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RECORD OF A MEETING WITH THE BELGIAN FINANCE MINISTER,
HELD IN THE BELGIAN DELEGATION OFFICE, CHARLEMAGNE
BUILDING, BRUSSELS: 12.00 NOON, TUESDAY 27 MAY 1980

Present:

Chancellor of the Exchequer
Sir Michael Butler
Mr M A Hall

Monsieur Henrion, Belgian Finance Minister
HE Mr P Noterdaeme Belgian Permanent Representative
to the European Communities

The Chancellor of the Exchequer said he had called to
make the acquaintance of M. Henrion, and welcomed him
as a colleague. He recalled that Monsieur Geens had
been host at the first Finance Ministers' Council which
he had attended. Today however the Council would be
pre-occupied with the search for a solution to the
problem of the United Kingdom's net contribution to
the EC Budget. A speedy resolution was necessary both
in our own national interests and those of the
Community as a whole. No one wanted discussions to be
long and drawn out. The British Government was pleased
that the European Council in Luxembourg had brought
this matter closer to a solution. We wanted to find a
solution which would last as long as the problem itself,
and which would prevent a recurrence of the present
unacceptable situation. It was particularly encouraging
that the Luxembourg Council had concentrated on trying
to find a formula for our net contribution. It was a



significant concession on our part to reduce the duration of any solution from 6 to 3 years, provided that such a short arrangement provided adequate safeguards against a recurrence of an 'unacceptable situation'. He hoped that the Finance Council in the afternoon would agree on the Commission's latest figures as the basis for the search for a solution, which would in its turn clear the way for progress elsewhere in the Community's affairs. The European credentials of the British Government remained strong, and they attached great importance to their continuing membership of the EEC.

2. Monsieur Henrion said he had been briefed on the results of the Luxembourg Council. He noted that the UK had not accepted the offer made at Luxembourg. This led him to ask himself two questions. First, was it necessary to find a solution of longer duration than that proposed at Luxembourg? And second, what was the specific contribution which Finance Ministers could make to finding a solution?

3. The Chancellor said there had been no consensus at Luxembourg on duration. The British Government had sought arrangements lasting 6 years in order to bridge the period during which a General Election would have to be held. It was essential to avoid another Election with Community membership as the main issue. It was necessary for us to have a settlement lasting not less than 3 years, with 'dynamization' in the context of a growing Community Budget.



4. Monsieur Henrion said that as Belgian Finance Minister he was most concerned about his domestic budget. Although he was a professional economist he had no faith in economic forecasts. He shared the gloom of his EC Finance Minister colleagues about the prospects for the European and world economies. He fully understood however our wish for a "mécanisme protecteur" [it was quite clear from the discussion that by this he meant a review clause after 3 years, and nothing more].

5. The Chancellor said he was no more optimistic than Monsieur Henrion about world economic prospects. Our own position was particularly sombre. The recession in the UK would be deeper than elsewhere, because our inflation problem was more serious. Monetary discipline had to be re-imposed, and there had been large cuts in public expenditure. Our net contribution to the EC Budget - which was much larger than our total development aid programme - had to be seen against that background. A substantial correction was imperative. Monsieur Henrion said he admired the Chancellor's courageous efforts to cut public expenditure. Belgium was a small country; and he was very worried about her substantial budgetary deficit of BF300 milliard. Public indebtedness was considerable. The number of fonctionnaires was grotesque, and he shared the Chancellor's objective of cutting the size of the public service. Despite the problems he himself faced, however, Monsieur Henrion assured the Chancellor that he could count upon his 'bonne volonté' in seeking a solution to our budgetary problem. The Chancellor commented that all the European



countries were in the same boat, but that the British boat was at the moment deeper in the water.

6. Mr Noterdaeme said that the tables circulated by the Commission raised two intellectual difficulties: first, there was clearly headroom in 1980, and probably still in 1981, for a solution to the British problem to be found within the total own resources available. But the Commission figures for 1982 were very pessimistic. How could this difficulty be overcome? Second, it was clear from the Commission's figures that so long as the Community continued to pursue costly agricultural policies, and the 1% own resources ceiling remained, it would be impossible to restructure the Budget effectively to accommodate other Community policies. All the Member States knew that the continuing increase in agricultural expenditure had to be curbed. But it was difficult to specify or quantify the kind of curbs which could be imposed. How did the Chancellor think the Finance Minister's political commitment to control agricultural spending could be pursued?

7. Commenting on the Ambassador's points, the Chancellor said that we did not accept that the problem of the UK's net contribution should be seen as the residual in the Community's finances, ie the shortage of own resources in 1982 should not be assumed to bite on us first. In any case, if the growth in agricultural expenditure could be held at moderate levels, there was room within the own resources ceiling for a solution to our difficulties even in 1982. All the Ambassador had said led him to the conclusion that agricultural spending was at the root of the present difficulties.



It was impossible for a British Government struggling domestically to curb public expenditure to allow massive outlays on EC agricultural subsidies. Any solution must include stopping the endless rise in agricultural prices which continued to encourage large surpluses which then had to be subsidised. Sir Michael Butler observed that even the Commission's lower assumption of 12% annual growth in agricultural expenditure was beyond the rate of growth of own resources. If agricultural expenditure could be held at a constant real level, there would in fact be some breathing space in 1982.

8. Both Ministers said they looked forward to further contacts in the future. [Monsieur Henrion understood English well, but preferred to speak French].

MMA

M A HALL
29 May 1980

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29 MAY 1960

