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CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on

MONDAY 2 JUNE 1980

at 11.00 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon William Whitelaw MP
Secretary of State for the Home Department

The Rt Hon Lord Hailsham
Lord Chancellor

The Rt Hon Lord Carrington
Secretary of State for Foreign and
Commonwealth Affairs

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

The Rt Hon Francis Pym MP
Secretary of State for Defence

The Rt Hon Lord Soames
Lord President of the Council

The Rt Hon James Prior MP
Secretary of State for Employment

The Rt Hon Sir Ian Gilmour MP
Lord Privy Seal

The Rt Hon Peter Walker MP
Minister of Agriculture, Fisheries and Food

The Rt Hon Michael Heseltine MP
Secretary of State for the Environment

The Rt Hon George Younger MP
Secretary of State for Scotland

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales

The Rt Hon Humphrey Atkins MP
Secretary of State for Northern Ireland

The Rt Hon Patrick Jenkin MP
Secretary of State for Social Services

The Rt Hon Norman St John-Stevas MP
Chancellor of the Duchy of Lancaster

The Rt Hon John Nott MP
Secretary of State for Trade

The Rt Hon David Howell MP
Secretary of State for Energy

The Rt Hon Mark Carlisle QC MP
Secretary of State for Education and Science

The Rt Hon John Biffen MP
Chief Secretary, Treasury

The Rt Hon Angus Maude MP
Paymaster General

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THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Norman Fowler MP
Minister of Transport

The Rt Hon Michael Jopling MP
Parliamentary Secretary, Treasury

SECRETARIAT

Sir Robert Armstrong
Mr M D M Franklin
Mr D M Elliott

SUBJECT

COMMUNITY AFFAIRS

European Community Budget

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The Cabinet considered a memorandum by the Secretary of State for Foreign and Commonwealth Affairs (C(80) 29) assessing the results of the negotiations at the meeting on 29 and 30 May of the Council of Ministers of the European Community on the United Kingdom's contribution to the Community Budget and related questions and at a parallel meeting of the Council of Agriculture Ministers, to which was attached a factual note describing the outcome of those negotiations and showing how matters had progressed since the Dublin and Luxembourg European Council Meetings.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the proposals set out in his memorandum were the result of a long and laborious negotiation. The meeting, in which the Lord Privy Seal had also participated, had started with the French and Germans asserting that the figures on offer for our budget contribution at the Luxembourg European Council were no longer on the table. The Germans were under instructions not to agree to a refund for 1980 as high as the one on offer in Luxembourg. The French had also opened with a set of unacceptable conditions. A difficult negotiation had led to the outcome set out in the annex to his paper. What was now in prospect was a solution to our budgetary problem covering three years. For 1980 the new proposal would result in a higher net contribution than the 538 meua offered at Luxembourg, but the figure for 1981 was within our target area and represented an improvement on what was available at Luxembourg, while the refund for the two years taken together came out higher than was offered then. Overall it amounted to a refund of two-thirds of the net British contribution. It was accompanied by a risk sharing formula which would set clear limits to our additional financial obligations if the unadjusted net contribution proved to be higher than allowed for in the Commission's estimates. There was also a satisfactory undertaking that should safeguard the position for 1982. In addition the proposals provided for a major review of the Community's finances, in which the Community was pledged to resolve the problem by means of structural changes within the 1 per cent Value Added Tax (VAT) ceiling aimed at preventing the recurrence of unacceptable situations for any member state. He had reserved the United Kingdom's position on the entire package. While the proposals did not give us all we should have liked to achieve, he and the Lord Privy Seal were satisfied that they were the maximum we could get short of provoking a major crisis that would weaken still further the Community's capacity to cope with world events as well as its own internal problems.

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that in the parallel negotiations in the Agriculture Council it had been possible to secure further improvements in the agricultural prices package, which now offered substantial benefits for the United Kingdom including the continuation of the butter subsidy, a satisfactory suckler cow premium and refunds on whisky exports. The average 5 per cent price increase was higher than we would like, though it would produce an increase of only 0.7 per cent on the food price index and 0.15 per cent on the retail price index. On sheepmeat, we had been able to secure changes in

the Commission's proposals which would be advantageous to British farmers while providing protection for the interests of New Zealand. There would be no intervention buying in the United Kingdom. Instead there would be provision for deficiency payments to British producers from Community funds. Under this scheme the guaranteed return to United Kingdom producers would be increased by 17 per cent in 1980-81, and would rise steadily thereafter as reference prices were aligned over a four year period. Consumers here would benefit because the deficiency payments, and their recovery on lamb exports, would keep United Kingdom market prices down; while the provisions for New Zealand gave her in effect a veto over the introduction of the scheme and an opportunity to negotiate on the volume of her imports into the Community in exchange for a reduction in the existing tariff. There was provision for export refunds, but Commissioner Gundelach had assured him and the Deputy Prime Minister of New Zealand that they would only be used with the agreement of New Zealand.

THE CHANCELLOR OF THE EXCHEQUER said that, although the proposals did not measure up to the full scale of the United Kingdom's financial grievance, we should accept them and use the commitment to budgetary restructuring to achieve necessary changes in the Common Agricultural Policy (CAP). As to the public expenditure implications of the proposed settlement, unless we were successful in negotiating advance payments, we should get the first refund back in the first quarter of 1981, before the close of our own financial year. In this way, the public expenditure savings in the White Paper would be increased. It would be important to make clear that the additional community spending in the United Kingdom would be in substitution for planned domestic public expenditure.

In discussion the following points were made:-

a. Fish

Although our partners had pressed for an undertaking to reach decisions on the Common Fisheries Policy by the end of the year as the price for giving up any mention of equal access, it was in fact in our interests to make early progress and avoid being pushed up against a deadline when the present Treaty arrangements expired.

b. Agricultural Prices

It was argued that, while the overall package could be seen as a substantial victory in negotiating terms, it did not tackle the fundamental question of the increased resource cost of the Community to the United Kingdom, nor would it do more than push the problem of the reform of the CAP forward by one or two years to the time when the VAT ceiling would force a reappraisal anyway. It would then coincide with growing concern about the costs of enlargement, with the risk that the Government would enter the next General Election under the shadow of continuing controversy over

membership of the Community. Although British farmers might gain about £200 million from the 5 per cent price increase, consumers would pay about £300 million in 1980 in higher prices. Moreover, given that the text of the Council conclusions required that budget restructuring take place without calling into question the basic principles of the CAP, it was questionable whether any substantial progress could be made in this area. Against this it was argued that the proposed CAP package produced benefits for the United Kingdom both in budgetary and resource terms; that the United Kingdom had never called in question the basic principles, as distinct from the modalities and distortions, of the CAP; and that ample scope existed for negotiating reform within the present framework of the CAP. In addition, it was argued that with a budget settlement behind us and the commitment to budget restructuring, with its reference to unacceptable situations, the United Kingdom should be in a stronger position to defend her interests when the VAT ceiling began to bite.

c. Sheepmeat

It was suggested that the proposed sheepmeat regime would encourage the over-production of lamb and so increase budgetary costs in which the United Kingdom would eventually have to share. Taken along with the increase in agriculture prices, it would also give an additional boost to the CAP itself, both in extending its scope and in promoting further surpluses. On the other hand it was suggested that the new regime would have considerable advantages for upland and marginal sheep farmers in the United Kingdom, given especially the decline in beef production. If the New Zealand Government were in fact to veto the scheme - which they were in fact unlikely to do - they would risk adding to the growing divergence of interests between their farmers and British farmers. The New Zealanders had succeeded in diversifying both their production and their markets in recent years, and there was a feeling among British farmers that they had overplayed their hand in the Community. There would be no intervention in the Community during the season in which New Zealand exported the bulk of her lamb, so that present markets should be assured; and with the sheepmeat problem settled she would stand a better chance to get a satisfactory deal on her dairy exports.

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In further discussion there was general agreement that the terms proposed were the best that was likely to be achieved, and should be accepted. The outcome was the result of long and robust negotiation by the Prime Minister and the Foreign and Commonwealth Secretary. It should be presented in public positively, as the substantial achievement it was. The alternative would lead us into a new and dangerous situation whose consequences could not be foreseen but were likely to have profound implications at least for our membership of the Community and perhaps for the future of the Community itself. Although there were internal political difficulties in the Federal Republic of Germany, and the German government would not take a decision until 4 June, other Governments had already accepted the proposals and it was likely that all the partners would accept the deal if the British Government did so, some of them had already indicated their assent.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet endorsed the Foreign and Commonwealth Secretary's view that the proposal emerging from the meeting of the Council of Ministers on 29 and 30 May, though giving the United Kingdom less than would have been ideally desirable, brought about a marked improvement in the United Kingdom's budgetary position without damaging concessions elsewhere and should thus be accepted. This decision should be conveyed immediately to the Italian Presidency and announced in Parliament that afternoon. The Foreign and Commonwealth Secretary and the Minister of State, Ministry of Agriculture, Fisheries and Food (Lord Ferrers) would make statements in the Lords and the Lord Privy Seal and the Minister of Agriculture, Fisheries and Food in the Commons. Further consideration should be given to the question of a debate. Meanwhile it would be helpful if the Chancellor of the Exchequer provided colleagues with a note setting out the details of the budget settlement and its effect on the Government's economic policies.

The Cabinet -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.
2. Invited the Secretary of State for Foreign and Commonwealth Affairs to inform the Italian Presidency accordingly.
3. Invited the Chancellor of the Exchequer to arrange for an explanatory note on the content and mode of operation of the budgetary settlement to be circulated to the Cabinet.

Cabinet Office

2 June 1980