



PM/79/101

PRIME MINISTER

EEC Budget

Budget Contribution: Tactics for the Coming Weeks

1. At your meeting on 21 December we shall be looking at the follow-up to the Dublin European Council, in the period leading up to a decision by the Italian Presidency to bring forward the next meeting of the Council to a date in February.

Dublin Council

2. The formula for a possible solution which emerged from Dublin divides into three parts:

- (a) the removal of the restrictions on the existing financial mechanism;
- (b) supplementary receipts from the Community, specifically or largely directed to the UK;
- (c) restructuring of the budget to reduce the part of CAP guarantee expenditure and to increase that of structural programmes.

It was clear at Dublin that (a) was available to us had we agreed that it was a final solution to the problem. We can therefore assume that it will be available again as part of a final solution. We must, however, look out for a back-sliding on the part of some of the other member states, in particular the French, who were very reluctant to go as far as £350 million, and probably hold unsatisfactory views on duration.

3. The restructuring of the budget, as is clear from the paper prepared by officials (EQS(79)28), can only be expected to produce savings for us in the longer term. We must take every opportunity to emphasize that we look for major progress in this field over the next two or three years. But we should not set our sights so high as to invite disappointment: nor (the opposite danger)

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by underlining the need for modest reform in individual sectors, lead other members to believe that a long-term programme providing for major restructuring will alone be a satisfactory complement to the unrestrained financial mechanism. In deciding upon our aims and our tactics with regard to this section of the triptych, we have to hold firmly to the 1% VAT ceiling while at the same time achieving a reduction in guarantee expenditure under the CAP. We must decide our attitude to the role of the European Parliament in this, following upon the rejection of the 1980 budget. Finally, we must recognise that any major reduction of guarantee expenditure is going to have some limiting effect on the incomes of our own farmers, especially if the performance of sterling leaves us little margin on the green pound.

4. Thus for the immediate future we should concentrate on supplementary receipts. We should continue to press the virtues of a receipts mechanism. But the Commission will want to look first at the possibility of exploring additional benefits from existing programmes and then at new expenditure programmes. The paper by officials (EQS(79)28) shows how we could indicate to the Commission a range of packages of expenditure which might add up to something like the sum we are aiming for.

Tactics

5. We have to address ourselves to the Commission and to the other member states, and in particular the Italian Presidency. I am glad that you have agreed that Ian Gilmour should take personal charge of our negotiating strategy. In addition to drawing the threads together at home, he will have to undertake an intensive programme of bilateral contacts in the New Year.

6. The Commission is going to prepare proposals which will have to be available some time in January. You have already agreed that Mr Butler may give to the Commission, before Christmas, a paper giving some preliminary views.

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7. We have a great deal of work to do with our partners in a relatively short time. You yourself have agreed to receive the Italian Prime Minister here early in the New Year. We understand that this would be his first visit as President. I share your view that this visit should take place as early as reasonably possible.

8. The factor which we are not going to be able to overlook in our bilateral contacts is the interest many of them have in other matters of current Community debate, such as fisheries, sheepmeat and energy. We can and should continue to maintain that each of these subjects has its own specific characteristics and should be considered on its merits. Given that a number of our partners made it clear at Dublin that they felt that some link between these subjects and the budget was inevitable, we need to be clear how we are going to handle them. In many cases they reflect domestic preoccupations which, though not perhaps of equal intensity to our own, are nonetheless real. It would only be prudent, given that we are bound to hear more of this, if some preparatory work were done on how we want to handle these. I suggest OD(E) should consider papers early in January from the Minister of Agriculture on the tactics for fisheries and sheepmeat and the Energy Secretary on oil.

Conclusion

9. To sum up, I think that we must set work in hand on restructuring the budget and on supplementary receipts on the lines suggested above, as well as drawing up a programme of bilateral contacts and developing the line which we should be taking during them on the basis of the three tiered approach to which the Dublin conclusions pointed. This work should be conducted against a background of a firm determination to achieve an equitable solution together with a willingness to compromise within the limits on our room for manoeuvre of which you spoke in the House. We should aim to report to you early in the New Year
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on the outcome of first contacts with the Commission and our partners.

10. I am copying this minute to the Private Secretaries of the Chancellor of the Exchequer, the Lord Privy Seal, the Minister of Agriculture, the Secretary of State for Energy and Secretary of the Cabinet.

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19 Dec 1979.

(CARRINGTON)

Foreign and Commonwealth Office

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