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UNITED KINGDOM COMMUNITY BUDGET CONTRIBUTION
AND RELATED QUESTIONS

Memorandum by the Secretary of State for Foreign and
Commonwealth Affairs

1. After the Luxembourg European Council, it was agreed that Foreign Ministers would try to resolve the questions left outstanding then. The Lord Privy Seal and I attended a meeting of the Foreign Affairs Council on 29 May which ran on until the morning of 30 May. This meeting, together with a parallel meeting of the Agricultural Ministers, succeeded in producing proposals on the whole range of issues. I attach a note describing the outcome of these negotiations and showing how matters have progressed since the Dublin and Luxembourg Councils. I reserved the Government's position on these proposals and undertook to consult my colleagues. The proposals were the result of a long, difficult and laborious negotiation.
2. On the Budget the basic difficulty at Luxembourg was that we could not get the right combination of amount and duration. We have now got the prospect of a three-year solution. Although the figure for our net contribution for 1980 is higher than we would have hoped, that for 1981 is within our target area and better than was on offer at Luxembourg, and the refund for the two years taken together comes out higher than we were offered then. Overall it represents a refund of two-thirds of our net contribution. The formula we have been able to obtain for 1982 is, I think, a reasonable one. The way in which the figures are now defined is complex and falls short of the ideal. But the mixture of a lump sum repayment and a risk-sharing formula if our uncorrected net contribution is higher than expected sets clear limitations to our financial obligations. Moreover, we have a firm commitment to a restructuring of the Community Budget within the 1 per cent Value Added Tax (VAT) ceiling.
3. On Agricultural Prices, although the average increase of 5 per cent is rather higher than we would like, the effect of the proposals on the Retail Price Index (RPI) is minimal. We are offered substantial benefits in this package, including the continuation of the butter subsidy, the suckler cow premium and the refunds on whisky exports.

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4. On Sheepmeat, we have achieved a potential settlement which, through the introduction of a Community financial deficiency payment system in the United Kingdom, safeguards the interests of our farmers, our consumers and of New Zealand. Although it also involves intervention in France and the possibility of export refunds, it does not do so in such a way as to damage these interests.
5. On fisheries, we now have a text which gives nothing away on access, protects the interests of the fishermen and sets the scene for negotiations in the Fisheries Council, where they belong.
6. I am satisfied that we could not further substantially improve on the present agreement by prolonging the current negotiations. We have come a long way since Dublin. Our partners are anxious to avoid a crisis, and the confusion which would be caused by the French national measures on agriculture, but have, I am convinced, reached the limit to which they are prepared to go to avoid these eventualities. I note, for example, that President Giscard is already under fire from the French Press and the Gaullists for agreeing to go this far. If we do not accept what is now on offer, I see no alternative to a prolonged and bitter crisis within the Community involving damaging action by the Commission and our partners against us and, of course, by us against them. The damage might be lasting.
7. I consider that this agreement, though giving us less than we would ideally have wanted, does bring about a very marked improvement in our budgetary position and does not involve us in damaging concessions in other fields. We have the commitment to a general review of the operation of the Community Budget and to avoiding a re-emergence of our present unacceptable burden. We shall see that the Community abides by it.

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Foreign and Commonwealth Office

31 May 1980

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COMMUNITY BUDGET CONTRIBUTION AND RELATED QUESTIONS

BUDGET

The table attached (Annex I) compares the offer put forward at the Foreign Affairs Council with the final offer made at Luxembourg by Chancellor Schmidt and President Giscard, on a range of possible outcomes. The text of the conclusions is at Annex III.

For 1980, the new offer would result in a higher UK net contribution than the 538 mEUA offered at Luxembourg by between 71 and 175 mEUA, depending on the unadjusted outcome. For 1981 no risk sharing was offered at Luxembourg and the formula offered on 29 May is likely to lead to a better result. Depending on the unadjusted outcome, the improvement could be in the range 100-164 mEUA.

The examples illustrated in the attached table show that the losses in 1980 are broadly offset by the gains in 1981. On certain assumptions about the unadjusted outcome, it could lead to a lower aggregate UK net contribution.

The essential feature of the Luxembourg offer was the absence of a satisfactory arrangement for 1982. At the Foreign Affairs Council on 29 May, a major review was offered by mid-1981; and if this is not achieved, the Commission will make proposals along the lines of the 1980/81 formula and the Council will act accordingly. If the formula were adapted for the difference between 1981 and 1982 in the same way as it has been for the difference between 1980 and 1981, then, assuming an unadjusted net contribution of 2,500 mEUA, the adjusted contribution would be 854 mEUA, and the refund to the UK 1646 mEUA.

Public Expenditure White Paper

The figures in Table 2.2.1 of the Public Expenditure White Paper are different from those used in the negotiations and in the Table at Annex I because they include our contribution to that part of the Community budget (chiefly overseas aid) which is not allocated to individual member States by the Commission. The last White Paper contained an estimate of 1057m for the unadjusted UK net contribution in 1980. In the House Ministers have subsequently suggested the figure could be as high as 2bn. The latter figure is fractionally below 2bn. EUA, and allowing for the difference in definition, the outcome would be fairly close to item B in the attached table.

PRICES PACKAGE

The main features of the CAP prices package are as follows:-

-) The average price increase overall is about 5 per cent.
-) On milk, the target price would increase by 4 per cent. The basic co-responsibility by farmers' deliveries to dairies would however also increase from 0.5 to 2.0 per cent of the price, with a lower rate of 1.5 per cent on the first 60,000 kilograms delivered by producers in less favoured areas. Thus the net increase would be 2.5 per cent for most producers (and less in Germany because of monetary change). An additional supplementary levy would be applied in 1981/82 if deliveries of milk in 1980 exceed the 1979 level by more than 1.5 per cent. The details of the supplementary levy would, however, have to be agreed.
-) The other main proposal affecting milk producers is the limitation on the payment of grants on dairy farm investments. This is now framed in a manner which avoids discrimination against UK producers. National aids to dairy farmers' investment would no longer be payable. Aid under Community schemes would be limited to provision for a herd of 60 cows or an increase in the size of the producers' herd of not more than 15 per cent.
-) The UK butter subsidy of 13p per lb, financed wholly from Community funds, would be continued.
-) On beef, the guide price would increase by 4 per cent but the effect on producers' returns and consumers' prices in the present year would be less than this. The proposals would enable us to continue our beef premium scheme. There would be a new subsidy of 20 ECU per cow (£12), funded 100 per cent by Community funds and payable on cows in specialised beef herds.
-) On cereals, the target price increase is 6.25 per cent, with the intervention prices increased by 4.5 per cent. The production refunds on cereals used in starch manufacture would be reduced.
-) On sugar, the minimum beet price would increase by 4.0 per cent. There would be no changes in the quota arrangements for 1980/81. This is, however, less significant now that world sugar prices have risen to around the level of the Community price, so that currently there is no significant disposal cost falling on Community funds.

(h) The proposals provide for a 10 per cent saving to be made on the costs of processed fruit and vegetables. On wine some changes have been agreed that should help to contain the costs falling on Community funds.

(i) On whisky, the Council has accepted a commitment to adopt the necessary regulation by the end of this year for the payment to the UK of the returns on Community cereals used in exported scotch whisky. This commitment covers retrospective payment of some £40 million net due to the beginning of 1980. At current cereal prices, the annual payments due would be some £16 million per annum.

2. The main implications for UK interests are as follows:-

(a) UK Producers The proposals would increase UK producers' returns by about £100m (after allowing for feed price increases) in a full year. Most of the benefit would go to the cereals and beef sectors, with UK milk producers probably suffering a small net reduction in returns because of the co-responsibility levy. The overall increase would not prevent a further fall in the industry's real net income.

(b) UK Consumers The proposals would produce an increase of about 0.7 per cent in the Food Price Index, and about 0.2 per cent in the R.P.I., when all effects had worked through. The UK butter subsidy offsets much of the effect of the price increases, being worth some £108 million to consumers.

(c) Community Expenditure The proposals are estimated to increase Community expenditure by some 240 million EUAs in 1980 and by about 1000 million EUA in a full year. These figures make no allowance for production and consumption responses to higher prices in future years. About one-fifth of the additional expenditure would be in the UK.

SHEEPMEAT

(1. The proposals)

1. The main features of the sheepmeat proposals are as follows:-

(a) Variable premium In the UK there will be no intervention buying. Instead there will be a variable premium (ie deficiency payment), paid to UK producers from Community funds and making good the difference between the average UK market price and a "guide level", set at the level of the intervention price operated in other member countries and on the same seasonal pattern. This premium will be recovered on lamb exported. As a result, the return to the producer or trader from sales on the British market will be higher than the return from selling to France at or even somewhat above the French intervention price. There should accordingly be no sales of British lamb into French intervention.

(b) Intervention in other countries In other countries, intervention will be available from August to December at 85% of the basic price, ie well below the recent level of French market prices. Sales into intervention should be relatively light, because when the French market is weak there should be little or no importation from the UK to depress it further.

(c) Reference prices In all countries reference prices will be set which will act as a guarantee of average producer returns. Where the average market price is lower than the reference price an annual compensatory premium will be paid to make good the difference between the two (or between the intervention and reference prices if this is smaller). These reference prices are to be aligned in four equal annual steps. After four years UK producers will thus benefit from the same guarantee as those in all other member countries. The UK producer's return will be sustained by the UK variable premium (bringing his return up to the level of the French intervention price) and a further compensatory premium to bring it up to the common reference price.

(d) New Zealand The whole regime will come into effect only if and when New Zealand agrees on the volume of her imports into the Community in exchange for a reduction in the existing tariff of 20 per cent ad valorem. This gives New Zealand the opportunity to ensure that the total arrangements are acceptable to her and do not damage her trading interests.

(e) Export refunds Provision is made for export refunds, but these are subject to New Zealand being satisfied on the regime in general, and to a Council Declaration that refunds must be operated in conformity with international obligations and so as not to prejudice agreements with third country suppliers. This leaves New Zealand free to negotiate, as part of her voluntary agreement with the Community, in relation to how refunds should operate, as well as having the power to block the scheme as a whole. (Mr Gundelach has told Mr Talboys that these arrangements give New Zealand a veto over export refunds distinct from its veto over the regime as a whole.)

(ii) Implications for the UK

2. The main implications of these proposals for the UK are:-

(a) The guaranteed return to UK producers would be increased by 17 per cent in 1980/81, and almost certainly rise substantially thereafter as reference prices were harmonised. Total payments from Community funds to British producers could rise towards £100 million per annum at the end of the four-year transition. French illegal barriers to imports from the UK would be removed.

(b) UK consumers would benefit because the use of deficiency payments, and their recovery on exports, would tend to keep British lamb in Britain when Continental prices were low, thus keeping UK market prices down; while the higher guaranteed price would ensure a production increase and ample supply. The arrangements to be negotiated by New Zealand would ensure a continued supply of New Zealand lamb.

(c) The UK economy would benefit from the financing from Community instead of national funds of an increasing producer guarantee on our production, which approaches one half of total Community production.

(d) The provisions for New Zealand give her an effective veto over the introduction of the scheme and an opportunity to negotiate not only on the volume of her imports and a tariff reduction but also on the operation of export refunds and on other matters of interest to her.

FISHERIES

1. The proposed text on fisheries is in Annex II. Its main points are as follows:-

(a) Paragraph 1 records a Council undertaking to adopt, in parallel with the application of the decisions to be taken in other areas, a common fisheries policy covering all outstanding issues in time for them to take effect by 1 January 1981 at latest. Others may later seek to argue that this establishes some interdependence between the adoption of a common fisheries policy and the application of the budgetary settlement. But in fact it simply sets the timetable for the negotiation of the CFP. The proposed timetable is unexceptionable: we would ourselves like to have a satisfactory CFP agreed by the end of the year.

(b) Paragraph 2 sets out guidelines for the policy. Point A satisfactorily meets our requirements for a conservation regime based on scientific principles. Point B refers to a division of catches that takes specific account of some of the factors to which we attach importance and leaves room for us to argue for the validity of others. Point C refers satisfactorily to controls, and Point D to structural measures. Point E deals with agreements with third countries in a satisfactory way, particularly in stipulating that offers of trade concessions should be subject to the maintenance of stability on the Community market.

(c) Paragraph 3 deals with access in satisfactory terms. It does not mention "equal access", and it refers to all existing texts which are helpful to us in arguing our case. German attempts to preclude the possibility of preferential access outside 12 miles have been successfully resisted and they are left to put their views in a unilateral declaration. It would have been preferable for this paragraph to have formed part of paragraph 2, but the inclusion of the word "furthermore" can be regarded as giving it equal weight with the considerations listed there.

(d) Paragraph 4 remits the outstanding fisheries issues to a Fisheries Council scheduled for 16 June, in terms which allow us to insist that access should be on the agenda, so that the Council can deal with all outstanding issues together.

2. In brief, this text, while not making positive headway in directions we would like to move, does not appear to prejudice further negotiations in the Fisheries Council.

(Figures in mEUA)

	<u>1980</u>			<u>1981</u>			<u>1982</u>	
	Possible Outcomes			Possible Outcomes			Possible Outcome	
	A	B	C	A	B	C		
1. Unadjusted net contribution	1784	1900	2000	2240	2320	2400	2500	
2. Adjusted for agriculture package	1784	1880	2000	2140	2200	2400	2500	
3. Refund now proposed	1175	1247	1287	1410	1440	1565	1646	
4. Net contribution	609	633	713	730	780	835	854	
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5. Refund proposed at Luxembourg	1246	1342	1462	1246	1342	1462	nil	
6. Net Contribution	538	538	538	894	858	938	[2500]	
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7. 'Improvement' over Luxembourg	-71	-95	-175	+164	+98	+103		

COUNCIL DECLARATION ON THE COMMON FISHERIES POLICY

1. The Council agrees that the completion of the Common Fisheries Policy is a concomitant part in the solution of the problems with which the Community is confronted at present. To this end the Council undertakes to adopt, in parallel with the application of the decisions which will be taken in other areas, the decisions necessary to ensure that a common overall Fisheries Policy is put into effect at the latest on 1 January 1981.
2. In compliance with the treaties and in conformity with the Council resolution of 3 November 1976 (the "Hague Agreement"), this policy should be based on the following guidelines:
 - (a) rational and non-discriminatory community measures for the management of resources and conservation and reconstitution of stocks so as to ensure their exploitation on a lasting basis in appropriate social and economic conditions:
 - (b) fair distribution of catches having regard, most particularly, to traditional fishing activities, to the special needs of regions where the local populations are particularly dependant upon fishing and the industries allied thereto (i) and to the loss of catch potential in third country waters:
 - (c) effective controls on the conditions applying to fisheries:
 - (d) adoption of structural measures which include a financial contribution by the Community:
 - (e) establishment of securely-based fisheries relations with third countries and implementation of agreements already negotiated. In addition, endeavours should be made to conclude further agreements on fishing possibilities, in which the Community - subject to the maintenance of stability on the Community market - could also offer tradeconcessions.
3. Furthermore, Article 103 of the Act of Accession shall be applied in conformity with the objectives and provisions of the Treaty establishing the European Economic Community, with the Act of Accession, inter alia Articles 100-102 and with the Council resolution of 3 November 1976, in particular Annex VII.

4. The Council agrees to take up again the examination of the proposed regulations under (a) (technical measures of conservation) and (c) (control) at its session on 16 June 1980, and also on this occasion to begin examination of other proposals, including a proposal on quotas for 1980 which the Commission undertakes to present in good time.

(1) CF. Paras 3 and 4 of Annex VII of the Council resolution of 3 November 1976.

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FOREIGN AFFAIRS COUNCIL, 29-30 MAY.

CONVERGENCE/BUDGETARY QUESTIONS.

MPT: FOLLOWING IS TEXT OF CONCLUSIONS.

1. THE NET UNITED KINGDOM CONTRIBUTION FOR 1980 WILL BE CALCULATED ON THE BASIS OF THE PRESENT COMMISSION ESTIMATE (1,784 MEUA). 1,175 MEUA WILL BE DEDUCTED FROM THIS FIGURE. THIS LEAVES A UNITED KINGDOM CONTRIBUTION OF 609 MEUA FOR 1980.
2. THE NET UNITED KINGDOM CONTRIBUTION FOR 1981 WILL BE CALCULATED ON THE BASIS OF THE COMMISSION ESTIMATE OF 2,148 MEUA. THE UNITED KINGDOM'S 1980 NET CONTRIBUTION WILL BE INCREASED BY A PERCENTAGE EQUAL TO THE DIFFERENCE BETWEEN 1,784 AND 2,148 MEUA, NAMELY 19.9 PER CENT OR 121 MEUA. THE NET UNITED KINGDOM CONTRIBUTION FOR 1981 THEREFORE BECOMES 730 MEUA.
3. THE UNITED KINGDOM CONTRIBUTION, BASED ON THE ABOVE CALCULATIONS, IS REDUCED FOR 1980 AND 1981 BY 2,585 MEUA (1,175 PLUS 1,410).
4. IF THE UNITED KINGDOM'S ACTUAL CONTRIBUTIONS FOR 1980 AND 1981 ARE HIGHER THAN 1,784 AND 2,148 MEUA RESPECTIVELY THE DIFFERENCE WILL BE SPLIT - FOR THE FIRST YEAR 25 PER CENT WILL BE BORNE BY THE UNITED KINGDOM AND 75 PER CENT BY THE OTHER 8 MEMBER STATES. FOR THE SECOND YEAR - INCREASE FROM 730 TO 750 TO BE BORNE IN FULL BY THE UNITED KINGDOM; FROM 750 TO 850, 50 PER CENT TO BE BORNE BY THE UNITED KINGDOM AND 50 PER CENT BY THE OTHER 8 MEMBER STATES; ABOVE 850, 25 PER CENT TO BE BORNE BY THE UNITED KINGDOM AND 75 PER CENT BY THE OTHERS.
5. PAYMENTS OVER THE PERIOD 1980-82 SHOULD BE MADE BY MEANS OF THE ADAPTED FINANCIAL MECHANISM AND THE SUPPLEMENTARY MEASURES PROPOSED BY THE COMMISSION. THE FINANCIAL MECHANISM WILL CONTINUE TO FUNCTION AUTOMATICALLY UNTIL THE END OF 1982.
6. THE CREDITS ARE INSCRIBED IN THE BUDGET OF THE FOLLOWING YEAR, FOLLOWING THE PRECEDENT OF THE FINANCIAL MECHANISM. AT THE REQUEST OF THE UNITED KINGDOM THE COUNCIL CAN DECIDE EACH YEAR ON A PROPOSAL BY THE COMMISSION TO MAKE ADVANCES TO PERMIT THE ACCELERATED IMPLEMENTATION OF THE SUPPLEMENTARY MEASURES.

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7. FOR 1982, THE COMMUNITY IS PLEDGED TO RESOLVE THE PROBLEM BY MEANS OF STRUCTURAL CHANGES (COMMISSION MANDATE TO BE FULFILLED BY THE END OF JUNE 1981. THE EXAMINATION SHOULD CONCERN THE DEVELOPMENT OF COMMUNITY POLICIES, WITHOUT CALLING INTO QUESTION THE COMMON FINANCIAL RESPONSIBILITY FOR THESE POLICIES, WHICH ARE FINANCED FROM THE COMMUNITY'S OWN RESOURCES, NOR THE BASIC PRINCIPLES OF THE COMMON AGRICULTURAL POLICY. TAKING ACCOUNT OF THE SITUATIONS AND INTERESTS OF ALL MEMBER STATES, THIS EXAMINATION WILL AIM TO PREVENT THE RECURRENCE OF UNACCEPTABLE SITUATIONS FOR ANY OF THEM). IF THIS IS NOT ACHIEVED, THE COMMISSION WILL MAKE PROPOSALS ALONG THE LINES OF THE 1980-81 SOLUTION AND THE COUNCIL WILL ACT ACCORDINGLY.

8. THE COUNCIL REAFFIRMS THE CONCLUSIONS ADOPTED BY IT (IN ITS COMPOSITION OF MINISTERS OF ECONOMIC AFFAIRS AND FINANCE) ON 11 FEBRUARY 1980 ((CF ANNEX TO DOC. 5081/80 PV/CONS 5 ECO/FIN 9)), WHICH INCLUDED REFERENCE TO THE 1 PER CENT VAT OWN RESOURCES CEILING.

9. IT IS IMPORTANT FOR THE FUTURE WELL BEING OF THE COMMUNITY THAT DAY TO DAY DECISIONS AND POLICY MAKING SHOULD FUNCTION EFFECTIVELY AND THIS PARTICULARLY DURING THE PERIOD WHEN THE REVIEW FORESEEN IN PARAGRAPH-7 IS UNDER WAY. WITH THIS OBJECTIVE IN MIND ALL MEMBER STATES UNDERTAKE TO DO THEIR BEST TO ENSURE THAT COMMUNITY DECISIONS ARE TAKEN EXPEDITIOUSLY AND IN PARTICULAR THAT DECISIONS ON AGRICULTURAL PRICE FIXING ARE TAKEN IN TIME FOR THE NEXT MARKETING SEASON.

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