



Treasury Chambers, Parliament Street, SW1P 3AG
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19 October 1982

Prime Minister

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A.J.C. 207
/w.

New John,

EUROPEAN COMMUNITY BUDGET : WITHHOLDING

The Chancellor has asked me to pass to you the following account of recent comments by Christopher Tugendhat on the subject of withholding.

In a talk with the Chief Secretary during the Party Conference, Tugendhat focussed on what the UK should do if negotiations ran into difficulties and we were to contemplate withholding our contribution. He suggested - and this is in fact what our contingency plans envisage - that the best move would be to continue to pay revenues into the Commission account in the UK but to use "exchange control" to prevent transfers overseas. (Read as a reference to the 1947 Exchange Control Act, this will not do; but an exchange control type of operation is what we have in mind.) Interestingly, he had evidently given some thought to the consequences, pointing out that it would be possible in these circumstances for the Community to avoid a financial crisis for some months, although it would be subject to growing pressure. He indicated that he might be able to persuade the rest of the Commission not to institute immediate legal action, but to take the matter forward on a political level.

Separately, in a talk with officials, Tugendhat's Chef de Cabinet went a little further in reporting that Tugendhat thought "that the chances of our getting a remotely satisfactory solution for 1983 and later were so low that we should simply withhold without making too much fuss. In his view most other member states would not take this too tragically, and would privately welcome our taking the decision for them."

/I understand



I understand that we have in fact allowed the odd hint about our planning to get to the Commission. In case we should be driven to this step, it is helpful that the Commission should have been thinking along the same lines: we would positively want to avoid escalation, and to maintain normal business as widely as possible, while allowing the growing financial pressure to exert its effect. The Chancellor believes that it would be useful in the event to have Commission co-operation in keeping normal business going.

Copies of this letter go to Brian Fall in the FCO, Robert Lowson at MAFF, and Richard Hatfield in the Cabinet Office.

Yours ever,

J. O. Kerr

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