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PRIME MINISTER

European Council: United Kingdom Budget Contribution  
(C(80) 23)

At its full discussion on 10th March OD -

- (a) Broadly endorsed the objectives and tactics proposed by the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer for both the Budget problem itself and the related issues, placing particular emphasis on the need to build some element of dynamism into any supplementary receipts measures agreed for the United Kingdom.
- (b) Reached no conclusion on whether or when we might withhold part of our contribution, if we did not reach a settlement or make satisfactory progress at Brussels, but agreed that the Law Officers should prepare a case under Article 175 of the Treaty for possible use after the March European Council. (The Chancellor is preparing a note on the Article 175 procedure.)
- (c) Invited OD(E) to revise the draft presentational statement on energy policies. The Foreign and Commonwealth Secretary has now circulated the revised draft under cover of his minute of 18th March.

2. Since then officials have intensified their bilateral contacts with the French, the Germans and the Presidency, with a view to preparing the ground for the European Council on the basis of a paper by the Presidency. You saw Mr. Jenkins on 17th March, and the Chancellor of the Exchequer and the Foreign and Commonwealth Secretary took advantage respectively of the 17th March Finance Council and 18th March Foreign Affairs Council to reaffirm the need for a fair and durable settlement of our Budget problem at the 31st March/1st April European Council. The evidence from these various contacts confirms that the gap is still large; but nevertheless there are several signs of a desire to settle.

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3. This week's Cabinet discussion, which will take place on the basis of a joint paper by the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer (C(80) 23), will enable the full Cabinet to consider the position a week before Chancellor Schmidt's key visit and the European Council itself, and to give its endorsement if appropriate to the negotiating line proposed in the joint paper. The House will be debating both the 1980-81 CAP price fixing proposals and the Community Budget later the same day.

4. C(80) 23 closely follows the earlier OD conclusions, except that it now invites a decision on the minimum acceptable figure and deliberately excludes any reference to the consequences of possible failure at the March Council. The announcement of a decision to withhold would have large consequences, which ought to be considered by the Cabinet as a whole. The Cabinet may be reluctant to see you and the Foreign Secretary go further than you have gone without their having had an opportunity for a full discussion of the implications. On the other hand a full discussion now of the withholding or obstruction options and their timing would risk a damaging leak. This suggests that, if the outcome at Brussels leads you and the Foreign Secretary to the view that we have to withhold, you may have to come back and discuss it with your colleagues before making any announcement to that effect.

HANDLING

5. You might invite the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer to introduce their joint paper, and then take the Cabinet through each of its main sections in turn as follows:-

(i) Amount (paragraphs 2-5)

The amount so far being suggested by our partners is only of the order of 800 to 900 meua, whereas if our 1980 contribution is 1700 meua we would need something nearer 1500 meua to get our net contribution down to the 200 to 250 meua we told Signor Cossiga we were prepared to accept. Is it agreed that there is no present prospect of bidding our total refund up to 1500 meua? If so, what lower figure would be the minimum necessary to meet our requirements and satisfy the House and the country at

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large, assuming some measure of medium term budget restructuring (see below) can also be agreed and presented as a further move in our favour? If a new figure emerges you will want to stress the need for the utmost secrecy.

(ii) Duration and Dynamism (paragraph 6)

The latest official contacts suggest that both the French and the Germans will oppose any automatic receipts mechanism and argue that the Article 235 Regulation for extra Community spending in the United Kingdom should last only three years, on the grounds that by the end of that time the Government's economic policies will have strengthened our capacity to pay. Other member States may also have doctrinal objections to any form of indexing, and we may be faced with an attempt to make an inverse link between duration and the amount. We must clearly press for the formula set out in the paper, arguing that neither the Community nor the United Kingdom can afford a recurrent crisis on our net contribution. But if this proves unattainable, what is the minimum we can accept on durability - four years with a good review clause?

(iii) Related Issues (paragraph 8)

You may not need to spend long on this section. Subject to final approval of the revised energy statement, the line proposed on each issue has been agreed already in both OD(E) and OD; and OD(E) will consider our approach to the CAP price fixing at its meeting immediately before Cabinet. You may wish to invite the Foreign and Commonwealth Secretary to report and the Minister of Agriculture and the Secretary of State for Energy to confirm that they are content with the line proposed.

(iv) Budget Restructuring (paragraph 9 iv)

OD agreed that, while we could not look to restructuring to solve our problem, we should continue to press for a commitment but need not insist that it be precisely quantified. Is this agreed as the third leg of our main objective?

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6. If the Cabinet has endorsed the paper so far it will probably only be necessary to note that agreement has also been reached on the four main objectives summarised in paragraph 9 and hence on the recommendations in paragraph 10.

7. That is as far as the paper itself goes. But you may also want to deal briefly with the implications of total or partial failure at the March Council. In his minute to you of 15th March (which the Cabinet will not have seen), the Chancellor advises that you might hint at withholding even if the March discussions point to the prospect of a satisfactory solution in June; that you should give notice of withholding if an impasse is reached in March; and that to cover any intermediate situations it would be right for the Cabinet to arm you with full authority, in the last resort, to take either course according to the on the spot judgment of the Foreign Secretary and yourself. If you are seeking authority to threaten withholding before June, and to do so before you can discuss that further with your colleagues, you should seek and obtain that authority from the Cabinet before you go to Brussels. OD has anyway agreed that we should if necessary block the CAP price fixing in the period between the March and June European Councils.

8. Against this background, you might wish to invite the Cabinet to agree that -

- (a) if there is no settlement in March but prospects of a solution in June after further negotiations, we should block the CAP price fixing but not further strengthen the existing threat to withhold;
- (b) if the March outcome amounts to virtual breakdown, you and the Foreign Secretary should have authority to make such use of the withholding threat as you think right in the circumstances.

CONCLUSIONS

9. Subject to the discussion, you may be able to conclude that:-

- (i) The Cabinet endorses the recommendations in paragraph 10 of the joint paper by the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer, subject to anything that may be agreed on amount and duration of a satisfactory settlement.

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- (ii) Agree that, failing a full settlement in March, we should block the CAP price fixing but not threaten to withhold if there is still a prospect of a solution in June.
- (iii) Agree that in the last resort you and the Foreign and Commonwealth Secretary should have authority to threaten to withhold our contribution at the March Council if there is no prospect of further progress towards a satisfactory settlement or  
That the Cabinet would wish to discuss urgently the possibility of withholding if in the light of the outcome of the March Council there is no prospect of a satisfactory settlement in sight.



(Robert Armstrong)

19th March 1980