

ADVANCE COPIES

FRAME ECONOMIC

36 XEROX COPIES

FCO  
PS

PLUS FCO

PS/LORD PRIVY SEAL  
PS/MR RIMLEY  
PS/POS  
MR BULLARD  
MR HANNA  
LORD BRIDGES

RESIDENT CLERK  
HM/EID(1)(4)  
HD/NEWS  
HD/FRD  
H/.....  
HD/.....

COBENNT OFFICE

D.O.T.

PLUS CGDS

MR M D M FRANKLIN  
MR D M ELLIOTT  
MR R.C.G. WILKINS  
MR HORNE  
MR WALSH

MR BALFOUR, B/ENGLAND

~~MR ALEXANDER, No 10 D.S.~~

H.M. TREASURY  
PS/CHANCELLOR  
SIR K COUZENS  
MR AERFORD  
MR HANCOCK  
MR MICHELL  
MR THOMSON  
MISS WRIGHT (7)

M.A.F.F.

MR B D HAYES  
MR HADLEY

IMMEDIATE

GPS 3820

CONFIDENTIAL

FRAME ECONOMIC

ADVANCE COPY

DESKBY PARIS 143700Z

DESKBY FCO 142800Z

DB 140800Z

FM UKREP BRUSSELS 131829Z MARCH 80

TO IMMEDIATE FCO

TELEGRAM NUMBER 1451 OF 13 MARCH

AND TO IMMEDIATE PARIS (FOR FRANKLIN, BRIDGES DESKBY 143700Z)

INFO PRIORITY ROME, BONN.

INFO SAVING BRUSSELS, COPENHAGEN, THE HAGUE, LUXEMBOURG, DUBLIN.

COREPER (AMBASSADORS) 13 MARCH; UK BUDGET PROBLEM.

MIPTS; FOLLOWING IS TEXT OF MY STATEMENT ON THE UK'S 'SIX POINTS'.

THE PURPOSE OF THE COREPER DISCUSSION IS TO OFFER ADVICE TO THE FOREIGN AFFAIRS COUNCIL ON HOW BEST IT CAN PREPARE FOR THE EUROPEAN COUNCIL. IT IS VITAL THAT THIS TIME THE EUROPEAN COUNCIL SHOULD SETTLE THE MAIN ISSUE. ANYTHING THAT CAN BE DONE TO IMPROVE THE CHANCES OF AGREEMENT IN THE EUROPEAN COUNCIL MUST BE

IMPROVE THE CHANCES OF AGREEMENT IN THE EUROPEAN COUNCIL MUST BE DONE. THE ISSUES MUST BE PRESENTED TO THE EUROPEAN COUNCIL AS SIMPLY AS POSSIBLE, IF NECESSARY WITH ALTERNATIVE OPTIONS.

UK BUDGET PROBLEM.

THE COMMISSION PAPER OF 5 FEBRUARY RESPONDS WELL TO THE REMIT FROM THE DUBLIN EUROPEAN COUNCIL. THE METHOD PROPOSED DEALS DIRECTLY WITH THE PROBLEM OF INADEQUATE COMMUNITY EXPENDITURE IN THE UNITED KINGDOM WITHOUT UNNECESSARILY INCREASING THE COMMUNITY BUDGET AS A WHOLE. IT WOULD ENSURE THAT THE COMMUNITY EXPENDITURE INVOLVED WOULD BE FOR PROGRAMMES AND PROJECTS IN LINE WITH COMMUNITY POLICIES. THERE IS PLENTY OF SCOPE FOR SUCH EXPENDITURE IN THE UNITED KINGDOM. WE HOPE THAT IT CAN BE AGREED THAT NO OTHER OPTION NEED BE PRESENTED TO THE EUROPEAN COUNCIL.

THE PAPER SAYS THAT ARRANGEMENTS FOR THE UNITED KINGDOM SHOULD BE TEMPORARY. THE UNITED KINGDOM CERTAINLY HOPES THAT THE SITUATION IN WHICH IT FINDS ITSELF WILL BE TEMPORARY AND THAT THE SOLUTION ALSO CAN THEREFORE BE TEMPORARY. BUT THIS TIME THE COMMUNITY MUST REALLY SOLVE THE PROBLEM FOR THE PERIOD WHICH THE EVOLUTION OF COMMUNITY POLICIES TAKES TO BRING ABOUT A PERMANENT SOLUTION.

THE COMMISSION PAPER RIGHTLY POINTS OUT THAT THE EUROPEAN COUNCIL WILL HAVE TO ESTABLISH THE AMOUNT AND DURATION OF THE SUPPLEMENTARY EXPENDITURE IN THE UNITED KINGDOM.

THE EUROPEAN COUNCIL'S REQUEST TO THE COMMISSION TO MAKE PROPOSALS FOR SUPPLEMENTARY EXPENDITURE REFLECTED AN APPROACH THAT MEASURES WERE NEEDED IN ADDITION TO REMOVING THE CONSTRAINTS ON THE EXISTING FINANCIAL MECHANISM.

ON THIS ASSUMPTION, HOW MUCH SUPPLEMENTARY EXPENDITURE SHOULD THERE BE? MOST OF MY COLLEAGUES WILL KNOW THAT WE HAVE HANDED OVER A BRIEF SUMMARY OF OUR POSITION IN CAPITALS. SINCE IT HAS NOT ALWAYS BEEN FULLY UNDERSTOOD, IT MAY BE HELPFUL IF I EXPLAIN IT HERE. WE BELIEVE THE RATIONAL WAY FOR THE COMMUNITY TO APPROACH THIS PROBLEM IS TO ASK ITSELF WHAT WOULD BE A REASONABLE BURDEN FOR THE COMMUNITY BUDGET TO PLACE ON A COUNTRY IN THE POSITION OF THE UNITED KINGDOM, WITH BELOW-AVERAGE GNP PER HEAD AND ALL THE ECONOMIC PROBLEMS MENTIONED IN THE COMMISSION'S PAPER ON THE ECONOMIC SITUATION IN THE COMMUNITY. IN CONSIDERING THIS QUESTION, THE COMMUNITY SHOULD BEAR IN MIND THAT AS A VERY SUBSTANTIAL IMPORTER OF CAP PRODUCTS AT CAP PRICES, THE UNITED KINGDOM IS

PORTER OF CAP PRODUCTS AT CAP PRICES, THE UNITED KINGDOM IS MAKING A LARGE TRANSFER OF INCOME TO THE COMMUNITY OUTSIDE THE BUDGET, AS WELL AS THROUGH IT.

SOME PEOPLE HAVE SUGGESTED THAT WE SHOULD PLUCK A FIGURE OUT OF THE AIR AND PROVIDE FOR, SAY, 200 OR 300 MEUA FOR SUPPLEMENTARY EXPENDITURE. THIS APPROACH WILL NOT DO. IT HAS NO RATIONALE. ON OUR CALCULATIONS IT WOULD STILL LEAVE THE UNITED KINGDOM WITH A NET CONTRIBUTION OF AROUND 1,000 MEUA OR MORE -- CLOSE TO THAT OF GERMANY AND FOUR TIMES THAT OF FRANCE, WITH ALL THE OTHER MEMBER STATES AS SUBSTANTIAL BENEFICIARIES FROM THE BUDGET.

IN OUR VIEW IT WOULD BE RIGHT TO FIND AS OBJECTIVE AS POSSIBLE A RATIONALE FOR DECIDING WHAT FINANCIAL BURDEN THE UNITED KINGDOM SHOULD BEAR IN THE FINANCING OF COMMON POLICIES. WE ARE NOT ASKING TO BREAK EVEN. WE ARE READY TO MAKE A MODEST NET CONTRIBUTION. WE BELIEVE THAT IT WOULD BE REASONABLE TO CALCULATE IT IN RELATION TO THAT OF THE COUNTRY WITH THE NEXT HIGHEST GNP PER HEAD. I WANT TO MAKE IT CLEAR THAT THIS WOULD BE A POLITICAL BENCHMARK BY WHICH THE FIGURE WOULD BE FIXED IN 1980; IT WOULD NOT BE SOMETHING WHICH WOULD BE ENSHRINED IN LEGAL TEXTS.

THE COMMISSION WILL SHORTLY BE PRODUCING ITS UP-DATED ESTIMATE FOR OUR NET CONTRIBUTION IN 1980. THE AMOUNT OF THE SUPPLEMENTARY EXPENDITURE IN THAT YEAR (TAKEN TOGETHER WITH THE 520 MEUA REFUND FROM THE FINANCIAL MECHANISM) SHOULD BE SUFFICIENT TO LEAVE THE UNITED KINGDOM MAKING A NET CONTRIBUTION OF THE AGREED SIZE. SINCE WE ASSUME THAT THE UNITED KINGDOM WOULD CONTRIBUTE THROUGH THE BUDGET TO THE SUPPLEMENTARY EXPENDITURE, THE GROSS AMOUNT WOULD HAVE TO BE SET AT THE APPROPRIATE LEVEL TO PRODUCE THE AGREED NET RESULT.

WE ARE NOT SUGGESTING THAT AGREEMENT COULD BE REACHED ON THE AMOUNT EXCEPT AT THE EUROPEAN COUNCIL LEVEL. BUT AT LEAST WE OUGHT TO BE SURE THAT HEADS OF GOVERNMENT WILL BE LOOKING AT THE PROBLEM, WITH THE SAME SORT OF FIGURES IN MIND AND WITH THE SAME CONCEPTUAL FRAMEWORK. IF ANY OTHER GOVERNMENT HAS OTHER WAYS IN WHICH THEY BELIEVE THAT THE COMMUNITY COULD RATIONALLY APPROACH THIS PROBLEM, WE SHOULD BE GLAD TO HEAR OF THEM.

THE QUESTION OF DURATION IS ALMOST AS IMPORTANT AS THE QUESTION OF AMOUNT. THE COMMUNITY MUST AVOID COMING BACK TO THIS PROBLEM IN THE NEXT FEW YEARS. THE UNITED KINGDOM HAS FREQUENTLY BEEN REPROACHED FOR BRINGING THE MATTER UP AGAIN, ALTHOUGH WE HAVE LONG DRAWN ATTENTION TO THE PROBLEM AND IT HAS NOT BEEN SOLVED UP TO NOW. THE COMMUNITY MUST TAKE DECISIONS

ALTHOUGH WE HAVE LONG DRAWN ATTENTION TO THE PROBLEM AND IT HAS NOT BEEN SOLVED UP TO NOW. THE COMMUNITY MUST TAKE DECISIONS WHICH WILL AVOID THE UNITED KINGDOM BEING OBLIGED TO RAISE IT AGAIN IN 1983 OR 1984.

BUT HOW IS THIS TO BE ACHIEVED? OUR SUGGESTION IS THAT THE EXISTING FINANCIAL MECHANISM, WITH THE CONSTRAINTS REMOVED, SHOULD BE GIVEN A FURTHER LEASE OF LIFE SIMILAR TO THAT AGREED WHEN IT WAS SET UP, WITH A SECOND REVIEW AFTER A SIMILAR PERIOD, IE BEFORE THE END OF 1986. THE SOLUTION ON THE EXPENDITURE SIDE SHOULD BE PLACED IN THE SAME TIMESCALE AND REVIEWED AT THE SAME TIME. WE BELIEVE THAT IT WOULD BE SENSIBLE TO REVIEW THE PROGRESS MADE TOWARDS OUR RESTRUCTURING OBJECTIVES IN THE SAME TIMESCALE, AS I SAID EARLIER AND AS THE COMMISSION HAVE ALSO PROPOSED IN THEIR 5 FEBRUARY PAPER.

I HAVE ALREADY SUGGESTED HOW THE FIGURE FOR THE COMMUNITY'S SUPPLEMENTARY EXPENDITURE IN THE UNITED KINGDOM IN 1980 MIGHT BE ARRIVED AT. THE QUESTION THEN IS HOW TO PROVIDE FOR LATER YEARS, SINCE THE 1980 FIGURE IS UNLIKELY TO REMAIN THE APPROPRIATE ONE.

WE ALL KNOW THAT THERE ARE MANY UNCERTAINTIES. AT ONE EXTREME THE COMMUNITY MAY FAIL TO TAKE ACTION TO CURB THE CAP SURPLUSES AND MAY AGREE UNANIMOUSLY TO BREAK THROUGH THE ONE PER CENT VAT CEILING. UNDER THIS SCENARIO, THE UNITED KINGDOM BURDEN WOULD GROW AGAIN RAPIDLY AND SOON BECOME EQUALLY UNACCEPTABLE. WE MUST GUARD AGAINST THIS. ON THE OTHER HAND, AND WE HOPE MORE PROBABLY, THE COMMUNITY MIGHT ACCEPT AND IMPLEMENT THE PROPOSALS FOR BUDGET RESTRUCTURING WHICH I MENTIONED EARLIER. IN THIS CASE ORDINARY COMMUNITY EXPENDITURE UNDER EXISTING OR NEW COMMUNITY POLICIES IN THE UNITED KINGDOM MIGHT GROW TO A CONSIDERABLE EXTENT RELATIVE TO THAT IN OTHER MEMBER STATES. OUR UNCORRECTED NET CONTRIBUTION WOULD DECLINE. THE NEED FOR SUPPLEMENTARY EXPENDITURE IN THE UNITED KINGDOM WOULD BE LESS.

OUR SUGGESTION IS TO RELATE THE LEVEL OF EXPENDITURE TO THE AVERAGE LEVEL OF RECEIPTS PER HEAD IN THE COMMUNITY AS A WHOLE. AT PRESENT THE UNITED KINGDOM'S RECEIPTS PER HEAD OF POPULATION ARE BELOW HALF THOSE FOR THE COMMUNITY AS A WHOLE. IF SUPPLEMENTARY EXPENDITURE IN THE UNITED KINGDOM FOR 1980 IS AGREED IN THE WAY I HAVE SUGGESTED, THIS MIGHT BRING OUR RECEIPTS UP TO, SAY, 60 PER CENT OF THE COMMUNITY AVERAGE. IT WOULD THEN BE AGREED THAT THE AMOUNT OF SUPPLEMENTARY EXPENDITURE IN EACH YEAR OF THE ARRANGEMENT SHOULD BE CALCULATED TO BRING THE UNITED KINGDOM UP TO THE SAME PERCENTAGE.

WE HAVE DEVOTED A LOT OF TIME AND THOUGHT TO WAYS TO DEAL WITH THIS PROBLEM OF HOW TO DETERMINE THE AMOUNT OF EXPENDITURE IN THE UNITED KINGDOM OVER A REASONABLE PERIOD WITHOUT THE UNITED KINGDOM GETTING EITHER TOO MUCH IF BUDGET RESTRUCTURING WORKS WELL OR TOO LITTLE IF IT DOES NOT. WE ARE VERY OPEN TO OTHER SUGGESTIONS. WE ARE NOT SAYING THAT THIS IS THE ONLY WAY OF SOLVING THE PROBLEM - MERELY THAT WE HAVE NOT BEEN ABLE TO THINK OF A BETTER ONE. WE SHOULD BE READY TO CONSIDER OTHERS.

THESE ARE OUR IDEAS AS TO HOW THE EUROPEAN COUNCIL SHOULD DEAL WITH THE PROBLEM. WE SHOULD BE GRATEFUL IF THEY COULD BE REFLECTED IN THE PRESIDENCY'S PREPARATIONS FOR IT.

FCO PASS ADVANCE COPIES TO:-

FCO PS/SOFS, PS/LPS, BRIDGES, HANNAY, SPRECKLEY  
UK BUDGET DISTRIBUTION  
CAB FRANKLIN, ELLIOTT, WALSH  
MAFF HADLEY  
TSY- PS/CHANCELLOR, COUZENS, HANCOCK, MICHELL, THOMSON,  
MISS WRIGHT (7 COPIES)  
NO.10 ALEXANDER  
B/E BALFOUR

FCO PASS SAVING COPENHAGEN, DUBLIN.

BUTLER.

NNNN