



PRIME MINISTER

EEC BUDGET - AFTER DUBLIN

We agreed in OD that if we fail to secure an adequate reduction in our net budget contribution "we would be unable to subscribe to the taking of any major decisions in the Community" (Peter Carrington's words).

The Chancellor's proposals that we might also seek to act directly on the contribution itself met with a cool response from colleagues due to its legal implications.

In earlier discussions we agreed that it would be a tactical error to confuse our objective for a thorough overhaul of the CAP with the size of our Budget contribution, since each was justified on its own merits. This was right while we were hoping for substantial satisfaction on the Budget issue at Dublin or soon after. But if this prospect recedes I consider we should reconsider bringing forward the CAP issue.

Your response to the Press in Dublin could be vital for the whole of our future relationship with the Community - and to public opinion here at home. I am concerned that your personal prestige and that of the Government as a whole could be at risk if we do not have an adequate and convincing answer to the question "Where do we go from here?" The first post-Dublin Press Conference is crucial.

Quite regardless of Dublin - Within 18 months the relationship of a Budgetary contribution with the proportion of that Budget accorded to agriculture, the VAT ceiling, and the nature of EEC agricultural support and its financing in the 80s will come up for a crunch decision. It seems likely to be accompanied by a major crisis in the Community's affairs. This would provide the context, if we



fail at Dublin, for us to declare that since we had been unable to secure adequate redress on the income side of the Budget we were determined also to secure major savings on the expenditure side of it, and in particular on the CAP which generates the bulk of the spending.

If we could solve the foolishness of the CAP and reject new revenue for the EEC (by VAT or levies) our own budgetary problems would be close to a satisfactory resolution. Moreover, we would be seen in the UK to be fighting for our national interest in a doubly just cause - a reform of the CAP to the benefit of British consumers and a fair share of the Budgetary contribution. But, equally important, in the EEC we could present our case, not as special pleading for a national problem, but as trying to face Community problems which in the near future will threaten its very survival and must be faced sooner rather than later. I believe this would be a more credible reaction than a generalised obstructiveness.

We should need to be able to say broadly both what sort of changes we wanted in the CAP, and how we proposed to secure them. As for the sort of changes, there is widespread recognition - outside Community circles - that the CAP can hardly be solved unless there is greater resort to national exchequer support for agriculture's social/structural problems. Whilst we remain the paymaster through the EEC Budget - and the structurally unsound/part-time/marginal farmers of France and Germany are the principal beneficiaries - there can be no financial sanction forcing forward a basic reform.

There are no doubt many ways in which farm funding could be shifted to national Exchequers. One most interesting proposal of Wallace Day (a maverick Devon farmer) for a substantial cut in Community financial support for milk - coupled with a headage payment per cow - meets with a covert approval from the NFU (I talked to Richard Butler about this last night) and grudging respect in the EEC. It would produce a dramatic cut in the EEC Budget if the headage payments



were nationally funded. But this will probably be opposed by the Commission and the Community purists (because it would entail giving up 100% Community financing) and by those with a financial interest in the existing system. But it is right in its substance and direction.

There is room for endless debate on the basis for the reform. But at its heart must surely lie the overriding need to place financial sanctions on the politicians of member states to force them to end the financing of surpluses. Only when their tax-payers are forced to pay for their social problems will we have the beginnings of a solution. Only if the EEC tempers its communautaire ideology by the economic realities of Europe can the EEC survive.

An agricultural market financed by, say, 50/50 EEC/national finance will be neither more nor less a "Common Market" than now - with all its present distortions and the MCAs etc. If it is suggested that national support for national social/farm problems removes all sanctions from a competitive subsidy race in favour of each national group of farmers - and hence even greater surpluses - I think it's wrong.

As for how we proposed to secure such changes, we should need to declare our resolve to block all developments of the CAP, and in particular any increases in support prices, until the Community as a whole was prepared to confront the financial crisis the CAP has created. The first opportunity to demonstrate our resolve would be at the price-fixing negotiations early in the New Year.

My growing view is that we would be in a better moral and political position - following a failure in Dublin - if we were to be the instrument for bringing forward the "crunch" on these questions (now likely in 18 months) to the beginning of 1980.



I find it hard to believe that 'Gaullist-type' obstruction, spread across the whole field of Community business, as proposed by Peter Carrington is in the interests of the Community - or of ourselves. It will lead to increasing bitterness - and the connection between our justified resentment on the Budget question and our spoiling tactics in a hundred unconnected areas - will be quickly lost on the British and the European media. We will be seen as no different from our predecessors. I believe we must direct our fire.

Is it not better to point our action directly to the real absurdity of the EEC, and bring the whole issue forward for urgent resolution (VAT/levies/CAP/) in an early Second Summit in February/March 1980? At least, it will appear like "constructive" obstruction, rather than pure negative bloodymindedness.

I am copying this minute to our colleagues on OD, to Peter Walker, and to Sir Robert Armstrong.

Department of Trade
1 Victoria Street
London, SW1
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