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PM/81/16

PRIME MINISTER

Community Budget Restructuring

1. Since the progress report OD(81)4, officials have examined what more needs to be done before the Commission make their report and in the run-up to the UK Presidency. Their conclusions are contained in the two attached reports dealing respectively with budget restructuring generally and with the specific question of our 1982 budget refunds.
2. The first brings out that our main task over the next few weeks will be to encourage the Commission to produce a decent report on the restructuring mandate for the June European Council and one which is helpful to our interests. While there has been some radical thinking among a few Commission officials, there are no signs so far that the Commission has seriously addressed itself to the basic problems. The report suggests ways in which we should seek to influence the work, through M. Thorn, the British Commissioners and other contacts. The importance of talking to the Germans is also stressed, for which your meeting with Chancellor Schmidt on 11-12 May will provide the main focus. I also concur with the proposed round of official level bilaterals talks with all the other member states, ostensibly to prepare the ground for our Presidency but particularly with restructuring in mind. We can then take stock nearer the time of the June European Council.
3. The second note deals with our budget funds in respect of 1982. This will present us with a tricky problem during our Presidency. The need for a third year of refunds under the 30 May agreement will soon become apparent, but to press for agreement on it too soon could cast doubt on our good faith in seeking to achieve permanent restructuring arrangements starting in 1982. On financial grounds, all that we require is an entry in the 1982 Budget to cover possible advance payments. We do not need to settle on a firm budgetary

very doubtful of the  
results. The  
mainly push  
the problem  
on my plate  
at the time  
how.  
not

I think we have  
already left the  
1982 budget  
rather late.

We may have

to threshold. (am)

have Coomins' endorse the recommendations  
of officials in paragraph 12 of the note or Play A  
and in paragraph 7 of the note or Play B. Are  
you content with them?

Are you also that there is no need for a  
Western Commission at this stage?

Prime Minister.

AM  
Bw.

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CONFIDENTIAL



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provision for this until the end of 1981. I agree therefore that we ought to play this issue in low key for the time being. We shall need to consider nearer the time exactly how we play the hand at the November European Council under our Presidency.

4. If you agree, we will proceed accordingly. It does not seem to me that collective discussion at this stage is necessary. Copies of this minute and attachments go nevertheless to the other members of OD, the Minister of Agriculture and Sir Robert Armstrong.

A handwritten signature in blue ink, consisting of a large, stylized 'C' followed by a horizontal line.

(CARRINGTON)

Foreign and Commonwealth Office

14 April 1981



CONFIDENTIAL

EC BUDGET RESTRUCTURING: THE NEXT PHASE

Note by Officials

1. We are now within sight of the end of the preliminary exploratory phase of the EC budget restructuring negotiation. The Commission will present its paper early in June; the European Council will have a first, necessarily very general discussion of it on 29-30 June; and the next day we will take over the Presidency.
  
2. The present paper reviews progress so far and suggests how we should handle this subject in the remaining period until the end of June, including the run-up to our Presidency. It does not seek to set out our objectives for the June European Council; these will need to be the object of separate consideration later. Nor does it cover the tactical and procedural handling of budget restructuring during our Presidency, which will also be the subject of a later submission.

Progress to date and further action required


A. UK

3. Our own preparation for budget restructuring have been proceeding now for over six months. A first set of papers was seen and approved by Ministers last October (OD(80)20th Meeting). A Line to Take based on it has subsequently been used with all our partners and also in a number of Ministerial speeches.
  
4. In addition we have worked up our ideas on direct budget adjustment mechanisms and these too have been approved by Ministers (OD(81)4). They have been discussed with the Germans and the Commission only; we have made it clear that they represent our preliminary thinking, not proposals or a "British scheme". Ministers have also had a report on certain ideas on national financing of the CAP which are being considered within the Commission (OD(E)(81)8); and officials are examining what we should do if the Community came up against the 1 per cent ceiling involuntarily. We will shortly report to Ministers on how to deal with the issue of our third year of refunds under the 30 May agreement on the assumption that such refunds will be needed.

/5.

CONFIDENTIAL





CONFIDENTIAL

- 2 -

5. Work earlier put in hand on reform of the CAP and on the future development of non-agricultural spending policies is in progress and reports will be made to Ministers shortly. On CAP reform there would be advantage in having a succinct statement of our aims for use in bilateral contacts especially in connection with the forthcoming Anglo-German summit. On non-agricultural spending officials are working towards a suggested order of priorities for any new ideas we might wish to run, so that we can seek to influence Commission thinking, even though it is clear that decisions are still a long way off and available financial resources limited. We now need to know in which direction the Commission are going to point before advancing our own work beyond that.

B. The Commission

6. Our next important task will be to ensure so far as we can that the Commission produce a satisfactory document in June. We have had a series of informal contacts with the two senior Commission officials (Noel and Jenkins) working on budget restructuring; and we have reasonably full information about the work currently being undertaken in preparation for their June paper. On the agricultural side consideration is being given to national financing, to a number of economy measures and to the possibility of using income support payments to mitigate a stringent price policy. The Commission will clearly also press for the development of non-agricultural spending. They are likely to give particular emphasis to review of the Regional and Social Funds; but ideas for increased spending on energy and the industrial sector are not to be excluded. So far as direct budget adjustment mechanisms are concerned, we are as yet in the dark about their intentions (although they know of our ideas). The Budget Commissioner wishes to include some consideration of new own resources but it is not clear what he has in mind.

7. The Commission itself has not yet grasped the nettle of restructuring. It is not easy to predict how it will behave when it does. Much will depend on the attitude of the more influential Commissioners (Davignon, Ortoli). We should like to see a Commission report which provided a reasonably comprehensive range of options for reform, based on an analysis of the current and forecast net contributions and receipts of member states; the idea that

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CONFIDENTIAL



CONFIDENTIAL

- 3 -

the budgetary distribution should be a matter of conscious decision; the inclusion of a direct adjustment system or systems in the list of options; recognition that the Community is about more than just the Budget (and hence recognition of the problem of the UK's non budgetary resource transfers); and an appreciation of the implications of the various options for the 1 per cent VAT ceiling. When it comes to the point, the Commission may well not be able to agree on a report on these lines. In that event, a second-best outcome would be for the report to list the options for reform dispassionately, including direct adjustment systems, without any significant accompanying commentary. That would at least have the advantage of placing direct adjustment systems in the arena of public discussion. But we should not want a report which condemned direct adjustment systems.

8. These efforts to influence the Commission should be at all levels, both with the officials charged with co-ordinating the restructuring mandate and with officials working on the Regional and Social Funds and on the financial sector. Formal contact in the agricultural sector may be less productive. At the political level, M Thorn intends to make a tour of capitals in June. This will provide an opportunity for the Prime Minister to put across to him a comprehensive view for our side. An invitation to Mr Tugendhat from the Chancellor of the Exchequer might be worth while at a later stage in the discussions.

C. Reactions of other Member States

9. Our exploratory contacts seem to have made some progress towards the objective of evolving a new conventional wisdom in the Community, more propitious for the sort of solutions we want. Although it might become necessary to accept that the 1 per cent ceiling is not an eternal verity, the political unreality of seeking to raise it in the next few years is now widely accepted and it looks more and more likely that the real negotiation in 1981/83 will not be about that. The problem of enlargement and the need to control the costs of it in advance of Spanish and Portuguese accession is also more widely appreciated. The fact that the UK's unadjusted net contribution (and Germany's as well) is rising rapidly, the impossibility of realising major distributional readjustment through CAP

/reform

CONFIDENTIAL



CONFIDENTIAL

- 4 -

reform and the small scope for doing so through increased non-agricultural spending are not contested and are beginning to lead people to accept that "something more" will be needed. Our ideas about the need for the distributional outturn of the budget to be consciously willed and not haphazard have been quite well received although no doubt attitudes will harden when the financial implications become clearer. It is noteworthy that Chancellor Schmidt and the German representative at the recent informal ECOFIN Council have restated that there should be limits on the net contributions of member states, and Schmidt has claimed that France agrees.

10. In the remaining weeks before the Commission paper becomes available we need to concentrate mainly on our contacts with the two most important Member States, France and Germany (while not neglecting the Dutch Presidency in the run-up to the June European Council). So far as the former is concerned, the Presidential elections and their aftermath effectively rule out Ministerial contact, but a meeting at senior official level is envisaged. With the Germans the key meeting is that between the Prime Minister and Chancellor Schmidt on 11-12 May. It will be important to concentrate on preparing for that and seeking to ensure that, in spite of the disagreements over fish, the meeting is productive both on budget restructuring and on CAP reform. There is to be a further FCO/Auswartiges Amt contact in early April. Contacts between the Cabinet Office and the Federal Chancellery and between the two Ministries of Finance are also planned.

Preparation for our Presidency

11. Budget restructuring will dominate our Presidency. Given the history of the subject, we shall be the object of considerable suspicion among our partners. We need to alleviate this suspicion as best we can and prevent it prejudicing our handling of the issue. Part of the solution will lie in the way we ourselves address the subject, both publicly and in Community discussion of it. But a useful initial step might also be to have bilateral talks with each of our partners in capitals in the month or six weeks before we take over the Presidency. Officials suggest that such a round of talks would probably best be billed as consultation about our Presidency as a whole, and not only about budget restructuring; it would come to much the same in the end. It

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CONFIDENTIAL





CONFIDENTIAL

- 5 -

would best be done at official level to avoid an excessive publicity build-up and also to avoid upsetting the incumbent Dutch Presidency which will simultaneously be preparing the June European Council.

Conclusions

12. Ministers are invited to agree the following recommendations:

- (i) We should concentrate our bilateral contacts in the next three months about budgetary restructuring on the Commission, the Germans and the French (though not neglecting the Dutch Presidency) in the run-up to the June European Council.
- (ii) With the Commission, the Prime Minister's meeting with M Thorn will be important and the Chancellor of the Exchequer might consider inviting Mr Tugendhat. Officials should continue to keep in close touch with the Commission at the appropriate level in an effort to ensure that the Commission report on restructuring is satisfactory.
- (iii) We should do all we can to prepare and make a success of the discussion of CAP reform and budget restructuring at the May Anglo-German summit.
- (iv) There should be a round of official bilateral talks with other Member States to prepare the ground for our Presidency.

Cabinet Office  
8 April 1981

CONFIDENTIAL



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UNITED KINGDOM BUDGET REFUNDS FOR 1982 UNDER THE 30 MAY AGREEMENT

NOTE BY OFFICIALS

Introduction

1. Under the 30 May agreement member states set themselves a target of 1982 for implementation of the arrangements for restructuring the Community budget. If this target is not attained the agreement provides for the Commission to bring forward proposals for a refund of part of the United Kingdom net contribution to the 1982 Budget along the lines of those for 1980 and 1981. It will be surprising if the budget restructuring negotiations are completed in time for implementation in 1982, and this paper considers what initiatives it would be appropriate for the United Kingdom to take to safeguard our 1982 refunds under the 30 May agreement.

Financial Timetable

2. The Community's financial year is the calendar year and, with the exception of advance payments, our budget refunds are paid in the year following the one to which they relate. The bulk of our 1982 refunds would therefore be provided for in the 1983 budget, the preliminary draft of which should be introduced in mid 1982. The advance payments in respect of 1982 would however be met from the 1982 budget, the preliminary draft (PDB) of which should be introduced in mid 1981. The continuance of an unacceptable situation for the United Kingdom in 1982, unless suitable arrangements are made, may therefore surface as an issue in mid 1981, and may perhaps feature in the Commission's report on the restructuring mandate. From a financial point of view, it would be desirable at that stage to protect our position by securing a token entry in the PDB for 1982 to provide for our advance payments.

Tactical Considerations

3. It might be argued that we should press for specific assurances about our 1982 refunds in mid 1981 when the need for them is first disclosed. Without such assurances, United Kingdom public opinion might be exercised, and there would be a risk that our refund would be squeezed out between the rising cost of agricultural support and the constraint of the 1 per cent VAT ceiling.

4. But to exert pressure so early would imply that we had no confidence that the 30 May mandate would be implemented by 1982 and would necessitate a  
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**CONFIDENTIAL**



**CONFIDENTIAL**

- 2 -

difficult and confrontational negotiation about figures long before this was necessary on financial grounds and while we were inhibited by our Presidency responsibilities. Moreover, as regards the 1982 budget it is only the advances on the refunds and not the main bulk of them which is at issue. Officials therefore suggest that our attitude should be to work vigorously towards achieving decisive progress on restructuring in 1981 while seeking to have it accepted undramatically as a matter of course that if the deadline were not met, the necessary arrangements for our third year of refunds would be made at the beginning of 1982.

5. If this approach is accepted our tactics might be as follows:

- a. The Commission are due to report to the European Council in June on their proposals for restructuring. We should encourage them to make it plain in their report that decisions would have to be taken quickly and implemented urgently if the need for a third year of refunds under the 30 May agreement for the United Kingdom is to be avoided. We should also encourage the Commission to include a token entry in their draft of the 1982 PDB which would acknowledge the possibility of the UK needing refunds for a third year.
- b. When the 1982 PDB is discussed during the United Kingdom Presidency in the autumn of 1981 we should insist on such a token entry. There are several possible technical devices for including such an entry.
- c. If, by the time of the November Council, it was clear that no restructuring arrangement could be implemented in 1982, we should seek a firm agreement there with other member states and the Commission that the necessary proposals for a third year would be made without delay by the Commission and that the Council would take decisions on them expeditiously.
- d. Before the 1982 budget was adopted in final form in December 1981, we should need to convert the token entry for advance payments into a firm provision for a reasonable amount of advance payments in 1982.

/6.

**CONFIDENTIAL**



CONFIDENTIAL

- 3 -

6. If, against expectations, the course of action outlined above did not lead to the desired result and it seemed that other member states intended to refuse agreement to an appropriate refund in respect of 1982, we should have to consider then what counter measures, such as blocking the agricultural price fixing, might be appropriate.

Conclusion

7. No final decisions are required at this stage, and a further report will be made when the issues have emerged more clearly. Subject to this, however, Ministers are invited to agree that:

- i. it would be unwise to precipitate the negotiation over the 1982 refunds too soon.
- ii. we should follow the tactical approach suggested in paragraph 5 above.

Cabinet Office

7 April 1981

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