



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER *ms*

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Prime Minister
(I am sure you will agree
with the Chancellor.

(2)

27/1

RESTRUCTURING THE COMMUNITY BUDGET

I refer to the Foreign Secretary's minute to you of 23 January covering a note by officials on progress with the exploratory discussions so far and proposals for the next steps. I have seen your comments recorded in Mr. Alexander's letter of 26 January.

2. I support the proposal in the officials' report that we should now begin to develop our ideas discreetly with Commission and German contacts. The chief idea we need to get across, as I see it, is not so much that the Community Budget should "have a redistributive function" but rather that the redistributive effects of the Budget (which already exist - and operate to our disadvantage) should be planned on defensible criteria and not allowed to result haphazardly from the particular effects of specific policies as at present.

3. This means that I very much agree with the implication of your comments: namely that a strict limit should be placed on the amount of redistribution that is allowed to take place - and the 1 per cent VAT ceiling can be called to our aid for this purpose. But it is also of special importance to the UK interest that the Community should accept that the redistributive effects of the Budget should not be perverse as, in our case, they are at present. It ought to be an aim

/of our efforts



of our efforts on restructuring to avoid being left permanently as the second largest net contributor of the Community Budget. Given our relative wealth and the size of the resource transfers we make as a net importer of food, that would over the years become increasingly difficult to defend to opinion at home.

4. Although I agree with the Foreign Secretary that we should be careful not to rush things and thus risk provoking a premature rejection of radical thought, I also think it essential that we should not under-estimate the strength of our position. The reaction of Germany and France to the redistribution to them of part of our budgetary burden, the prospective financial and economic impact on them of enlargement and perhaps also the effect on German policy of their balance of payments problem could mean, taken together, that they will not necessarily rule out a radical reappraisal of present arrangements.

5. We shall have to take stock again when we have made what progress we find possible with our selected German and Commission contacts. However, I think it must be right to make it clear to the Commission and our partners at the right moment, as one element in the negotiations, that, although we accepted the 30 May agreement in a spirit of compromise for a two or three year period, we still remain, even with that agreement, more disadvantaged relative to our GNP per head than any other member of the Community: a burden we ought not to be asked to accept as a permanent feature of Community life.

6. I am sending copies of this minute to the Foreign Secretary, the Minister of Agriculture, Fisheries and Food and Sir Robert Armstrong.

R. Tollerier
 , for, (Approved by the Chancellor
 (G.H.) and signed in his
 absence)

27 January 1981