

MR. WHITMORE

Prime Minister  
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COMMUNITY BUDGET

The Prime Minister may find it helpful before the meeting tomorrow morning to have set out the issues which will need to be decided both for the meeting with Signor Colombo and the Agriculture and Foreign Affairs Councils later this week. This is of course being written without knowing the outcome of the Ecofin Council, on which the Chancellor of the Exchequer will no doubt report, or the Lord Privy Seal's visit to Bonn to see Herr von Dohnanyi.

On the budget issue itself I attach a note (the figures in which have been agreed at official level with the Treasury) summarising the latest Commission estimates and considering various possible formulae for fixing our net contribution for the three years 1980, 1981, and 1982. Subject to the outcome of the Ecofin Council, the position can be summarised as follows. The last offer the Prime Minister made at Luxembourg would, on these figures, have yielded us about 4700 meua over the three years; but this was not accepted by the others. The Giscard/Schmidt offer, which we did not accept and which has of course now been withdrawn, only covered two years. Even if it had been extended to three years, it would only have yielded about 4000 meua and have left us making too high a contribution in 1982. Against this background, I suggest that our aim should be to secure a three-year arrangement; one which does not produce too steep a rise in our net contribution; and which yields something closer to the top of this range, say 4500 meua. We should also, I suggest, still aim for a limit on our net contribution rather than a fixed refund since this would be a safeguard against a steeper rise in agriculture expenditure than the Commission's new estimates have allowed for. The table contains several formulations which would satisfy these criteria, but they do suggest that in order to be negotiable, the net contribution for 1980 will have to be somewhat higher than 538 meua. The Prime Minister will want to consider whether it would be in

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our interests to pay a bit more in the first year if we can thereby improve our position in the later years and avoid too sharp an increase in our net contribution. The table also contains a suggestion which Mr. Jenkins made at the end of last week which as formulated would not be acceptable.

There will be considerable difficulty in getting a precise figure agreed for 1982 because of the uncertainty over how much room there is likely to be within the 1 per cent VAT ceiling. It is clearly not in our interest to call the VAT ceiling into question. On the other hand, we do not want to accept too little relief on our net budget contribution now simply because, on the Commission's very uncertain forecasts, the Community would otherwise exceed the 1 per cent limit. There will in any case have to be a major review of the Community's finances some time during the next eighteen months. For these reasons it might suit our interests better to have a formulation under which the Commission had to propose the figure for the third year taking account of the outcome of any general review of the financial arrangements but with a commitment that, in the absence of any more comprehensive solution, the UK net contribution in 1982 would be limited in the same way as the figure for 1981.

As regards the CAP price issue, the Minister of Agriculture has now sent a warning letter to Commissioner Gundelach about the possible French national measures to aid their farmers, along the lines the Prime Minister agreed last week. We can expect other member states at the Agriculture Council to express concern at the intention of the French Government to take measures of doubtful legality. The more they make the running on this the better for us. The best outcome of the Agriculture Council for us would be a prolongation of the existing farm price arrangements, with out acceptance of the Luxembourg 5 per cent price increase remaining dependent on a satisfactory outcome on the budget. Ministers will need to consider later what our position would be if, in the event, the French Government decide to implement such measures without the approval of the Commission.

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On fisheries, there is discussion in COREPER today on a possible text dealing with principles, and the Minister of Agriculture may be able to report the outcome. In the bilateral talks with the Germans, the Minister of Agriculture suggested that we might be able to agree to the following text on access:-

"The decisions to be taken under Article 103 of the Treaty of Accession must be in accordance with the objectives and principles of the Treaty of Rome and the Treaty of Accession (inter alia the objectives underlying Articles 100-102) and with the decisions of the Council of Ministers of 3 November, 1976 (inter alia Annex VII)."

This will not satisfy the Germans who want some recognition of the commitment to equal conditions of access at any rate outside 12 miles. The phrase "equal conditions of access" appears in Article 2 of the basic fisheries regulation which was codified and agreed to by the last Government in 1976. There are of course possibilities to derogate from this principle under the provisions of the Accession Treaty and the Hague agreements of 1976 and it is on these that our case rests. In his paper of 9 May the Minister of Agriculture suggested that, in the context of an otherwise satisfactory deal, we could accept the following:-

"Equal conditions of access, subject to the need to take account of the vital needs of local communities specially dependent upon fishing and the industries allied thereto, and of the necessity of adopting without delay provisions to solve the problems of coastal fishing activity, in particular in economically disadvantaged regions, and to regulate fishing activity within a coastal belt."

On sheepmeat the Foreign and Commonwealth Secretary minuted the Prime Minister on 21 May reporting the conclusions of OD(E). The Prime Minister will want to consider, particularly in the

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light of further exchanges between the Commission and Mr. Talboys, whether the proposals in that minute provide a reasonable negotiating basis for the Agriculture Council which Mr. Walker will be attending later in the day.

Finally, the Prime Minister will want to consider how best to tackle Signor Colombo, who will arrive fresh from talks in Bonn and Paris. He will be pressing us for ways to resolve fisheries and sheepmeat. We shall want to press him on the budget issue. The key question is whether, without mentioning figures, the Prime Minister should hint that if we could get satisfaction on the later years she might be prepared to go slightly higher than 538 meua for 1980.

I am sending copies of this minute to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and to the Minister of Agriculture's Private Secretaries.

M.D.M. FRANKLIN

Cabinet Office

27 May 1980

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LATEST BUDGET FIGURES

The Commission have now produced estimates for discussion at the Ecofin Council of the total size of the Community Budget in 1981 and 1982, with variants depending mainly on whether agriculture expenditure increases by 12 per cent or 18 per cent per annum.

All these estimates show total expenditure as below the 1 per cent VAT ceiling and they leave room for a refund to the United Kingdom of not less than 1500 meua (higher estimate) for 1981 but virtually no room for any refund in 1982 on the more pessimistic assumption (2150 meua on the more optimistic one).

They have also produced revised estimates of the UK's unadjusted net contribution in 1980 and 1981, but not for 1982. The Treasury's own estimates for the earlier years are as follows (meua):-

<u>1980</u>	<u>1981</u>
2027	2352

In the attached table,  
Line 1 puts our unadjusted net contribution for 1980 at 1900 million EUA. In fact, the Commission is still using 1784 million EUA, but they acknowledge that without negative MCA's our net contribution will be higher. The Lower and Higher figures for 1981 are straight Commission estimates, the former based on 12 per cent growth in CAP expenditure between 1980 and 1981, the latter on 18 per cent. The single figure of 2472 m EUA for 1982 represents the Treasury's estimate of the highest United Kingdom net contribution which is consistent with the Community's remaining within the 1 per cent ceiling. The Commission have offered no forecasts of the net positions of member states in 1982.

Line 2 is the proposal the Prime Minister made in Luxembourg, i.e. 538 million EUA for 1980 increased in future years by the same percentage as the increase in the Community Budget.

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Line 3 is the same formula but starting from 600 million EUA in 1980.

Line 4 is the alternative formulation approved by the Prime Minister (but starting from 600 million EUA) whereby our unadjusted net contribution is reduced by the same percentage in the following 2 years.

Line 5 shows that on this method, we could still end up with the same figure for 1982 as in line 3, even if we were to accept 650 million EUA for 1980.

Line 6. This is a variant of line 4 produced by the Treasury under which we pay 600 million EUA net in 1980 but the refund in future years is calculated as though we had paid only 538 million EUA in 1980; i.e. it is 72 per cent of the unadjusted net contribution rather than 68 per cent. It produces an even more favourable result to us than the Prime Minister's last offer in Luxembourg.

Line 7. This is the only formula based on a refund instead of a limit on our net contribution. The idea is that we should get a financial envelope covering the whole three year period distributed so as to give an even rate of increase from a refund of 1300 million EUA in 1980. It builds on suggestions made by the Dutch at the Luxembourg European Council.

Line 8. This formula was suggested by President Jenkins to the Lord Privy Seal on 22 May. The figure for 1980 is 538 increased by the 9 per cent increase in the Budget between 1979 and 1980. We do not know exactly how he would calculate the figure for future years but the table assumes it would be by the same percentage increase as the total Community Budget to which is added half the year-on-year increase in the unadjusted net contribution. This formula has the effect of loading on to us most of the risk of increase in our net contribution arising from an increase in the Community Budget.

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