

EunPd

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PRIME MINISTER

EC Budget Restructuring: The Next Phase of the Negotiations

(OD(81) 40)

PURPOSE OF DISCUSSION

Since the last discussion by OD of budget restructuring in October 1980 (OD(80) 20th Meeting) there has been a period of extensive bilateral contacts culminating in the presentation of the mandate report by the Commission in June. Substantive negotiations based on this report will take place this autumn in the Foreign Affairs Council, assisted by the Mandate Group set up by the Heads of Government at the last European Council. The purpose of this OD meeting is to agree the approach we should adopt to these negotiations in the early autumn.

BACKGROUND

2. The Committee will have before it a Note by Officials (attached to OD(81) 40) and minutes commenting on it from the Chancellor of the Exchequer and the Secretary of State for Trade (dated 4 and 21 August respectively).

3. The Note by Officials summarises the Commission's report on the 30 May 1980 mandate and the reactions of other member states, and notes the opportunities and risks involved in the United Kingdom's position as Presidency. It then sets out suggested lines of approach on the main issues arising in the months ahead, including questions of timing and procedure, and invites OD's endorsement of the conclusions in paragraph 27. The Committee's discussion will follow an informal meeting of Foreign Ministers on 5-6 September and provide guidance for the first substantive discussion at the Foreign Affairs Council on 14-15 September, as well as for the Anglo-French Summit.

HANDLING

4. You may wish to invite the Foreign and Commonwealth Secretary to open the discussion by giving his assessment of where matters stand. The informal meeting of Foreign Ministers on 5-6 September had only a short procedural

discussion; but from this and from contacts at official level there are some signs that the French may wish to procrastinate.

5. To focus subsequent discussion, it might be best to take first the issue raised by the Chancellor of the Exchequer, of what the United Kingdom's objective should be, and then consider the main issues which the mandate raises, viz:

- (i) CAP Reform
- (ii) Non-agricultural policies
- (iii) Budgetary mechanisms
- (iv) Timing and procedure

6. In his minute of 4 August the Chancellor argues that the aim of keeping our net contribution "no higher and if possible lower than that resulting from the 30 May settlement" (OD(80) 20th Meeting) could produce unpredictable and unsatisfactory results and that our objective should instead be "to initiate a process of reform that will lead to the elimination of our net contribution at the earliest date". You will want to hear the views of the Foreign Secretary on how realistic it is to think that we could end up with an assurance that the United Kingdom would cease to be a net contributor, especially after enlargement. There must of course be a difference between the Government's publicly expressed aim and what might be acceptable at the end of the day, which is bound to be influenced by other elements, including how long any special arrangements will last, with what degree of certainty they will limit our net contribution, and the absolute size of what we contribute. For the time being, it should be sufficient to rest in public on the line enunciated by the Chancellor in his recent Hague speech, viz that the direction of net transfers should take account of relative prosperity.

(i) CAP Reform

7. The Foreign and Commonwealth Secretary and the Chancellor of the Exchequer will probably both argue that we should stand by the line which Ministers agreed and which was put to the Germans at our last bilateral Summit (OD(E)(81) 14). This included price restraint, non-price measures (such as the milk super-levy) and a growth in CAP spending 'markedly lower' than the growth

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of own resources. The Minister of Agriculture may argue that we cannot commit ourselves precisely on price restraint given the income needs of British agriculture. He may question how far guidelines laid down by the European Council can be effectively imposed on the Agriculture Council and to what extent we will get real support from the Germans at that stage. He will stress the importance of tackling national aids which France particularly has used recently to escape the effects of price restraint. The Secretary of State for Industry may point out the need to ensure that our policy on agricultural state aids is not inconsistent with that for aids for industry. The Secretary of State for Trade may refer to the importance of avoiding new restrictions on agricultural imports such as a levy on oils and fats and of opposing long term export contracts based on subsidies.

8. Any weakening in our position on CAP reform will be criticised by the Germans, while the French may ultimately look for some flexibility on our part on the CAP as part of a satisfactory budget agreement. We should, therefore, take a firm stand now. On the other hand, we need to be wary of potentially unhelpful links being made, especially with the Common Fisheries Policy (CFP). In spite of the absence of the French Fisheries Minister, it will be important to use the Anglo-French Summit to see what the chances are of the CFP being agreed quickly, so pre-empting a linkage.

(ii) Non-Agricultural Policies

9. It should not be necessary for the Committee to discuss individual non-agricultural policies since no specific decisions are required at this stage. Ministers will be consulted as necessary as the negotiations proceed. However, the need for a positive United Kingdom attitude towards progress on at least some other Community policies may be important if the package as a whole is to be acceptable to countries like the Benelux and the French who stand to lose as a result of new budget arrangements.

(iii) Budgetary Mechanisms

10. There may be general agreement that we should maintain our advocacy of a generalised budget mechanism based on equitable budgetary objectives, without ruling out the mechanism proposed by the Commission, which could be developed to give an acceptable result.

(iv) Timing and Procedure

11. Subject to anything arising from the informal meeting of Foreign Affairs Ministers, there should be agreement that we work for the Foreign Affairs Council, assisted by the Mandate Group, to prepare for key decisions to be taken at the November European Council. The Committee will wish to review progress in about mid-October to see what realistic objective we should set for the European Council in London at the end of November.

CONCLUSIONS

12. Depending on the discussion you might conclude:
- a. The conclusions in the Note by Officials are endorsed.
 - b. We must continue to take a robust line on the need for lasting arrangements to ensure that our net contribution is reduced to a defensible level, without at this stage being specific on the level of net contribution which would be acceptable to us.
 - c. On CAP reform we should maintain the line put to the Germans (OD(E)(81) 14) and work for effective guidelines on price restraint and other measures to be agreed by the European Council.
 - d. We should be constructive in our approach to non-agricultural policies within the existing financial constraints and aim to get guidelines agreed at the European Council.
 - e. We should maintain our own approach that the overall effect of the Community's budget on member states should be the result of conscious decisions without ruling out the Commission's ideas with the aim of developing them to our advantage.
 - f. OD should review progress prior to the November European Council. Meanwhile specific points requiring decision should be put to OD(E).



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7 September 1981