

COVERING CONFIDENTIAL



FROM: M E DONNELLY

DATE: 5 January 1983

CHANCELLOR

cc Mr Littler
Mrs Hedley-Miller
Miss Court
Mr Edwards

EC BUDGET - NEXT STEPS

I attach a draft paper written by the Financial Secretary over the holiday setting out the type of public line on our Budget refunds which is likely to have the most positive effect on the European Parliament. It is at present in the form of a draft speech; but you may wish to discuss how best the material might be used over the next few weeks.

The Financial Secretary feels you might like to see in its current draft form ^{before} tomorrow morning's meeting.

ME

M E DONNELLY

DRAFT SPEECH TO EUROPEAN PARLIAMENT

In constructing Europe, there are bound to be major problems, which will often appear to take too long to solve. There are bound to be differences of view, often immensely difficult to resolve. There will even be crises when the whole future of the Community seems to be at stake. All three of these elements were present at the end of last year when the European Parliament voted against the 1982 Supplementary and Amending Budget. The Parliament's action focused attention on a major problem: the imbalance of contributions towards the Community's financing. There is certainly a difference of opinion among the Member States as to how this problem is to be solved. And the Parliament's action created a crisis: not just a crisis of cash flow for the United Kingdom, but a crisis in inter institutional relationships. The Council had reached an agreement after long and difficult negotiations, which was then rejected by the Parliament.

Let me say at the outset that I understand the reasons for the Parliament's action. I can even sympathise with them on 2 or 3 counts!

First of all the Parliament was saying that it did not like ad hoc arrangements for dealing with the imbalance of Community financing, and that it wanted the 1982 agreement to be the last of its sort. It wanted a permanent financial mechanism to be in place for next year. So do I:

I can sympathise and agree with that. I put forward just such a scheme myself in my speech at the Hague in 1981. Time has moved on since then, and what I have to propose now is slightly different, as you will hear. But the basic objective is a shared one. Indeed the Commission is bringing forward new financing proposals at this very time, and bringing forward more radical proposals more urgently, I believe, as a result of the action of Parliament. Thus the point is taken-although there was no need to make the point to me!

Secondly, Parliament wants the solution to be of a communautaire nature. This brings into the debate the whole spectrum of community policies - what can be done by the Community and what must still be done by nation states. Again, I have much sympathy with the Parliament's view, but on this point my sympathy is overpowered by some wider, perhaps even more European thoughts. I can certainly go along with the concept that the best way to redress the budgetary imbalance of the UK is to have European policies from which all states in the round derive benefits commensurate to their contributions. But this has not happened. We have pressed, and pressed in vain for increases in the ERDF and ESF from which we might stand to benefit more than we contribute.

But progress in this direction on a sufficient scale has been miniscule. Again I hope the point is taken, but again there was no need to make the point to me!

My doubts arise because I do not believe we could ever redress the imbalances simply by increasing the money spent on the ERDF and ESF. For the UK to receive as much money as it puts into the Community, these two funds would have to be increased from their present [X] mecu to [Y] mecu - others expenditures remaining as they are. To increase the funds by this amount is clearly a ludicrous suggestion, putting the budgetary make-up completely out of balance.

Moreover, it is a basic principle of all of our domestic taxation and social security systems that the better off pay more, for the benefit of the less well-off. I am sure all of us agree that it should be the same in Europe. To ask the taxpayers of Liverpool to subscribe to the welfare of Copenhagen's citizens who are [X] times as well off is standing logic, fairness, even morals are their heads: it should be the other way round. And we must in our future arrangements make sure we achieve this. It cannot be left to chance, who pays and who benefits. No adult political society would doing that.

The factor which causes all these difficulties is of course the enormous preponderance of expenditure on disposing of agricultural surpluses - Feoga guarantee expenditure. This does not mean that the UK is against the CAP - but it is necessary to point out that we cannot as a community

go on having to pay so much for the disposal of these surpluses. It does no good to third world food markets and production. It causes us to subsidize food stuffs for Russia. It distorts our economies. It swallows up the lion's share of our European budget. And it is the root cause of the problem which the UK keeps bringing to your attention - because the UK is the only member state that does not produce farm surpluses.

So if you really have the interests of Europe at heart, and not just the interests of the Farming lobbies of continental Europe, Parliament should address itself to the problem of agricultural surpluses. It is illogical, and in no way communautaire, to fail to deal with this, the real problem, and instead to take dramatic action against the British who are the only country which has not contributed to the problem.

There is much talk of the problem of "trop percu" the suggestion that the United Kingdom was paid too much money back, in 1980 and 1981 in recompense for its excessive contributions. But in reality what happened was that world agricultural prices were high, and the cost of financing European agricultural surpluses was commensurately low. Thus we received more back under the agreement of 30 May 80 than had been expected. But so did every other member state. The Germans received [X] mecu back - the French received [Y] mecu more than

they had expected ^{etc} /etc. I do not understand why it is only the UK who is accused of "trop percu". We are content to include all this in the negotiations on the 1983 imbalance, although in truth that is a concession which no other member state seems willing to offer. But it was an integral part of the agreement of 25 Oct 1982 that no account would be taken of the "trop percu" problem in the 1982 settlement.

Not only do I beg you to concentrate your attention on this, the real problem of agricultural overproduction but also to be much more specific about what should be the priorities in Community expenditure: which programmes can rightly and properly be undertaken by the Community, and what funds should be put into them. We cannot run before we can walk - and many programmes must for the time being remain the responsibility of the member states. But the Council would be much more impressed by Parliament making constructive suggestions not just for greater expenditure - but for a planned and logical transfer of functions to Europe that makes sense in the present state of the development of the community and of our own economies.

Of course I realise Parliament's frustrations, both with the slowness of progress towards integration, and with its own lack of powers. This is another reason underlying

your rejection of the 1982 S.A. Budget with which I can sympathise. To us in Britain where Parliament can legislate, but cannot increase expenditure, it seems strange that your powers should be exactly the opposite. I say in the same sentence both that it seems to me that the time has come to reexamine the powers and functions of Parliament, and also that the case for so doing was weakened by the vote of the Parliament on 16 December. In other words, we all want to make better progress towards building Europe: but the fault is not all with the Council, and certainly not with Britain. Perhaps our joint cause would prosper more if Parliament listened to what the British are saying, because we are just as good Europeans as any of you, and Parliament puts at risk the building of Europe if it makes the UK the whipping boy for its frustrations.

This brings me to the question of classification of expenditure as obligatory or non-obligatory. The further reason for Parliament's rejection of the Budget was that it wanted the British and German refunds to be classified as non obligatory. Here I cannot agree with Parliament. I know they were prepared to abandon any claim that refunds would add to the "assiette" if they were classified as non-obligatory. Perhaps you would have even been prepared to undertake not to increase or reduce them if they had been so classified. But then two of the characteristics of obligatory expenditure are that it does not add to Parliaments margin, and that it is within the Council's power to determine the quantity of it. To concede ^{non-}obligatory classification would have been

no more than cosmetic, as well as wrong in principle.

If we could solve our problem by a permanent Community financing mechanism, combined with policies that helped to reduce our financial imbalance with the Community, then Parliament could have a much more important role to play. But that is the way forward, not taking action to upset agreements which are in fact vital to the progress of the Community, and vital to the interest of member states: and which have in the long run to be properly redressed if the Community is to prosper, as we hope it will.

Finally, therefore, I come to the question of the permanent financing mechanism. With enlargement coming soon, the mechanism has got to be worked out, and put in place. The European Parliament has demanded that the Council do this, and do it quickly.

I have no quarrel with that view. But we have to work out the details.

Herr Lange suggested in 1979 a mechanism not dissimilar to that which contributes resources between the German Lande. The more prosperous contribute to the less prosperous. While I doubt if that formula will do in its entirety because the less prosperous Lande in Germany do not have to shoulder excessive burdens simply because they are

not agricultural surplus producers; nevertheless his thinking seems to me to have been on the right lines.

[There could follow some suggestions for financial mechanisms].

In conclusion, may I say that you cannot build Europe without the United Kingdom. Nor can you ride roughshod over the vital interests of the United Kingdom. The fact that the United Kingdom has not enough farm land to over produce agricultural products, is not an indication that it is not Communautaire. It is just a simple fact of geography. In struggling to bring Europe together, beware that you do not cause it to fall apart by ignoring that simple fact.