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Foreign and Commonwealth Office

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For
Prime Minister

17 March 1980

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Dear Michael,

Prime Minister

European Community Budget

As you know, it was agreed after OD on 10 March that the Chancellor of the Exchequer and the Foreign and Commonwealth Secretary should produce a joint paper for Cabinet on 20 March. The Prime Minister expressed the wish to see it before it was circulated.

I now enclose an advance copy of this paper which Lord Carrington proposes to circulate on Sir G Howe's behalf and his own, subject to the Prime Minister's views, as early as possible tomorrow.

I am sending a copy of this letter and enclosure to David Wright (Cabinet Office).

Tom
8-6

(G G H Walden)
Private Secretary

M O'D B Alexander Esq
10 Downing Street
LONDON

Michael:

① I think the paper is unbalanced + casual. It bears little relation to the growing seriousness of the problem. ② Has the PJ. section been cleared with MHA. - copy with copy? mb

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17 March 1980

CABINET

EUROPEAN COUNCIL - UK BUDGET CONTRIBUTION

Joint Memorandum by the Foreign and Commonwealth Secretary and the
Chancellor of the Exchequer

1. Cabinet will need to consider at its meeting on 20 March what the Prime Minister might be authorised to accept at the European Council meeting on 31 March/1 April as a reasonable settlement to our Budget contribution problem.

State of Play

2. At Dublin the negotiations were conducted on the basis of an estimated net contribution by the UK of 1552 mEUA (£1.0 billion) in 1980. The Commission are now revising their estimates and the new figure will be higher. On a realistic estimate of the cost of the 1980 Budget when it is finally adopted, our net contribution is likely to work out at something nearer 1700 mEUA (£1.1 billion). We would expect to get a refund of perhaps 250 mEUA (£170 million) under the existing 1975 financial mechanism. At Dublin it was agreed that the removal of the limitations to this mechanism could contribute to the solution of our Budget problem. This could reduce our net contribution by another 250 mEUA (£170 million) or so in 1980. It should prove negotiable even though the French are being difficult. But we are faced with a net contribution after these adjustments of 1200 mEUA (£0.8 billion).

3. The Commission have proposed that the other part of the solution to our problem should be a regulation based on Article 235 of the Treaty permitting supplementary expenditure in the UK for purposes consistent with Community policies. The Commission have made no proposals for the amount that we should get under this mechanism. Informal discussions over the last few weeks have given us an idea of the range of what seems likely to be on offer at the European Council. The lower end is represented by a figure mentioned informally (but not we think inadvertently) by a senior French official - namely a total of perhaps 800 mEUA

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including the refund under the financial mechanism) which would leave our net contribution at some 900 mEUA (£600 million). The upper end of the range seems to be Roy Jenkins' figure of a total of 1000 mEUA (again including the refund through the financial mechanism) leaving a net contribution of some 700 mEUA (£470 million).

4. For our part, we have moved away from our original objective of a broad balance between contributions and receipts and have offered to make a modest net contribution. The Prime Minister suggested to Signor Cossiga in January that our net contribution should be less than that of the next richest Member State (namely France); the difference should be at least proportionate to the difference in levels of GNP per head. Our intention was to reduce our contribution to about 200-250 mEUA. If the prospective contribution for 1980 is 1700 mEUA, the amount we would need to secure would thus be somewhere in the range 1450-1500 mEUA (£970-£1000 million).

5. This may prove unattainable and Cabinet should consider whether a lower figure would be politically defensible.

Duration and Dynamism

6. It seems likely that the rest of the Community will agree that the solution should last for 3 or 4 years before it is reviewed; our objective will be to get a longer period - eg 6 years.

More important is the problem of dynamism - ie. a formula that will ensure that our net contribution does not rise again to unacceptable levels after 1980. We have suggested a formula that would produce this result - namely agreement that in each subsequent year our receipts per head from the Community Budget should bear the same relationship to average Community receipts per head as in 1980. But this may not be attainable and we may need to seek another solution that will achieve the result defined above.

Discussions Between Now and the Council

7. A series of bilateral discussions are in train in order to explore the possibilities for a settlement acceptable to both France and Germany which the Italians as the Presidency could then put forward to the Council. Our contacts with the French and Germans reveal that,

while they would like to see the matter settled and are prepared to go above what was on offer in Dublin, there is still a wide gap between us on figures and durability. A crucial preliminary meeting will be that between the Prime Minister and Herr Schmidt on 28 March.

Related Issues

8. We have resisted any link between the Budget problem and other issues before the Community and have argued that each should be dealt with on its merits. But we are advised that other Member States will not be able to justify a substantial concession to us unless they are able to take something home themselves. The French have publicly linked the Budget issue to a satisfactory outcome for them on CAP prices, sheep meat, fish and energy. Our line on these issues should be as follows:-

- i) Agricultural prices At the next Agriculture Council on 26/27 March we should not move from our basic position - namely no price increases for products in surplus. There are, of course, sound reasons for doing this apart from the dispute about our Budget contribution. If we found that some concession at the European Council, could secure a settlement of our Budget issue, we should be ready to make it; but not, of course, at excessive cost to our consumers or producers.
- ii) Sheep meat. If necessary, we should concede some limited intervention and a Community financial premium to satisfy the French, so long as the permanent sheep meat regime gave the UK a resource benefit.
- iii) Fish. Any linkage in this case (beyond a general undertaking to make progress) would be unhelpful to an eventual settlement on the Common Fisheries Policy and we should seek to avoid it.
- iv) Energy. If it would help to secure a settlement, the Prime Minister could make a statement about our policies which while avoiding any substantive concession, would appeal to our Community partners.

Need to Show Progress

9. If we can get a settlement at the next Council, this would be in

/our

our interests and would clear out of the way a major impediment to other Community business. But this may not prove possible - particularly if there is no prospect of early agreement on CAP prices. In the absence of a solution to our Budget problem, our objective must be to secure the maximum possible degree of support in the Council for our essential requirements on:

- i) the amount - see paragraph 5 above;
- ii) duration - it would be no use having a regulation that lapsed after 2 or 3 years;
- iii) dynamism - we must have a formula that will ensure that our net contribution does not rise again to unacceptable levels in future years;
- iv) budget restructuring - we must have a commitment by the Community to reduce the percentage of the Budget going to agriculture.

If clear evidence of progress on these points could be reflected in the communique, this would help the Prime Minister to defend the outcome of the Council on her return home.

Recommendations

10. We recommend to colleagues that:-

- i) we press for a solution to our Budget problem at the March Council on the lines suggested in this paper;
- ii) if no solution is attainable, we work to obtain the maximum degree of support from our partners for our four crucial objectives summarized in paragraph 9, and a communique based on this which provides definite evidence that clear progress towards a solution is being made.



17 MAR 1980