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Ref. A01135

PRIME MINISTER

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Meeting with Signor Cossiga: United Kingdom Budget Problem

You said at OD this morning that you would like to consider further precisely what indication you would give to Signor Cossiga about the level of net contribution at which we would be prepared to settle.

2. Unless Signor Cossiga has something fairly precise he is unlikely to be willing or capable of securing some movement from other Heads of Government. We think he will need something less vague than the phrase "a modest net contributor".

3. A comparison with the French makes both economic and political sense, given the respective wealth of the two countries. By saying that you think we should be below the French to the same extent as we are below them in GNP per head will avoid the criticism that you are plucking a figure out of the air. On the other hand, without some help, Signor Cossiga will not readily understand what such a statement means. I think - and the Foreign and Commonwealth Office and the Treasury both agree - there would be advantage therefore in your saying that what you have in mind is some figure in the region of 200-250 meua. No doubt the Italians will take the top end of this range but you will have avoided pinning yourself down to a single figure. Even at ~~250~~ meua we should be asking the Community to give us a refund of 1250/1550 meua or about £800/£1000 million.

4. I attach a draft speaking note on these lines. You will of course be prefacing it with general remarks about the political importance of the problem and the need for an early and lasting solution. This is covered in the briefs.

5. I am sending copies to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and the Lord Privy Seal.

(Robert Armstrong)

25th January, 1980





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VISIT OF SIGNOR COSSIGA

UNITED KINGDOM BUDGET PROBLEM: SPEAKING NOTE

1. The communique of the Dublin European Council provided the framework for a possible solution. There are no issues of principle outstanding. I now want to give you specific indications of the basis on which a satisfactory settlement might be reached. It would 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 review clause replaced by a new one with a similar timescale i. e. 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 [France]. The difference should be at least proportionate to the difference in levels of GNP per head [UK 5768 eua per head; France 8356 eua per head].
6. [We see this as leaving the United Kingdom paying something in the region of 200-250 meua in 1980.]
7. 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.

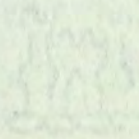




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8. I hope you can agree that this would represent a reasonable compromise and will be willing to consult our partners on this basis.

CONQUEROR



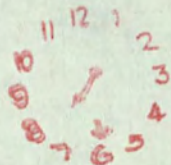
LONDON





I hope you can agree that this would represent a reasonable compromise with the view to deposit our papers on this date.

25 JAN 1960



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