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CABINET
DEFENCE AND OVERSEA POLICY COMMITTEEBRITISH CONTRIBUTION TO THE COMMUNITY BUDGET:
OBJECTIVES AND TACTICSMemorandum by the
Foreign and Commonwealth Secretary

1. The next European Council will meet in Brussels on 31 March-1 April under the chairmanship of the Italian Prime Minister, Signor Cossiga. To make the most of the intensive bilateral contacts in the next few weeks between ourselves and our partners and to maximise our chances of reaching an acceptable solution at the meeting, we need to clear our minds now as to what we would find acceptable. We also need to think about what to do if agreement is not possible at the Brussels meeting.

Progress So Far : Amount

2. Since Dublin the Commission have put forward useful proposals which would provide a method of achieving increased Community expenditure in the United Kingdom. Only France questions that the 520 mua from removing the constraints on the 1975 Financial Mechanism, offered at Dublin, remains available as part of an overall solution. A number of our partners are gradually edging up the amount which they consider might be available altogether; 900-950 mua seems the main target area, with the French a bit below that. But progress is very slow and the figures mentioned still fall well short of a reasonable and genuine compromise.

/3. The first

3. The first task at Brussels is to get that figure up. We told Signor Cossiga in London at the end of January that we accepted that the United Kingdom should be in 1980 and should remain a modest net contributor to the Community budget. We suggested a benchmark for determining the size of that contribution, that it should relate to the net contribution of the member state next above us in the Community GNP table (France) in proportion to their and our GNP; this in fact gives an approximate figure of 200-250 mua in 1980. If the new estimates show our net contribution at about 1800 mua, we should be asking for an adjustment of 1550-1600 mua : 520 mua on the contributions side and say 1000-1100 on the receipts side. Should we continue to aim for what looks unattainable or are we, in the last resort, prepared to accept less? If so, what is our target area? I will give my ideas orally.

Duration

4. The question of duration is also important, and difficult. Our proposed solution of a receipts mechanism which would bring Community expenditure in the United Kingdom up to a stated percentage of the Community average and keep it there (until a general restructuring of the budget renders it superfluous) remains the best answer both for us and for the Community, avoiding an annual haggle while ensuring (which a fixed sum, fixed period approach does not) that we get neither too little or too much. We are making some progress in convincing our partners this is the right approach but we are a long way short of getting acceptance for it and a combination of doctrinal and financial objections may in the end render it unnegotiable. We should not abandon it lightly, since it offers a means of determining how the amount of our net contribution should be fixed in future years. We should still aim to get this objective endorsed but we have always said that we would consider alternative methods.

/Restructuring

Restructuring

5. On general budget restructuring to reduce the proportion spent on agriculture, we have some allies (Germans, Italians, Dutch) though they may not, in the event, be wholly reliable. We have picked up an earlier Italian proposal and suggested that the Council set a target of getting agricultural guarantee expenditure down to 55% of the budget by 1986 (it is currently 74%). The French, Irish and Danes are predictably resistant. There will no doubt be an argument about how precise the formulation should be. Our interest is more to get a clear commitment to restructuring than to insist on this or that degree of precision in it. Eventual success in achieving the objective will depend much more on the determination to reduce expenditure on the CAP in the years ahead, and on the opportunities provided when the inevitable exhaustion of the present own resources within the 1% VAT ceiling occurs in a year or two's time, than on any paper commitment this year.

Related Issues

6. If we could settle the budget issue on its own, that would suit us best. But President Giscard has publicly nailed his colours to linkage; almost all our other partners are convinced of the attraction of a package deal to enable them to return saying they have gained something. We should not concede linkage in any formal sense. But we should recognise that there are going to be decisions on a number of matters. If we play our cards right we can turn this to our advantage, using our willingness to make modest concessions on, say, agricultural prices and sheepmeat, to achieve a better settlement on the budget. Attached in Annex A is the approach suggested on these questions.

Prospects for European Council

7. The chances of our getting a settlement at the March Council are no better than even. The French seem to be working for a June dénouement. And we still have a substantial way to go to get what we want. But we should not concede now or at the beginning of the meeting that a settlement cannot be reached. To do so would immediately relax any pressure to improve the Dublin offer; and we

/want to

want to put the blame for failing to reach agreement in March firmly on to the others, particularly on to the French, who need to be cast as utterly unreasonable, if effective pressure is to be built up on them.

Action in the event of failure

8. It is difficult to decide in advance what to do in the event of failure in Brussels since it will depend on whether failure is complete or whether some progress is made. I would not myself favour a decision to withhold at that stage, although I do not exclude the possibility that we might have to follow that course one day. The French decision to link decisions on agricultural prices with those on our budget contribution has handed us a most potent weapon and we should make full use of it in the period between the March and the June Councils and if necessary beyond that. We would not need to proclaim any systematic policy of obstruction, which would not in any case be in our interest, but merely to make it clear that no shift in our opposition to price rises for products in surplus was conceivable so long as the budget issue was unresolved.

Conclusion

9. I therefore recommend action over the next few weeks as follows:

(i) Budget

- Amount. Continue to press for formula put to Cossiga but regard any offer over a figure to be decided as being in target area.
- Duration. Maintain receipts mechanism for as long as possible but be prepared to consider alternative methods.
- Restructuring. Insist on some commitment but negotiate flexibly on terminology.

(ii) Related Issues

- Fish. Keep separate. Paper commitment to urgent progress.
- Sheepmeat. Concede limited intervention and premia so long as resource benefit to UK, as part of overall settlement.

/- Energy

- Energy. Make presentational statement on North Sea policies in context of overall settlement.
- Agricultural Prices. Be prepared to concede something as part of overall settlement.
- EMS. Urgent reappraisal. If economic and financial arguments reasonably balanced, consider joining exchange rate mechanism or announcing intention to join within stated period of time.

(iii) Timing

- Continue to work vigorously for settlement in March. Put blame for failure firmly on others.

(iv) Next Steps after European Council

- Make clear that failure to agree in March means no agreement on agricultural prices without agreement on budget. Keep withholding and systematic obstruction options in reserve at this stage.

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Foreign and Commonwealth Office
6 March 1980

ANNEX A

Following is the approach suggested in related issues:-

- (i) Fish. We need to keep this separate from any package. Linkage is positively unhelpful in getting agreed solutions and most of our partners recognise this. It will be very important that we work steadily for progress in our bilateral contacts with the Danes and the French and also in the next meetings of the Fisheries Council. But the European Council could urge further efforts to reach an early solution and, if necessary, could set a target date (which would have no legal force) for full agreement.
- (ii) Sheepmeat. It has been agreed in OD(E) that as part of an overall solution, we should concede some limited form of intervention and a Community financial premium which, for a temporary period, favoured France, provided that the UK got a significant resource benefit. At worst, the budgetary cost to us of such a concession would be very small; we could be net recipients.
- (iii) Energy. We are all clear that we should not make concessions of substance involving North Sea oil. But energy in general is understandably a source of great concern to our partners and many of them have emphasised its importance in the context of what they could do for us on the budget. The hard fact is that our fundamentally helpful policies have not hitherto been perceived as such. There is therefore scope for us to say some things about our North Sea policies which, while being largely presentational, nevertheless can be put forward as a gesture of goodwill within the framework of an overall solution. This would be worth doing. The text of such a statement has been worked out by OD(E) and I attach it at Annex B.

/(iv) Agricultural Prices

- (iv) Agricultural Prices. In the last resort this is probably the most important item that has been linked to the budget and the one that gives us the most leverage with our partners, who all want our agreement to some price rises. It is clearly crucial that we do not concede this other than as part of a settlement on the budget.
- (v) EMS. Chancellor Schmidt is pressing us very hard on EMS: he is a key figure in the budget negotiations. It is the Germans, both because they are the main contributors and because of their relationship with the French, who will to a large extent determine the degree of our success on the budget. We should re-appraise our interest in this matter with great care. If the economic and financial considerations are either positive or in balance, there is no doubt of the political fillip a decision to join the exchange rate mechanism would give to our budget negotiations.

ANNEX B

A. The United Kingdom, like other Community countries, must develop its energy resources to bring real benefit to its people. So North Sea oil has been rapidly developed - from 1.1m tonnes in 1975 to 76m tonnes in 1979 - as a new source of energy. Our Community partners have benefited from this and in 1979 22m tonnes of North Sea oil, nearly one-third of total production and well over half of total exports, were exported to the other eight Member States. Production will continue to rise over the next few years as the £15bn so far invested in exploration and development continues to pay off and we are confident that for a number of years to come North Sea oil will provide a useful element of security for the Community's energy supplies to the mutual benefit of the people of the United Kingdom and of the other Member States of the Community.

B. We are planning a vigorous exploration programme as the basis for the future development of North Sea oil so as to provide for the enhancement of the contribution which North Sea oil can make to the energy supplies of the Community over the period when we foresee that dependence on OPEC will remain high.

C. We welcome the involvement of Community companies in the North Sea and we hope that they will continue to take advantage of the arrangements for licensing, exploration and development which give Community companies full opportunity of participation. We shall be happy to have discussions with interested companies to this end.

D. We are maintaining the existing guidelines about sales of North Sea oil being made to IEA and Community destinations.

/E. When

E. When oil supplies are tight, but not yet requiring the application of existing Community rules for a situation of supply crisis, we will take full account of the interests of the Community as a whole to the fullest extent that we can. We will seek to ensure that North Sea oil production is maximised within the limits consonant with good oil field management and the need to avoid wasting scarce resources.

F. If companies operating in the North Sea, including BNOG, wish to enter into long term oil supply contracts with other companies within the Community, we should be very ready to see what can be done to meet their wishes.

G. The UK shares the interest of Community purchasers in avoiding excessive increases in world prices and maintaining an orderly market; we will seek to ensure that prices would follow, and not lead, market prices for comparable crudes.

H. We are ready to play a constructive role in the development of the policies necessary to promote the efficient use of energy within the Community and to reduce its dependence on oil imports. We shall contribute in this spirit to further work on any ideas put forward by the Commission.

I. Finally, the United Kingdom wishes to work closely with other Member States in the preparation of a Community position in international energy discussions, especially those connected with the forthcoming Economic Summit Meeting in Venice in June.