

PRIME MINISTERCommunity Budget: Follow-up to the Dublin European Council

1. Following Sir Robert Armstrong's minute of 7 December you decided to have an informal meeting with a restricted group of Ministers before the Christmas break to consider follow-up action to the Dublin European Council discussions on our Budget problem.
2. The conclusions of the Dublin meeting said that adaptation of the Financial Mechanism could constitute a useful basis for a solution; asked the Commission to look at supplementary measures to increase our receipts; and contained general wording about the need to improve the structure of the Community Budget. In reporting to the House on 3 December you said that you were ready to work for a genuine compromise but that your room for manoeuvre was limited. The Commission has started work on its remit on receipts and we have given them a note of our own ideas. The Italian Presidency is planning a series of bilateral visits starting with a visit by Mr Roy Jenkins to Rome at the beginning of January. You have agreed to Lord Carrington's suggestion that the Lord Privy Seal should be given responsibility for co-ordinating our strategy and carrying out bilateral consultations.
3. Your meeting on Friday morning does not need to take final decisions but to make sure that all the necessary preparatory work is going ahead and that the Lord Privy Seal has a general steer for his consultations with other Governments, which will need to start as early as possible in the New Year.
4. The meeting has before it:-

(a) a paper by officials on supplementary measures to increase our receipts, together with the note we have now given to the Commission which was based upon it;

(b) a paper by officials on restructuring the budget; and

(c) the Foreign and Commonwealth Secretary's minute of

19 14 December

*I have also included  
a paper about the  
implications of the  
European Parliament's  
rejection of the  
1980 Budget. Your  
colleagues will not have this. Am*

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5. The note by officials on supplementary measures to increase UK receipts defines our ideal requirements (paragraphs 2-7); considers three possible forms which the supplementary measures might take (paragraphs 8-29); examines current UK Public Expenditure programmes which could be financed by the Community (paragraphs 30-38 and Annexes 1 and 2); and concludes (paragraphs 39-42) that

(i) we should keep alive the possibility of a simple receipts mechanism linked to the Financial Mechanism; but

(ii) because the Commission are unlikely to put this item forward, we should collaborate with them in exploring other supplementary measures.

(iii) These measures could include special treatment for the UK under existing Community policies, but these are unlikely to make a major contribution to our problem.

(iv) The next best thing to a receipts mechanism would be a special fund for the UK, linked to expenditure on policies of interest to the Community, the most promising candidates being coal investment, transport infrastructure, Northern Ireland and urban renewal (to all of which it may help to give a regional slant).

6. The note by officials on restructuring of the Community Budget rehearses the unfulfilled promises we got about a better balanced Budget before we joined the Community (paragraphs 2-4); the more recent Italian pressure for a shift towards non-agricultural expenditure (paragraphs 5-9); sets out three conditions which would have to be met if a restructuring of the Budget is to help the UK (paragraphs 10-15); shows the scale of change that would be needed to provide a significant reduction in our net contribution (paragraphs 16-17 and the Table); discusses the most effective ways of controlling CAP expenditure (paragraphs 18-21); and concludes

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(paragraphs 22-25) that

- (i) restructuring of the Budget can provide no nearly contribution to the solution of our problem; for which we must place main reliance on the supplementary receipts measures;
- (ii) we should nevertheless argue strongly for restructuring, within the 1 per cent ceiling, provided our conditions are met;
- (iii) success will depend critically on cutting the cost of the CAP; we must look for the course which would create least problems for British agriculture.

7. The minute by the Foreign and Commonwealth Secretary looks at each of the three legs of our Budget strategy in turn; assumes that, subject primarily to French backsliding, the £350m on offer at Dublin will be available again; notes that restructuring of the Budget can only help us in the longer term, proposes that we should nevertheless seek a reduction in guarantee expenditure under the CAP within the 1 per cent VAT ceiling, and settle later what role we want the European Parliament to play in this; and recommends that for the immediate future we should concentrate on supplementary receipts measures along the lines proposed in the note by officials. (paragraphs 2-4). Under tactics, Lord Carrington proposes an intensive programme of bilateral contacts by the Lord Privy Seal; an early visit by the Italian Prime Minister; and suggests that OD(E) should consider early in January the tactics we should adopt on the issues which our partners see as linked to our Budget problem, namely fish, sheepmeat and North Sea oil (paragraphs 5-8).

HANDLING

8. You might find it convenient to base the discussion on the Foreign and Commonwealth Secretary's minute, taking the notes by officials as they arise. The Foreign and Commonwealth Secretary may wish to introduce his minute. Thereafter you might take the meeting through his minute, in the following

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sequence:-

(i) restructuring the budget: any dissent from the conclusions in paragraphs 23-26 of the Official Note? There is now a link with the European Parliament and you may wish to note that OD(E) will be considering our attitude towards the Parliament's rejection of the 1980 Budget early in the New Year. The Chancellor of the Exchequer and the Minister of Agriculture may wish to comment. Officials are doing more work on ways of cutting the cost of the CAP (and Mr Walker sent you some preliminary ideas on 21 November). OD(E) should have a paper in January.

(ii) Additional receipts: Does the meeting endorse the conclusions in paragraphs 39-41 of the Official Note on Supplementary Measures? We must continue to work on the Commission to get out proposals by about the third week in January. How far can we go in accepting Commission influence over our expenditure programmes in exchange for Community financing of those programmes? (Chancellor to comment).

(iii) On tactics, the Lord Privy Seal might be invited to report on the bilateral contacts he has in mind with the Presidency, the Commission and the other member states. He will presumably operate within the framework of your statement to the House on 3 December. Should the Chancellor also visit some of his counterparts?

(iv) On related issues, you have ruled out linkages. The Foreign and Commonwealth Secretary agrees that we must continue to argue each issue on its merits but suggests that more work is needed to develop our tactics on fish, sheepmeat and energy. The Minister of Agriculture and the Secretary of State for Energy will wish to comment; they could be asked to bring papers to OD(E) early in January proposing the best tactical handling.

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"When precisely should  
Signor Cossiga come here?"

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CONCLUSIONS

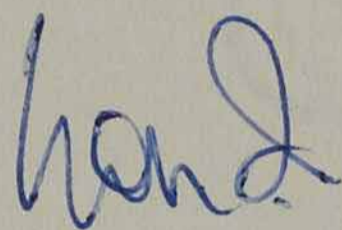
9. Your summing up might:

(a) endorse the two papers by officials;

(b) agree that the Lord Privy Seal should carry out bilateral consultations on the lines you have laid down and report back to you as early as possible in January;

(c) agree that OD(E) should consider the CAP, energy and other related issues in January;

(d) envisage a meeting of OD under your chairmanship to take the Lord Privy Seal's report as well as the work which is being done on obstruction/withholding if we do not get our way next time.



M D M FRANKLIN

CABINET OFFICE SW1

20 DECEMBER 1979