.0	∓100.0
Germany	-1116	-1677	±39.7	±46.3
France	+ 41	-382	±29.9	±35.0
Italy	+ 754	+568	±13.2	± nil
Netherlands	+ 358	+254	± 7.4	± 8.6
Belgium	+ 469	+392	± 5.4	± 6.3
Denmark	+ 388	+344	± 3.1	± 3.6
Ireland	+ 502	+482	± 1.1	± nil
Luxembourg	+ 287	+284	± 0.2	± .2

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* To bring the UK net contribution into the same relationship with the French as the respective UK and French GNP per head.

– = net contribution

\+ = net benefit

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NOTES TO TABLE A

The table:-

1. Starts from the latest Commission estimates of net allocated contributions to the 1980 Community Budget. If the total Budget is larger than in the latest Community proposals eg because of higher agricultural expenditure, the UK net contribution is likely to be larger.

2. Uses the "importer benefits" treatment of MCA's although the UK still considers the "exporter benefits" basis the correct one. The previous Commission figures of September 1979 for the net UK contribution were 1552 meua (importer benefits) or 1814 meua (exporter benefits). The corresponding figures are now 1683 and 1813 meua. The figure of 1683 assumes MCA's of 130 meua paid to exporters of food to UK; this is probably too high and the 1683 should be brought much closer to 1813 meua.

3. Assumes a new UK net contribution which is about 70% of the French contribution, after allowing for the effect on the French contribution of the redistribution of part of the UK net contribution. UK GNP is about 70% of French GNP.

4. Assumes that the reduction of the UK net contribution is achieved through the reformed Financial Mechanism and increased Community expenditure on approved purposes in the UK under an Article 235 regulation of the kind proposed by the Commission. But about 250 meua of the difference between 1683 meua and a revised net UK contribution may be due under existing Community regulations because of a UK claim under the Financial Mechanism as it now stands.

5. Shows how much greater or smaller each country's revised net contributions would be if the UK were to accept a net contribution 100 meua greater or smaller than that indicated by the GNP relationship with France. Two sets of figures are shown, on the alternative assumptions (a) that all member states contribute to financing the redistribution of the UK's present net contribution,

and (b) that Italy and Ireland do not contribute. The latter arrangement may be suggested. Thus for every 100 meua <u>decrease</u> in the UK net contribution, the German net contribution would <u>increase</u> by 39.7 meua if all eight partners are participating, or by 46.3 meua if Italy and Ireland are not required to share the burden.

THE UK'S BUDGET PROBLEM IN 1980

Source: Figures based on Commission document 19.3.80

UK GNP share: 17%

UK GNP per head as % EEC average approximately 79%

UK population share: 21½%

	meua	eua per head	UK as % EC	UK per head as % EC
TOTAL CONTRIBUTIONS	2908	52.3	21.1	98*
TOTAL RECEIPTS				
Importer benefits MCAs	1225	22.0	8.9	41.4
Exporter benefits MCAs	1095	19.7	7.9	36.7
NET CONTRIBUTION				
Importer benefits MCAs	1683	30.3		
Exporter benefits MCAs	1813	32.6		

CHANGE TO UK BUDGETARY CONTRIBUTIONS

IF

A. Payments and Receipts in line with GNP share

	meua	As % Net contribution exporter pays (1813)	importer pays (1683)
Excess contribution	564	31	33.5
Deficient receipts			
exporter benefits MCAs	1249	69	
importer benefits MCAs	1119		66.5

B. Payments and Receipts per head in line with EEC average

	meua	As % Net contribution exporter pays (1813)	importer pays (1683)
Contributions shortfall	56	-3.1	-3.3
Deficient receipts			
exporter benefits MCAs	1869	103.1	
importer benefits MCAs	1739		103.3

* UK contribution in 1980 is 24% greater than our GNP share. This accounts for 565 meua or about ⅓ of our net contribution.

TABLE C

ANALYSIS OF UK BUDGETARY POSITION

Commission document (19.3.80) does not provide breakdown of contributions and receipts. Detailed information comes from earlier Commission papers.

Contributions: from Draft Budget. Consistent with latest figures.

	meua	EUA per head	UK as % EC	UK per head as % EC
Agricultural levies	431 -	7.7	19.8	92.1
Customs duties	1473 -	26.5	26.0	120.9
VAT	1162 -	20.9	17.4	80.9
Other (incl contribution to unallocated budget)	-158	-2.8	21.0	100
TOTAL	2908 -	52.3	21.1	98.1

Receipts: Latest detail comes from Reference Paper (Sept. 1979) not consistent with latest figures. Relative shares unlikely to have changed significantly.

	UK as % EC	UK per head as % EC
CAP Guarantee	7.6	35.4
Structural Funds: Total	20.6	96.9
Guidance	15.1	70.2
Regional Fund	27.0	125.6
Social Fund	25.0	116.3
Investment Energy, Industry	12.2	58.8
Other	16.7	77.9

1683.

[illegible]

12[illegible]

Country Fact Sheet

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TABLE D

	UK	Germany	France	Italy	Netherlands	Belgium	Denmark	Ireland	Luxembourg
INCOME									
GNP as % EEC(9):1979	16.3	31.8	23.8	13.6	6.3	4.9	2.7	0.6	0.2
forecast 1980	17.0	31.1	24.1	13.7	6.1	4.7	2.5	0.7	0.2
GNP per head as % EEC (9):1979									
at market exchange rates	78	135	115	61	118	124	138	50	122
at purchasing power parities	91.8	118.5	113.5	72.2	107.7	108.9	118.8	62.3	110.1
BUDGETARY: 1980									
Net contribution: MEUA									
exporter benefits MCAs	-1813	-1073	+100	+658	+394	+479	+428	+540	+287
importer benefits MCAs	-1683	-1116	+ 41	+754	+358	+469	+388	+436	+287
Gross contributions:									
as % EEC(9) of which:	21.1	29.8	19.0	11.9	8.7	6.2	2.4	0.9	0.12
levies	19.8	19.5	12.8	20.6	14.7	10.4	1.6	0.4	0.0
duties	26.0	30.2	14.6	9.7	9.5	6.5	2.4	1.1	0.1
VAT	17.4	32.8	24.7	10.9	6.1	4.5	2.6	0.9	0.2
per capita meua	55	71	51	30	90	91	67	40	49
as % EC average	98	127	92	54	161	163	121	71	88
Gross Receipts:									
On an importer pays basis:									
as % of EEC(9)	8.9	21.7	19.2	17.4	11.3	9.6	5.2	4.5	2.2
per capita meua	22	49	50	42	111	134	140	192	(849)
as % of EEC average	41	92	79	80	209	253	263	362	(1602)
On an exporter pays basis:									
as % of EEC(9)	7.9	22.0	19.7	16.7	11.5	9.7	5.5	4.8	2.2
per capita meua	20	50	51	40	113	135	147	203	(849)
as % of EC average	37	93	96	76	214	255	278	384	(1602)

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*BLEU is Belgium and Luxembourg

Country Fact Sheet **SECRET**

	UK	Germany	France	Italy	Netherlands	BLEU*	Denmark	Ireland	EEC(9)
COMMON AGRICULTURAL POLICY	MILLION UNITS OF ACCOUNT:COMMISSION REFERENCE PAPER FOR 1979 AND MAFF ESTIMATES OF 1979 TRADE COSTS (EXCLUDES EFFECT OF ARTICLE 131)								
Exporter benefits MCAs									
Budget flows	-1513	-410	+197	+274	+525	+35	+490	+412	
Non-budget flows	-271	-527	+720	-1055	+960	-280	+815	+620	
Total	-1784	-937	+917	-781	+1485	-245	+1305	+1032	
Importer benefits MCAs									
Budget flows	-784	-549	-36	+544	+369	+3	+259	+195	
Non-budget flows	-1000	-388	+953	-1325	+1116	-248	+1046	+837	
Total	-1784	-937	+917	-781	+1485	-245	+1305	+1032	
TRADE WITH EEC(9)									
% imports from EEC(9)									
total 1972	31.6	53.9	56.0	49.2	62.3	71.1	45.9	69.3	52.2
1978	38.0	50.1	51.4	44.7	57.4	69.0	49.4	73.4	50.8
1979(Q1-Q3)	40.8	49.9	50.3	45.0	56.7	63.9	50.4	74.9	50.8
manufactures 1972	37.1	63.1	72.4	68.3	80.1	79.8	53.3	81.2	64.7
(SITC 5-8) 1978	44.3	57.3	67.3	66.4	73.8	77.4	54.4	78.2	62.2
food 1972	32.4	55.7	41.2	49.7	47.6	69.1	24.3	47.3	46.7
(SITC 0,1) 1978	42.9	56.8	47.1	58.3	47.1	74.0	36.8	71.4	52.9
TRADE WITH UK									
Exports to UK 1978									
as % total exports	-	6.3	7.7	9.3	8.0	5.9	15.1	48.6	6.3
as % total imports	-	10.8	7.6	4.7	5.3	3.7	2.3	3.5	38.0
Imports from UK 1978									
as % total imports	-	4.4	5.9	4.0	7.1	9.1	14.3	67.3	5.7
as % total exports	-	9.0	6.5	3.3	5.1	5.9	2.5	5.6	37.8

References

A : Commission Paper COM(80)50 of 31 January 1980

B : Commission Paper COM(80)147 of 20 March 1980

C : Commission Paper COM(79)680 of 21 November 1979

D : Six Points given to Sig Cossiga

HM Treasury
20 April 1980

EHG(L)(80)3 REFERENCE A

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(80) 50 final

Brussels, 5th February 1980

CONVERGENCE AND BUDGETARY QUESTIONS

(Communication from the Commission to the Council)

CONVERGENCE AND BUDGETARY QUESTIONS

I. INTRODUCTION

1. At its meeting on 29/30 November the European Council reached certain conclusions on convergence and budgetary questions. Those examined in this communication are:

> "The Council re-affirmed the conclusions reached at their meetings in Brussels and Paris that achievement of the convergence of economic performance requires measures for which the Member States concerned are primarily responsible, that Community policies can and must play a supporting role within the framework of increased solidarity and that steps must be taken to strengthen the economic potential of the less prosperous countries of the Community.
>
> To these ends the European Council expressed its determination to promote the adoption of measures to improve the working of Community policies, to reinforce those policies most likely to favour the harmonious growth of the economies of the Member States and to reduce the disparities between these economies. They further declared the need, particularly with a view to the enlargement of the Community and necessary provisions for Mediterranean agriculture to strengthen Community action in the structural field.
>
> The European Council has carried out a thorough examination of the problem of the British contribution to the Community budget. It was agreed that the Commission's proposals concerning the adaptation of the financial mechanism could constitute a useful basis for a solution which would respect Community achievement and solidarity. This solution should not result in raising the 1 per cent VAT ceiling. In addition, the Commission is requested to pursue the examination of proposals for developing supplementary Community measures within the United Kingdom which will contribute to greater economic convergence; and which will also lead to a greater participation by the United Kingdom in Community expenditure. The Commission is asked to make proposals which will enable the Council of Ministers to pursue the search for appropriate solutions to be reached at the next meeting of the European Council."

2. The above conclusions of the Dublin European Council were consistent with the proposals which the Commission put to the Council on 21 November (COM(79) 680).

II. STRUCTURAL QUESTIONS

3. In its Communication to the Council of 21 November the Commission had already drawn attention to the need to strengthen structural and general investment policies within the Community. It has submitted a variety of proposals to the Council covering such key areas as energy, transport and industrial development. The Commission now urges the Council to reach rapid agreement on the proposals which it made on 30 November designed to help balance the agricultural markets and stabilize expenditure. The price proposals for the market year 1980-81 should be examined by the Council with the same objective in mind.

4. There are a number of other actions of particular relevance to the issues already raised by certain Member States. The Commission believes that the Council should give rapid consideration to them.

5. First the Council should pursue the new policy of rural regional investment programmes which was inaugurated by the adoption of the Mediterranean package in 1978 and 1979. In this respect, the Commission put to the Council in March 1979 a further series of structural proposals building on the principles developed in the Mediterranean package. The adoption of these proposals would virtually complete the regulations necessary for the implementation of the new five-year programme in the agricultural structural field based on the expenditure of 3 600 million ECU over the period 1980-1984.

6. Second the Council needs to consider how it can give effect to the declared willingness of the European Council to continue to strengthen the economic potential of the less prosperous countries. One method would be to take further steps designed to direct a greater volume of Community resources to those Member States. In this context the Commission has recently proposed that as regards the second tranche of the New Community Instrument a wider interpretation of infrastructure ~~proposals which it made on 30 November designed to help balance the~~

should apply to priority regions or to zones affected by economic difficulties, and that this should cover in particular some carefully selected housing projects. The Commission believes that in considering this proposal the Council could also consider increasing the volume of resources currently available to certain Member States participating in the European Monetary System for use as interest rebates. A specific regulation to give additional resources for regional development in these countries (on the lines of the programmes discussed in more detail in Section IV B) and to improve the working of Community policies, could be considered as a first move to give more help to the less prosperous members of the Community.

7. Actions of this kind on the part of the Council would be in line with the Commission proposal to the European Council that the rate of increase in structural and general investment policies should in future be significantly greater than the rate of increase in the size of the Community budget overall. The conclusions of the European Council, which are also consistent with the Resolution of the European Parliament on the draft 1980 budget, lead the Commission to re-affirm this proposition. If during the budgetary process this principle is not respected, the Commission undertakes to draw the attention of the Institutions to the situation without delay. The Commission will bear these aspects fully in mind in bringing forward its budgetary proposal for 1980 and will seek to go further in subsequent years.

III. THE FINANCIAL MECHANISM

8. As regards the United Kingdom's share of financing the Community budget, the Commission in its proposals of 21 November invited the Council to consider certain adaptations to the existing Financial Mechanism. In particular the Commission recommended the removal of the balance of payments limitation and suggested that the European Council in Dublin should define the conditions under which two further restrictions on the operation of the Mechanism could be lifted, i.e. the tranche system of repayment and the ceiling of 3% of the budget. The European Council agreed that these proposals "could constitute a useful basis for a solution". Since under the present Regulation the operation of the Financial Mechanism is due to be reviewed in 1981, the Commission proposes in the light of the European Council's conclusions, that an adapted Mechanism

should be a part of the solution to the problems of the United Kingdom over the Community budget, on the basis that its period of operation should cover the same period as that of such supplementary measures for expenditure as may be agreed.

IV. SUPPLEMENTARY COMMUNITY MEASURES FOR THE UNITED KINGDOM

9. In its proposals of 21 November, the Commission also stated that any measures on the expenditure side of the budget relating to the United Kingdom should be "special temporary and ad hoc". The Commission reaffirms the views and indications set out in part III of its November communication. It points out that the scope of the measures proposed, and therefore the speed of the solution, will depend very largely on the volume of resources which the European Council agrees should be devoted to them. As regards the basis of supplementary measures, different approaches are possible.

(A) Use of existing Community instruments

10. One possibility would be to enlarge certain Community funds by attributing extra resources to the United Kingdom over a defined period.

11. The two instruments which come to mind are the Social Fund and the Regional Development Fund. As regards the Social Fund, expenditure on projects in the Member States under the Fund regulations is not governed by quota arrangements and the actual shares in expenditure have been very variable. This has in the past arisen partly as a result of the internal economic policies followed by Member States. The Commission hopes that the United Kingdom will be able to draw the maximum benefit from the Fund in future years; it also draws attention to the possibilities open to the steel sector within the framework of the European Coal and Steel Community.

12. In the case of the Regional Fund, a distinction must be drawn between the 'quota' and 'non-quota' sections. Any changes in the shares laid down in the basic Fund regulation would require formal modification by the Council on a Commission proposal. Quota shares could be changed either within the existing Regional Fund, or by an increase in the total resources available to it. Whilst an addition of resources to the Regional Fund would enable the absolute amounts to other Member States to be maintained, it would of course give rise to a reduction in their percentage shares. As in the case of the Social Fund, even relatively modest increases in the Regional Fund, if devoted wholly to the United Kingdom, would give rise to a disproportionate percentage share. This could remove much of the balance within the Fund achieved only after long and arduous negotiations with the Member States.

13. The non-quota section of the Regional Fund was set up by the Council at 5% of the full Fund. An increase in the resources available to the non-quota section would also require a formal modification to the regulation concerned. Whilst some increase in the total size of the non-quota section could certainly be envisaged, it is clear that it would only be possible to make very limited adjustments within the existing endowment.

14. For these reasons, the Commission believes that to increase expenditure on an ad hoc basis from either the Regional or Social Fund within a single Member State would have a seriously distorting effect on policies of major importance to the Community as a whole.

(B) A Council Regulation based on Article 235

15. In the light of these considerations, the Commission believes that a Council Regulation governing expenditure within the United Kingdom and based on Article 235 of the Treaty, is a preferable option. However, the Commission stresses that to avoid wasteful use of Community resources any system of additional expenditure on this basis would need to be placed within a coherent framework and in line with existing and new Community policies. It would be necessary to ensure that the

solution adopted made a positive contribution, not only to the immediate problem of budgetary imbalance, but also to the promotion of economic convergence in the longer term.

Here the Commission recalls the emphasis given by the European Council at Dublin to the need for complementarity between the role of the Member States themselves in adopting policies designed to bring about convergence of economic performance, and the role of the Community in supporting such policies.

16. Thus an approach based on Article 235, rather than one within the existing structural funds, needs to be placed firmly within the framework of Community structural policies. Additional expenditure should be clearly identified as being consistent with the policy directions already adopted by the Community in respect of the structural Funds, and therefore with two basic principles.

17. First there needs to be an approach to expenditures based on specific programmes. The concept of indicative programmes within which specific project expenditures are undertaken, has played an important role in the quota section of the Regional Fund, leading to the adoption of programmes for each Member State in May 1979. It has been taken further in the non-quota section of the Regional Fund and was also established in the Regulation for the interest rebate subsidy scheme in respect of the European Monetary System. It would therefore be appropriate that in a solution based on Article 235, Community expenditure be clearly established as a contribution to clearly defined programmes.

18. Second there should be a component related to specific regions or problem areas. The Community has developed such an approach in all of its major structural expenditure. This is evident in the case of the Regional Fund, but is of major importance also in the Social Fund where half of expenditures are based on a specifically regionalized approach. Within the structural part of the Common Agricultural Policy, the development of a strong regional basis has been the main new policy element of recent proposals and decisions in this field.

These developments should be seen in the light of the Community's over-riding interest in promoting the convergence of its economies, and it would therefore be consistent with this interest that additional expenditures should be territorially defined.

19. The Commission therefore suggests an approach based upon a number of specific programmes in which the Community could participate, and from which it could as a whole draw benefit. These should in the first instance be directed to specially disadvantaged regions or problem areas. Programmes for regions of Community-wide interest such as Northern Ireland, or for those suffering from special industrial problems or from remoteness, could provide an appropriate framework for a scheme of expenditures based on Article 235. These programmes could in certain cases cover expenditure on such sectors as those mentioned in the Commission's communication of 21 November 1979 (exploitation of coal resources, measures to promote transport infrastructure), as well as those designed to link the United Kingdom more closely to the rest of the Community and to facilitate intra Community trade. The Commission believes that these programmes could be further broadened to cover certain problems such as urban decay which, while constituting a major factor of regional disadvantage, occur in parts of the United Kingdom. This additional contribution should help the United Kingdom in the efforts it is already making in some of these fields.

20. Within this approach the basic Regulation could:

- specify the amount and duration of assistance
- define the regions or problem areas to be assisted
- set out the procedure for agreement to the programmes between the Commission and the Member State concerned
- define the rate of Community participation and the kinds of infrastructure and other investment eligible for assistance within the regions or problem areas
- contain provision for a review before the expiry of the assistance (see paragraph 21).

21. The Commission believes that it will be necessary to agree on a review procedure well before the expiry of the measures for supplementary expenditure within the United Kingdom. The purpose of this review would be to examine the effectiveness of the actions taken in respect of the United Kingdom as regards both the Financial Mechanism and the special measures, in the framework of progress towards a better balance between Community policies and of expenditure within the Community budget.

V. CONCLUSION

22. In this paper the Commission has suggested a framework for the Community measures requested by the European Council in the fields of convergence and the budget. The Council will now wish to consider these ideas. Real progress will anyway need to be made towards a better balance within Community policies, in terms of stabilizing expenditure on surpluses under the agricultural policy, strengthening the existing structural policies, and establishing policies whose need is not questioned but on which the Council have not yet succeeded in reaching agreement.

In the meantime the Commission proposes to work out with the Member States concerned the details of possible programmes which might fit into the framework of the kind suggested. Formal proposals for regulations under Article 235 will come forward as and when appropriate.

EHG (L)(80) 3

REFERENCE B.

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(80) 147 final

Brussels, 20th March 1980

CONVERGENCE AND BUDGETARY QUESTIONS

Communication from the Commission
to the European Council
(31st March - 1st April 1980)

COM(80) 147 final

CONVERGENCE AND BUDGETARY QUESTIONS

I. INTRODUCTION

1. The Commission has sent to the Council two communications in which it outlined what is considered to be the major elements necessary to deal with certain questions which have arisen over strengthening the Community contribution to the convergence of Member States' economic policies; and to resolve the problems that have arisen with regard to the United Kingdom over the Community budget (COM(79)680 and COM(80)50).

2. These problems arise in part over the financing and in part over expenditure from the Community budget. The proposals made by the Commission correspond to both of these aspects as well as to certain wider convergence matters of concern to less prosperous Member States of the Community.

3. The purpose of this communication is to bring together in a single document the proposals that the Commission has made, and thus to enable the European Council to give its views on the major questions which must now urgently be resolved if the cohesion of the Community is to be safeguarded. It will be for the Commission subsequently to submit the necessary draft legislation to the Council and the European Parliament for it to be adopted following the normal Community procedures. The Commission has also updated the figures for financing and expenditure from the budget given in the reference paper of 12 September 1979, and the results are annexed to this communication.[1]

II. PRINCIPLES

4. The Commission consider it to be appropriate to reiterate the fundamental principles that must be respected in any attempt to resolve these convergence and budgetary questions. First, the decisions which the European Council is invited to take have to be seen in the context of the need for Member States themselves to contribute to greater integration within the Community. At the same it is necessary to achieve a better balance between the Community's policies overall in the interests of creating a dynamic Community capable of making a real contribution to the prosperity of its members. Second, any measures which are agreed should, while contributing to a reduction of the major structural problems of the economies of the Member States concerned, be consistent with the interests of the Community in general, and its economic and social policies in particular. Third, the institutional processes and procedures of the Community must be scrupulously observed. Fourth, any solution must be found within the Community budget and must respect the integrity of the Community's system of own resources; its objective must not be to put a Member State in a position of juste retour in respect of the Community budget.

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[1] See also SEC(80)394 and SEC(80)428

III. CONVERGENCE

5. The Commission has in its earlier communications pointed to the need for a better balance between Community policies. It has, for example, urged that the Council reach early agreement on certain proposals in the agricultural structural field. It has invited the European Council to endorse the principle that the rate of increase in expenditure on general investment and structural policies should be greater than the rate of increase in the size of the budget and has undertaken to draw the attention of the Institutions to the situation if this principle is not respected.

6. In the context of the present budgetary issue, the Commission has proposed that extra resources be devoted to the less prosperous Member States in order to ensure that solutions to the immediate problem do not undermine the policies which must be adopted for the longer term. The Commission considers that one effective and administratively simple method would be to make further use of the system of interest rebates set up in conjunction with the European Monetary System and at present applied to certain loans from the European Investment Bank and the New Community Instrument. The Commission has also said that it would be willing to consider a specific regulation to give additional resources for regional development to these countries and to improve the working of Community policies. Since the amount and scope of such extra resources is currently related to the resolution of the present budgetary problem, it would be premature to present more formal proposals at this stage.

IV. FINANCIAL MECHANISM

7. The Financial Mechanism was introduced in 1976 by Council Regulation 1172 on a proposal of the Commission. Its objective was to ensure that the operation of the system of own resources should not, through the play of particular circumstances, place a disproportionate burden on Member States, such as to jeopardise progress towards the convergence of Member States' economies. The decision on the Financial Mechanism made provision for a review of its operation in 1981. The Commission has now proposed that the present examination should constitute the review provided for and that certain of the constraints on the operation of the mechanism should be removed.

8. The Commission proposes, therefore, that the balance of payments constraint referred to in Article 4 be removed. It further believes that the European Council could define the conditions under which the tranche system of repayment (Article 3) and the ceiling of 3% of the budget (Article 6) could be eliminated. Thus amended, the Financial Mechanism would in the Commission view, be able to play

the role intended for. In financial terms, and on the basis of its budget proposals for 1980, the Commission now estimates that the complete application of these proposals would result in a payment to the United Kingdom in respect of 1980, of 600 MEUA gross (495 MEUA net).

V. SUPPLEMENTARY COMMUNITY MEASURES

9. The European Council at Dublin requested the Commission to make proposals for developing supplementary Community measures within the United Kingdom. In its communication of 5 February the Commission stated both what the nature of such measures should be and what could constitute an appropriate legal basis. It may be helpful to add certain considerations on both these aspects.

10. The Commission has proposed that the legal basis of such measures should, as was the case with the introduction of the Financial Mechanism in 1975, be based on Article 235 of the Treaty. Certain legal considerations in this respect were outlined in the Commission's communication of 31 October 1979 (COM(79)620), and these remain appropriate in the present context. In particular, the use of Article 235 requires that the measures in question should contribute to the realisation of the objectives of the Community. Moreover the use of Article 235 as the basis of the necessary legislation ensures that the approval of the Council and the opinion of the European Parliament will be sought through the normal Community procedures.

11. The basic concept is of a special, temporary and ad hoc action in the shape of a number of expenditure programmes within regions of the United Kingdom, which would be part-financed by the Community. The programmes must be clearly defined and must respond not only to the aim of increasing United Kingdom participation in Community expenditure, consistently with the objectives of Community policies, but also to the general Community interest and to the need for convergence of its economies. From the work which the Commission has undertaken on possible programmes, it is already evident that whatever resources the European Council may decide to provide for this purpose could be fully used in accordance with the principles and criteria set out.

12. The regions within which special investment programmes could be developed should in the first instance be those at present covered by the Regional Development Programmes provided for in the regulation establishing the European Regional Development Fund. Nevertheless to meet particularly

serious cases,or where there is a special Community interest, financial participation by the Community would also be possible in certain programmes outside these areas. The regional framework comprises a response to the need at the level of the United Kingdom and the Community to reduce disparities between regions, and to contribute to the resolution of some of the major structural problems.

13. Within the regions thus identified, the Community could contribute to public expenditure on economic and social infrastructure on the basis of a coherent planning process between the Community and the Member State. The programmes submitted by the Member State would be of a pluriannual nature, and would provide the economic and financial information necessary to enable decisions to be taken on the most appropriate areas within them for Community financial participation. A consultative procedure would be developed under which the Council would be formally associated with the examination of each programme.

VI. DURATION

14. The proposals which the Commission has made include ideas for an adapted Financial Mechanism and for certain measures of a special and temporary nature to respond to the particular problems which now face the United Kingdom. In its communication of 21 November 1979 the Commission suggested that whatever measures were adopted should be limited in time (perhaps to three or four years); and in its communication of 5 February the Commission added that this period might coincide with the next period of operation of the Financial Mechanism. Legislation covering both actions should contain provision for a review well before their expiry. The aim of the review would be to examine the effectiveness of the actions taken in the framework of progress towards a better balance between Community policies and expenditure within the budget. It can be to the advantage of no one to see an early recurrence of present difficulties; and it will be for the European Council to see that decisions are taken and followed through which will lead to the better balance between policies which is required.

Table 1a: Estimates and results for 1979 for expenditure, receipts and balances broken down by Member State
(MCAs paid by exporting Member States on behalf of importing Member State re-charged to importing Member States)

COUNTRY	Expenditure for Categories I-V		Financing (including Art. 131)		Balance (Expenditure-Financing)	
	Estimate	Result	Estimate	Result	Estimate	Result
	1	2	3	4	5	6
A. In mEUA						
B	1,209	1,335[1]	871	940	+ 338	+ 395
DK	551	709	327	329	+ 224	+ 380
D	2,837	2,858	3,992	4,288	- 1,155	- 1,430
F	2,285	2,730	2,607	2,808	- 322	- 78
IRL	463	647	98	102	+ 365	+ 545
I	2,333	2,279	1,579	1,745	+ 754	+ 534
L	269	233[2]	18	18	+ 251	+ 215
N	1,323	1,595	1,251	1,307	+ 72	+ 288
UK	1,764	1,597	2,291	2,446	- 527	- 849
Total	13,034	13,983	13,034	13,983	0	0
B. As %						
B	9.3	9.6	6.68	6.72	+ 2.6	+ 2.9
DK	4.2	5.1	2.51	2.35	+ 1.7	+ 2.8
D	21.8	20.4	30.63	30.67	- 8.8	- 10.3
F	17.5	19.5	20.00	20.08	- 2.5	- 0.6
IRL	3.6	4.6	0.75	0.73	+ 2.8	+ 3.9
I	17.9	16.3	12.11	12.48	+ 5.8	+ 3.8
L	2.0	1.7	0.14	0.13	+ 1.9	+ 1.6
N	10.2	11.4	9.60	9.35	+ 0.6	+ 2.0
UK	13.5	11.4	17.58	17.49	- 4.1	- 6.1
Total	100	100	100	100	0	0

[1] including 459 m EUA for European Community administrative expenses

[2] including 202 m EUA for European Community administrative expenses

Table 1b: Estimates and results for 1979 for expenditure, receipts and balances broken down by Member State

(MCAs not re-charged)

COUNTRY	Expenditure for Categories I-V		Financing (including Art. 131)		Balance (Expenditure-Financing)	
	Estimate	Result	Estimate	Result	Estimate	Result
	1	2	3	4	5	6
A. In mEUA						
B	1,239	1,368	871	940	+ 368	+ 428
DK	782	837	327	329	+ 455	+ 508
D	2,974	3,002	3,992	4,288	- 1,018	- 1,286
F	2,517	2,927	2,607	2,808	- 90	+ 119
IRL	676	764	98	102	+ 578	+ 662
I	2,060	1,943	1,579	1,745	+ 481	+ 198
L	269	233	18	18	+ 251	+ 215
N	1,480	1,713	1,251	1,307	+ 229	+ 406
UK	1,037	1,196	2,291	2,446	- 1,254	- 1,250
Total	13,034	13,983	13,034	13,983	0	0
B. As %						
B	9.5	9.8	6.68	6.72	+ 2.8	+ 3.1
DK	6.0	6.0	2.51	2.35	+ 3.5	+ 3.7
D	22.3	21.5	30.63	30.67	- 7.8	- 9.2
F	19.3	20.9	20.00	20.08	- 0.7	+ 0.8
IRL	5.1	5.4	0.75	0.73	+ 4.4	+ 4.7
I	16.3	13.9	12.11	12.48	+ 3.7	+ 1.4
L	2.1	1.7	0.14	0.13	+ 2.0	+ 1.6
N	11.4	12.2	9.60	9.35	+ 1.7	+ 2.8
UK	8.0	8.6	17.58	17.49	- 9.6	- 8.9
Total	100	100	100	100	0	0

[1] including 459 m EUA for European Community administrative expenses

[2] including 202 m EUA for European Community administrative expenses

? Aid on top.

PRIME MINISTER

1. 1552 and 1683 meua were arrived at by the Commission after excluding from the payments of each member certain unallocated items, mainly the overseas aid of the Community. The footnote to the table of net contributions which was in the Dublin briefing showed separately these "unallocated" aid elements. They were then forecast at 87 meua for 1979 and 127 meua for 1980 for the UK.

2. But if the French change the reference point to our actual payments at the end of the transition, there is no longer any logic in the "unallocated" elements. For the calculation of our transitional relief under Article 131 (and for the purposes of the present Financial Mechanism) all our payments counted and there was no unallocated aid element. If the new philosophy is that we are "extending the transition" the Article 131 basis is the right one.

3. In the table the figure for 1979 (and 1980) is on a different basis from the figures for earlier years. Correcting the 1979 figure for the latest Commission Forecast we have:-

1977 + 126 (i.e. gain)) including aid
1978 - 407 (inc aid). -228)
1979 - 849 plus 87 for aid = -936

4. The averages are then:-

i 3 years 1977-9 : 406
ii 2 years 1978-9 : 672

5. The 2 year average of 672 looks too high. But if we were guaranteed 672 for 1980 and the next 2 years, including our contribution to EEC aid it would look better. The latest estimate for our contribution to EEC aid in 1980 is 157. So 672 including our aid obligations is equivalent to 672-157 = 515 if we are left to bear our aid share on top. And aid expenditure is rising. / 6.

6. One argument for a 2 year average is that the transition period was in 2 parts: 5 years and then a final 2 years.

7. The French may not have taken the point about aid. They seemed to be regarding our 1979 payment as 850 meua, not 850 + 87 meua.

Ktc

(KC)
28/4/80

CONFIDENTIAL

GPS 3000Z
CONFIDENTIAL
FRAME GENERAL
DESKBY 260830Z
FM UKREP BRUSSELS 252145Z APRIL 80
TO IMMEDIATE FCO
TELEGRAM NUMBER 2120 OF 25 APR
INFO IMMEDIATE ROME, PARIS, BONN.
INFO PRIORITY COPENHAGEN, THE HAGUE, DUBLIN, LUXEMBOURG
INFO SAVING BRUSSELS.

EUROPEAN COUNCIL: CONVERGENCE.

1. FOLLOWING IS TEXT OF PRESIDENCY NOTE TO THE EUROPEAN COUNCIL, MINUS ANNEX II (FRENCH TEXT ON GENERAL PRINCIPLES) AND ANNEX IV (RESULTS OF THE AGRICULTURE COUNCIL) WHICH HAVE ALREADY BE COMMUNICATED TO YOU - THE FIRST BY HAND OF FRANKLIN AND THE SECOND IN OUR TELNO 2051.

2. RESIDENT CLERK: PLEASE ENSURE DISTRIBUTION TO MEMBERS OF EUROPEAN COUNCIL DELEGATION AS SOON AS POSSIBLE:

BEGINS:-

1. THE ECO/FIN COUNCIL MEETING ON 21 APRIL AND THE FOREIGN AFFAIRS COUNCIL MEETING ON 22 APRIL COMPLETED PREPARATIONS FOR THE EUROPEAN COUNCIL'S DISCUSSIONS ON THE ITEM ''CONVERGENCE AND BUDGETARY QUESTIONS'', TAKING AS A BASIS A NOTE DRAWN UP BY THE CHAIRMAN OF THE PERMANENT REPRESENTATIVES COMMITTEE.

AT ITS MEETING ON 21, 22, 23 AND 24 APRIL, THE AGRICULTURE COUNCIL CONTINUED THE EXAMINATION OF THE COMMISSION PROPOSALS ON THE FIXING OF AGRICULTURAL PRICES FOR 1980/1981 AND RELATED MEASURES AND THOSE RELATING TO CHANGES IN THE COMMON AGRICULTURAL POLICY TO HELP BALANCE THE MARKETS AND STREAMLINE EXPENDITURE.

2. IN THE PRESENT NOTE THE PRESIDENCY SUMMARIZES THE LATEST POSITION IN THE DISCUSSIONS ON THESE AREAS FOLLOWING THESE COUNCIL MEETINGS. IT WOULD ALSO DRAW ATTENTION HERE TO THE FACTORS MENTIONED IN POINT 17.

/BASIC PRINCIPLES

CONFIDENTIAL

I.

BASIC PRINCIPLES.

3. THERE IS A CONSENSUS THAT, AT THE BEGINNING OF ITS CONCLUSIONS ON CONVERGENCE AND BUDGETARY QUESTIONS, THE EUROPEAN COUNCIL SHOULD REAFFIRM A NUMBER OF BASIC PRINCIPLES.

4. A TEXT, DRAWN UP BY THE PRESIDENCY IN THE LIGHT OF THE COUNCIL'S DISCUSSIONS ON THIS MATTER ON 22 APRIL, IS GIVEN IN ANNEX I.

A TEXT PRESENTED TO THE COUNCIL BY THE FRENCH DELEGATION IS GIVEN IN ANNEX II. ANNEX III CONTAINS A SUMMARY OF THE DISCUSSION ON IT IN THE PERMANENT REPRESENTATIVES COMMITTEE.

II.

BUDGETARY QUESTIONS.

5. THERE ARE THREE MAIN FACTORS IN THE PROBLEM OF THE UNITED KINGDOMS PART IN FINANCING THE COMMUNITY BUDGET: TRADE WITH THE COMMUNITY ACCOUNTS FOR A SMALLER PROPORTION OF THE UNITED KINGDOM'S FOREIGN TRADE THAN IT DOES FOR THE OTHER MEMBER STATES: EAGGF GUARANTEE SECTION EXPENDITURE IN RECENT YEARS HAS INCREASED TO A GREATER EXTENT THAN WAS EXPECTED: AND EXPENDITURE ON OTHER COMMUNITY POLICIES HAS NOT YET RISEN TO A SATISFACTORY LEVEL.

6. THE SIZE OF THE NET BALANCE OF THE UNITED KINGDOM'S PART IN FINANCING THE 1980 BUDGET - TOGETHER WITH THE OTHER MEMBER STATES' - HAS BEEN FORECAST BY THE COMMISSION IN TWO SETS OF FIGURES, BASED ON ALTERNATIVE METHODS OF ALLOCATING MONETARY COMPENSATORY AMOUNTS. SOME DELEGATIONS HAVE DRAWN UP SIMILAR FORECASTS ON THE BASIS OF DIFFERENT PARAMETERS, SUCH AS THE INCLUSION OF CARRY-OVERS FROM 1979 AND DIFFERENT METHODS OF CHARGING ADMINISTRATIVE EXPENDITURE. THESE FORECASTS HAVE BEEN COLLATED IN A SEPARATE NOTE.

7. THE COUNCIL'S DISCUSSIONS ON 21 AND 22 APRIL RESULTED IN A CONSENSUS WHEREBY, IN ORDER TO DEAL WITH THE PROBLEMS POSED BY THE SITUATION OF THE UNITED KINGDOM AND AS PART OF AN OVERALL SOLUTION, TWO SERIES OF MEASURES ARE TO BE CONSIDERED. ADJUSTMENT OF THE FINANCIAL MECHANISM INTRODUCED IN 1976 AND ADOPTION OF ADDITIONAL COMMUNITY MEASURES TO HELP THE UNITED KINGDOM.

FINANCIAL MECHANISM.

8. FROM THE COUNCIL'S DISCUSSIONS A CONSENSUS HAS EMERGED IN FAVOUR OF DISCONTINUING:

- THE LIMIT ON REPAYMENTS IN THE EVENT OF A POSITIVE BALANCE OF PAYMENTS:

- THE SYSTEM OF REPAYMENT BY TRANCHES:

- THE CEILING OF 3 PER CENT OF THE BUDGET:

SOME DELEGATIONS HOWEVER ARE ASKING FOR THIS CEILING OF 3 PER CENT OF THE BUDGET TO BE REPLACED BY AN ANNUAL CEILING IN ABSOLUTE TERMS.

ACCORDING TO THE COMMISSION'S ESTIMATES BASED ON ITS BUDGET PROPOSALS FOR 1980, THE DISCONTINUATION OF THE THREE LIMITS WHICH IT HAS PROPOSED (POSITIVE BALANCE OF PAYMENTS, REPAYMENT BY TRANCHES, 3 PER CENT CEILING) WOULD MEAN A PAYMENT TO THE UNITED KINGDOM FOR 1980 OF AROUND 600 MEUA GROSS (495 MEUA NET).

ADDITIONAL COMMUNITY MEASURES.

9. THE COMMUNITY HAS REACHED A CONSENSUS IN FAVOUR OF ADOPTING, IN THE FORM OF A REGULATION BASED ON ARTICLE 235, ADDITIONAL COMMUNITY MEASURES TO HELP THE UNITED KINGDOM. SUCH MEASURES SHOULD BE COMPATIBLE WITH THE OBJECTIVES OF THE COMMUNITY POLICIES FOSTERING THE CONVERGENCE OF ECONOMIES AND BE CONSONANT WITH THE GENERAL INTERESTS OF THE COMMUNITY.

10. THERE IS ALSO A CONSENSUS THAT THE CRITERIA FOR THE ELIGIBILITY OF PROGRAMMES WILL HAVE TO BE SPECIFIED IN THE BASIC REGULATION.

11.1. HOWEVER, THERE IS AS YET NO AGREEMENT ON THE PROCEDURE TO BE FOLLOWED FOR THE IMPLEMENTATION OF THE ADDITIONAL MEASURES. THE EUROPEAN COUNCIL COULD REQUEST THE COMMISSION TO PROPOSE A SUITABLE PROCEDURE IN CONNECTION WITH ITS PROPOSAL FOR THE BASIC REGULATION, WHICH IN ANY EVENT WOULD HAVE TO BE ADOPTED BY THE COUNCIL UNANIMOUSLY.

12. THE COUNCIL DECIDED TO LEAVE THE QUESTION OF THE OVERALL BUDGET FOR SUCH MEASURES TO THE EUROPEAN COUNCIL.

/DURATION.

DURATION.

13. THERE IS A CONSENSUS THAT THE TWO MEASURES ENVISAGED (AMENDED FINANCIAL MECHANISM AND ADDITIONAL COMMUNITY MEASURES) SHOULD LAST FOR THE SAME PERIOD AND THAT THIS PERIOD SHOULD BE LIMITED.

14.1 HOWEVER, IT HAS NOT BEEN POSSIBLE TO REACH AGREEMENT ON THE LENGTH OF THIS PERIOD.

14.2 THE UNITED KINGDOM DELEGATION HAS REQUESTED THAT THE TWO MEASURES SHOULD BE LAID DOWN, WITH A REVIEW CLAUSE, FOR A PERIOD OF AT LEAST SIX YEAR.

14.3. IN THE COMMISSION'S VIEW, THE ADJUSTMENT OF THE FINANCIAL MECHANISM SHOULD APPLY FOR A PERIOD OF THREE TO FOUR YEARS, WITH A REVIEW TAKING PLACE AT A SUFFICIENT INTERVAL BEFORE IT EXPIRY.

14.5 THE PRESIDENCY HAS SUGGESTED THAT THE FORMULA PROPOSED BY THE COMMISSION BE ASSESSED IN THE LIGHT OF THE MEDIUM-TERM TREND TOWARDS DIVERSIFICATION OF COMMUNITY EXPENDITURE, ESPECIALLY THROUGH STRUCTURAL AND INVESTMENT POLICIES. IN THE VIEW OF THE PRESIDENCY, IT IS ONLY IN THE CONTEXT OF SUCH DIVERSIFICATION AND THE ROUNDING, IN THE MEDIUM TERM, OF COMMUNITY POLICIES THAT A LASTING SOLUTION CAN BE FOUND TO THE PROBLEM OF THE UNITED KINGDOM'S SHARE OF THE COMMUNITY BUDGET.

III.

CONVERGENCE

15.1. SOME DELEGATIONS HAVE EXPRESSED THE VIEW THAT THE EUROPEAN COUNCIL SHOULD, IN ACCORDANCE WITH THE CONCLUSIONS OF ITS DEUBLIN MEETING, MAKE KNOWN ITS POSITION ON CERTAIN MEASURES AIMED AT PROMOTING A GREATER CONVERGENCE OF THE ECONOMIC PERFORMANCES OF THE MEMBER STATES: THEY HAVE REFERRED TO THE FOLLOWING COMMISSION PROPOSALS.

15.2. THE COMMISSION HAS INVITED THE EUROPEAN COUNCIL TO ADOPT THE PRINCIPLE THAT THE RATE OF INCREASE IN EXPENDITURE FOR INVESTMENT PURPOSES AND FOR STRUCTURAL MEASURES SHOULD BE APPRECIABLY HIGHER THAN THE RATE OF GROWTH OF THE BUDGET.

15.3 THE COMMISSION HAS ALSO PROPOSED THAT SPECIAL RESOURCES BE CHANNELLED TO THE LESS PROSPEROUS MEMBER STATES BY INCREASED USE OF THE INTEREST REBATE SYSTEM, BY GRANTING EXTRA RESOURCES FOR REGIONAL DEVELOPMENT IN THOSE COUNTRIES AND BY IMPROVING THE OPERATION OF COMMUNITY FUNDS.

 /FINANCIAL CEILING

IV.

FINANCIAL CEILING

16. THE QUESTION OF THE CEILING OF 1 PER CENT OF VAT HAS BEEN RAISED DURING THIS PREPARATORY DISCUSSION. SOME DELEGATIONS HAVE STATED CATEGORICALLY THAT THERE CAN BE NO QUESTION OF THIS CEILING BEING EXCEEDED. OTHERS HAVE OBSERVED THAT THIS CANNOT BE MADE A PRINCIPLE. THEY REGARD IT AS A LIMIT WHICH WILL CERTAINLY HAVE TO BE OBSERVED IN THE CASE OF THE UNITED KINGDOM'S PROBLEM (SEE THE CONCLUSIONS OF THE EUROPEAN COUNCIL MEETING IN DUBLIN) BUT MUST NOT BE REGARDED AS HARD AND FAST IN THE OVERALL CONTEXT WITH A VIEW TO THE FUTURE DEVELOPMENT OF COMMUNITY POLICIES.

V.

OTHER PROBLEMS

17.1 BEARING IN MIND THE CONCLUSIONS OF THE EUROPEAN COUNCIL IN DUBLIN, IN VIEW ALSO OF THE PRECONDITION INVOLVED FOR ONE DELEGATION AND OF THE FACT THAT- IN THE PRESIDENCY'S OPINION- A NUMBER OF OTHER PROBLEMS MUST BE SETTLED, THERE APPEARS TO BE A NEED FOR A CONSENSUS TO BE REACHED ON THE IMPORTANT MATTERS CURRENTLY UNDER DISCUSSION IN THE AGRICULTURAL SECTOR (PRICES FOR THE NEW MARKETING YEAR, ADJUSTMENT MEASURES, ORGANIZATION OF THE MARKET IN SHEEPMEAT).

17.2 THE AGRICULTURE COUNCIL'S CONTRIBUTION ON THESE MATTERS IS GIVEN IN ANNEX IV.

ONE DELEGATION HAS SAID THAT THIS CONTRIBUTION DOES NOT PROVIDE THE EUROPEAN COUNCIL WITH SUFFICIENTLY PRECISE AND SPECIFIC MATERIAL TO WORK ON FOR ALL THE AGRICULTURAL PROBLEMS IN QUESTION AND HAS REITERATED THE PRECONDITION WHICH IT SET IN THIS CONNECTION.

18. THE PRESIDENCY WOULD ALSO EMPHASIZE THE IMPORTANCE TO SEVERAL DELEGATIONS OF ADOPTING GUIDELINES AND A TIMETABLE FOR THE FISHERIES POLICY AND OF MAKING HEADWAY TOWARDS COMMUNITY SOLUTIONS IN THE FIELD OF ENERGY.

/BASIC PRINCIPLES

BASIC PRINCIPLES

(TEXT DRAWN UP BY THE PRESIDENCY)

THERE IS A CONSENSUS THAT AT THE START OF ITS DISCUSSIONS ON CONVERGENCE AND BUDGETARY QUESTIONS THE EUROPEAN COUNCIL SHOULD REAFFIRM CERTAIN BASIC PRINCIPLES.

THESE PRINCIPLES COULD BE AS FOLLOWS:

1. THE COMMUNITY SHALL HAVE AS ITS TASK, BY ESTABLISHING A COMMON MARKET AND PROGRESSIVELY APPROXIMATING THE ECONOMIC POLICIES OF MEMBER STATES, TO PROMOTE THROUGHOUT THE COMMUNITY A HARMONIOUS DEVELOPMENT OF ECONOMIC ACTIVITIES, A CONTINUOUS AND BALANCED EXPANSION, AN INCREASE IN STABILITY, AN ACCELERATED RAISING OF THE STANDARD OF LIVING AND CLOSER RELATIONS BETWEEN THE STATES BELONGING TO IT.
(TEXT OF ARTICLE 2).

2. THE ACHIEVEMENTS OF THE COMMUNITY ARISING FROM THE IMPLEMENTATION OF THE TREATIES MUST NOT BE WEAKENED OR CALLED INTO QUESTION. THE EUROPEAN COUNCIL HERE REAFFIRMS IN PARTICULAR THE PRINCIPLES GOVERNING THE COMMON AGRICULTURAL POLICY, THE COMMON COMMERCIAL POLICY AND THE SYSTEM OF OWN RESOURCES:

- THE COMMON AGRICULTURAL POLICY IS FUNDAMENTALLY IMPORTANT SINCE ON IT DEPEND THE EVERYDAY LIFE AND THE FUTURE OF A LARGE PART OF THE POPULATION OF THE COMMUNITY. IT MUST FULFIL ALL THE OBJECTIVES SET FOR IT IN ARTICLE 39 OF THE TREATY OF ROME:

- THE COMMON COMMERCIAL POLICY IS THE EXPRESSION OF A COMMUNITY WHICH IS OPEN TO THE OUTSIDE WORLD IN ALL SECTORS AND WHOSE FUNCTION IT IS TO EXPORT. IT IS THE MEMBER STATES' OBJECTIVE TO CONTRIBUTE THROUGH THIS POLICY, THEREBY SERVING THE COMMON INTEREST, TO THE HARMONIOUS DEVELOPMENT OF WORLD COMMERCE, TO THE PROGRESSIVE ABOLITION OF RESTRICTIONS ON INTERNATIONAL TRADE AND TO THE LOWERING OF CUSTOMS BARRIERS:

- OWN RESOURCES ARE INTENED TO PROVIDE THE FINANCE FOR COMMUNITY POLICIES. THEY ARE THE COMMUNITY'S OWN AND CANNOT BE REGARDED AS CONTRIBUTIONS FROM THE MEMBER STATES.

3. IT IS IN THE NATURE OF THE COMMUNITY TO EVOLVE THE MOVE AHEAD. IT IS THEREFORE NECESSARY TO MAKE USE OF THE POSSIBILITIES WHICH THE TREATIES PROVIDE FOR DEVELOPING COMMON POLICIES IN ORDER TO FACE UP TO THE CHALLENGES OF THE 1980'S AND, BY REDUCING THE DISPARITIES BETWEEN THE ECONOMIES OF THE MEMBER STATES, TO ENCOURAGE HARMONIOUS ECONOMIC GROWTH. THE EUROPEAN COUNCIL IS CONVINCED THAT IN THIS WAY NOT ONLY WILL MEMBER STATES EXPERIENCE NEW FORMS OF MUTUAL SOLIDARITY, BUT EXISTING SOLIDARITY WILL THEREBY BE STRENGTHENED.

/4. WHILE

4. WHILE THE MAIN RESPONSIBILITY FOR A GREATER CONVERGENCE OF ECONOMIC PERFORMANCES LIES WITH THE MEMBER STATES, COMMUNITY POLICIES CAN AND MUST PLAY A SUPPORTIVE ROLE IN THE CONTEXT OF INCREASED SOLIDARITY. TO THIS END, A GREATER EFFORT WILL HAVE TO BE MADE TO STRENGTHEN THE ECONOMIC POTENTIAL OF THE LESS PROSPEROUS MEMBER STATES.

5. IN ACCORDANCE WITH THE CONCLUSIONS OF THE PARIS SUMMIT OF 1914, THE COMMUNITY INSTITUTIONS SHOULD SEEK TO AVOID A SITUATION WHEREBY, DURING THE PROCESS OF CONVERGENCE OF THE MEMBER STATES' ECONOMIES, SITUATIONS ARISE WHICH ARE UNACCEPTABLE TO A GIVEN MEMBER STATE AND INCOMPATIBLE WITH THE PROPER FUNCTIONING OF THE COMMUNITY (1).

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(1) SOME DELEGATIONS THINK THIS POINT WOULD BE BETTER PLACED IN THE INTRODUCTION TO PART II OF THE NOTE FROM THE PRESIDENCY.

ANNEX III

SUMMARY OF THE EXCHANGE OF VIEWS HELD BY THE PERMANENT REPRESENTATIVES COMMITTEE ON THE FRENCH DELEGATION'S '' DRAFT SUMMARY OF CONCLUSIONS''

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1. ON 24 APRIL 1980 THE PERMANENT REPRESENTATIVES COMMITTEE HELD A DETAILED EXCHANGE OF VIEWS ON THE ''DRAFT SUMMARY OF CONCLUSIONS OF THE EUROPEAN COUNCIL - GENERAL PRINCIPLES'' SUBMITTED BY THE FRENCH DELEGATION AT THE FOREIGN AFFAIRS COUNCIL MEETING ON 22 APRIL.

2. ALL THE DELEGATIONS, TO A VARYING DEGREE, APPRECIATED THE BASIC REASONING WHICH LAID STRESS ON CERTAIN FUNDAMENTAL PRINCIPLES OF THE BUILDING OF THE COMMUNITY.

3. A NUMBER OF COMMENTS WERE MADE ON THE TEXT, THE CHIEF OF WHICH WERE AS FOLLOWS:

4.

(A) CERTAIN POINTS WERE PRESENTED AS FUNDAMENTAL PRINCIPLES WHEREAS THEY WERE IN FACT POLITICAL OPTIONS. FOR EXAMPLE: THE FOOD-EXPORTING FUNCTION, THE CONTINUANCE OF FAMILY-TYPE FARMING, AND THE CEILING OF 1 PER CENT OF VAT:

/(B) IT

(B) IT SHOULD BE REMEMVERED THAT, ALONGSIDE THE IDEA OF COMMQNITY PREFERENCE, THE TREATY ALSO CONTAINED THE PRINCIIPLE OF OPENNESS TO THE OUTSIDE (APTICLE 11Ø), A PRINCIPLE WHICH UNDERLAY THE POLICIES FOLLOWED, FOR INSTANCE, IN GATT, THE LOME CONVENTION AND IN THE AGREEMENTS WITH THE MEDITERRANEAN COUNTRIES:

(C) THE REFERENCE TO A MORE EFFECTIVE CURB ON THE FINANCIAL COST OF THE AGRICULTURAL POLICY DID NOT SEEM TO SOME DELEGATIONS TO CARRY MUCH CONVICTION, ESPECIALLY IN VIEW OF THE ECO/FIN COUNCIL'S RESOLUTION OF FEBRUARY 198Ø, WHICH OUGHT TO BE REAFFIRMED:

(D) ONE DELEGATION FOUND IT HARD TO AGREE TO AN ACTIVE EXPORT POLICY FOR AGRICULTURAL FOODSTUFFS IF THIS HAD TO BE SUBSIDIZED EITHER THROUGH ITS COST TO THE COMMUNITY BUDGET OR THROUGH ITS EFFECT ON WORLD MARKETS:

(E) WITH REFERENCE TO PARAGRAPH 2(C), WHERE IT IS STATED THAT NOTHING IN COMMUNITY LAW GAVE GROUNDS FOR ENTERTAINING ANY COMPARISON BETWEEN EXPENDITURE IN EACH MEMBER STATE AND OWN RESOURCES DERIVED FROM IT, THE COMMENT WAS MADE THAT THE CONCEPT OF RELATIVE SHARES DID FEATURE IN THE DECISION OF 21 PARIL 197Ø AND THAT THERE WAS PROVISION FOR SUCH A COMPARISON UNDER THE FINANCIAL MECHANISM:

(F) AS REGARDS PARAGRAPH 4, SOME DLEGATIONS THOUGHT THAT, IN ADDITION TO CO-ORDINAATING ECONOMIC AND SOCIAL DEVELOPMENT POLICIES, IT WAS IMPORTANT THAT THE COMMUNITY SHOULD COMMIT ITSELF TO UNDERTAKING FURTHER POLICIES, THIS IN THEIR EYES BEING AN AIM WHICH WAS AS RELEVANT AS OTHER FACTORS TO CONVERGENCE IN THE ECONOMIES OF THE MEMBER STATES.

ENDS

FCO ADVANCE TO:
FCO - SPRECKLEY FITZHERBERT
TSY - ASHFORD

BUTLER [ADVANCED AS REQUESTED]

FRAME GENERAL
ECD (I)

Prime Minister

1. The Commission have now drawn our attention to a revised figure for our 1978 contribution published by them, which allows for an Article 131 refund in respect of 1978 made in the first quarter of 1979. That reduces the 1978 figure from 407 to 228 without changing any other figure.

2. So the run of Commission figures for our contributions on an importer pays basis is now:

1976	- 90
1977	+ 126
1978	- 228
1979	- 849
1980 (forecast)	-1683

3. As you know, the 1979 (and 1980) figures are on a different basis from the earlier figures but it is likely to do more harm than good to trouble the Council with this. We shall have to make sure we are comparing like with like in the detailed negotiations. But taking the figures as they stand the averages are:

1977/79	- 317
1978/79	- 539

KEC

K Couzens

27 April 1980

e 1a: Expenditure, receipts and balances broken down by Member State for 1980 -

original estimates(1) and revised estimates - MCAs paid by exporting Member States (on behalf of importing Member States) recharged to importing Member States

	Expenditure for Categories 1 - V		Financing		Balance (Expenditure-Financing)	
	Estimate		Estimate		Estimate	
	original	revised	original	revised	original	revised
	2	2	3	4	5	6
A. In MEUA						
B	1.460	1.320 (2)	922	851	+ 538	+ 469
DK	651	715	368	327	+ 283	+ 388
D	3.471	2.994	4.578	4.110	- 1107	- 1116
F	2.917	2.655	3.037	2.614	- 120	+ 41
IRL	573	626	137	124	+ 436	+ 502
I	2.621	2.395	1.750	1.641	+ 871	+ 754
L	312	303 (3)	20	16,5	+ 292	+ 287
N	1.629	1.555	1.270	1.197	+ 359	+ 358
UK	1.561	1.225	3.113	2.908	- 1552	- 1683
Total	15.195	13.788	15.195	13.788	0	0
B. As%						
B	9,6	9,6	6,07	6,17	+ 3,5	+ 3,4
DK	4,3	5,2	2,42	2,37	+ 1,9	+ 2,8
D	22,8	21,7	30,12	29,81	- 7,3	- 8,1
F	19,2	19,2	19,99	18,96	- 0,8	+ 0,3
IRL	3,8	4,5	0,90	0,90	+ 2,9	+ 3,6
I	17,3	17,4	11,52	11,90	+ 5,8	+ 5,5
L	2,0	2,2	0,13	0,12	+ 1,9	+ 2,1
N	10,7	11,3	8,36	8,68	+ 2,3	+ 2,6
UK	10,3	8,9	20,49	21,09	-10,2	-12,2
Total	100	100	100	100	0	0

(1) Estimates from the "Reference Paper on Budgetary Questions", Doc. COM(79) 462 final of 12.9.79

(2) Including 552 m EUA for EC administrative expenses

(3) Including 281 m EUA for EC administrative expenses

1683
1552
(131)

[illegible] 1b: [illegible]diture, [illegible] balances broken down by member State in 1980
original estimates and revised estimates
- [illegible] not re-charged

Country	Expenditure for Categories I - V		Financing		Balance Expenditure-Financing	
	Estimate		Estimate		Estimate	
	original	revised	original	revised	original	revised
	1	2	3	4	5	6
A. In mEUA						
B	1.472	1.330 (2)	922	851	+ 550	+ 479
DK	738	755	368	327	+ 370	+ 428
D	3.530	3.037	4.578	4.110	- 1048	- 1073
F	3.018	2.714	3.037	2.614	- 19	+ 100
IRL	650	664	137	124	+ 513	+ 540
I	2.484	2.299	1.750	1.641	+ 734	+ 658
L	312	303 (3)	20	16,5	+ 292	+ 287
N	1.692	1.591	1.270	1.197	+ 422	+ 394
UK	1.299	1.095	3.113	2.908	- 1814	- 1813
Total	15.195	13.788	15.195	13.788	0	0
B. As%						
B	9,7	9,7	6,07	6,17	+ 3,6	+ 3,5
DK	4,9	5,5	2,42	2,37	+ 2,5	+ 3,2
D	23,2	22,0	30,12	29,81	- 6,9	- 7,8
F	19,9	19,7	19,99	18,96	- 0,1	+ 0,7
IRL	4,3	4,8	0,90	0,90	+ 3,4	+ 3,9
I	16,3	16,7	11,52	11,90	+ 4,8	+ 4,8
L	2,1	2,2	0,13	0,12	+ 2,0	+ 2,1
N	11,1	11,5	8,36	8,68	+ 2,7	+ 2,8
UK	8,5	7,9	20,49	21,09	- 12,0	- 13,2
Total	100	100	100	100	0	0

(1) Estimates from the "Reference Paper on Budgetary Questions", Doc. COM(79)462 final of 12.9.1979
(2) Including 552 m EUA for European Community administrative expenses
(3) Including 281 m EUA for European Community administrative expenses

EHG(L)(80)3 REFERENCE C

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(79) 680 final

Brussels, 21 November 1979

CONVERGENCE AND BUDGETARY QUESTIONS

(Communication to the European Council - Dublin, 29 and 30 November 1979)

COM(79) 680 final

COMMUNICATION TO THE COUNCIL

CONVERGENCE AND BUDGETARY QUESTIONS

I. INTRODUCTION

The Commission has made two communications to the Council of Ministers (COM(79) 462 of 12 September and COM(79)620 of 31 October) analysing certain problems connected with economic convergence and budgetary matters within the Community. On the basis of these communications there has been extensive discussion within the institutions of the Community, including the European Parliament, in Member States and by public opinion generally. The Commission believes that the moment is now right to propose to the Council the approach and decisions which will be necessary if present difficulties are to be resolved.

2. These difficulties cover a number of inter-related questions, including some concerned with the Common Agricultural Policy. These need to be dealt with on their merits, and are the subject of a separate paper by the Commission for the European Council. The present communication deals with the Community budget, both as concerns convergence and the particular problems which have arisen for the United Kingdom.

II. THE STRUCTURE OF THE COMMUNITY BUDGET

3. The Commission believes that a larger proportion of budgetary spending should be devoted to the improvement

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of structures and to general investment purposes within the Community. Such expenditure was envisaged in the Commission's latest three-year forecast to rise from 14% in 1980 to 22% in 1982 on the assumption that market support expenditure for agriculture would rise over the period at around 6% a year.

4. On expenditure within the agricultural sector, the Commission pointed out in its communication of 31 October that an increasing number of measures had been adopted in recent years to strengthen market support arrangements for Mediterranean products and to improve the incomes of the producers concerned. The Commission will do all it can to secure the rapid execution of these and other measures and the rapid adoption by the Council of further measures in other agricultural sectors of particular interest to Italy and Ireland. This should lead to a better balance in the pattern of agricultural production as a whole.

5. In the view of the Commission, the approach suggested by the Italian Government of fixing objectives for a rising proportion of Community expenditure devoted to structures and general investment purposes over a period is useful. The achievement of such objectives will depend on the ability of the Community to bring agricultural expenditure under control. Moreover the significance of the effects will be relatively small so long as present limitations on the size of the budget remain.

/6. In

6. In the light of these considerations the Commission invites the European Council to endorse the principle that to achieve a better balance between Community policies, the rate of increase in expenditure on structural and general investment policies should from 1980 onwards be significantly greater than the rate of increase in the size of the Community budget. If during the budgetary process this principle is not respected, the Commission undertakes to draw the attention of the Institutions to the situation without delay.

III. BUDGETARY DIFFICULTIES

7. The Commission believes that the achievement of a better balance within the budget will, together with other factors mentioned in its communication of 31 October, eventually solve most of the present difficulties of the United Kingdom in respect of the Community budget. But it recognises that for the immediate future there is a serious problem.

8. The transitional period for the United Kingdom, Ireland and Denmark was designed to permit the gradual integration of these Member States into the system of Community financing. The Commission believes that this approach was and remains right. In consequence such further measures as may be agreed should be temporary in nature. The necessary resources should be found from within the budget.

9. The Commission believes that any solutions adopted should not only be Community solutions but designed to

/strengthen

strengthen the cohesion and solidarity of the Community. They should conform to two basic principles. First they should respect the integrity of the own resources system. Second they should not have as their objective to put a Member State in a position of "juste retour" in respect of the Community budget.

10. In its reference document of 12 September the Commission forecast that the United Kingdom's financing share would rise sharply over her forecast share of Community GNP between 1979 and 1980. The main reason is that payments under the transitional arrangements set out in Article 131 of the Accession Treaty will come to an end.

11. One simple way of approaching the problem thus created would be to create a new ad hoc mechanism to compensate for any British contribution of full own resources going beyond a predetermined percentage increase in a given year. In its communication to the Council of 31 October, the Commission indicated that if no percentage increase over 1979 were allowed, the forecast share of the United Kingdom in financing the 1980 budget would be reduced by some 500 MEUA gross (390 MEUA net). But unless the British contribution were to be frozen at a given level, the arrangement would have diminishing impact.

12. A more promising approach would be to adapt the existing Financial Mechanism. The Commission recalls that when the Heads of State and Government agreed in principle to create the Mechanism in 1974, they had expressly in mind

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the Community declaration during the accession negotiations that "if unacceptable situations were to arise the very life of the Community would make it imperative for the Institutions to find equitable solutions". At its meeting in Strasbourg of June 1979, the European Council requested the Commission to examine the extent to which the Mechanism could play its part in 1980 and fulfil the objectives assigned to it.

13. For the reasons set out in the Commission's reference document of 12 September, payments made under the Mechanism as at present constituted could scarcely solve the problem. The Commission believes that the qualifying criteria for the operation of the Mechanism remain a valid measure of the relative prosperity of Member States within the Community and should remain unchanged. But to enable the Mechanism to fulfil more closely the role assigned to it, the Commission recommends removal of the limitation that if there were a balance of payments surplus the calculation of the excess contribution must be related solely to VAT. This would produce a payment of 300 MEUA gross (250 MEUA net) in respect of 1980 whether or not there was a balance of payments surplus. But as the United Kingdom will anyway find itself in payments deficit in 1979 and almost certainly in 1980, the Commission further recommends that the European Council in Dublin should define the conditions under which the two further restrictions on the operation of the Mechanism could be lifted. These are the tranche system which provides that only a part of the excess

/contribution

contribution is reimbursed; and the ceiling of 3% of the budget . If these restrictions were also removed, payments under the Mechanism in respect of 1980 would rise from 300 MEUA gross to some 630 MEUA gross (520 MEUA (net).*

14. There would be difficulty in any approach designed to combine a system of limiting increases in the British share of financing the budget with improvements in the operation of the Financial Mechanism. This is because the reduced share of financing which would result from any such limitation would logically have to be used in applying the Financial Mechanism. Payment under the Financial Mechanism would therefore be reduced by the amount resulting from the limitation.

15. This difficulty would not exist for arrangements affecting the expenditure side of the budget. Such arrangements would have to flow from the strengthening of Community policies which are necessary to improve the cohesion of the Community and are therefore central to the interest of the Community as a whole. It would be possible to envisage special, temporary and ad hoc measures which would ensure a greater participation by the United Kingdom in a number of Community policies and which would increase the present low level of Community expenditure in the United Kingdom. Such arrangements which would need

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* These figures, which were contained in COM(79)620 were based on exchange rates of mid-August 1979.

need to be in full conformity with the principles set out in paragraphs 8 and 9, could, for example, take the form of immediate assistance for exploitation of coal resources, measures to promote transport infrastructure, and some agricultural improvement schemes. If the United Kingdom were to join the European Monetary System an interest rebate system in respect of Community loans could comprise one vehicle for such payments.

16. If this approach were to be pursued, the Commission would stress that any contribution should be made on the basis of the Community budget and should be limited in time (perhaps three or four years). The volume of resources to be found must necessarily be settled by discussion within the Council.

17. So far only short and medium term solutions to the problems of convergence and the budget have been discussed. But as the European Parliament has pointed out, the existing policies of the Community are insufficient to bring about the degree of convergence between the economies of the Member States which is necessary for the progress and cohesion of the Community. The Commission believes that the European Council should bear this longer term consideration in mind when examining the proposals in this paper.

EHG(L)(80)3 REFERENCE D

UNITED KINGDOM BUDGET PROBLEM

(THE SIX POINTS)

1. The communique of the Dublin European Council provided the framework for a possible solution. There are not issues of principle outstanding. A satisfactory settlement might contain the following elements.

2. First, the removal of the existing constraints on the operations of the Financial Mechanism. The Regulation embodying this Mechanism (1172/76) should be extended with the existing clause replaced by a new one with a similar timescale ie a review not later than the end of the sixth year.

3. Second, there must be supplementary measures, as foreseen in the Dublin communique, leading to greater participation by the United Kingdom in Community expenditure. We can decide on the method or methods in the light of the Commission's proposals. They would be subject to review at the same time as the Financial Mechanism.

4. Thirdly, we are willing to accept that the United Kingdom should be a modest net contributor to the Community Budget. The combination of the Financial Mechanism and the improved receipts in the UK from Community expenditure should be devised in such a way that the UK would remain a modest net contributor not only for 1980 but in future years.

5. The United Kingdom believes that its net contribution should be below that of the Member State having the next highest GNP per head in the Community. The difference should be at least proportionate to the difference in levels of GNP per head.

6. For the medium term, the European Council should instruct the Commission to make proposals for achieving a better balance within the Community budget and ensuring that, by 1986, the proportion devoted to the Common Agricultural Policy (FEOGA Guarantee Section) would not exceed 55 per cent of the total. The Council should take account of the effect of implementing such proposals on the United Kingdom's net contribution at the time of the review of the Financial Mechanism and the supplementary measures.

7. I hope you can agree that this would represent a reasonable compromise and will be willing to consult our partners on this basis.

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

EHG(L)(80) 3 ADDENDUM COPY NO 1

24 April 1980

EUROPEAN COUNCIL, LUXEMBOURG
27/28 APRIL 1980

EC BUDGET CONTRIBUTION

Note by H M Treasury

A commentary on the Presidency note on budget estimates for 1980 is attached.

H M Treasury
24 April 1980

BUDGET ESTIMATES FOR 1980: COMMENTARY ON THE PRESIDENCY NOTE

Points to Make - General

1. i) We accept that discussion of the UK problem must be on the basis of a statistical analysis which we can all agree to work with.

ii) No-one can predict with certainty the exact scale of net transfers through the Community Budget in 1980. As in other years there will be unforeseen special factors and anomalies which affect the final outcome.

iii) The Council needs a broad central estimate, which captures the overall tendency of each Member States' net position. That is what the Commission, from its authoritative position, has produced.

iv) As the note by the UK which forms Annex II to the Presidency document makes clear, we believe that the Commission's estimates may well understate Britain's likely net budgetary contribution. They certainly ignore the substantial non-budgetary costs which the UK, as a net importer of food, incurs through the operation of the CAP.

v) Despite these reservations, we are prepared to use the Commission figures set out in Annex I as a basis for discussion. But if others press their reservations, we shall necessarily have to press ours. In that case, the Council's attention would be diverted from finding a solution to the problem of Britain's excessive net contribution. This could be disastrous because the problem must be solved.

vi) In fact most of the points now raised were discussed last autumn. At Dublin we decided the only practical course was to agree to use the Commission figures as a basis, despite the reservations we may each have had. The only practical course now is to do the same.

Background

1. The latest Commission estimates for 1980 have been prepared using the same methods as were employed in drawing up last September's "reference paper" (COM(79)462). The European Council accepted the "reference paper" figures as the basis for its discussions in Dublin.

2. The UK has always maintained that the MCAs paid on UK food imports are properly to be regarded as a benefit to the exporting Member State. On that basis the correct figure for the UK's net contribution in 1980 is that in the final column of Annex I - 1813 MEUA. Moreover, as the UK note at Annex II points out, experience so far this year provides no justification for assuming that the UK will have any negative MCAs in 1980. In that case the estimate of 1813 MEUA would be appropriate even on an importer-benefits basis, If the Commission are proved over-optimistic in their assumptions about the CAP economies and the level of the 1980 agricultural price-fixing, the figure would be still higher (and the French are among those arguing against the proposal for economies). So the UK's willingness to negotiate on the basis of the Commission's lower "importer-benefits" figure is in itself a significant concession on our part.

3. Our latest estimates put the likely non-budgetary costs of the CAP to the UK in 1980 at around £300-£400 million (c 450-600 MEUA).

DETAILED COMMENTS

I UK note on MCAs and agricultural economies (Annex II)

This is self-explanatory and should be defended.

II "Carry-overs" (reports) from 1979 to 1980 (Annex III)

Points to Make

i) The UK believes that the "carry-overs" recorded in Annex III should be disregarded.

ii) If the Commission succeeds in tightening up its estimating procedures, these "carry-overs" will prove to be a special temporary factor, which will not recur in 1981 or later years. They can therefore have no place in estimates which are intended to show the pattern of net transfers in a "normal" year.

iii) When Member States' contributions towards the cost of financing these "carry-overs" are taken into account, as they must be, then their impact on the overall net positions becomes almost negligible. The UK's net contribution would fall by less than 1½% (24 MEUA). France's net receipts would rise by 8 MEUA. Changes of that order are insignificant in relation to the problem that the Community has to tackle.

Background

1. The problem of "carry-overs" arises because the Community Budget and the accounts relating to the Budget of a particular year are not statements of cash flows occuring during the calendar year. In the case of certain appropriations, notably the structural funds, it is possible to carry forward unspent appropriations into the following year to meet delayed claims. Such "carry-overs" have been financed by the contributions made in the previous

year and they are eventually charged to the Budget of the year of origin regardless of the fact that the expenditure may not be met until the following year.

2. When the Commission made the estimates in the September "reference paper" they ignored the problem of the "carry-overs" from 1979 to 1980 on the grounds that there would be similar "carry-overs" from the 1980 payment appropriations into 1981 and that the two sets of "carry-overs" could be regarded as cancelling each other out. The issue has arisen now because in the new Budget proposals for 1980 on which the latest estimates are based the Commission claims to have made a much more accurate forecast of the payment appropriations needed in the 1980 Budget. If their confidence in the tightness of their estimates proves justified, there would be no offsetting "carry-overs" from 1980 to 1981 to match the 900 MEUA carried forward from 1979.

3. But it would be wrong to suggest, as the French have done in their calculations in Annex V, that the full amount of the "carry-overs" should be deducted from the net contribution estimates to arrive at correct figures for 1980. As Mr Tugendhat made clear at the Finance Council on 21 April, any calculations of net transfers must take into account the contributions made by individual Member States to the cost of financing "carry-overs".

4. The net effect of the "carry-overs" (calculated by deducting the figures in the last column of Annex III from those in the penultimate column) is as follows:

	MEUA
Belgium	- 36
Denmark	+ 2
Germany	-129
France	+ 8
Ireland	+ 61
Italy	+122
Luxembourg	+ 1
Netherlands	- 53
UK	+ 24

III Administrative expenditure (Annex IV)

Points to Make

i) What is at issue is the disproportionate burden imposed on the UK by the Community's budgetary arrangements, not the effect that they have on the countries where the bulk of the Community's institutions are sited ie Belgium and Luxembourg.

ii) The Community's administrative expenditures are part of the budget and have to be financed. To the extent that the UK contributions under the own resources system are excessive, our contributions to the administrative expenditures are excessive and must be taken into account in the figures.

iii) So far as Belgium and Luxembourg are concerned, the expenditures in question undoubtedly bring substantial benefits to their economies. They improve their balance of payments position and inject additional demand into their economies at a time of low economic activity when the resources concerned might otherwise be unemployed.

iv) Indeed, the budgetary figures for administrative expenditure may actually understate the gain to the Belgian and Luxembourg economies. Both countries benefit considerably, particularly on the invisible account, from increased investment by foreign companies which would not otherwise be sited in the two countries and through the expenditure of the many foriegn visitors associated with the Community institutions.

v) Why, if no economic benefits flow from the presence of Community institutions in their countries, are the

Member States concerned so keen to retain them? Witness the recent strenuous arguments between France and Luxembourg over the European Parliament.

Background

1. The Belgians and the Franch (see Annex V) have criticised the Commission's figures for net contributions on the grounds that they include Community expenditure on administration as a receipt by the Member State in which it takes place. They argue that it is not a resource transfer to the recipient country because all the Member States benefit from the activities financed - not just the Member State where the action occurs. They suggest that this expenditure should be removed from the calculation. The effect of this would be to reduce the UK net contributions by 182 MEUA (to 1501 MEUA on an importer-benefits attribution of MCAs and 1631 MEUA on an exporter-benefits basis - see Annex IV)

2. There is some logic in this argument, but:

i) The UK contributes to the cost of this expenditure through the Own Resources system. Very little of the money involved will find its way back to Britain. So there is undoubtedly a substantial transfer of resources; and,

ii) The countries which play host to the Community institutions clearly believe that they do receive a special benefit as a result of these transfers. Prestige considerations alone would hardly account for their enthusiasm to retain them.

IV The French Estimates of Net Contributions (Annex V)

Points to Make

i) The UK cannot accept that the French estimates of net contributions constitute a more accurate guide to transfers through the Community Budget than the Commission's estimates in Annex I.

ii) The deductions for "carry-overs" made in column B of Annex V completely ignore the contributions that Member States make to the financing of this expenditure (see comments on Annex III).

iii) The removal from the allocated Budget of the whole (col D) or 50% (col C) of the Community's expenditure on administration is likewise unacceptable. The resource transfers involved in running the Community's institutions cannot be ignored in any calculations of budgetary transfers (for detailed arguments see commentary on Annex IV). The 50% allocation in column C is entirely arbitrary and cannot be justified.

iv) The implication of the French estimates - that the UK's true net contribution is substantially lower than the Commission figures would suggest - is quite unwarrented. We believe that the other factors set out in our own note (Annex II), which suggest that the Commission figures if anything under-estimate our net contribution, are of considerably greater substance. But we are prepared to accept the Commission figures as the basis for discussion.

Background

1. The deduction of "carry-overs" in column B of the table with no account taken of financing is simply wrong, as the Commission have said. Even if it were valid to include the "carry-overs" in an assessment of 1980 net contributions (which

we dispute), the effect, allowing for both the expenditure and its financing (as one must) would not be dramatic as the following table shows:-

Revised "importer-benefits" figures

	MEUA
Belgium	+433
Denmark	+390
Germany	-1245
France	+ 49
Ireland	+563
Italy	+876
Luxembourg	+288
Netherlands	+305
UK	-1659

The UK's net contribution would diminish by only 24 MEUA.

2. The removal from the allocated budget of 50% of administrative expenditure is obviously put forward as an arbitrary compromise. We do not accept the need for such a compromise (see comments on Annex IV) and it has no logical basis. If we did accept it, the overall UK net contribution after the adjustments in columns B and C of the French table (and after correcting column B as in paragraph 1 above) would be 1568 MEUA on the "importer benefits" basis - 115 MEUA below the Commission figure. Full removal of administrative expenditure from the calculations would bring the UK contribution down to 1477 MEUA.

3895

Luxembourg, 21 April 1980
(22.04).

Note from the Presidency

Subject: Convergence and budgetary questions
- budget estimates for 1980

The size of the net balance of Member States' contributions to the 1980 budget has been the subject of a number of forecasts, which the Presidency has collected together in this note.

- Annex I gives the forecasts established by the Commission in its communication to the European Council dated 21 March 1980;

- Annex II contains the United Kingdom delegation's comments on these forecasts;

- Annex III compares the balances resulting from Annex I and the 1979 appropriations carried forward, and shows how the latter are financed;

- Annex IV sets out the balances for 1980 net of Community operating expenses;

- Annex V consists of a summary table drawn up by the French delegation.

The Presidency hopes that these forecasts will enable delegations to form a balanced view of the budgetary questions under examination.

ANNEXE I

Prévisions budgétaires 1980 - Soldes par Etat membre

en MUCE

	MCM réimputés aux Etats membres importateurs			MCM sans réimputation		
	Dépenses	Financement	Solde	Dépenses	Financement	Solde
Bel.	1.320	851	+ 469	1.330	851	+ 479
DK.	715	327	+ 388	755	327	+ 428
Deut.	2.994	4.110	- 1.116	3.037	4.110	- 1.073
France	2.655	2.614	+ 41	2.714	2.614	+ 100
IRL	626	124	+ 502	664	124	+ 540
Italy	2.395	1.641	+ 754	2.299	1.641	+ 658
Lux.	303	16,5	+ 287	303	16,5	+ 287
Neth.	1.555	1.197	+ 358	1.591	1.197	+ 394
UK	1.225	2.908	- 1.683	1.095	2.908	- 1.813
	13.788	13.788	---	13.788	13.788	---

ANNEX II

United Kingdom comments concerning its net contribution in 1980

The United Kingdom delegation has drawn attention to a number of factors which could lead to its net contribution to the Community Budget in 1980 being higher than foreseen in the Commission's estimates of 20 March, annexed as Tables 1a and 13 to document COM(80)147.

In the first place, the Commission's estimate of Monetary Compensatory Amounts to be paid on imports into the United Kingdom (put at 130 MEUA) assumes a negative MCA averaging 3% throughout the year. The United Kingdom delegation takes the view that, given the current level of sterling and the UK's policy on phasing out negative MCAs, this assumption is no longer realistic or appropriate.

Accordingly, even on an importer-pays attribution of MCAs the UK's net contribution is likely to be of the order of 1813 MEUA.

Second, the United Kingdom delegation notes that its net contribution in 1980 would also be increased above the level forecast by the Commission, in the absence of measures being adopted by the Council to produce savings in agricultural expenditure of the order proposed by the Commission.

ANNEXE III

PREVISIONS DES SOLDES 1980, REPORTS DE CREDITS 1979 ET LEUR FINANCEMENT

Pays	Soldes 1980 MCM réimputés aux E.M. importateurs	Soldes 1980 MCM sans réimputation	Reports de crédits 1979	Financement des reports
B	+ 469	+ 479	20	56
DK	+ 388	+ 428	24	22
D	- 1.116	- 1.073	144	273
F	+ 41	+ 100	182	174
IRL	+ 502	+ 540	69	8
I	+ 754	+ 658	231	109
L	+ 287	+ 287	2	1
N	+ 358	+ 394	27	80
UK	- 1.683	- 1.813	217	193
Total	-	-	916	916

PREVISIONS DES SOLDES DU BUDGET GENERAL
PAR ETAT MEMBRE 1980

Soldes sans dépenses de fonctionnement des Communautés en MUCE

Pays	Après imputation des MCM	Avant réimputation des MCM
B	- 28	- 18
DK	+ 408	+ 448
D	- 869	- 826
F	+ 199	+ 258
IRL	+ 506	+ 544
I	+ 850	+ 754
L	+ 6	+ 6
N	+ 429	+ 465
UK	- 1.501	- 1.631
Total	0	0

ANNEXE V

TABLEAU REVISE DES SOLDES BUDGETAIRES DES ETATS MEMBRES EN 1980

(présenté par la délégation française) (1)

en MUCE

	A Compte non tenu des reports	B compte tenu des reports et dépenses de fonctionnement imputés en totalité aux Etats du siège (Tableau 6 de la Commission)	C Ventilation de 50 % des dépenses de fonctionnement (Tableau 8 de la Commission)	D Ventilation entre Etats membres de la totalité des dépenses de fonctionnement
B	+ 469	+ 489	+ 242	- 8
DK	+ 388	+ 412	+ 422	+ 432
D	- 1.116	- 972	- 849	- 725
F	+ 41	+ 223	+ 301	+ 381
IRL	+ 502	+ 571	+ 573	+ 575
I	+ 754	+ 985	+ 1.033	+ 1.081
L	+ 287	+ 289	+ 149	+ 8
N	+ 358	+ 385	+ 420	+ 456
UK	- 1.683	- 1.466	$\boxed{- 1.375}$	- 1.284

(1) Sources : document de la Commission du 18.4.1980
- tableau 6 qui comprend la réimputation aux Etats membres importateurs des MCM payés par les Etats membres exp[illegible]tateurs et la dépense supplémenta[illegible]e faite sur les reports
- tableau 8 qui ven[illegible]le entre les Etats membres 50 % d[illegible] dépenses de fonctionnement de la Communauté.