

Confidential Filing

The Community Budget.
Developments in the European
Community.

EUROPEAN POLICY

PREM 19 | 457

Part 1: May 1979

Part 10: September 1980.

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
29.9.80.		26.1.81.					
30.9.80.		3.2.81					
3.10.80.		12.2.81					
8.10.80.		27.2.81					
10.10.80		4.3.81					
13.10.80		6.3.81					
15.10.80		8.3.81					
16.10.80		27.2.81					
22.10.80							
24.10.80		— ends —					
29.10.80							
13.11.80.							
14.11.80							
27.11.80							
5.12.80							
11.12.80							
16.12.80							
18.12.80							
19.12.80							
9.1.81							
17.2.81							

PART 10 ends:-

27. 2. 81

PART 11 begins:-

4. 3. 87

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
C(80) 54	30.9.80
CC(80) 34th Conclusions, Minute 2 (extract)	2.10.80
OD(80) 57	3.10.80
EQS(80) 47	8.10.80
EQS(80) 48	8.10.80
EQS(80) 49	14.10.80
CC(80) 35th Conclusions, Minute 2 (extract)	16.10.80
EQS(80) 22nd Meeting, Minute 1	17.10.80
EQO(80) 125	22.10.80
EQS(80) 45 (Revise)	22.10.80
EQS(80) 50	22.10.80
OD(E)(80) 28	7.11.80
EQS(80) 57 (Revise)	10.11.80
OD(E)(80) 15th Meeting, Minutes	13.11.80
CC(80) 40th Conclusions, Minute 3	13.11.80
OD(E)(80) 16th Meeting, Minutes	19.11.80
CC(80) 42nd Conclusions, Minute 3	27.11.80
EQS(80) 64	5.12.80
CC(81) 1st Conclusions, Minute 3	8.1.81
OD(81) 4	28.1.81

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate CAB (CABINET OFFICE) CLASSES

Signed Wayland

Date 4 April 2011

PREM Records Team



file B
be Press
(EURO POL)

10 DOWNING STREET

From the Private Secretary

27 February 1981

Developments in the European Communities
July - December 1980

Thank you for your letter of 27 February.
We have no objection to what you propose.

I am copying this letter to Nicholas
Huxtable (Chancellor of the Duchy of Lancaster's
Office) and Peter Moore (Chief Whip's Office).

N. J. SANDERS

E.R. Worsnop, Esq.,
Foreign and Commonwealth Office.

5



Foreign and Commonwealth Office

London S.W.1

27 February 1981

N Sanders Esq
10 Downing Street
London
SW1

Dear Nick,

DEVELOPMENTS IN THE EUROPEAN COMMUNITIES : JULY - DECEMBER 1980

We propose to publish on Wednesday 25 March a White Paper on Developments in the European Communities covering the period July to December 1980. The report is by definition factual and one of a series normally produced every six months.

I should be grateful if you, and those to whom I am copying this letter, would kindly confirm that there is no objection to publication.

*Yours sincerely,
Eric.*

E R Worsnop
Parliamentary Clerk

cc: R Birch Esq
Office of the Chancellor of the
Duchy of Lancaster
70 Whitehall
London
SW1

P Moore Esq
Government Chief Whips Office
12 Downing Street
London
SW1

Eno 1st H12

(2)

Qz 01979

Not very hopeful, as expected.

CONFIDENTIAL

Prime Minister

+ f.s.

Ans

mt

SIR ROBERT ARMSTRONG

- cc Mr Alexander No 10
- Mr Richards FCO
- Mr Wiggins Treasury
- Ms Timms MAFF
- Lord Bridges FCO
- Mr Hannay FCO
- Mr Hancock Treasury
- Sir B Hayes MAFF
- Sir M Butler UKREP
- Sir R Hibbert Paris

EC STRATEGY: FISHERIES AND CAP PRICES

I saw M. Achard, Secretary General of the SGCI in Paris on Friday afternoon.

Referring to the Prime Minister's recent message to President Giscard, I said the British Government was well aware of the importance of Community questions in Anglo-French relations and the importance the French Government attached to fixing agricultural prices before the Presidential elections. Our views on prices were not the same. We could argue it out in the Agriculture Council which was likely to be time consuming and confrontational. Or we could discuss the problem bilaterally. We would be ready to do so, but we should then expect the French to be willing to make an effort to help us on the two issues which were politically sensitive for us - New Zealand and fisheries. Such an approach could offer a way through a difficult few weeks in the life of the Community and maintain the better bilateral relations to which the last Anglo-French summit had given an impetus. If this approach commended itself to the French Government, there would need to be detailed talks on the three issues.

The initial reaction was unfavourable, even frosty. M. Achard said the French Government felt let down over fisheries. In their view, our position had hardened in January and what we were now demanding outside 12 miles was incompatible with the Treaty and economically unacceptable to the French fishing industry. We had concealed our demands on access until a late stage in the negotiations. The

CONFIDENTIAL

proposed "box" around the Shetlands would exclude a half the traditional fishing areas of Boulogne and other French ports. The counterpart to the 30 May agreement on our budget refund (where the French had accepted our position on the Supplementary measures) had, for France, been the agreement to settle fish on reasonable terms. There was a feeling that we were not now keeping to our side of the bargain. Equally, the French expected the 1981 agricultural prices, unlike those for 1980, to be settled in the traditional way. Any suggestion of linkage would be extremely badly received. They/^{would}think that we were trying to make them pay twice.

I countered all the arguments that we had reneged on our part of the 30 May agreement on familiar lines. Thus his reaction to my suggestion was ill-conceived. We were not making a link nor putting forward a package. We had simply wondered whether it would make more sense for our two Governments to see whether we could iron out our difficulties, and this might be easier if we recognised that one of them was of particular political importance for France and the others for the United Kingdom. The alternative seemed likely to be an extremely difficult period for the Community and for Anglo-French relations. We well understood that the forthcoming elections put constraints on the French freedom of action and were mindful of what he had said to me in January, that the closer we got to the elections the more difficult it could be for them to settle/^{on fish}. We were conscious of French sensitivities hence this very confidential approach.

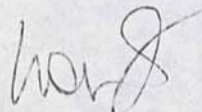
Then following some further discussion on fisheries and on CAP prices. On fisheries, Achard maintained that our demands outside 12 miles were unacceptable and that other member states who had been taken rather by surprise in December now appreciated what the French industry was being asked to give up. He did not think that the arrangements within 12 miles or the duration problem would be so difficult to resolve. I reminded him that what we were proposing outside 12 miles represented an enormous shift compared with the demands of the industry and the position of Mr Silkin; nor was it discriminatory as between member states. While we would be ready to examine any new Commission proposal, we were very close to the limits of political acceptability.

Achard said the Commission's agricultural proposals were a mixed bag. On the positive side they contained a good balance of proposal on prices, other measures

CONFIDENTIAL

and economies. The French were ready to discuss a medium term economy programme for the CAP as part of the price fixing. Secondly, the price relationships were not bad. And third, the proposals on m.c.a. were excellent. They attached capital importance to halving the German m.c.a.'s this year and thought that we should do about the same. On the negative side the Commission's proposals on price were 'a little too low' and the French objected to the super-levy. In their view, the price of milk should be shaded off for producers with high yields. I said we had not yet formed a view on the Commission's proposals, but the increases proposed for products in surplus were too high.

After an hour and a half, Achard reiterated that his first reaction to the proposals of the British Government were negative. There had never been any intention of blocking progress either on New Zealand or on fisheries. He would now discuss with M. Hoeffel whether he thought a settlement on March 9/10 would be possible or whether the whole question would have to be put on ice for some months. He referred again to the remarks I had made in Brussels to the effect that, from the British side, a speedy settlement on New Zealand and the CFP would be bound to have a favourable effect on the climate in which agricultural prices would be settled. That had been helpful but the psychological impact of any suggestion of linkage would be disastrous. He would of course report our conversation to the French Government and expected to let me have some reaction within about a week. But he feared that we were in for a period of "very high tension". I said he might well be right. The converse of what I had said in Brussels was also true. If fisheries and New Zealand butter were not settled soon the consequences within the Community and on British attitudes could be serious. Hence our approach. We would look forward to hearing their considered reactions.



M D M FRANKLIN

23rd February 1981

Foreign and Commonwealth Office
London SW1

20 February 1981

②

Handwritten initials

Prime Minister
To be aware of the issue

Handwritten initials

Handwritten initials
mb.

MANUFACTURING BEEF

The Australian High Commissioner called on me on 18 February to put the Australian case on access for manufacturing beef to the EC. He left with me the enclosed aide memoire (which has also been handed over by the Australian Government to EC Heads of Mission in Canberra). I reminded Sir J Plimsoll that we had consistently supported the Australian case, but undertook to convey to you Australian concern over this issue. I did not give any hint that we might be prepared to settle for less than 60,000 tonnes at next week's Agricultural Council as part of a package involving a satisfactory deal on other issues of importance to us.

I appreciate the arguments in favour of a package deal: We could thus deprive the French of some of the leverage they may be hoping to use in this year's price fixing and get a satisfactory solution to the important issue of New Zealand butter. But in taking the decision to go for such a package, I think we need to bear in mind the risk of Australian retaliation. The last paragraph of the enclosed aide memoire contains a clear threat, and the Australians have already said that the Australian technical mission which is to evaluate military helicopters and which is leaving Australia on 6 March will not include France and Britain on its itinerary unless

/the

The Rt Hon Peter Walker MBE MP
Minister of Agriculture, Fisheries & Food
Whitehall Place
London SW1

CONFIDENTIAL

the Agriculture Council reaches a favourable decision. The latest estimate of the High Commission in Canberra, is that contracts for helicopters, army trucks, submarines, mine-sweepers, a satellite and a submarine cable could be at risk: all told this business could be worth up to £635 million. We shall of course continue to take every opportunity to emphasise to the Australians how badly retaliation would be taken here, and also to persuade them, if they must retaliate, to do so with discrimination so that only those EC countries who opposed Australia's case would be affected. If we do have to settle for a figure lower than 60,000 tonnes, we shall also make every attempt to persuade the Australians that we were put in an impossible position in the Council, and that we settled on the basis of a lower figure as this seemed preferable in their own interests to having no quota at all.

The advice of the High Commissioner in Canberra, however, is that such arguments are likely to cut little ice with the Australians. They will learn soon enough of what went on in the Council and will conclude that we have let them down. The figure of 60,000 tonnes is now obviously a matter of principle with the present Australian Government and one to which high symbolic importance is attached. This is particularly true for the Deputy Prime Minister, Mr Anthony, who has staked a great deal of credibility on this issue. The High Commissioner believes therefore that the Australians will react forcefully if the Community does not deliver what the Australians believe they have been promised.

In the circumstances, I believe that we should only accept a settlement involving a figure lower than 60,000 tonnes in extremis and if this is the only way of obtaining an otherwise satisfactory package. If we do have to accept a lower figure, then a quick personal message, perhaps to Mr Anthony from yourself setting out our position would I think be helpful.

I am sending copies of this letter to the Prime Minister, to John Nott, to the other members of OD(E) and to Sir Robert Armstrong.

James
Law

This should be

attached to

KPs's letter to



Mr Walker of

20 Feb about Manufacturing
Beef

With the Compliments

of the

Private Secretary

to the

Lord Privy Seal

The text of the aide memoire which was handed to Chiefs of Mission from EEC member countries in Canberra by the Deputy Prime Minister and Minister for Trade and Resources (The Rt. Hon. J.D. Anthony, MP) on 18 February, 1981

RA
EC -
Australia
NW
19/2

The Australian Government has a genuine interest in further developing all aspects of Australia's wide ranging economic and trade relations with the Community. There is a solid historical and economic basis to our relationship.

A fundamental component of the relationship, however, is the way in which our varied interests are reconciled. It is vital that settlements which have been entered into in good faith are implemented and that a constructive approach is taken with the view to settling issues which are of critical importance to our bilateral relationship.

The Australian Government conveys its deep concern at the continued delays by the European Community in implementing the balance sheet arrangement on manufacturing beef which was previously endorsed by the Community's Council of Ministers and which formed a major element in the MTN settlement between Australia and the Community. The stage has been reached when resolution of this matter is long overdue. The Australian Government cannot be expected to wait indefinitely while the European Community's failure to implement its international commitments erodes our trading opportunities in that market.

Another example in which an agreement between Australia and the Community is being breached relates to Sheepmeat. In this case only three days after the voluntary restraint agreement between Australia and the Community entered into effect in October last year after having been approved by the Community's Council of Ministers, a member country chose to refuse to issue import licences for virtually all Australia's exports to that market. Australia's exports are still not being permitted entry into that market notwithstanding that Australia has agreed, without seeking any compensation, to make a unilateral declaration which would have the effect of protecting that particular market from any possibility of disruption by Australian exports.

It is inevitable that there is increasing doubt within Australia that it is the Community's intention to honour mutually agreed commitments aimed at resolving agricultural trade issues with non-member countries.

In order to preserve a stable trade relationship between Australia and the Community it is essential that the Community and its member states respect the agreements which have been reached and endorsed by the Community's Council of Ministers.

Australia will be looking to the Community to resolve promptly its internal difficulties with the implementation of the Sheepmeat Agreement.

Resolution of the balance sheet beef issue (as a part of the total MTN settlement between Australia and the EEC) has become a matter of Community credibility in Australia. After so much delay and procrastination, failure to fully implement the MTN settlement on beef with respect to balance sheet imports at the 23-24 February meeting of EEC Agriculture Ministers can only be interpreted by the Australian Government as a conscious act by the Community in disregard of international obligations undertaken in MTN negotiations with Australia.

In this event the Australian Government will have no choice but to review its trading relationship with the Community, in particular the balance of trading opportunities.

CONFIDENTIAL

file

BK



Encl 10
Pt 10

10 DOWNING STREET

From the Private Secretary

17 February 1981

Dear Francis,

The European Community: Outstanding Issues

The Prime Minister held a meeting this morning with the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and the Minister of Agriculture to discuss our policy on a number of outstanding European issues. Sir Robert Armstrong and Mr. Franklin were also present.

The Foreign and Commonwealth Secretary said that he was concerned about the situation which seemed likely to arise in our relations with other members of the Community in the next six months or so. It seemed probable that we would be unable to reach agreement with the French on a Common Fisheries Policy before the French Election. It might well not be possible after the Election. The French had a tenable case both in law and in terms of their own self-interest. Nor did the French have any reason to settle on the question of New Zealand butter imports. As regards agricultural prices, they might well be prepared to adopt a rigid policy until the Election was out of the way and confront us thereafter. If none of these issues were settled before June, they would spill over into the UK Presidency and would have a very negative effect on the discussions about the restructuring of the Budget. We should almost certainly have incurred the hostility of the other nine members. A further effect would be to intensify anti-European feeling in this country with a consequent advantage to the Opposition.

There was therefore a good case for trying to find a solution to the whole complex of problems. There was not much prospect of success. But by making the effort we should at least have put ourselves in a position vis-a-vis the other members of the Community where we could be seen to have tried. A possible approach was summarised in the Foreign and Commonwealth Secretary's own minute to the Prime Minister of 16 February.

/ In his view

CONFIDENTIAL

dl

CONFIDENTIAL

- 2 -

In his view there was no prospect of settling the price fixing at a figure of less than 10 per cent. The only attraction to the French of a package involving settlement of the fish issue, New Zealand butter, and agricultural prices at this sort of level might be that of timing. We should try to discover whether they would be interested.

In the subsequent discussion the following points were made:-

a) A rise in agricultural prices of 10 per cent would have a very damaging psychological impact in this country. At a time when the Government were trying to get workers to accept wage increases in single figures, it would appear that an increase in double figures was being given to the farmers. It would also be seen as a retreat from the Government's declared policy of refusing price increases for products in surplus. Moreover, once a figure was mentioned to the French, it would inevitably become a floor from which we would be driven upwards in the course of negotiation;

b) The Commission were likely to propose a price increase of 8 or 9 per cent. On no past occasion had the final price fixing been lower than the Commission figure. All the precedents suggested that the final figure would be at least 10 per cent. If we were driven to this as the result of a prolonged argument, it would be seen as a British defeat. Moreover, refusal to agree to an increase of this order would have a most damaging effect on farm production in this country and would endanger the Government's rural support;

c) Great pressure was building up for a revaluation of the green pound. It was clear that sooner or later this would have to be conceded. Any price increase above 5 per cent would have to be accompanied by a measure of revaluation in order to diminish the consequences for prices here. To put the point differently, the possibility of revaluing the pound enabled the Government to accept a price fixing at a higher level than would otherwise have been the case. Revaluation of the green pound would have the additional benefit of reducing the level of our contribution to the Community Budget through levies. (It was also pointed out, in this connection, that revaluation would have serious consequences for the farming industry);

d) There was a tendency to over-estimate the negotiating abilities of the French. They were worried and bruised by the defeats with which they had met last year and had lost some of their previous self-confidence. There was just a chance that they would settle rather than risk a long, drawn out engagement. In any case, if our approach was properly handled, it would have the effect of making them put their cards on the table. If their demands were outrageous, we should know where we stood;

e) The negative effects on public opinion in this country of an impasse would be considerably greater than those of a 10 per cent increase in agricultural prices. We should be prepared to take some risks in order to avoid this.

/ Summing up,

CONFIDENTIAL

CONFIDENTIAL

- 3 -

Summing up, the Prime Minister said that it was agreed that the rises in agricultural prices would not be less than the figure proposed by the Commission. A figure of, say, 8 per cent accompanied by a revaluation of the green pound would be tolerable. However in making an approach to the French, which it was agreed should be done at a meeting between Mr. Franklin and M. Achard, no figures were to be mentioned. The objective would be to establish, without commitment, whether the French were interested in looking at the problems of the Common Fisheries Policy, of New Zealand butter, and of the agricultural price fixing together and to see what kind of assurances might be obtained on fish and New Zealand butter. Having heard what M. Achard had to say, Mr. Franklin should report back.

I am sending copies of this letter to John Wiggins (HM.Treasury), Kate Timms (Ministry of Agriculture, Fisheries and Food) and David Wright (Cabinet Office).

Yours ever

Michael Alexander

Francis Richards, Esq.,
Foreign and Commonwealth Office

CONFIDENTIAL

Euro P.A.



10 DOWNING STREET

Assumed with the Prime
Minister who has agreed
that Mr Franklin should brief
Mr Walker & Sir B. Hayes
about his contacts with Mr
Kris.

fc.

Print
- 3/2



10 DOWNING STREET

Michael Pmt 3/2

This is a translation
of Dr Hiss' paper on
CAP reform - at first
glance a fairly orthodox
statement of the German
position. I am due to
discuss it with him in
Berlin on 10 Feb.

What I would like
is Walker to know of the
contact; and authority
to show the paper to Sir

B. Hays on a personal
basis. Can you organize —
or should we have a word
on Monday am.?
Michael J.

PERSONAL AND CONFIDENTIAL

26 January 1981

REFORM OF THE EUROPEAN COMMUNITY AGRICULTURAL POLICY

1. At its meeting on 30 May 1980, the Council of Ministers took a decision that the Commission should put proposals before it by 30 June 1981, which should ensure that the structural imbalance in the European Community budget is corrected in 1982. In this connection, neither the basic principles of the common agricultural policy nor the 1 per cent VAT limit on individual revenues may be jeopardized.

II. Evaluation of solutions in the Agricultural Sphere

1. General Guidelines

The evaluation of solutions for the future form of the common agricultural policy should proceed from the following general principles and guidelines:

- (a) The principles of the common agricultural policy (free movement of goods, community preference, and financial solidarity) must be adhered to and the following noted:
- The principle of free movement of goods is embodied in the Treaty and is the basis for customs union. However, currency conversion constitutes a certain limitation of this principle which is justifiable in the interest of the common market.
 - The principle of community preference is also a basic element of customs union. The scope of preference is, however, not defined but is determined by trade policy considerations (Article 110 EEC - V). Community preference is partly infringed by trade concessions eg by the ACP Agreement (Africa, Caribbean and Pacific) and GATT negotiations but, to counter this, the Community has maintained trade and general political concessions respectively.
 - The principle of financial solidarity means that joint decisions in the market sphere are financed completely in common. However, there are certain financial statutes in accordance with which the Community only bears part of the financial burden. The scope of Community support and hence of financial solidarity has not been laid down in either the Treaty or the Stresa Conference.
- (b) To reduce mounting expenditure and restore market balance progressively in the sphere of agriculture, the following measures are required:
- Careful pricing policy, which must be orientated primarily towards the restoration of market balance (cf 2a).

PERSONAL AND CONFIDENTIAL

- Excess production ;must be reduced by involving producers in the financing of the surplus (cf 2b).
- In order to regain the balance in the markets, agricultural intervention mechanisms must be eased (cf 2c).
- The reduction of numerous subsidies (particularly producer, consumer and processing subsidies (cf 2d).

2. Evaluation of Solutions in Detail

(a) Pricing policy has to be pursued cautiously - particularly where excess production is concerned. This means that respective price rises are below the general increase in costs. This leads to an actual price reduction in which efficiently conducted enterprises, taking advances in productivity into account, can, in the long term, manage to achieve an income which is actually constant or increasing. On the other hand, in the face of the budget and market situation, it is not out of the question that even actual reductions in income have to be accepted temporarily.

(b) Greater Joint Responsibility of Producers

Mounting production and the strained budgetary position are compelling reasons for embodying the principle of producers' joint responsibility more firmly. Basically the concept of joint producer responsibility ought to be realized either as a result of the reduction of existing market support or as a result of the dismantling and reduction respectively of existing producer subsidies. Joint producer responsibility in the spheres of market organisation in which it is possible should be effected through a levy to ease the budget burden. For milk and sugar such a levy has already been introduced: in these areas this device had to be extended.

(c) Reduction of close market support

When prices are administratively set above the balanced price it gives rise to a structural excess of production. To prevent this there is, in general, the alternative of:

- limiting the quantity produced (quota restriction) or

PERSONAL AND CONFIDENTIAL

- reducing price support guarantees.

In general a reduction of the existing market support is proposed (Details in the individual product fields).

(d) Dismantling and Reduction Respectively of Subsidies

The device of the grant-in-aid has been used to an ever greater extent in the common agricultural policy. A critical pruning of the diverse subsidies appears to be indispensable. In the spheres of fruit and vegetables, seed flax and hemp, hops horsebeans and dry feed, the subsidies ought to be discontinued or limited, progressively if need be.

3. Individual Product Areas

(a) Milk

The balance of the milk market in the European Community could gradually be re-established on the basis of the following elements.

- (aa) The retention of the basic elements of existing milk marketing regulations.
- (ab) Within the framework of the agricultural price negotiations for the economic year 1981/82 the rise in the price of milk might amount to, at most, 50 per cent of the average rise in agricultural prices.
- (ac) Producer involvement in the cost of excess production in the member states has to be further extended. For this, the co-responsibility levy should be raised from the present 2 per cent to 4 per cent. In this connection, no exceptions beyond those already granted may be permitted.
- (ad) Over and above the linear rise in the co-responsibility levy, a supplementary levy of 35 per cent - 40 per cent of the standard price should be raised on an enterprise's increase in production in 1981/82 compared to the average volume credited for a reference period covering several years. Given such a high marginal supplementary levy, increased production, particularly that based on bought-in concentrated feed stuff, should be counteracted.

PERSO NAL AND CONFIDENTIAL

- (ae) To increase the exploitation of liquid skimmed milk, without resorting to the expensive device of producing skimmed milk powder, the use of liquid skimmed milk as animal feed should be promoted (ef, an obligation on milk producers to re-purchase skimmed milk, an appropriate charge with administrative costs for failing to fulfill the re-purchasing obligation or - on reduction of the quantity of skimmed milk by a certain amount - the credit of a promotion payment.
- (af) In the given situation of surpluses, investment support in the dairy cattle sphere should be abolished because it can be proved that a large part of the increase in production is due to public investment support.
- (ag) National measures to encourage the non-marketing of milk should be permissible.

(b) Sugar

In the sphere of sugar there is a prime case for reducing the budget burden. Future sugar market regulations should therefore be so formulated that the European Community . This means a quota reduction in the A and B quotas as well as an increase in the scope for the production leby on B-sugar. C-sugar remains - as before - outside the price support system. It would also be for decision;whether ACP sugar should be sold, as before, at the expense of the European Community budget.

(c) Cereals

In the sphere of grain, a below-average price rise should be settled. The influence of market mechanisms should be improved by a reduction of intervention, particularly where baking wheat and bread rye are concerned. The disparity between the reference price for baking wheat and the intervention price for wheat is to be reduced through the lowering of the reference price. The extra payment for bread rye should be, at least partially reduced.

PERSONAL AND CONFIDENTIAL

Intervention in feed grains should be limited to the first 3 months after the harvest.

The subsidy for the production of starch should be dropped.

Intervention in the cultivation of rope should be dropped.

Maize substitutes

The unrestricted and growing import of maize-substitutes (tapioca, maize gluten-fodder and other bi-products of corn processing) causes increasing burdens for EEC housekeeping; these substitutes push internal Community feed grains into export (export restitution) and replace levy bearing import of fodder grain.

It should be looked into whether these substitutes are subject to one of the corn regulation levy controls (if necessary with import preference for developing countries). To this also belong; the bi-products of iso-glucose manufacture and of state supported gas/oil manufacture.

With tapioca the question of a self limiting EEC agreement with thailand arises.

Beef

The intervention for beef should be reduced at the time of the pasture clearance. A further reduction of intervention should result through the restrictive use of Community trade quality schemes. Furthermore the intervention price should fall to 80 per cent of the guide price. All premium regulations (for milking cows, beef cattle, and calves) should be cancelled.

Sheepmeat

With sheepmeat it is guaranteed that the costs of the market organization will not rise above the current level.

Mediterranean Products

(Olive oil, wine, wheat, tobacco, fruit vegetables).

With these products the existing support instruments (direct product or flat related

PERSONAL AND CONFIDENTIAL

production aid, processing aid, and market support measures through repurchase, destruction, and distillation) should be reduced or decontrolled. In particular a limitation of the different premiums and aid is foreseen.

re MPFF
CO
FCO

jfh

28 January 1981

Restructuring the Community Budget

The Prime Minister has seen and agrees with the Chancellor of the Exchequer's minute to her of 27 January on this subject.

I am sending copies of this letter to Francis Richards (Foreign and Commonwealth Office), Kate Timms (Ministry of Agriculture, Fisheries and Food) and David Wright (Cabinet Office).

MODBALEXANDER

KTB

John Wiggins, Esq.,
HM Treasury.

CONFIDENTIAL

PRIME MINISTER

Community Affairs

The Chancellor of the Exchequer might confirm for the record that the Commission have now paid further budget refunds to the United Kingdom: a first payment of about £211 million under the amended Financial Mechanism, and a second instalment of some £60 million under the supplementary measures regulation (following the £97.6 million received in December).

2. The Minister of Agriculture might report on the 27th January Fisheries Council. With a new Fisheries Commissioner and a new Danish Minister there was no prospect of a settlement, and discussion concentrated on agreements with third countries. We continued to block the Canada agreement pending an overall settlement, but a formula was found which enabled EC/Norway relations to be restored (to our benefit as well as that of the Germans) and eased the conflict of interest between Denmark and Germany over fishing rights off Greenland. The Conservation Regulation was rolled forward until 28th February.

3. It was agreed that the Fisheries Council would meet again on 9th-10th February with the aim of reaching a global compromise settlement. Meanwhile, Mr. Walker will have a bilateral meeting with his French opposite number, M. Hoeffel, next Tuesday to see whether the outstanding difference on access can be resolved. Mr. Walker may have in mind a link with agricultural prices, and there could be some merit in securing French agreement to an early and satisfactory deal on fisheries (and on New Zealand butter) in exchange for private assurances from us that we will not block a reasonable price settlement in April. But we would need to be sure that our understanding of "reasonable" was the same as theirs, and that this was the only way to achieve what we want on fisheries. The evidence of this week's Council suggests that a fisheries settlement on its own may still be possible. Mr. Walker should therefore give no hint of a deal when he sees M. Hoeffel. Thereafter, you may need to consider tactics urgently with the Foreign and Commonwealth Secretary, the Chancellor and Mr. Walker.

CONFIDENTIAL

CONFIDENTIAL

4. The Chancellor of the Exchequer might mention his talks in Paris on 27th January with M. Monory, in the course of which the latter floated the idea of dividing this year's CAP price fixing into two parts to be implemented respectively in the spring and autumn. OD(E) will need to consider our line on CAP prices and the green pound (our positive monetary compensation amounts are now running at 15.1 per cent) when the Commission have made their proposals in early February.

RA

Robert Armstrong

28th January 1981

CONFIDENTIAL

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

yes

mf

Primi Minister

(I am sure you will agree
with the Chancellor.)

⑤

And 27/1

RESTRUCTURING THE COMMUNITY BUDGET

I refer to the Foreign Secretary's minute to you of 23 January covering a note by officials on progress with the exploratory discussions so far and proposals for the next steps. I have seen your comments recorded in Mr. Alexander's letter of 26 January.

2. I support the proposal in the officials' report that we should now begin to develop our ideas discreetly with Commission and German contacts. The chief idea we need to get across, as I see it, is not so much that the Community Budget should "have a redistributive function" but rather that the redistributive effects of the Budget (which already exist - and operate to our disadvantage) should be planned on defensible criteria and not allowed to result haphazardly from the particular effects of specific policies as at present.

3. This means that I very much agree with the implication of your comments: namely that a strict limit should be placed on the amount of redistribution that is allowed to take place - and the 1 per cent VAT ceiling can be called to our aid for this purpose. But it is also of special importance to the UK interest that the Community should accept that the redistributive effects of the Budget should not be perverse as, in our case, they are at present. It ought to be an aim

/of our efforts

CONFIDENTIAL



of our efforts on restructuring to avoid being left permanently as the second largest net contributor of the Community Budget. Given our relative wealth and the size of the resource transfers we make as a net importer of food, that would over the years become increasingly difficult to defend to opinion at home.

4. Although I agree with the Foreign Secretary that we should be careful not to rush things and thus risk provoking a premature rejection of radical thought, I also think it essential that we should not under-estimate the strength of our position. The reaction of Germany and France to the redistribution to them of part of our budgetary burden, the prospective financial and economic impact on them of enlargement and perhaps also the effect on German policy of their balance of payments problem could mean, taken together, that they will not necessarily rule out a radical reappraisal of present arrangements.

5. We shall have to take stock again when we have made what progress we find possible with our selected German and Commission contacts. However, I think it must be right to make it clear to the Commission and our partners at the right moment, as one element in the negotiations, that, although we accepted the 30 May agreement in a spirit of compromise for a two or three year period, we still remain, even with that agreement, more disadvantaged relative to our GNP per head than any other member of the Community: a burden we ought not to be asked to accept as a permanent feature of Community life.

6. I am sending copies of this minute to the Foreign Secretary, the Minister of Agriculture, Fisheries and Food and Sir Robert Armstrong.

R. Tolkien
 , for, (Approved by the Chancellor
 (G.H.) and signed in his
 absence)

27 January 1981



Treasury Chambers, Parliament Street, SW1P 3AG

26 January 1981

R E S Prescott Esq
PS/Paymaster General
68 Whitehall
LONDON
SW1

*For...
R...
26/1*

Dear Richard,

COMMUNITY BUDGET REFUNDS ANNOUNCEMENT

Further to my letter of Friday last, I now confirm that the Commission and the Treasury are announcing the further instalments of our Community budget refunds this morning. The time of announcement is to be 12 noon our time (rather than 11.00 am as envisaged earlier) and the final version of the Press Notice is attached. There have been small changes in the supplementary measures figures and in the reference to the timing of payments.

I am copying this letter to the recipients of my letter of 23 January.

*Yours sincerely,
Stephen Locke.*

S A J LOCKE
Private Secretary



H. M. TREASURY

Parliament Street, London SW1P 3AG, Press Office: 01-233-3415
Telex 262405

26 January 1981

EUROPEAN COMMUNITY BUDGET REFUNDS

PAYMENTS TO THE UNITED KINGDOM UNDER THE "FINANCIAL MECHANISM" AND THE "SUPPLEMENTARY MEASURES" SCHEME

1. The Commission has today announced further decisions on payments of budget refunds to the United Kingdom. The United Kingdom is to receive in the next few days -

- i. a first payment of some £211 million under the financial mechanism, and
- ii. a further instalment of some £60 million under the "supplementary measures" scheme.

2. The financial mechanism, negotiated originally in 1975 but amended following the Council agreement of 30 May 1980, provides for refunds of our gross contribution to the Community budget when the ratio of our contribution to total contributions exceeds by more than 10 per cent the ratio of our GDP to Community GDP. In accordance with the 30 May agreement, provision for refunds in respect of one year's budget is made in the next year's budget, and the 1981 budget includes provision for refunds under the financial mechanism to the United Kingdom in respect of the 1980 budget of £281 million. The payment now agreed represents 75 per cent of that figure. We expect to receive in the autumn of this year the remainder of our estimated financial mechanism entitlement in respect of the 1980 budget.

3. The "supplementary measures" scheme provides for contributions by the Community in respect of public sector investment programmes in the United Kingdom, principally in the regions. As announced

18 December, the Commission has decided to make contributions totalling £177.3 million in respect of certain investment programmes of the central government and public corporations in Wales and North West England, and a first instalment of £97.6 million was paid to us at the end of December. The supplementary measures regulation provides that a down-payment of 90 per cent of agreed contributions may be made before certification that the expenditure in question has been carried out, and the further instalment now to be paid represents the balance of the 90 per cent down-payment on the Wales and North West England programmes. The remaining 10 per cent of the Community contributions in respect of these two programmes will be payable when the public authorities concerned have certified that the expenditure in question has been carried out.

4. The Commission is expected to decide in March on the amounts of Community contributions in respect of central government and public corporations' investment programmes in other areas of the United Kingdom, in particular Scotland, Northern Ireland, the North, Yorkshire and Humberside and the South West. We expect to receive a first instalment of Community contributions in respect of these programmes before the end of March. The sum involved is likely to be around £270 million. This will bring our cumulative receipts under the supplementary measures scheme to some 80 per cent of our total estimated entitlement in respect of the 1980 budget. We expect to receive the balance of our entitlement in the summer and autumn of this year.

5. The Community budget refunds are enabling public expenditure programmes generally in the United Kingdom to be sustained at levels higher than the country could otherwise have afforded. Expenditure programmes throughout the country are benefiting accordingly. The refunds do not, however, open the way to increases in domestic expenditure programmes beyond the levels already planned. These planned levels were set on the assumption that substantial refunds would be received from the Community budget.

6. Details of the public investment programmes in Wales and North West England now attracting Community support under the supplementary measures scheme were given in the Treasury's 18 December Press Notice, a copy of which is attached.

RESTRICTED
(until release, then UNCLASSIFIED)

18 December 1980

EUROPEAN COMMUNITY BUDGET REFUNDSADVANCE PAYMENTS TO THE UK UNDER THE "SUPPLEMENTARY MEASURES" SCHEME

The Commission has today taken its first decisions on payments of budget refunds to the United Kingdom. The United Kingdom will receive £97.6 million in the form of advance payments under the "supplementary measures" scheme before the end of December.

2. The total amounts of the United Kingdom's refunds were agreed by the Council on 30 May. These refunds are to take the form of payments under the amended financial mechanism and the "supplementary measures" scheme, the Regulations for which were formally adopted on 27 October.

3. The latest decisions in Brussels have two components. First, it is agreed that the Community should contribute the sums shown in the table below in respect of the current year's investment programmes by central government and public corporation spending authorities in the North West and Wales. The percentage figures show the Community contribution as a proportion of total estimated expenditure in the current year on the programmes concerned.

Community contributions in respect of UK public expenditure programmes 1980-81

	<u>North West</u>		<u>Wales</u>	
	<u>£M</u>	<u>%</u>	<u>£M</u>	<u>%</u>
Roads	15.9	30	24.6	30
Rail	12.0	30	6.0	30
Water and sewerage	15.6	30	9.3	30
Advance factories	0.8	20	14.2	20
Telecommunications	48.6	30	30.3	30
Total	<u>92.9</u>		<u>84.4</u>	

4. Second, it is agreed that 49% of the Community contributions now approved will be made available in the form of advance payments to the United Kingdom before the end of December. The bulk of the receipts estimated due to us under the scheme in respect of the 1980 budget will follow between the end of December and the end of March. The Commission is expected to decide in that period on the amounts of the Community contributions in respect of the investment programmes of central government and public corporation spending authorities in other areas of the United Kingdom, in particular Scotland, Northern Ireland, the North, Yorkshire and Humberside and the South West.

5. The refunds from the Community, of which the advance payments announced today are the first instalment, are enabling public expenditure programmes generally in the United Kingdom to be sustained at levels higher than the country could otherwise have afforded. Expenditure programmes throughout the country are benefiting accordingly. The refunds do not, however, open the way to increases in domestic expenditure programmes beyond the levels already planned. These planned levels were set on the assumption that substantial refunds would be received from the Community budget.

6. Projects which form part of the programmes in Wales now attracting support from the Community budget include construction of the M4 (Bridgend Northern By-pass), the A40 (Raglan to Abergavenny), the A55 (diversion East of Abergele) and the Queensferry Sewerage Works Extension and Wye Abstraction Schemes. Community support will also be linked to the programme of rail investment in Wales, covering the reconstruction and improvement of track, signalling, depots and stations; the modernisation and extension of the telecommunications service in Wales; and the advance factory building programme, which is spread over both industrial and rural Wales with a concentration in the former to help alleviate the effects of the restructuring of the steel industry.

7. A summary of the programmes in Wales put forward by the United Kingdom for Community support is available on request from the Information Division, Welsh Office, New Crown Building, Cathays Park, Cardiff, CF1 3NQ.

8. Projects which form part of the programmes in the North West region now attracting support from the Community budget include several motorway schemes which form part of the Manchester Outer Ring Road, the top priority road in the region; the covering of reservoirs and provision of new treatment facilities at Prescott, Liverpool; and the Manchester/Davyhulme sludge digestion scheme. The Community is also supporting an extensive programme of investment to improve the rail network in the North West, which includes many projects for track reconstruction and modernisation of signalling; telecommunications investment in the region, including the provision of a number of new telephone exchanges; and the continuing advance factory building programme of the English Industrial Estates Corporation.

9. A summary of the programmes in the North West put forward by the United Kingdom for Community support is available on request from the North West Regional Offices of the Departments of the Environment, Transport and Industry, Sunley Building, Piccadilly Plaza, Manchester M1 4BE.

10. Summaries of all eight programmes put forward by the United Kingdom for Community support are available on request from the Directorate of Development Plans and Regional Policy 4, Department of the Environment, Becket House, Lambeth Palace Road, London SE1 7ER.

PRESS OFFICE

H M TREASURY

PARLIAMENT STREET

LONDON SW1P 3AG

01-233-3415

203/80



10 DOWNING STREET

From the Private Secretary

Sir Robert Armstrong

Community Budget Restructuring: Progress Report

The Prime Minister has seen your minute to me of 23 January on this subject. She has approved the "non-paper" attached to it.

On points of detail in that paper, the Prime Minister has commented:-

- (a) that the hypothetical "objective" distribution referred to in paragraph 8 is unlikely to work; and
- (b) that it must be doubtful whether achieving redistribution by means of direct transfers would limit the net contribution of the FRG sufficiently.

The Prime Minister has also commented that some of the phraseology in the paper, e.g., "distributionally neutral" is unattractive.

M. O'D. B. ALEXANDER

26 January, 1981.

CONFIDENTIAL

Az

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

26 January, 1981.

Restructuring the Community Budget

The Prime Minister has seen the Foreign and Commonwealth Secretary's minute to her of 23 January on this subject. She has agreed that the report enclosed with it may be circulated to members of OD. She has asked that caution should be used in developing the idea that the Community Budget should have a redistributive function. She has particularly in mind the recent entry of Greece and the prospective entry of Portugal and Spain.

I am sending copies of this letter to John Wiggins (HM Treasury), Kate Timms (Ministry of Agriculture, Fisheries and Food) and David Wright (Cabinet Office).

M. O'D. B. ALEXANDER

G.G.H. Walden, Esq., C.M.G.,
Foreign and Commonwealth Office.

CONFIDENTIAL

AL



Foreign and Commonwealth Office

London SW1A 2AH

23 January 1981

(4)

fg
Rmt
Dear Michael

Prmi Rmt
To rle.

mt Rmt

(Am rle
Some when.)

I understand that Sir James Scott-Hopkins recently complained to the Prime Minister and to Lord Soames that most of the Budget refunds coming to the UK under the Supplementary Measures scheme appeared to be going to Labour dominated areas of the United Kingdom. The following background may be useful.

The terms of the Regulation establishing the Supplementary Measures scheme provide that they will be implemented by means of financial assistance for certain categories of investments included in special programmes drawn up by the United Kingdom. These programmes, as a general rule, must be in areas eligible for State Regional Aid, which for the United Kingdom, means the Assisted Areas at 1 January 1980. In practice, for historic and economic reasons, these tend to be those areas suffering structural problems associated with the run-down of traditional industries like coal, steel, shipbuilding, and textiles. Historically, these are areas which have tended to return Labour Members of Parliament. It therefore follows that aid under the Supplementary Measures Scheme will be primarily in respect of projects which are part of programmes in Labour held constituencies. But not entirely so.

Sir James Scott-Hopkins will have had detailed briefing on the Supplementary Measures scheme, and on the way in which the Government
/intends

M O'D B Alexander Esq
10 Downing Street



intend to deal with the refunds received. He will be aware that projects which form part of the programmes in Wales, now attracting support from the Community Budget, include the construction and improvement of parts of the A55, the main East-West route in North Wales. This will bring direct economic benefit to an area which includes four Conservative constituencies - Anglesey, Conway, Denbigh and West Flint. The local MEP is Miss Brookes. In addition, the advance factory building programme, which will also attract Community support, will aid the construction of advance factories in the Pembroke and Barry constituencies.

Projects in the North include the following:

(a) Transport.

The Greater Manchester Ring Motorway will be of general benefit to the region, and the Haslingden bypass will benefit specifically Rossendale and Darwen; the Ellesmere Port motorway extension will help Chester and Bebington and Ellesmere Port;

(b) Railways

Improved track and signals will be of benefit throughout the region but there are major schemes for signalling at Chester and electrification of the Preston-Blackpool line which will benefit in particular Preston North, Blackpool South and Blackpool North;

(c) In Telecommunications, there will be projects of direct benefit to Macclesfield, Lancaster, Chester and Chorley;

(c) Finally, Community aided projects in water sewerage will help Ellesmere Port, Blackpool South and North, Macclesfield, Nantwich and Southport.

All these, of course, are Conservative constituencies.

In any case the refunds from the Community are not being passed on to local spending authorities. They enable public expenditure programmes generally in the United Kingdom to be sustained at levels

/higher



higher than the country could otherwise have afforded. Expenditure programmes throughout the country are benefitting and the benefit is not confined to certain regions.

Sir James Scott-Hopkins might also be interested to know that we estimate, (although difficulties in aligning different boundaries complicate the calculation) that some 30% of Sir James' Conservative MEP colleagues have constituencies containing Assisted Areas. The constituencies of 10 Conservative MEPs will benefit directly or indirectly from the measures, and of only four Labour MEPs. Some 108 Conservative MPs at present sit for Westminster constituencies which contain some part of an Assisted Area; 39 of these will benefit more or less directly from the Supplementary Measures.

I am copying this letter to Edward Chaplin in the Lord President's office.

Yours ever

M A Arthur

M A Arthur

①

Ref. A04065

Prime Minister

MR ALEXANDER

- ① Agree proper report at Flag B? Yes
- ② Agree 'non-paper' for transmission to Mr Hiss? Yes

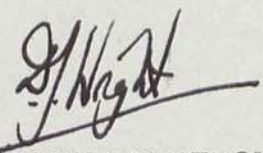
The other document is clearer on the procedure, although some of the points are being distributed

mb

Community Budget Restructuring: Progress Report

The Foreign and Commonwealth Secretary has minuted the Prime Minister enclosing a report by officials on the present state of discussions. He suggests that the paper should be circulated to OD for information. The Prime Minister herself will have the opportunity shortly to consider the line she should take on this subject when she visits Mr van Agt on 6 February. She may therefore wish to indicate that she is content for the report to be circulated to OD. Our latest intelligence is that M Thorn has in mind to make an oral progress report to the European Council in March, but it will probably be only at the June European Council, when the Commission has made its formal proposals and after the French elections, that substantive discussion can begin. We understand informally that the Commission may look at some form of national financing of the CAP as an alternative to an overall budget corrective mechanism.

2. The report by officials suggests that we should now explore some ideas for corrective mechanisms with the Germans and the Commission. So far as the Germans are concerned, the Prime Minister will recall that Chancellor Schmidt made it clear that he has by no means dropped the idea of limits on net contributions and benefits and, at the last meeting which Mr Franklin had with the Chancellor's representative, Dr Hiss, it was agreed that Mr Franklin would produce a "non-paper" on the subject as the basis for their next meeting in early February. I attach the draft of such a paper which, if the Prime Minister approves, Mr Franklin would send to Dr Hiss - who in return has promised a paper on reform of the CAP. It looks as though this channel may be the best way to explore German thinking, since neither the German Foreign Ministry nor the Ministry of Finance has shown much response to tentative approaches from our side.



ROBERT ARMSTRONG

(approved by Sir R. Armstrong and signed on his behalf)

23 January 1981

PERSONAL AND CONFIDENTIAL

COMMUNITY BUDGET RESTRUCTURING

1. Reform of the Common Agricultural Policy and a consequent reduction in the proportion of the Community Budget devoted to agriculture are necessary in their own right if the European Community is to develop and prosper. They will also contribute to improving the 'structure' of the Community Budget. But they are unlikely to go far enough or fast enough to result in a tolerable budget position for all Member States.
2. The development of non-agricultural Community spending policies will also help to improve the general 'structure' of the budget and could help towards making the budget position of individual countries more tolerable; but the massive increase in non-agricultural expenditure which would be required to remove the imbalance resulting from the present pattern of budget expenditure is ruled out by the limit on "own resources" which the United Kingdom and the Federal German Government as well as the French Government wish to maintain.
3. The further enlargement of the Community to include Spain and Portugal will, on present policies, lead to significantly increased financial commitments and will make the budget position of certain Member States even less tolerable. Given the firm commitment of all Member States to such an enlargement, this element too needs to be taken into consideration in the current review of the Community's policies and of its budgetary arrangements.
4. The unacceptable nature of the budgetary burden on the United Kingdom was recognised in the agreement of 30 May and led to the undertaking to find a permanent solution and the mandate to the Commission. The mandate rightly refers to the need to avoid an unacceptable situation for "any Member State". The Community needs to find a lasting solution which is fair to all members and ensure that no member state is asked to bear an unfair burden after enlargement. We assume that that was the thinking behind the statements of Chancellor Schmidt, confirmed at the last meeting with Mrs Thatcher, that the solution should include some limit on net contributions and, as a consequence, on net benefits also.

PERSONAL AND CONFIDENTIAL

5. If it were agreed to pursue such an approach, two questions arise

(i) what should be the rationale on which such an approach should be based?

(ii) how could it be given practical expression?

6. The Community decided in 1970 on a system of 'own resources' which finances a series of separate expenditure policies, decisions on which have been taken without giving any conscious attention, at least until recently, to their overall distributional consequences. The outcome was that one of the less prosperous Member States (United Kingdom) was asked to bear an unacceptable burden while some of the more prosperous Member States (Denmark, Benelux) have been large net beneficiaries. The restructuring exercise creates an opportunity to ensure that in future, the overall distributive effect of the budget would be a matter of conscious Community policy - as it is at the national level - instead of being the chance outcome of the method of financing and of the combination of individual policies as at present. The nature of the redistributive policy would be a matter for discussion; but an equitable policy would necessarily take account of the need to foster greater economic convergence within the Community.

7. If it were accepted that the Community should have, even in a modest way, a redistributive fiscal policy, this could be implemented by ensuring that existing sectoral policies conformed to that objective or, if for good reasons these policies cannot be changed or changed quickly enough to bring about that effect, their budgetary outcome should be adjusted so as to do so. The two are not mutually exclusive.

8. As to the question in paragraph 5(ii), there are doubtless numerous ways to give such a rationale practical expression. For instance, one approach might be to draw up a hypothetical "objective" distribution of net contributions and net benefits among Member States arrived at on the basis of relative prosperity and size; agree that the Community should aim to develop its expenditure policies over time to achieve that distribution; and in the meantime apply a system of temporary financial adjustments which would progressively fill the gap between the actual net budget contribution or benefit for each Member State and the objective distribution.

work-
work.

PERSONAL AND CONFIDENTIAL

9. Another approach would be to distinguish between those items of Community expenditure like the Regional and Social Funds and CAP structural expenditure which are intended to promote convergence and those like CAP guarantee expenditure and administrative costs which have large, but often perverse, transfer effects between Member States that are not part of the object of the policy itself. This could be reflected in a "dual budget", the "structural" part of the budget reflecting a deliberate decision as to the size of budgetary transfers to be made by the more prosperous Member States to the less prosperous in order to help convergence, and the "central" part of the budget being made distributionally neutral between Member States through a clearing account which would iron out net benefits and contributions without changing the policies. Alternatively, without actually dividing the budget into two, the desired pattern of redistribution could be achieved by means of direct transfers.

equity?

*↓
Would this limit the FRG net-contribution sufficiently?*

10. Any such approach would need to be

- (i) compatible with the own resource system, the principles of the CAP and with the maintenance of the 1 per cent VAT ceiling;
- (ii) capable of preventing an "unacceptable budgetary situation" for any Member State;
- (iii) complementary to other efforts eg to reduce the cost of the CAP;
- (iv) capable of controlling the cost of enlargement to the existing Member States.

Cabinet Office,
London,

January 1981



PM/81/2

PRIME MINISTERRestructuring the Community Budget

1. When we discussed this in OD last October, we agreed that officials should have exploratory discussions with other Member States and with the Commission. I attach a progress report which has been prepared by the Cabinet Office in consultation with officials from the Foreign and Commonwealth Office, the Treasury and the Ministry of Agriculture.

2. I suspect that we have done as much homework on this as anyone and we need to be careful not to rush things in what will undoubtedly be a protracted negotiation. We shall not achieve our objective in getting the problem looked at as one for the Community as a whole if we are seen to be trying to make too much of the running. The French are in any case going to play the whole exercise down before the Presidential elections. But there are things which we can do behind the scenes and your forthcoming meeting with van Agt will be an opportunity to ensure that the Dutch Presidency keep up the pressure. The report by officials also suggests that we should now begin to develop the argument that the Community budget should have a redistributive function; and try out some ideas on the Germans and the Commission services. This will need to be handled carefully but I agree that we should try to push things forward in this way.

*Am doubtful
of developing
this too far
especially with
the entry of
Greece Portugal
Spain.*

3. If you agree, I suggest that the report should be circulated to our colleagues in OD, but I would not myself

/have

CONFIDENTIAL

- 2 -



have thought that further collection^{on} discussion at this stage was necessary. In the meantime, I am sending copies of this minute with copies of the paper to the Chancellor of the Exchequer, the Minister of Agriculture and Sir R Armstrong.

A handwritten signature in blue ink, appearing to be 'C' with a horizontal line underneath.

(CARRINGTON)

Foreign and Commonwealth Office

23 January 1981

CONFIDENTIAL

B

CONFIDENTIAL

RESTRUCTURING THE COMMUNITY BUDGET: PROGRESS REPORT

1. When OD considered the Note by the Secretary of the Cabinet (OD(80) 57) at their meeting on 13 October (OD(80) 20th Meeting) they agreed that exploratory bilateral contacts on budget restructuring should proceed. This note reports on the outcome of those contacts and on other relevant developments since October.

2. A list of the meetings during which there has been discussion of budget restructuring and/or reform of the Common Agricultural Policy (CAP) is at Annex 1.

3. The outgoing Commission put in hand certain basic studies but recognised that the formulation of proposals would have to be taken up by the new Commission. Mr Thorn and his colleagues can be in no doubt that the restructuring mandate represents one of their most important and immediate tasks. The Dutch, who are in the Presidency for the first half of 1981, are urging the Commission to present their proposals under the 30 May mandate in time for discussion at the European Council at the end of June.

4. The general presentation we have given of our approach to budget restructuring, in accordance with the line agreed by OD, has been listened to with interest and with some support. We have been careful to avoid giving the impression that we already have cut and dried solutions of our own. Nevertheless, there have been some encouraging developments -
 - a. The firm support of both Germany and France - reiterated by President Giscard at the last European Council meeting - for the maintenance of the present limit of one per cent on VAT contributions. While other countries are not willing to endorse the one per cent ceiling as an aim in itself, there is a realistic understanding that the Community will have to learn to live with existing own resources at least for the time being. This was also recognised by Mr Roy Jenkins but it remains to be seen whether the new Commission will be content to put forward proposals which are compatible with the ceiling or whether they will wish to indicate the conditions under which, in their view, an increase in the ceiling would be justified;

CONFIDENTIAL

CONFIDENTIAL

b. the announcement of the new German Coalition Government that, after 1981, the rise in expenditure on the Common Agricultural Policy (CAP) should be markedly less than the rise in own resources. In the immediate future, we are hoping to secure German support for laying down an effective financial ceiling within which the 1981 decision on agricultural prices and related measures will be taken. In bilateral discussions we shall indicate our broad support for the German ideas for imposing a financial limit on the growth in the CAP in the longer term. We have to keep in mind however that the Germans would accept in order to reduce the budgetary cost of the CAP, co-responsibility levies and economies of types which would not be in the United Kingdom's interests.

c. The approach of the 1 per cent ceiling and the prospects of enlargement are forcing all member states to face up to restructuring seriously.

5. Less satisfactory have been French attempts to block other Community decisions, especially external trade, in advance of the restructuring exercise. They have argued that until the Community has completed its discussions especially on the CAP it is not possible to enter into long-term commitments eg on New Zealand butter or agricultural imports from Cyprus. It remains to be seen whether their primary motive is to avoid difficult decisions before the French Presidential elections or whether the linkage with budget restructuring will prove a continuing obstacle. Conversely, the French are anxious for a satisfactory settlement of 1981 CAP prices before their elections whereas our aim must be a settlement which, having regard to the interests of our own industry, is consistent with our longer-term objectives for restructuring and CAP reform. The Commission agreed in December a paper setting out ideas for CAP reform. Some of these are unhelpful to the United Kingdom and we have commented on them as well as on the price level to be proposed for 1981.

6. While everyone is a long way from admitting it in public, our exploratory bilateral talks have shown a growing realisation that reform of the CAP and the development of alternative Community policies will not, by themselves, be sufficient to prevent the recurrence of an "unacceptable budgetary situation" for the United Kingdom, and certainly not by 1982. We have been careful not to stress this conclusion ourselves but to allow it to emerge from a realistic assessment of what can be done within the 1 per cent ceiling. The reluctance of others to admit it stems from -

CONFIDENTIAL

i. strong dislike among the smaller member states of the Schmidt/Giscard idea for limits on net contributions and benefits; and

ii. the realisation that, to do so, would mean admitting that Community policies were not capable of producing an acceptable budgetary situation for all member states.

7. As regards i. the German Chancellor made it clear to the Prime Minister that he is still greatly interested in the idea of limiting net benefits as well as net contributions although his officials have so far refused to discuss it. Predictably, large net beneficiary countries have made it clear that they see little justification for such limitations. The objection at ii. is clearly one which we are going to have to overcome sooner or later. The Community cannot totally ignore the budgetary consequences of its policies which at present have a random and often perverse effect. Having got the Community at long last to recognise that there is such a thing as an "unacceptable budgetary situation" we now need to take the Community's thinking on to a further stage of consciously deciding what the redistributive effect of the budget should be.

8. Officials have therefore considered ways in which the budgetary position of member states could be adjusted on logical principles and not simply by way of arbitrary corrections of the kind discussed in the report by officials attached to OD(80) 57 (paragraphs 57-63). Two approaches are envisaged both of which start from the premise that the pattern of distribution between member states emerging from the present budget arrangements needs to be changed; both are also compatible with the maintenance of the 1 per cent VAT ceiling.

9. The first - which we call the objective budget approach - involves comparing the actual distribution of contributions and benefits with an "objective" distribution which would reflect relative prosperity. The latter would represent a long-term target for the Community to aim at. In the meantime while the necessary changes in policies were taking place, a partial adjustment would be made to bring net contributions and benefits closer to the "objective". The extent to which the actual distribution would be adjusted towards the long-term objective could be decided, say, for a period of three years at a time (although the amount of adjustment necessary would have to be worked out annually). A problem with this approach is the substantial scale of transfers which could be required after enlargement to the poorer countries, particularly Spain.

CONFIDENTIAL

10. Another approach - which we call the two budget approach - would involve splitting the budget in two: a "central budget" financing CAP guarantee expenditure, industry, energy, research and administration. This would be made distributionally neutral between member states ie each would get out as much as it contributed; and a "structural budget" for expenditure intended to promote economic convergence like the Regional and Social Funds, FEOGA guidance expenditure and the EMS interest rate subsidies. The distribution of expenditure under the structural budget would be consciously decided at the outset, fixing the net amount by which member states with below average GDP would benefit, thus enabling the cost of enlargement to be contained. There would be a transitional period moving from the post-30 May situation, to a pre-determined level of net contributions and benefits under the two-budget approach.

11. Tables illustrating these two approaches are at Annex 2. The figures are not definitive but both approaches are of course capable of achieving the objectives which Ministers have laid down. Anticipating future negotiations, they assume that the United Kingdom might actually end up as a net beneficiary.

12. Both approaches could serve to direct discussion on to the proposition that the redistributive effects of the Community budget as a whole should be willed as a matter of policy rather than resulting from the chance outcome of the cumulative effect of individual policies. Our purpose in exposing these ideas is a tactical one, to start a train of thought in the minds of others which would be helpful to us when the substantive negotiations begin. At this stage we would not wish to go too far in exposing these ideas and run the risk of arousing adverse reactions. Moreover there are in any case problems such as the scale of budgetary transfers required and the risks of trade diversion by member states trying to offset the loss of their present budgetary benefits. But we consider it would be worth exploring our ideas with the staff of the Commission, who have already expressed some interest in our ideas on budget adjustment mechanisms, and with the Germans as a means of encouraging them to develop their own thinking on the subject. Only in the light of their reactions would it be sensible to consider carrying the discussion forward with other member states. In the meantime however we should certainly try to persuade other member states of the view that the overall distributive effects of the budget must be a matter of conscious Community policy.

Cabinet Office

January 1981

CONFIDENTIAL

CONFIDENTIAL

ANNEX 1

BILATERAL CONTACTS ON BUDGET RESTRUCTURING

<u>Date</u>	<u>Country</u>	<u>Department</u>	<u>Level</u>
16 Oct	Germany	MAFF	Official
27 Oct	President elect Thorn	PM/Foreign Secretary	-
30 Oct	Netherlands	MAFF	Ministerial
31 Oct	Germany	FCO/Cabinet Office	Official
6 Nov	France	FCO/Cabinet Office	Official
16/17 Nov	Germany	Prime Minister	-
18/19 Nov	Greece	FCO/Cabinet Office	Official
19 Nov	Ireland	MAFF	Official
23/24 Nov	Italy	Prime Minister	-
24 Nov	Commission	FCO	Official
26 Nov	Belgium	FCO	Official
2 Dec	Greece	MAFF	Ministerial
4 Dec	Denmark	MAFF	Official
5 Dec	Netherlands	FCO	Ministerial
11 Dec	Italy	FCO/Cabinet Office	Official
17 Dec	Denmark	FCO	Ministerial
17 Dec	Netherlands	FCO	Official
19 Dec	France	FCO	Ministerial

TABLE 1: OBJECTIVE DISTRIBUTION OF NET BUDGETARY CONTRIBUTION (-) AND RECEIPTS (+) AND RECEIPTS (+) (See paragraph 11)

MEUA

	(1) Unadjusted net contribution to allocated expenditure	(2) Position after 30 May agreement	(3) Possible intermediate stage (25% of Col 1 + 75% of Col 5)	(4) Objective distribution: for Community of 10	(5) Objective distribution: for Community of 12
Germany	-1350	-1900	-1050	- 815	- 965
France	NIL	- 400	- 400	- 395	- 535
Netherlands	+ 550	+ 450	+ 45	- 85	- 125
Belgium	+ 600	+ 500	+ 70	- 70	- 105
Denmark	+ 550	+ 500	+ 80	- 60	- 75
Luxembourg	+ 300	+ 300	+ 70	- 5	- 10
Italy	+ 850	+ 650	+ 665	+ 770	+ 605
UK	-2150	- 750	- 355	+ 400	+ 245
Ireland	+ 650	+ 650	+ 195	+ 60	+ 45
Greece	NIL	NIL	+ 125	+ 200	+ 165
Spain	na	na	+ 395	na	+ 525
Portugal	na	na	+ 170	na	+ 230

Notes: Column 1: From Commission estimates for 1981

Columns 4 and 5: Distribution obtained from formula: Net position = Budget x Population share x (1 - GDP per head as percentage of Community average) ÷ 2

TABLE 2 : DUAL BUDGET APPROACH : ILLUSTRATIVE EFFECT OF CENTRAL AND STRUCTURAL BUDGETS COMBINED*

NET CONTRIBUTIONS (-) AND RECEIPTS (+) OVER TRANSITIONAL PERIOD

MEUA

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
Germany	-1900	-1650	-1400	-1335	-1145	-955
France	- 400	- 420	- 445	- 575	- 635	-695
Netherlands	+ 450	+ 340	+ 230	+ 90	- 35	-155
Belgium	+ 500	+ 380	+ 265	+ 125	-	-125
Denmark	+ 500	+ 390	+ 280	+ 160	+ 50	- 65
Luxembourg	+ 300	+ 240	+ 180	+ 115	+ 55	- 5
Italy	+ 650	+ 680	+ 710	+ 740	+ 770	+800
UK	- 750	- 540	- 330	- 120	+ 90	+300
Ireland	+ 650	+ 550	+ 450	+ 350	+ 250	+150
Greece	nil	+ 30	+ 60	+ 90	+ 120	+150
Spain	na	na	na	+180	+ 240	+300
Portugal	na	na	na	+ 180	+ 240	+300

*excluding aid

∕ This postulated final composition of the structural budget is assumed to be a political decision, but taking account of member states' relative prosperity and population size, and their non-budgetary resource transfers. Alternatively the global sum of net benefits could be decided at the outset, but with the precise distribution allocated according to a formula.



kg
Paul

Treasury Chambers, Parliament Street, SW1P 3AG

R E S Prescott Esq
PS/Paymaster General
68 Whitehall
LONDON
SW1

M.

23 January 1981

(2)

Prime Minister
To Mr.

Paul
- 23/1

Dear Richard,

COMMUNITY BUDGET REFUNDS

POSSIBLE FURTHER ANNOUNCEMENT ON MONDAY 26 JANUARY

We announced on 18 December the first instalment of the UK's Community budget refunds - an advance payment of £97.6 million under the "supplementary measures" scheme. We hope (though this is not yet finally confirmed) that the Commission will be announcing two further instalments on Monday of next week (26 January) -

- i. a first payment of some £211 million under the financial mechanism, and
- ii. a further instalment of some £62 million under the "supplementary measures" scheme.

As in December, the Commission have found it surprisingly difficult to reach agreement among themselves on technical details of the "supplementary measures" payment. It is for this reason that they have not committed themselves formally and finally to an announcement on Monday. But we are pressing them hard to do so, and we have to plan on the assumption that the announcement will take place on Monday.

On that basis, we have prepared the attached draft of a Treasury press notice for issue in London and Brussels simultaneously with the Commission announcement, at 11.00am our time on Monday morning. The Financial Secretary proposes once again to reproduce the substance of the press notice in a written Parliamentary answer. Assuming a Monday announcement, this would appear in the Official Report for Monday.

The Financial Secretary suggests that the main points for the Government to get across publicly should be as last time -

- i. the refunds are coming through;

- ii. they are enabling public expenditure programmes in general to be maintained at a higher level than the country could otherwise have afforded;
- iii. they do not, however, open the way to increases in domestic public expenditure programmes beyond the levels already planned.

I will let you know as soon as the date and time of the Commission's announcement (and hence our own announcement) are formally confirmed.

I am copying this letter to the Private Secretaries to the Prime Minister, the Secretary of State for the Home Department, the Chancellor of the Exchequer, the Foreign Secretary, the Lord Privy Seal, the Lord President of the Council, the Secretary of State for Industry, the Secretary of State for Employment, the Secretary of State for Energy, the Minister of Agriculture, the Secretary of State for the Environment, the Secretaries of State for Scotland, Wales and Northern Ireland, the Secretary of State for Social Services, the Minister of Transport and Sir Robert Armstrong.

*Yours sincerely,
Stephen Locke*

S A J LOCKE
Private Secretary

RESTRICTED
Until release, the unclassified

26 January 1981

EUROPEAN COMMUNITY BUDGET REFUNDS

PAYMENTS TO THE UNITED KINGDOM UNDER THE "FINANCIAL MECHANISM"
AND THE "SUPPLEMENTARY MEASURES" SCHEME

1. The Commission has today announced further decisions on payments of budget refunds to the United Kingdom. The United Kingdom is to receive before the end of January -

- i. a first payment of some £211 million under the financial mechanism, and
- ii. a further instalment of some £62 million under the "supplementary measures" scheme.

2. The financial mechanism, negotiated originally in 1975 but amended following the Council agreement of 30 May 1980, provides for refunds of our gross contribution to the Community budget when the ratio of our contribution to total contributions exceeds by more than 10 per cent the ratio of our GDP to Community GDP. In accordance with the 30 May agreement, provision for refunds in respect of one year's budget is made in the next year's budget, and the 1981 budget includes provision for refunds under the financial mechanism to the United Kingdom in respect of the 1980 budget of £281 million. The payment now agreed represents 75 per cent of that figure. We expect to receive in the autumn of this year the remainder of our estimated financial mechanism entitlement in respect of the 1980 budget.

3. The "supplementary measures" scheme provides for contributions by the Community in respect of public sector investment programmes in the United Kingdom, principally in the regions. As announced

On 18 December, the Commission has decided to make contributions totalling £177.3 million in respect of certain investment programmes of the central government and public corporations in Wales and North West England, and a first instalment of £97.6 million was paid to us at the end of December. The supplementary measures regulation provides that a down-payment of 90 per cent of agreed contributions may be made before certification that the expenditure in question has been carried out, and the further instalment now to be paid represents the balance of the 90 per cent down-payment on the Wales and North West England programmes. The remaining 10 per cent of the Community contributions in respect of these two programmes will be payable when the public authorities concerned have certified that the expenditure in question has been carried out.

4. The Commission is expected to decide in March on the amounts of Community contributions in respect of central government and public corporations' investment programmes in other areas of the United Kingdom, in particular Scotland, Northern Ireland, the North, Yorkshire and Humberside and the South West. We expect to receive a first instalment of Community contributions in respect of these programmes before the end of March. The sum involved is likely to be around £280 million. This will bring our cumulative receipts under the supplementary measures scheme to some 80 per cent of our total estimated entitlement in respect of the 1980 budget. We expect to receive the balance of our entitlement in the summer and autumn of this year.

5. The Community budget refunds are enabling public expenditure programmes generally in the United Kingdom to be sustained at levels higher than the country could otherwise have afforded. Expenditure programmes throughout the country are benefiting accordingly. The refunds do not, however, open the way to increases in domestic expenditure programmes beyond the levels already planned. These planned levels were set on the assumption that substantial refunds would be received from the Community budget.

6. Details of the public investment programmes in Wales and North West England now attracting Community support under the supplementary measures scheme were given in the Treasury's 18 December Press Notice ... a copy of which is attached.

RESTRICTED
(until release, then UNCLASSIFIED)

18 December 1980

EUROPEAN COMMUNITY BUDGET REFUNDS

ADVANCE PAYMENTS TO THE UK UNDER THE "SUPPLEMENTARY MEASURES" SCHEME

The Commission has today taken its first decisions on payments of budget refunds to the United Kingdom. The United Kingdom will receive £97.6 million in the form of advance payments under the "supplementary measures" scheme before the end of December.

2. The total amounts of the United Kingdom's refunds were agreed by the Council on 30 May. These refunds are to take the form of payments under the amended financial mechanism and the "supplementary measures" scheme, the Regulations for which were formally adopted on 27 October.

3. The latest decisions in Brussels have two components. First, it is agreed that the Community should contribute the sums shown in the table below in respect of the current year's investment programmes by central government and public corporation spending authorities in the North West and Wales. The percentage figures show the Community contribution as a proportion of total estimated expenditure in the current year on the programmes concerned.

Community contributions in respect of UK public expenditure programmes 1980-81

	<u>North West</u>		<u>Wales</u>	
	<u>£M</u>	<u>%</u>	<u>£M</u>	<u>%</u>
Roads	15.9	30	24.6	30
Rail	12.0	30	6.0	30
Water and sewerage	15.6	30	9.3	30
Advance factories	0.8	20	14.2	20
Telecommunications	48.6	30	30.3	30
Total	92.9		84.4	

Second, it is agreed that £97.6 million of the Community contributions now approved will be made available in the form of advance payments to the United Kingdom before the end of December. The bulk of the receipts estimated due to us under the scheme in respect of the 1980 budget will follow between the end of December and the end of March. The Commission is expected to decide in that period on the amounts of the Community contributions in respect of the investment programmes of central government and public corporation spending authorities in other areas of the United Kingdom, in particular Scotland, Northern Ireland, the North, Yorkshire and Humberside and the South West.

5. The refunds from the Community, of which the advance payments announced today are the first instalment, are enabling public expenditure programmes generally in the United Kingdom to be sustained at levels higher than the country could otherwise have afforded. Expenditure programmes throughout the country are benefiting accordingly. The refunds do not, however, open the way to increases in domestic expenditure programmes beyond the levels already planned. These planned levels were set on the assumption that substantial refunds would be received from the Community budget.

6. Projects which form part of the programmes in Wales now attracting support from the Community budget include construction of the M4 (Bridgend Northern By-pass), the A40 (Raglan to Abergavenny), the A55 (diversion East of Abergele) and the Queensferry Sewerage Works Extension and Wye Abstraction Schemes. Community support will also be linked to the programme of rail investment in Wales, covering the reconstruction and improvement of track, signalling, depots and stations; the modernisation and extension of the telecommunications service in Wales; and the advance factory building programme, which is spread over both industrial and rural Wales with a concentration in the former to help alleviate the effects of the restructuring of the steel industry.

7. A summary of the programmes in Wales put forward by the United Kingdom for Community support is available on request from the Information Division, Welsh Office, New Crown Building, Cathays Park, Cardiff, CF1 3NQ.

8. Projects which form part of the programmes in the North West region now attracting support from the Community budget include several motorway schemes which form part of the Manchester Outer Ring Road, the top priority road in the region; the covering of reservoirs and provision of new treatment facilities at Prescot, Liverpool; and the Manchester/Davyhulme sludge digestion scheme. The Community is also supporting an extensive programme of investment to improve the rail network in the North West, which includes many projects for track reconstruction and modernisation of signalling; telecommunications investment in the region, including the provision of a number of new telephone exchanges; and the continuing advance factory building programme of the English Industrial Estates Corporation.

9. A summary of the programmes in the North West put forward by the United Kingdom for Community support is available on request from the North West Regional Offices of the Departments of the Environment, Transport and Industry, Sunley Building, Piccadilly Plaza, Manchester M1 4BE.

10. Summaries of all eight programmes put forward by the United Kingdom for Community support are available on request from the Directorate of Development Plans and Regional Policy 4, Department of the Environment, Becket House, Lambeth Palace Road, London SE1 7ER.

PRESS OFFICE
H M TREASURY
PARLIAMENT STREET
LONDON SW1P 3AG
01-233-3415

203/80



Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

22 January 1981

C A Whitmore Esq
Private Secretary
Prime Minister's Office
No.10 Downing Street
LONDON SW1

Prime Minister

ms⁽²⁾

You will want to be aware that Mr Taylor has left the Treasury with no option but to give the calendar year cash flow figure for our 1980 contribution to the EC Budget - which as you know is v. unfavourable because of the timing of our refunds.

Dear Clive,
PQs ON THE UK'S NET CONTRIBUTION TO THE EC BUDGET IN 1980

Mr Teddy Taylor has recently put down questions in the House seeking a figure for the net contribution to the Community Budget in the calendar year 1980. He rapidly followed a question answered on 15 January with three more for answer yesterday. All these were for Written Reply. Copies are attached. He has a further question down for Oral Answer on 29 January; and although this will probably not be reached, a similar one from Martin Flannery on the same subject on that day may well be. And two more about payments and receipts have been put down today by Mr Taylor, for answer next Monday.

Handwritten initials and '3/1'

We have not given him the "cash flow" figure for 1980 which was customary in the past, for the good reason that the information for the final weeks of 1980 will not be available to the Treasury until early next month. But in the background is the issue which the Prime Minister has considered with the Chancellor in the context of the next Public Expenditure White Paper: the need to minimise the risk that the May 1980 Agreement may be judged to be unfavourable. In the next White Paper, it is proposed to use the opportunity presented by the Public Accounts Committee's criticism of the "confusing" way in which the Budget calculations are made available, to cut out the calendar year "cash flow" table, and to provide instead the customary table showing financial year figures on a cash flow basis, together with a new calendar year table giving figures which would include the relevant transactions in respect of the calendar year, even though the actual refunds come in during the following year. I wrote to you on 16 January giving the latest figures for tables on this new basis.

/When the Chancellor



When the Chancellor first explained this approach, in his minute of 22 October, he referred to the possibility that, despite our efforts on the White Paper, we might not be able to avoid giving the calendar year cash flow figures in response to Parliamentary Questions. It now does appear that Mr Taylor is determined to get them. The Chancellor concludes that, when we no longer have the excuse that the relevant figures are not available, they should be given, if asked for, in the normal way. It would play more readily into the hands of Mr Taylor (or others) to seek to withhold them than to give them. It looks as though they may show a net contribution in 1980 of £750-£800 million, compared with the outturn of £947 million in 1979.

In giving the figures, Treasury Ministers will point out that calendar year figures are quite misleading without adding back the large refunds which we will receive in 1981 to offset the net contribution in calendar 1980. The fact that the settlement would be implemented in arrears was made quite plain in the May Agreement. They would be able to draw attention not only to the £98 billion which did arrive at the very end of calendar 1980, but to the £270 million or so in respect of 1980 which we hope to announce next Monday, a further £280 million which we expect in March, and so on.

I am sending copies of this letter to George Walden (FCO) and David Wright (Cabinet Office).

PSJ

P. S. JENKINS
Private Secretary

FOR ANSWER ON TUESDAY 13 JANUARY 1981
ANSWERED ON THURSDAY 15 JANUARY 1981

TREASURY

C - Southend East

No. 68 W

MR TEDDY TAYLOR: To ask
Mr Chancellor of the Exchequer, what was the net contribution
actually made to the EEC by the United Kingdom in the calendar
year 1980; and what were the comparable figures in each of
the previous seven years.

MR NIGEL LAWSON

Pursuant to his reply of Tuesday 13 January 1981. (Col 541)

The information needed to produce a figure for the UK's net
payments to the EEC in the calendar year 1980 is not at present
available. The Government intends to publish in the 1981
Public Expenditure White Paper the two sets of figures described
in paragraph 91 of the Treasury minute dated 8 January 1981
replying to the 28th Report of the Committee of Public Accounts,
Session 1979-80.

TUESDAY 20 JANUARY 1981

C - Southend East

No 55W
MR TEDDY TAYLOR: To ask Mr Chancellor of the Exchequer, pursuant to his reply on 15 January, why the information needed to produce a figure of the net contribution made to the European Economic Community in the calendar year 1980 is not available; and if it is normal Treasury practice to keep a note of the sums paid to the European Economic Community and the sums received.

MR NIGEL LAWSON

The Treasury has access to the relevant information, but details about transactions late in the year take time to be collected and collated centrally.

TUESDAY 20TH JANUARY 1981

TREASURY

C - Southend East

No 56W

MR TEDDY TAYLOR: To ask Mr Chancellor of the Exchequer, what were the total gross payments made to the European Economic Community between 1st January 1980 and 31st December 1980.

MR NIGEL LAWSON

The total gross contribution in 1980 was £1862 million.

TUESDAY 20 JANUARY 1981

TREASURY

C - Southend East

No 57W MR TEDDY TAYLOR: To ask Mr Chancellor of the Exchequer, what were the total gross payments made by the European Economic Community to the United Kingdom between 1 January 1980 and 31 December 1980.

MR NIGEL LAWSON

I regret that full informaton about UK receipts in 1980 is not yet available.

PQ**ANSWERED**

Chancellor of the Exchequer

FILE NUMBER

PARLIAMENTARY QUESTION**OR PRIORITY WRITTEN ANSWER ON** *MONDAY* *26-1-81*

First appeared	Name of Member	Party	Constituency
<i>1-1-81</i>	<i>TEDDY TAYLOR</i>	<i>C</i>	<i>SOUTHEND E.</i>

183 Mr Teddy Taylor (Southend East): To ask Mr Chancellor of the Exchequer, what was the net contribution made by the United Kingdom to the EEC in the most recent 12 month period for which figures are available; and when he expects to be able to indicate the United Kingdom's net contribution during the year 1980.

This File must be returned to
THE CHANCELLOR of the EXCHEQUER'S
PARLIAMENTARY SECTION

by NOON on *22-1-81*

<u>To whom referred</u>	<u>Date</u>	<u>To whom referred</u>	<u>Date</u>
<i>Mr ASHFOR</i>	<i>21/1/81</i>		

TO-BE

PQ

ANSWERED

Chancellor of the Exchequer

FILE NUMBER

PARLIAMENTARY QUESTION

OR **PRIORITY**

WRITTEN ANSWER ON

MONDAY

26-1-81

Date first appeared	Name of Member	Party	Constituency
21-1-81	TEDDY TAYLOR	C	SOUTHEND EAST

182 Mr Teddy Taylor (Southend East): To ask Mr Chancellor of the Exchequer, what
 W have been the total payments to and receipts from the EEC since the United Kingdom
 became a member of the EEC; and if he will express the difference as a ratio.

This File must be returned to
THE CHANCELLOR of the EXCHEQUER'S
PARLIAMENTARY SECTION

by NOON on 22-1-81

To whom referred	Date	To whom referred	Date
Mr ASHFORD 162	21/1/81		

MFJ

Envo
PDI

X refer PL

MR WRIGHT

Whisky Refunds

The Prime Minister has seen and taken note of your minute to me of 20 January on this subject.

MODBA

21 January 1981

AL

Ref. A04044

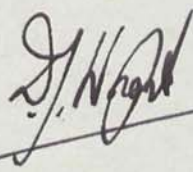
MR ALEXANDER

Whisky Refunds

The Minister of Agriculture referred in Cabinet on 15 January (CC(81) 2nd Conclusions, Minute 3) to difficulties that had arisen with the European Parliament over the receipt of refunds on whisky exports.

2. At the 1980 agricultural price fixing it was agreed in the Council that export refunds should be paid on whisky both in relation to exports since 1973 and in future. The refunds are payable to the UK whisky industry and while they have the effect of reducing the UK net budget contribution, they will not reduce UK public expenditure or the PSBR. The Commission has proposed arrangements which would lead to backlog payments of £45 million and payments of possibly £17.5 million for 1981 depending on relative movements in cereals prices. We are disputing the technical basis for the calculations and are claiming £68 million for the backlog.

3. The European Parliament has to be consulted on the proposals and there was an attempt last week in the Agriculture Committee by French Communists with support from French and German Socialists to delay the issue of an opinion until the question can be considered with a community regime for alcohol. Without such an opinion the Council would be most unlikely to take a decision and a recent ruling of the European Court has cast doubt on whether it would even be legal to do so. However, UK MEPs managed to get the question discussed in the plenary session of the Parliament on 16 January and it is expected that there will be a vote at the next session in February. Given the time needed for the proposals to work through the Council procedures, the attempt to block it in the Parliament may not now lead to any delay in the final decision.



D J WRIGHT

20 January 1981

CONFIDENTIAL

GRS 765

CONFIDENTIAL [FRAME GENERAL]

FM PARIS 151728Z JAN 81

TO PRIORITY FCO

TELEGRAM NUMBER 32 OF 15 JANUARY 1981

INFO ROUTINE EC POSTS

Read in full.

mb.

MY TEL NO 16: 1980 AND 1981 COMMUNITY BUDGETS

1. ABRASIVE REMARKS BY M BARRE, AND REACTIONS TO THEM BY MEPS, HAVE ENSURED THAT THE CONTROVERSY OVER THE 1980 AND 1981 BUDGETS HAS BEEN KEPT ALIVE IN THE FRENCH PRESS OVER THE PAST FEW DAYS. A FEATURE OF THE REPORTING HAS BEEN THE EMPHASIS UPON THE PERSONAL ROLE OF M BARRE IN THE FORMULATION OF THE FRENCH GOVERNMENT'S INTRANSIGENT POSITION, AN IMPUTATION WHICH M BARRE HIMSELF HAS FOSTERED WITH APPARENT GLEE.

2. UNDER THE HEADLINE "CONFLICT BARRE/THORN" FIGARO REPORTED ON 13 JANUARY THAT M BARRE SAID THE PREVIOUS DAY ON LEAVING A MEETING WITH PRESIDENT GISCARD: "IN MY VIEW IT IS A QUESTION OF DISTORTION OF PROCEDURE. I DO NOT SEE WHY THE FRENCH GOVERNMENT SHOULD MODIFY ITS POSITION. MR THORN CAN MAKE WHATEVER STATEMENTS HE LIKES. THE FRENCH PRIME MINISTER EXPOUNDS THE POSITION OF THE FRENCH GOVERNMENT". THE FRENCH PRESS THAT DAY RECORDED THAT MME VEIL'S DECISION HAD BEEN SUPPORTED BY MR THORN AND THE COMMISSION AND BY MOST MEPS, SURPRISINGLY INCLUDING THE GAULLISTS. FIGARO COMMENTED THAT THE FRENCH GOVERNMENT'S POSITION WAS DICTATED PARTLY BY CONCERN TO LIMIT THE AUTHORITY OF PARLIAMENT AND PARTLY BY THE NEED TO PRE-EMPT CHARGES OF WEAKNESS BY THE GAULLISTS. LE MATIN CONCLUDED THAT THE EUROPEAN COURT WOULD BE QUITE LIKELY TO DECIDE AGAINST FRANCE.

3. ON 13 JANUARY M BARRE IS REPORTED TO HAVE SAID IN REPLY TO JOURNALISTS: "I DO NOT CARE WHAT MEPS SAY. SPEAKING IN THE NAME OF THE FRENCH GOVERNMENT I CAN TELL YOU THAT WE WILL NOT PAY". BY 14 JANUARY THE FRENCH PRESS WAS PAYING INCREASING ATTENTION TO THE WAY IN WHICH THE FRENCH GOVERNMENT HAD GOT ITSELF OUT ON A LIMB. FIGARO HEADLINED ITS REPORT "FRANCE ISOLATED". LE MATIN WONDERED WHETHER THE FRENCH GOVERNMENT WOULD BE ABLE TO EXTRICATE ITSELF FROM THE QUAGMIRE IN WHICH IT HAD BECOME STUCK.

4. TODAY'S FRENCH PRESS CARRIES A REPORT BY PAUL FABRE IN LE MONDE, UNDER THE HEADLINE "FALLOUT FROM THE FRANCO/BRITISH CONFRONTATION", ARGUING THAT THE DISPUTE STEMS FROM A FUNDAMENTAL DIVERGENCE BETWEEN M BARRE'S DETERMINATION NOT TO SEE AGRICULTURAL EXPENDITURE REDUCED TO MAKE WAY FOR OTHER SPENDING AND THE BRITISH GOVERNMENT'S POSITION. LE MATIN HEADLINES ITS REPORT "BARRE GETS A BAD PRESS IN STRASBOURG", AND THE PRESS GENERALLY WARNS THAT THE DISPUTE COULD DAMAGE FRANCE'S PROSPECTS OF SECURING STRASBOURG AS THE SITE FOR THE EUROPEAN PARLIAMENT.

CONFIDENTIAL

/ THE NEWSPAPERS

CONFIDENTIAL

THE NEWSPAPERS ALSO HIGHLIGHT THE DIVERGENCE IN THE GAULLIST CAMP BETWEEN THE GAULLIST MEPS WHO SUPPORTED MME VEIL AND THE GAULLIST LEADERSHIP, PARTICULARLY M CHIRAC AND M DEBRE, WHO HAVE CONTINUED BITTERLY TO DENOUNCE HER. LE MATIN REPORTS THAT THE GAULLIST MEPS VOTED FOR MME VEIL ON THE NARROW PROCEDURAL GROUNDS THAT LEGALLY SHE HAD NO ALTERNATIVE BUT TO ACT AS SHE DID. IT IS WIDELY REPORTED THAT THERE WILL BE A RESTRICTED MEETING OF THE FRENCH COUNCIL OF MINISTERS TODAY TO PLAN THE FRENCH GOVERNMENT'S STRATEGY FOR THE FORTHCOMING MEETINGS OF EC COUNCILS OF MINISTERS AND FOR THE EUROPEAN COUNCIL IN MARCH.

5. LE MONDE, DATED 16 JANUARY, CARRIES A LONG ARTICLE BY COUVE DE MURVILLE DENOUNCING IN PREDICTABLE TERMS THE ATTITUDE OF THE COMMISSION AND EUROPEAN PARLIAMENT. HE NOTES THAT WHILE IN THE PAST BRITAIN WAS ISOLATED ON THESE ISSUES THE TIDE HAS NOW CHANGED AND IT IS FRANCE WHICH IS ISOLATED. AN ACCOMPANYING ARTICLE BY LE MONDE'S BRUSSELS CORRESPONDENT QUOTES M BERNARD-REYMOND, MINISTER OF STATE FOR FOREIGN AFFAIRS, AS HAVING SAID YESTERDAY AFTER HE HAD SEEN MME VEIL THAT "THE ATMOSPHERE IS NOT SUCH AS TO REQUIRE A SEARCH FOR A SOLUTION AT ALL COSTS. FRANCE HAS NO INTENTION OF CHANGING ITS POSITION ONE IOTA". LEMAITRE CONCLUDES HIS ARTICLE WITH THE OBSERVATION THAT THE MISTRUST AND FRUSTATION ENGENDERED BY THE CONFLICT WITH THE EUROPEAN PARLIAMENT "NOW RISK BECOMING FOCUSED DANGEROUSLY AT AN EXTREMELY BAD MOMENT FOR FRANCE AND ITS GOVERNMENT".

6. IT IS INEVITABLE IN THE RUN-UP TO THE PRESIDENTIAL ELECTIONS THAT COMMENT ON THIS ISSUE SHOULD CONTINUE TO TAKE ON A PARTICULARLY SHARP EDGE. MOST PRESS OBSERVERS CONCLUDE THAT THE FRENCH GOVERNMENT IS MOTIVATED PRINCIPALLY BY ELECTORAL CONSIDERATIONS THOUGH THERE IS AN ISSUE OF PRINCIPLE AT STAKE AS WELL. THE FACT THAT M BARRE HAS BECOME IDENTIFIED PERSONALLY WITH THE FRENCH GOVERNMENT'S TOUGH STAND MAY PROVE USEFUL LATER TO PRESIDENT GISCARD IF THE FRENCH GOVERNMENT IS SEEN TO HAVE TO GIVE WAY. FOR THE PRESENT, THE TONE OF FRENCH PRESS REPORTING IS BECOMING INCREASINGLY WORRIED ABOUT THE GOVERNMENT'S EXPOSED POSITION. THE DISARRAY OF THE GAULLISTS MAY HOWEVER BE SOME COMPENSATION FOR PRESIDENT GISCARD.

HIBBERT.

[THIS TELEGRAM WAS NOT ADVANCED]

FRAME GENERAL
ECD

- 2 -
CONFIDENTIAL

GRS 180

UNCLASSIFIED

FRAME GENERAL

FM PARIS 091810Z JAN 81

TO PRIORITY FCO

TELEGRAM NUMBER 16 OF 9 JANUARY 1981

INFO ROUTINE UKREP BRUSSELS BONN BRUSSELS COPENHAGEN DUBLIN
THE HAGUE LUXEMBOURG ROME AND ATHENS

1980 AND 1981 COMMUNITY BUDGETS

1. M. BARRE TOUCHED ON THE QUESTION OF THE COMMUNITY BUDGETS IN AN APPARENTLY UNSCRIPTED CONTRIBUTION MADE AT A ONE-DAY SEMINAR HELD ON 8 JANUARY BY THE ECONOMIC JOURNAL "EXPANSION" (AND SHOWN ON TELEVISION). THIS IS A TRADITIONAL PLATFORM FOR THE PRIME MINISTER TO EXPLAIN HIS THINKING ON A VARIETY OF ISSUES AT THE BEGINNING OF THE YEAR.

2. ON THE BUDGET ISSUE, M. BARRE INSISTED THAT THE INSTITUTIONS OF THE COMMUNITY SHOULD STICK TO THEIR RESPECTIVE AREAS OF COMPETENCE. THE EUROPEAN ASSEMBLY HAD NO POWERS TO VOTE FUNDS. HE NOTED THAT, BY ITS ACTION, THE ASSEMBLY HAD SHOWN A SUDDEN GENEROSITY BUT A DISREGARD FOR PROCEDURE. IT WAS NOT, HE SAID, A JURIDICAL PROBLEM BUT A POLITICAL ONE. IF FRANCE WERE TO GIVE ANY GROUND ON THIS ISSUE, THE END RESULT WOULD BE "FINANCIAL TYRANNY" EXERCISED BY THE ASSEMBLY. THE FRENCH GOVERNMENT COULD NOT ACCEPT THE ASSEMBLY'S ACTION AND WOULD NOT CHANGE ITS POSITION. THE FRENCH HAD NO INTEREST IN COMPROMISE. ON THE LIKELY FRENCH ATTITUDE IF THE MATTER WERE REFERRED TO THE EUROPEAN COURT, M. BARRE REPLIED SIMPLY "WE SHALL SEE".

HIBBERT

FRAME GENERAL
ECD

THIS TELEGRAM
WAS NOT
ADVANCED

Eino Pol

vb

MR. WRIGHT
CABINET OFFICE

Community Budget Dispute

The Prime Minister has seen and taken note of your minute to me of 7 January on this subject.

MODBA

9 January 1981

KRB

Ref: A03927



CONFIDENTIAL

Subject
PRIME MINISTER

*Copied to 1) Euro Pol: CAP
M 7.
2) Euro Pol: App 9
Euro Comm
May 81*

Community Affairs

MM
In the absence of both the Foreign and Commonwealth Secretary and the Lord Privy Seal, you may wish to mention that you have sent a message of congratulation to the Greeks on their accession to the Community. You may then like to invite Mr. Hurd (who will be attending Cabinet for this item as well as Foreign Affairs, in the absence of Lord Carrington and Sir Ian Gilmour) to report on the allocation of portfolios to Mr. Tugendhat (who is likely to retain the budget portfolio) and to Mr. Richard (who may get Social Affairs or part of the industrial portfolio).

2. The Chancellor of the Exchequer might be invited to report on the latest position with regard to the allegations of procedural irregularities in the adoption of the 1980 Supplementary Budget and the 1981 Budget. France, Germany and Belgium have limited their January contributions in respect of the Supplementary 1980 Budget to the amount accepted by the Council and are thus withholding payments towards the extra sum added by the Parliament. The French seem also to be disputing the validity of the 1981 Budget, but no payments under this head are due until February. The Commission have confirmed that they intend to implement the two Budgets as adopted by the Parliament, including the payment to the United Kingdom in the next few weeks of the amount due to us under the Financial Mechanism.

3. The Minister of Agriculture might be invited to report on the action taken, following your agreement in correspondence, to make clear to the new Commission our view that this year's CAP price fixing should not result in an average price increase of more than 4 to 5 per cent.

RA

(Robert Armstrong)

7th January 1981

CONFIDENTIAL



②

Prime Minister

RESTRICTED

I asked for a note on the position now reached. It seems clear from this that we stand back for the time being.

MR. ALEXANDER

Community Budget Dispute

Print 7/1

The dispute over the legality of the Community Budget was precipitated specifically by the adoption by the European Parliament of an addition to the 1980 Supplementary Budget which in turn enabled the Parliament to increase further the 1981 Budget within the permitted rate of growth.

2. France, Germany and Belgium have refused to pay the full amount of the 1980 Supplementary Budget which the Commission requested on 2nd January. They have limited payment to the amount accepted by the Council (i.e. for the Italians following the earthquake) and have not paid the additional amount added by the Parliament (for the Social Fund). As regards the 1981 Budget no problem arises in January, since the normal rules for calculating budget contributions base the January payment on the draft budget adopted by the Council in November which is not in dispute. From February contributions should normally be based on the finally adopted budget, but it appears that France intends to continue to base her contributions on the (lower) draft budget.

3. The French have told our Paris Embassy that Monsieur Barre is not intending to create difficulties in relation to Community payments to the United Kingdom under the 30th May agreement. We have already received £97.6 million on 31st December as advances from the 1980 Budget under "Supplementary Measures". The bulk of the remainder in respect of our 1980 Budget contributions should be paid to us out of the 1981 Community Budget before the end of the present financial year, and three-quarters of what is due to us under the Financial Mechanism should be paid at the end of January.

4. The Commission maintain (like ourselves, Italy and Ireland) that the 1981 Budget has been legally adopted and while this is the case no problem arises in their making payments to us under the 30th May agreement. Preparations are going ahead accordingly. A problem would arise if it were concluded that the 1981 Budget had not been adopted. There is no reason to expect the new Commission to reverse the position taken up by the old one, although of course



RESTRICTED

the situation would change if the issue were taken to the European Court and the Court supported the French thesis. There is no sign of this happening at the moment.

5. The fact that the United Kingdom has contributed to budgets, the legality of which some member states have questioned, is fully defensible. The line we are taking is that the Commission decided that the budgets were legally adopted and requested payment accordingly. Her Majesty's Government saw no good reason to differ from the Commission's decision or to refrain from compliance. The allegations of illegality are, in our view, unproven. If, eventually, it were decided that our contributions were wrongly based, any over-payment would be refunded.

6. In speaking with the French and the Germans we are suggesting that the sensible thing would be to concentrate on ways of avoiding a similar conflict between the Council and the Parliament in future years. The present situation would not have arisen if the French and Germans had been a little more flexible in negotiation with the Parliament.

(D.J. Wright)

7th January 1981

ADVANCE COPIES

FRAME ECONOMIC

28... XEROX COPIES

Furo Pol

FCO

PS/LORD PRIVY SEAL
PS/MR RIDLEY

MR BULLARD
MR HANNAY
LORD BRIDGES

RESIDENT CLERK

HD/ECD(2) (4)

HD/NEWS

HD/ERD

HD/.....

HD/.....

PLUS FCO

*PS
Mr Macgregor*

CABINET OFFICE

MR M D M FRANKLIN
MR D M ELLIOTT
MR RHODES
MR A M GOODENOUGH
Mr Westworth

D.O.T.

PLUS OGDS

Mr Alexander N:10

H M TREASURY

SIR K COUZENS
MR ASHFORD

*Mr Hancock
Mr Donovan
P/danellor
K/Sir*

M.A.F.F.

SIR B HAYES

Mr. Smith

RESTRICTED

FRAME ECONOMIC

DESKBY 230830Z

FM UKREP BRUSSELS 222350Z DEC 80

TO IMMEDIATE F C O

TELEGRAM NUMBER 5712 OF 22 DECEMBER 1980

INFO ROUTINE BRUSSELS COPENHAGEN RR THE HAGUE ROME DUBLIN PARIS BONN
LUXEMBOURG ATHENS

MEETING OF THE BUDGET COUNCIL

22 DECEMBER 1980

SUMMARY

1. SINCE THE COUNCIL DID NOT REJECT OR MODIFY THE AMENDMENTS WHICH PARLIAMENT HAD MADE TO THE SUPPLEMENTARY BUDGET FOR 1980, THE WAY IS NOW CLEAR FOR PARLIAMENT TO DECLARE IT ADOPTED. PARLIAMENT CAN CONSEQUENTLY ALSO ADOPT THE 1981 BUDGET WHICH IT VOTED ON LAST WEEK. THE UK WAS REPRESENTED BY THE FINANCIAL SECRETARY TO THE TREASURY.

DETAIL

2. THE NINE HOUR DEBATE TURNED ROUND TWO QUESTIONS. FOUR DELEGATIONS - FRANCE GERMANY DENMARK AND BELGIUM - CONSIDERED THAT IN WHAT IT

IMMEDIATE

ADVANCE COPY

DETAIL

2. THE NINE HOUR DEBATE TURNED ROUND TWO QUESTIONS. FOUR DELEGATIONS - FRANCE, GERMANY, DENMARK AND BELGIUM - CONSIDERED THAT IN WHAT IT HAD ADDED TO THE 1980 SUPPLEMENTARY BUDGET, PARLIAMENT HAD ABUSED THE BUDGETARY PROCEDURE, SINCE THE PAYMENT CREDITS WHICH IT HAD VOTED COULD NOT BE SPENT IN THE CURRENT YEAR. THESE DELGATIONS THEREFORE ARGUED IN FAVOUR OF REJECTING THE AMENDMENTS AS ILLEGAL.

3. THE OTHER VIEW, HELD BY THE UK AND ITALY, WAS THAT THE COUNCIL HAD ITSELF ACTED IRREGULARLY BY FAILING TO PROVIDE SUFFICIENT MEANS IN THE 1980 BUDGET TO MEET THE COMMITMENTS ENTERED INTO, NOTABLY ON THE SOCIAL FUND. EVEN IF THERE WAS SOME IRREGULARITY IN WHAT PARLIAMENT HAD DONE - AND THIS WAS A MATTER FOR THE COURT RATHER THAN FOR THE COUNCIL, IT DID NOT RENDER THE SUPPLEMENTARY VOTED BY PARLIAMENT NULL AND VOID. THE COMMISSION, AFTER SOME HESITATION SUPPORTED THIS VIEW.

4. THE SECOND QUESTION WAS WHETHER THE COUNCIL COULD AGREE ON A COMPROMISE, WHICH WOULD BE LEGALLY BEYOND DOUBT AND WHICH COULD BE ACCEPTABLE TO PARLIAMENT. ON THIS THE CHAIR PRODUCED A NEW ATTEMPT WHICH WOULD HAVE, IN SIMPLE TERMS, HELD THE 1980 SUPPLEMENTARY BUDGET AT THE LEVEL ORIGINALLY PROPOSED BY THE COMMISSION (140. MEUA), AND WOULD HAVE UNDERTAKEN TO SEND TO PARLIAMENT A 1981 SUPPLEMENTARY MAKING UP THE DIFFERENCE. THIS WAS REJECTED BY THE FRENCH AND GERMANS, WORKING TOGETHER, AND JOINED BY OTHER DELEGATIONS. MR LAWSON SAID THAT ALTHOUGH HE CONSIDERED THAT THE TIME FOR COMPROMISE HAD PASSED, HE COULD HAVE CONSIDERED THE PRESIDENCY'S PROPOSAL IF IT HAD STOOD ANY CHANCE.

5. ALTERNATIVE COMPROMISES FARED NO BETTER. THEY RANGED FROM GOING BACK TO THE POSITION THE COUNCIL HAD TAKEN AT ITS MEETING LAST WEEK TO AN IDEA THAT THE REFERENCE TO A 1981 SUPPLEMENTARY NEED NOT BE QUANTIFIED, BUT SHOULD BE IN THE FORM OF AN UNDERTAKING TO ENSURE THAT THE COMMISSION WAS GIVEN THE MEANS TO MEET THE COMMITMENTS IT WOULD HAVE ENTERED INTO. ALL SUCH PROPOSALS FAILED TO COMMAND THE QUALIFIED MAJORITY NEEDED TO SECURE THEIR ADOPTION.

6. PAPON (FRANCE) HAD DIFFICULT HAND TO PLAY, AND SHOWED THAT HE KNEW IT. HE WANTED TO ARGUE THAT SINCE THE PARLIAMENT HAD PLACED ITSELF OUTSIDE THE BUDGET PROCEDURE, ITS AMENDMENTS COULD NOT BE CONSIDERED. HE COULD NOT THEREFORE COUNTENANCE A NORMAL COUNCIL BUDGETARY DECISION BY VOTE. ON THE OTHER HAND, HE WOULD HAVE LIKED TO INVOKE THE LUXEMBOURG COMPROMISE ON VOTING IN ORDER TO PROTECT FRENCH ESSENTIAL INTERESTS.

IN THE EVENT HE REFERRED ONCE TO THESE INTERESTS IN THE LANGUAGE USED BY DELEGATIONS WHICH INVOKE THE LUXEMBOURG COMPROMISE, BUT

BUDGETARY DECISION BY VOTE. ON THE OTHER HAND, HE WOULD
TO INVOKE THE LUXEMBOURG COMPROMISE ON VOTING IN ORDER TO PROTECT
FRENCH ESSENTIAL INTERESTS.

IN THE EVENT HE REFERRED ONCE TO THESE INTERESTS IN THE LANGUAGE USED
BY DELEGATIONS WHICH INVOKE THE LUXEMBOURG COMPROMISE, BUT
DECIDED THAT HE WAS ON BETTER GROUND IN CONTESTING THE LEGALITY OF
PARLIAMENT'S AMENDMENTS. HE ALSO REALISED THAT WHATEVER THE COUNCIL
MIGHT DO, PARLIAMENT HAD THE LAST WORD AND COULD RESTORE ANYTHING
THAT THE COUNCIL MIGHT REMOVE. DESPITE SOME MUTTERING BY THE
ITALIANS ABOUT THE NEED TO REACH A DECISION BY VOTE, THE CHAIRMAN
PROCEEDED WITHOUT ONE. THE FRENCH TACTICS LENT THEMSELVES TO HIS
APPROACH AND ACCORDINGLY THE LUXEMBOURG COMPROMISE WAS NOT (REPEAT
NOT) INVOKED.

7. WHEN ALL COMPROMISES WITH NUMBERS OR DECLARATIONS OF INTENT
HAD BEEN EXHAUSTED, THE CHAIR ASKED WHAT HE WAS NOW TO SAY TO
PARLIAMENT. THE ANSWER CAME AS THE FOLLOWING AGREED CONCLUSION:
QUOTE SINCE THE AMENDMENTS PROPOSED BY THE PARLIAMENT CONSTITUTE
ACCORDING TO A CERTAIN NUMBER OF DELEGATIONS A MISUSE (DETOURNEMENT)
OF THE BUDGETARY PROCEDURE, THE COUNCIL HAS NOT BEEN ABLE TO PRO-
NOUNCE ON THEM UNQUOTE. WITH THIS THERE IS A UNILATERAL STATEMENT BY
THE UK THAT IT IS NOT ONE OF THE DELEGATIONS REFERRED TO AND AN
ANGLO-ITALIAN STATEMENT THAT IN THE COURSE OF THE COUNCIL MEETING
TO CONSIDER THE AMENDMENTS MADE BY PARLIAMENT TO SUPPLEMENTARY
BUDGET NO 2 OF 1980 NO MAJORITY WAS FOUND TO REJECT OR AMEND
PARLIAMENT'S AMENDMENTS.

8. UNDER ARTICLE 203(6) OF THE EEC TREATY THE AMENDMENTS MADE BY
PARLIAMENT THUS STAND AND THE PARLIAMENT CAN PROCEED TO ADOPT
BOTH THE 1980 SUPPLEMENTARY AND THE BUDGET FOR 1981, AFTER THE 15
DAYS REFERRED TO IN THE ARTICLE. THIS WAS CONFIRMED BY THE COUNCIL'S
LEGAL ADVISER.

9. AS A CODICIL, MR LAWSON SAID THAT THE COUNCIL MUST MAKE EVERY
EFFORT TO AVOID SITUATIONS OF THE KIND IN WHICH IT HAD FOUND ITSELF
AND THAT THE UK WOULD PRESS FOR URGENT REVIEW OF THE BUDGETARY
PROCEDURE, ESPECIALLY AS REGARDS THE ADOPTION OF SUPPLEMENTARY
BUDGETS.

10. IT LOOKS AS IF A NUMBER OF THE DELEGATIONS WHO CONTEST THE
LEGALITY OF THE PARLIAMENT'S AMENDMENTS MAY REFUSE TO PAY THE
ADDITIONAL CONTRIBUTIONS REQUIRED. BUT THIS WAS NOT RAISED IN
THE COUNCIL ITSELF AND IT WOULD NOT IN ANY CASE PREVENT THE COMMISSION
EXECUTING THE BUDGETS AS ADOPTED.

11. FULLER REPORT TO FOLLOW.

ADDITIONAL CONTRIBUTIONS REQUIRED, BUT THIS WAS NOT RAISED BY
THE COUNCIL ITSELF AND IT WOULD NOT IN ANY CASE PREVENT THE COMMISSION
EXECUTING THE BUDGETS AS ADOPTED.

11. FULLER REPORT TO FOLLOW.

FCO ADVANCE TO: (DESKBY)

FCO - PS/SOFS PS/LPS BRIDGES HANNAY SPRECKLEY MACGREGOR

CAB - FRANKLIN ELLIOTT WENTWORTH

TSY - PS/CHANCELLOR PS/FST HANCOCK ASHFORD DONOVAN

NO 10 - ALEXANDER

NICOLL

NNNN

Ref: A03860


CONFIDENTIAL

MR. ALEXANDER

Guvo Pd
Discussed with P.A. who
agrees that if the French invoked
the Luxembourg compromise no attempt
should be made to override him.
P.O. informed. P.A. Hunt 23/11

Mr. Christopher Tugendhat rang this evening from Brussels.

2. The burden of his message was that it was absolutely essential that the Supplementary Budget should be accepted next week in order that the 1981 Budget can be accepted and could come into effect. If we went into 1981 without the 1981 Budget having been accepted, the Community would be financed on the "douzieme provisoire" system and our special payments would be at risk.
3. There were some signs - from a meeting of Coreper this morning - that the French and Germans were digging in on legal issues. They might question the legality of the whole operation. Mr. Tugendhat said, however, that no legal problem would remain once the Supplementary Budget was passed; and, as the Supplementary Budget was governed by the negative voting procedure, provided that we and the Italians stuck together, we could ensure its passage even if the French and Germans voted against it. It was therefore very important that we and the Italians should stick together and should vote for the Supplementary Budget.
4. Mr. Tugendhat thought that there might be a danger of the French trying to invoke the Luxembourg compromise. It would be outrageous of them to do that on this issue. He thought that it might be desirable for us to make representations to the French Government at a high level - to the Foreign Minister or to the Elysee - with a view to seeking to ensure that that did not happen.
5. Mr. Tugendhat said that he had spoken about this to the Foreign and Commonwealth Secretary, who had indicated that he might raise the matter with M. Francois-Poncet, whom he was by chance seeing today.
6. I am sending a copy of this minute to George Walden. Perhaps we should consider whether there is any further action we should take, on the lines of Mr. Tugendhat's suggestion, when we know the outcome of the Foreign and Commonwealth Secretary's conversation with M. Francois-Poncet.

RAA

(Robert Armstrong)

19th December 1980

WHITE PAPER - DEVELOPMENTS IN THE EUROPEAN COMMUNITY

JANUARY - JUNE 1980

CMND. 8042

It is hoped that Members will find the attached notes, which summarise parts of the White Paper and which describe events in some sectors of the Community over the last six months, of use during the debate to be held on Thursday 18th December, 1980.

<u>Contents</u>	<u>Page</u>
The Conservative Approach	1
The Community Budget and Britain's net contribution	2
Foreign Policy Co-operation	5
Trade and Enlargement	7
Industrial and Social Affairs	11
Agricultural Developments	13
Fisheries Policy	14

Members may also wish to refer to the following more detailed briefs, available upon request from the Research Department:

European Community Developments 1979 (CMND 7780), 30th July 1980 (Ref No: PEAC(80)5)

Draft Community Budget 1981, 27th November, 1980 (Ref No: PEAC(80) 6)

The Community Budget Settlement, 1st July, 1980 (Ref No: PEAC(80) 4)

The Report on the European Institutions by the "Three Wise Men", 9th June, 1980
PEAC(80) 3

Conservative Research Department,
32, Smith Square,
London. SW1

ESCB/RB-C/DM/EMCG

Briefing for Debate on "Development in the European Community January-June 1980"

White Paper (Cmd 8042).

1. The Conservative Approach

Sir Ian Gilmour set out the Government's initial objectives in relation to the Community in his reply speech to the European Affairs debate at the Party Conference when he said:

"When we assumed office we had a number of important objectives. The first was to improve the lamentable state of our relations with our Community partners. The second was to obtain a significant reduction in Britain's net contribution to the Community budget. The third was to improve foreign policy co-operation among member States. I think that we can fairly say that we have achieved all three." (Brighton 9th October 1980)

The Prime Minister outlined the Government's position on the future development of the Community in a speech to the Anglo-French Council meeting in Bordeaux:

"It is my strongest conviction that, in the dangerous world in which we live, cooperation amongst neighbours is essential to the protection of our own most vital interests This is an age of super-powers and superweapons; an age when pressure on the world's resources of food, energy and essential raw materials grows day by day; an age when our democratic systems and cultures are increasingly threatened and derided by those who appreciate the benefits of neither. At such a time and in such a world it is no longer possible for even the greatest European nation to stand wholly on its own. We all know this. It is why France and Britain and the other present and future members of the European Community have resolved, in the words of the Treaty of Rome, to pool their resources to preserve and strengthen peace and liberty, and to ensure the economic and social progress of their countries by common action".

The Prime Minister noted the consensus emerging around the need to reform some of the excesses of the Common Agricultural Policy, and continued:

"This is not enough. We need new initiatives as well. We need policies outside agriculture which will develop the scope for common action and produce a better balance in the way the Community disposes of its resources. We must do this without prejudicing those efforts which national governments and individuals are better able to make. We must do it without a further increase in the bureaucratic regulation by which nowadays we are all too tightly bound - whether at the Community level, the national level, or the level of local government I want to build a solid and weatherproof structure well able to resist the storms which lie ahead".

More recently the Foreign Secretary, Lord Carrington, in a speech entitled "Europe: A Programme for the 1980s" in Hamburg presented a comprehensive picture of the type of European Community that the Government will aim for. He stressed the need, whilst preserving the principles of the Common Agricultural Policy, for expenditure to be redistributed to allow greater Community action in the fields of energy, transport infrastructure, regional and social spending and urban redevelopment.

He added: "For the Government, membership of the Community is fundamental to our foreign policy and increasingly to our domestic policies. We believe that a strong Europe is the best way to achieve a stronger Britain. The more Europe has a voice in the world's affairs, the better Britain's own interests will be served. And the stronger Britain can become the stronger Europe will be". (16th November 1980).

2. The Community Budget and Britain's Net Contribution:

The Italian Presidency of the Council of Ministers, which is the period that the White Paper covers was dominated by the negotiations to find a solution to the problem of Britain's excessive net contribution to the Community Budget. The Community had to operate without a Budget for the first half of 1980 after the European Parliament's rejection of the draft 1980 Budget and the deadlock in the Council over the size of Britain's net contribution.

The Council of Foreign Ministers after a long meeting in Brussels finally reached agreement on a reduction of Britain's contribution, after the possibility of agreement had seemed remote following the breakdown of negotiations at the Luxembourg meeting of the European Council, on 30th May 1980. The mechanism for reducing Britain's net contribution has two main strands: firstly, an amendment to the 1975 Financial Mechanism originally negotiated by the Wilson Government but which had never been brought into play in order to enable the United Kingdom to derive a substantial benefit; secondly under Article 235 of The Treaty of Rome the Community agreed to increase spending in the United Kingdom on measures to encourage economic convergence - such as infrastructure projects in the assisted areas, energy investment and urban renewal.

The main elements of the 30th May Brussels Agreement were:

- (a) There will be a ceiling on the British net contribution for 1980 of £370 million and £440 million for 1981, giving a net rebate over two years of £1,570 million pounds.
- (b) The extra money for Britain will take two forms: an actual rebate through an amendment to the Financial Mechanism negotiated in 1975 of about £350 million a year; and the rest through increased Community spending on projects in Britain mainly under Article 235 of the Treaty of Rome.
- (c) If the Commission's estimates of the British net contribution prove to be inaccurate there are additional risk sharing mechanisms. These entail that in 1980 Britain will bear only one quarter of the cost of any excess. In 1981 a more complex formula exists under which Britain would meet the first £12 million of any excess; the next £60 million being shared equally between Britain and other Community Member States.
- (d) A radical review of the Community's expenditure will be undertaken so that a better balance can be achieved between agricultural and non-agricultural expenditure. A similar review will take place of the methods used to fund the 'own resources' system. The Commission must present their conclusions to the Council by the end of June 1981.
- (e) If major reviews have not been completed by 1982 then a ceiling on the British net contribution will be set in line with the arrangements made for 1980-1.

The Labour Party reaction was predictably carping, conveniently forgetting that it was their neglect that had allowed the net contribution to get so far out of control. Not only did their so-called renegotiation fail, (despite the assurance from Mr. Callaghan as Foreign Secretary that: "In the matter of the budget we made a flat request that Britain's share should be reduced in certain circumstances

Long and arduous negotiations produced a satisfactory result. Britain will not pay less", (Islington 26th April 1975)), but they also failed to promote in the Community new policy areas which would have boosted Community expenditure in the United Kingdom and have balanced the proportion of the Budget taken by agricultural spending.

Mr. Peter Shore, a long-standing anti-Marketeer, and at that time Shadow Foreign Secretary, demanded that the Government should reject the package and the refund. Sir Ian Gilmour, the Lord Privy Seal replied:

"The previous Labour Government achieved absolutely nothing in seeking to reduce our Budget contribution during the five years that it was in power. Its negotiations were a complete waste of time. It wasted the opportunity that we gave it by our transitional arrangements. Yet Mr. Shore has the effrontery to tell us to turn down a refund of £710 million this year and £860 million next year". (Hansard, 2nd June, 1980, Col.1049).

In addition to the agreement on a very substantial reduction in Britain's net contribution, the 30th May Agreement was coupled with an agreement on the 1980 Farm Price Review, which brought a net benefit to Britain. Although the agreed price increases amounted to an increase of 0.7 per cent on food prices in the United Kingdom (or 0.15 per cent on the retail price index) as Sir Ian Gilmour pointed out this increase over a year equalled the same increase in food prices which took place under the Labour Government every two weeks. Further elements of the "package" of items agreed in Brussels were the establishment of a new sheepmeat regime which should bring considerable benefits to British sheep farmers and the target of reaching agreement on a new Common Fisheries Policy by the end of 1980.

Arrangements for the Article 235 Expenditure in the United Kingdom

The arrangements for agreeing the programmes to be financed under the supplementary expenditure were settled by the Council of Ministers on 7th October 1980. For 1980 Britain will receive £280 million from amendments to the Financial Mechanism negotiated in 1975, and £590 million by way of increased Community contributions to the financing of United Kingdom public investment programmes under the "supplementary measures" scheme. 80 per cent of the 1980 refunds will be received by the end of the current financial year and the residue by the autumn of 1981.

The "supplementary measures" regulation provides for Community financial contributions in respect of public sector investment programmes in the United Kingdom chiefly in the assisted regions. The categories of investment eligible for Community support include transport and communications, energy supply, telecommunications, water supply and sewerage, industrial sites, advance factories, and housing and urban renewal programmes.

The British Government will invite Community participation in a range of government and public corporation investment programmes broken down by region and investment category. The rate of Community support, including support from other Community sources, will not exceed 70 per cent for any project. The Commission will then make proposals on the choice of programmes and the amount of Community support for the financial year in question. The Commission's proposals will be considered by an ad hoc committee of Member States and will be adopted unless a qualified majority of the Member States vote for rejection - in which case the Commission's proposals will be submitted to the Council of Ministers where they will automatically be accepted unless a qualified majority is mustered against them at this level. This effectively means that the United Kingdom would in the worst case only have to maintain the support of one of the other large Member States or two smaller ones to be certain of a proposal being accepted if the Commission judged it to be in accordance with the agreed regulation.

The procedure is in line with that used under the Regional Development Fund.

As Sir Ian Gilmour, Lord Privy Seal, said in the House of Commons on 27th October 1980: "This agreement thus gives practical effect to our earlier understanding that we would receive the bulk of the payments due in respect of 1980 during our 1980-81 financial year". (Hansard, Col.100).

Restructuring of the Community Budget

As Lord Carrington explained, although the £1,570 million refund is obviously important in the short-term, the key point of the May 30th Agreement was the decision to have a rigorous review of the balance of policies and expenditure within the Community Budget. He explained the importance of the review in reporting to the House of Lords on 2nd June 1980: "This review offers an opportunity which has never been available before, to work together with our partners for financial arrangements and Community policies which are to the advantage of all Member States as befits a Community of equals". (Hansard, Col.1128).

The outgoing Commission have done preparatory work on the restructuring of the Budget and there is a considerable degree of consensus amongst Member States about the need for a better balance of expenditure, and about the need to prevent any Member State having to bear a disproportionate burden in financing the Community Budget.

The pressure has been increased on the German Government in particular, by the settlement of the British problem, because the 30th May Agreement has left them as by far the longest net contributors. The British, German and French Governments have all expressed their opposition to an increase in the 1 per cent V.A.T. levy ceiling which will also increase the pressure on Member States not to let the restructuring negotiations continue for too long a period, as the "own resources" ceiling is likely to have been reached by the beginning of 1982.

The Foreign Secretary emphasised these points in a speech in Swansea on 18th July 1980:

"The most important part of the agreement reached in Brussels at the end of May is an acceptance that there will have to be a restructuring of the Budget, and consequently amendment to the operation of the Common Agricultural Policy Nobody should underestimate the difficulties of this negotiation. But now that both the German and the French are paying large net contributions to the Community there is an added impetus for all three countries to find a mutually satisfactory solution". (Swansea, 18th July 1980).

Mr. Raymond Barre, the French Prime Minister told the French National Assembly shortly after the Brussels Agreement: "The French Government is well aware that developments in the operation of the CAP call for measures, for revisions, not a revision of the principles - and I stress this - but of the manner in which the policy is operated".

More recently in his opening statement to the Bundestag at the start of his newly re-elected Government's term, Chancellor Schmidt said:

"In European agricultural policy, the Federal Government will, in view of increasing structural surpluses, make vigorous efforts to ensure that the principles of the market economy are realized more fully than has so far been the case. This means a cautious price policy, which must be primarily directed towards re-establishing market equilibrium. It means that surplus production must be reduced by including producers in the financing of surpluses, and it means that the agricultural intervention mechanisms must finally be relaxed in order to regain an equilibrium in the markets.

c. The Middle East

At the meeting of the European Council in Venice on 12-13th June, 1980 the Community launched a major new foreign policy initiative, aimed at sustaining the momentum towards a lasting peace in the Middle East started by the Camp David process. The Prime Minister stressed in her statement to the House of Commons that:

"The diplomatic activity which the Nine will undertake over the next few months is intended to be complementary to the Camp David process on which the United States, Egypt and Israel are still engaged. We hope and believe that in this way the Nine can contribute to the work that will have to be done to prepare for a peace settlement in the Middle East". (Hansard, 16th June 1980, Col.1127).

The European Council's declaration encompasses the following points:

(a) The Community reaffirms its commitment to the U.N. Security Council resolutions 242 and 338.

(b) All the countries in the area are entitled to live in peace within secure frontiers, and the United Nations should be prepared to provide safeguards for all participants in the peace process: "The Nine declare that they are prepared to participate within the framework of a comprehensive settlement in a system of concrete and binding international guarantees, including on the ground".

(c) As a prerequisite to a peaceful long-term solution, it is necessary for all parties to renounce the use of force.

(d) The Community recognises the special status of Jerusalem and insists that any settlement must include freedom of access for people of all religions to the Holy Places.

(e) The Palestine Liberation Organisation must be associated with any peace negotiations.

(f) Israel must end its territorial occupation of areas captured during the 1967 war. The Declaration also states: "They (the Nine) are deeply convinced that the Israeli settlements constitute a serious obstacle to the peace process in the Middle East. The Nine considers that these settlements as well as modifications in population and property in the occupied Arab territories, are illegal under international law".

(g) The Palestinian people should be allowed to exercise fully their right of self-determination.

Following the Venice Declaration, Mr. Gaston Thorn Foreign Minister of Luxembourg (Luxembourg held the Council Presidency through the second half of 1980) carried out a large number of bilateral consultations throughout the Middle East, and reported back to the European Council meeting in Luxembourg on 1st-2nd December. In her statement to the House of Commons following this meeting, the Prime Minister explained the immediate objectives of the initiative:

"We have talked of security behind certain well-established borders. We have talked about withdrawal. We have talked about self-determination. No one has worked out precisely how these could come about if we were to get agreement. That work can be done by contact between the parties in the next few months.

That was our objective. This will mean that we no longer talk in generalisations but know how the things that we are talking about could be brought into effect.... In the Venice statement, we said that there should also be contacts with the PLO as it was one of the factors in the settlement and, ultimately, if any settlement was to stick, the PLO would have to be associated with it. I believe that this still makes good sense. We want a full, complete settlement in the Middle East. We must therefore work towards one which would provide a satisfactory solution for the legitimate rights of the Palestinian people. None of us would recognise the PLO as the sole representative of those people". (Hansard, 3rd December 1980 Col. 407-8).

It now seems probable that the Middle East initiative will reach its critical stage when the Presidency of the Council passes to the United Kingdom on 1st July 1981.

d. The Future of Foreign Policy Co-operation:

The Community is still slow in reacting to world events, and political co-operation often suffers from a lack of continuity and consistency, particularly at the six monthly intervals when the Council Presidency changes hands. Mr. Douglas Hurd, MP Minister of State, Foreign and Commonwealth Office, floated the idea of establishing procedures for increasing the speed with which the Community Member States can coordinate their responses, and of establishing a small permanent Secretariat to service foreign policy co-operation in Oxford on 14th August 1980.

In his Hamburg speech, the Foreign Secretary elaborated upon the proposals outlined by Mr. Hurd

"For all the remarkable progress that has been made in the 10 years since European political cooperation began, I do not think we can yet rest satisfied with the results. If, one day, we are going to have a European foreign policy, we shall have to do more. The first thing that I think we must do is to re-examine our political commitment to cooperation on foreign policy. We must try to find ways of cooperating more closely and of committing a greater part of our national diplomatic efforts to the furthering of Europe's common objectives. Secondly, I believe that we have to try to organise ourselves better. I do not deny the achievements of political cooperation so far, but we cannot afford to go on for ever with the ad hoc methods and improvised organisation that we have at present. I have no doubt that political cooperation must have the support of an experienced foreign policy staff, perhaps seconded temporarily from Member States, which would enable it to give a stronger lead to the Community. This staff need not be large in number but they will need to be of high quality.

Speed of reaction is important; so is a solid but adaptable organisation, most important of all is our political commitment to consultation, cooperation and joint action. The Foreign Ministers of the Community agreed recently that they would re-examine the machinery of political cooperation. This was an important decision and it gives us an important opportunity." (16th November 1980)

4. Trade and Enlargement

a. United Kingdom trade with the Community

The European Community accounts for 17 per cent of world trade (37 per cent if intra-Community trade is included) compared with 14 per cent for the United States and 2 per cent for the Soviet Union. United Kingdom trade with the rest of the Community has risen from 29 per cent of our total trade in 1972 to over 42 per cent in 1979.

From 1973-75, British industry proved unable to respond effectively to European competition and in 1975 the export/import ratio slumped to a low point of 70. By the end of 1979 this had recovered to 86, and in the first ten months of 1980 visible exports to the Eight covered almost 98 per cent of imports. In 1979, exports from the United Kingdom to the rest of the world rose by 8 per cent and imports by 17 per cent, compared to a 30 per cent increase in imports and a 25 per cent increase in imports to and from the Community.

<u>UK Trade with rest of EEC</u>			
Year	Exports (£ billion)	Imports (£ billion)	Percentage of Imports covered by Exports
1973	3.7	5.1	73
1974	5.4	7.6	71
1975	6.1	8.7	70
1976	8.8	11.1	79
1977	11.4	13.5	85
1978	13.0	15.8	83
1979	17.0	19.8	86
*1980	12.4	13.0	95
*First 8 months		(Source: Balance of Payments)	

Although exports of North Sea oil have been a factor in improving the balance of trade, even if oil is ignored British exports to the EEC increased by 22 per cent in 1979 compared with a growth of only 5.5 per cent for exports to the rest of the world.

b. Technical Barriers to Trade

Progress in dismantling non-tariff barriers to trade between Community Member States have been slow, although 108 directives had been adopted by 1st July 1980 as part of the programme to eliminate technical barriers. Work is in hand on about another 150. The European Parliament has been particularly active in trying to accelerate the procedures for eliminating NTBs.

On 18th July, 1980 Commissioner Davignon outlined a new Commission approach for getting rid of technical barriers, using the ruling of the Court of Justice in the "Cassis de Dijon" case. In the ruling, the Court said that any product that was legally manufactured and marketed in one Member State must, in theory, be admitted onto the market of another Member State. The only exceptions to this would be those mentioned in the Treaty itself on the grounds of protecting consumers' health and public safety etc. The Commission therefore argues that for most goods it should no longer be necessary to establish "EEC standards" in order to ensure that products can move freely between Community countries. Complementary to this, the Commission is proposing that Member States should improve their present means of publicising standards and technical regulations that would suddenly prevent goods from other Member States entering its market without adequate discussion within the Community. The Commission is therefore proposing that a Committee of representatives from the Nine should be set up, presided over by the Commission which would be responsible for considering national plans to introduce new technical regulations well in advance.

The Government are particularly anxious to break down the many barriers within the Community in the field of freedom of establishment for services, such as insurance, where Britain has maintained her competitiveness. At present certain Member States, notably West Germany, deny policy-holders the freedom to take out insurance elsewhere in the EEC. Removal of restrictions would be of particular benefit to the UK, whose insurance market is the largest and most efficient in the world. As Mr Cecil Parkinson Minister of Trade, has said: "The common market in goods which has very largely been created should quickly be complemented by similar freedom of trade in services, a sector of great importance to the United Kingdom economy" (London, 17th September 1980).

c. Trade with Japan

As the recession bites deeper in Western Europe the Community has been taking a more united and robust attitude to the aggressive marketing techniques used by the Japanese. At the six monthly Commission-Japanese High Level Consultations in Tokyo in May attention was drawn to the dangers created by the worsening Community deficit in trade with Japan. Amongst the most serious complaints that have been made against Japan are that she is alleged to operate technical and psychological barriers against foreign exports in her home market, and that the value of the yen has been deliberately depressed.

A number of bilateral trading arrangements have been concluded between individual Member States and Japan in recent years, but these have only had limited success in stemming the increase in the Community's trade deficit. A recent example of the Japanese export onslaught in the automobile sector is a 46 per cent increase in car exports to the Federal Republic of Germany, in the first eight months of this year. This has brought Japan's share of the German car market up from 3.7 per cent in 1978 to 14 per cent in August, 1980.

Mr Christopher Tugendhat, the British Budget Commissioner, speaking at an Institute of Directors Conference in London, emphasised the Community's power in trading negotiations and particularly in relation to Japan.

"The strength of the Community helps prevent a slide into protectionism and the disruption which would follow, with serious consequences for a country such as the UK where one in three jobs depends on overseas trade... When it is necessary for us to take limited and temporary measures to assist industries in difficulty, or to fight dumping, the fact that the measures are now taken by the Community as a whole moderates any retaliation by other countries. If we look at trade with Japan we can see that it is only now, when the Community as a whole is taking a common approach and insisting on the need for the Japanese market to be opened up to European exports, that the Japanese are becoming seriously concerned" (17th November 1980).

The Council of Foreign Ministers meeting on 25th November 1980 authorised the Commission to open a dialogue with the Japanese Government. They issued general guidelines for the Commission, which were considerably tightened by the intervention of the British Government. The statement which they issued underlines that for the first time individual member states are prepared to take part in a common strategy, and are prepared to forego existing bilateral arrangements once Community level negotiations with Japan have borne fruit.

The key points of the Council's statement were:-

"The Council considers that Japanese competition by its nature and the extent of the effort behind it and by its concentration on a small number of particularly sensitive sectors leads to an imbalance which places a strain on the normal development of international trade. The Commission, in conjunction with the Member States should undertake a detailed analysis of the concentration

of Japanese exports to the Community".

In order to facilitate a wide-ranging dialogue on industrial and trade development with Japan the Council outlined a number of developments which they consider essential:

- i) "In the sectors where a continued increase in Japanese exports to the European Community would lead to difficulties there needs to be effective moderation designed to produce early and tangible results. This should apply towards the European Community as a whole and not only to certain markets."
- ii) "There should be no new measures on the part of the Japanese authorities to restrict imports. Indeed there should be a clear commitment on the part of the Japanese Government to a substantial and early increase in the imports of Community products."

The declaration stressed the need for European action in the field of industrial restructuring in order to make European firms better able to meet Japanese competition and able to secure "greater involvement in the Japanese market". The Council also emphasised that once trading relations have been stabilised there is a considerable scope within a new dialogue for exploration of closer industrial co-operation, the transfer of technology and for more joint ventures.

Sir Ian Gilmour, reported to the House of Commons on 26th November:-

"The Council discussed relations with Japan and issued a statement expressing its serious concern at the present state of trade between Japan and the Community. It called for a wide-ranging dialogue with Japan based on a common strategy and made clear its view that in order to promote such a dialogue a number of developments would be essential. These include effective moderation in Japanese exports in sensitive sectors, and a clear commitment on the part of the Japanese Government to a substantial and early increase in imports of Community products". (Hansard, cols. 165-166)

d. Enlargement

A treaty of Accession was signed with Greece during 1979, and she will become the tenth member of the European Community on 1st January. Mrs Margaret Thatcher visited Greece on 22nd - 23rd September 1980 during which time she expressed the pleasure of the Government at Greek Accession, attempted to boost British exports to Greece and asked the Greek Government to agree to a swift reintegration of Greece into the NATO integrated command structure (Greece agreed to this on 19th October 1980).

Negotiations have continued with a view to Portuguese accession to the Community by 1st January 1983, and the Council of Ministers agreed to grant pre-accession aid to Portugal to assist her in implementing measures to adapt her economy to make an easier transition to membership. (For briefing on both Portugal and Greece, see "Politics Today" No 22 1980. International Review)

Because of the difficulties of absorbing Spain, certainly before the negotiations on restructuring the Community Budget have been completed, it is now widely expected that she will not accede to the Community until 1984 at the earliest. Of the three applicant countries Spain poses the most problems, in having large agricultural and fishing sectors and considerable modern capacity in industries such as cars, steel and textiles where the other Community Member States already have excess capacity. When visiting Madrid in July, Mr Peter Walker said:

"The 1980 could be a dangerous decade for Western Europe; dangerous in terms of raw materials and energy problems; dangerous in terms of the competition

from newly emerging economies in the Far East and elsewhere; and, in the wake of Afghanistan perhaps dangerous in terms of military threat. If at the commencement of such a decade, existing members of the Community should show any hesitancy towards enlarging the Community with the members of the European democracies eager to join, it would be a sad reflection upon the vision and leadership of the Community itself" (14th July, 1980).

5. Industrial and Social Affairs

Unemployment is a problem throughout the Community. At the end of September 1980 the number of registered unemployed in the Community was 7.1 million, equivalent to an unemployment rate of 6.5 per cent. The European Council meeting in Luxembourg discussed the problem and rejected reflation as a case, they did, however, express considerable disquiet about European industry falling behind the Americans and Japanese in many high-technology fields. The Council agreed three methods for improving the economic performance of the Community, which were subsequently outlined by the Prime Minister:

"There is the expansion of trade, the whole of Europe has fallen behind in its attitude to innovation and technological change, and that is why others have got the trade and we have not.... There is the second matter of relief for existing unemployment, and that is dealt with by the Community instruments, particularly the Social Fund and the Regional Fund. There is the third matter of seeing that we get a due and proper share of world trade on free and fair terms." (Hansard, col. 403-4).

a) Regional and Social Funds

Up to October 30th, the United Kingdom had received £134.5 million from the Social Fund in 1980, bringing our total benefit from the Fund since 1973 to £537 million. In 1980, 39 per cent of the Social Fund is being allocated to projects to combat youth unemployment (of which money the United Kingdom will receive 31 per cent), and 52 per cent is being allocated to the less developed regions including retraining grants and help for the rehabilitation of the handicapped.

Up to September 30th, the United Kingdom had received £145 million under the Regional Fund in 1980, bringing total receipts for the UK from the Fund to £558 million since it began operation in 1975.

b) Steel Crisis:

On the 30th October the Council of Ministers declared the European steel industry to be in a state of "manifest crisis". This resulted from over-production by European manufacturers at the time of an influx of cheap steel from low-cost countries. There had been substantial price-cutting which threatened to undermine the entire Community industry.

In 1977 the Community launched the "Davignon Plan" which aimed to put voluntary ceiling upon production capacities and established compulsory minimum prices for certain sensitive products. These voluntary guidelines, however, proved an insufficient response once price-cutting began on a large scale. Accordingly, the Commission moved to take action for the first time under Article 58 of the Treaty of Paris, which established production quotas for steel. Because of pressure from the German Government a number of special steels will be exempt from the quotas. These exemptions cover steel for the manufacture of tubes, railway lines and tin plate. However, the quotas apply to the four main categories of rolled steel products: coil and strip rolled on special mills; heavy plate and universal plate; heavy sections and light sections.

ne problems of the British Steel Corporation are particularly acute, and whilst the Government recognises that ultimately the solution to the BSC's difficulties lie in increasing productivity and competitiveness, it is also convinced that the rationalisation of the industry can only take place in an orderly market. Hence, believing that an orderly market can only be created on a European level, Mr Adam Butler Minister of State for Industry, took a lead in pressing for firm action at a Community level.

On the 3rd November 1980 the European Commission announced details of the quotas, the effect of which will be to hold output to 14.2 per cent below that achieved during the same period of 1979. The quota system will last until June 1981, and in the intervening period Member States are expected to make further progress in the restructuring of their steel industries.

AGRICULTURAL DEVELOPMENTS

EEC Agriculture Price Review 1980-1

Overshadowing the annual price negotiations for market support in the agricultural sector in 1980-1 was the crucial question of Britain's excessive net contributions to the European Community Budget. Agricultural expenditure as a percentage of the total EEC Budget has grown considerably since we joined the Community in 1973. Today it accounts for nearly 80 per cent. Over 40 per cent of the total Budget is used in the support of surplus food production, none of which occurs in Britain. It was, therefore, natural that there should be a link between the two issues. Indeed, the Labour Party saw the problem of our Budget contributions in a similar light: "I repeat very strongly that we shall support the Prime Minister in not giving way on the agricultural price freeze until the budgetary issue is settled" (Mr. Callaghan, Hansard, 29th April 1980, Col. 1154).

The agreement reached by the Community's Foreign Affairs Council on our future contributions to the EEC Budget meant that the agreement on an agricultural package covering common prices and related measures and also sheepmeat, reached by the Agricultural Council on 30th May 1980, would automatically be confirmed.

The final settlement that was reached on 30th May 1980 consisted of the following changes for the 1980-1 marketing year (France and Italy had already agreed to changes in their Green currencies at a previous meeting). The overall average increase in support prices was about 5 per cent in a full year.

The impact of the agreement on food prices will be about 0.7 per cent when all the effects have worked through. This is equivalent to 0.15 per cent in the retail prices index.

EEC Sheepmeat Regime

On 30th September 1980, agreement was reached in the Council of Agricultural Ministers' meeting on 28th-30th May 1980, with the provision that the lamb regime should start on 1st October only if satisfactory arrangements had been made with third countries on their exports to the Community. The final agreement was reached after much vacillation by France and Ireland during the summer over tonnages and the proposed cut in the levy imposed on New Zealand imports. As a result of the agreement, France now has an intervention system for lamb, Ireland has headage payments, and the United Kingdom continues with her guaranteed prices system, now totally financed by the Community. The system operating in the UK is similar to the old system of deficiency payments.

Mr. Peter Walker, Minister of Agriculture, Fisheries and Food, said of the agreement: "The regime will ... bring substantial benefits to the United Kingdom agricultural industry from Community funds rising to £100 million per year by the fourth year. Producer returns will be substantially improved, but in a way which will not increase the price to the housewife. It also safeguards New Zealand's position in the United Kingdom and other Community markets on terms which are acceptable to the New Zealand Government. There will be an annual quota for New Zealand lamb of 234,000 tonnes, a figure greater than their average exports during the last four years. The tariff on New Zealand lamb will be halved" (London, 1st October 1980).

One effect of this agreement has been an immediate increase in producers' guaranteed returns of about 9 per cent. This will rise to an increase in the guarantee price of nearly 16 per cent in the full year, over and above the 11 per cent farmers received from the Government earlier in the year.

The original arrangement, whereby the EEC subsidy payable in the United Kingdom is clawed back on exports, has been modified after considerable pressure from Peter Walker. Exporters do not now require to pay back the subsidy to the Community on trade with third countries.

FISHERIES POLICY

Since 1976, when the European Community Member States extended their national fishing zones, there have been strenuous efforts to create a Common Fisheries Policy, which would conserve the resources in Community waters, respect national interests and ensure a secure future for Europe's fishermen.

The Labour Government stalled continuously during the negotiation to the extent that when the Conservative Party took over, the other eight Member States had agreed a common stand-point for the reform of the Common Fisheries Policy.

The crucial issues on quotas and access are still to be resolved and by the time that this debate takes place, it is hoped that some progress will have been made on 15th and 16th December towards an agreed solution.

Conservation

On 29th September 1980 the Council of Fisheries Ministers took a major step forward in reforming the Common Fisheries Policy (CFP). Agreement was reached on a Community conservation regime, which would protect stocks until the end of December 1980, while discussions continued on other aspects of revision of the CFP. The agreement included a settlement of the Norway Pout Box dispute between Denmark and the United Kingdom and will give very nearly as much protection for stocks of immature white fish as under previous national measures.

The new regime also included many other technical measures concerning fish conservation. New minimum sizes for fishing nets used to catch prawns and whitefish have been increased as follows: whitefish (80 mm to be increased to 90 mm in two years' time); crawfish (60 mm); shrimp (16 mm for some types); mackerel (32 mm). By-catches (fish caught that were not intended to be caught) were limited to 10 per cent in general and restrictions were imposed on the use of some types of boat sound devices. The Council agreed that the existing United Kingdom national measures restricting the size of beams on beam trawlers, which are particularly important to fishermen on the South Coast, should continue unchanged. As Mr. Walker said: "Overall, it represents a major step forward in the search for a revised Common Fisheries Policy" (Brussels, 30th September 1980).

Catch Reporting and Recording

At the Council of Fisheries Ministers' meeting in Luxembourg on 28th October 1980, agreement was reached on the methods to be used for recording and reporting the quantity, species and origin of fish

caught within the European Community's 200-mile limits. This agreement was essential in order to ensure that quotas and conservation rules were obeyed by all Community fishermen.

Mr. Walker made the agreement conditional on the European Commission producing before the end of the year a paper showing how it intends to ensure that the catch control procedures are being equally applied by all Member States. He also secured the Commission's agreement that the question of access to Member States' waters would be linked to the negotiations on quotas. These took place at the Council's meeting on 17th and 18th November 1980, where Britain was offered an increased share (approximately 35.2 per cent) of the total allowable catch for the Community in the seven most valuable species of fish, namely cod, haddock, whiting, coley, plaice, mackerel and redfish. However, agreement was not reached on either the quotas or the question of access to Member States' waters, in particular on the demands for exclusive 12-mile limits in coastal waters. The Council of Ministers is to continue bilateral negotiations pending another full Council meeting in December.



GWA Pd.
Treasury Chambers
Parliament Street
London SW1P 3AG

18 December 1980

R E S Prescott Esq
PS/Paymaster General
Privy Council Office
Whitehall
London SW1A 2AT

NBPA

Paul

Dear Mr Prescott,

EC BUDGET REFUNDS

ANNOUNCEMENT OF FIRST INSTALMENT

After long and difficult debate, the European Parliament finally agreed at a late hour yesterday evening to the open transfer needed to finance the first instalment of our budget refunds, and the Commission reached its decision late this afternoon. The Treasury has thus been able to announce this evening that the UK will receive £97.6 million in the form of advance payments under the "supplementary measures" scheme before the end of December. A written answer by the Financial Secretary, with a similar text, will appear in Hansard for today.

I am enclosing with this letter -

- a. a copy of the Treasury Press Notice, as issued, and
- b. a list of the figures which can now be inserted in the supplementary briefing material circulated with the Financial Secretary's letter of 16 December.

I am copying this letter to the Private Secretaries of the recipients of the Financial Secretary's letter of 16 December, and to the Private Secretary to the Secretary of State for Energy.

Yours sincerely,
Roy Westwater

R G WESTWATER
Assistant Private Secretary



H. M. TREASURY

Parliament Street, London SW1P 3AG, Press Office: 01-233-3415
Telex 262405

RESTRICTED
(until release, then UNCLASSIFIED)

18 December 1980

EUROPEAN COMMUNITY BUDGET REFUNDS

ADVANCE PAYMENTS TO THE UK UNDER THE "SUPPLEMENTARY MEASURES" SCHEME

The Commission has today taken its first decisions on payments of budget refunds to the United Kingdom. The United Kingdom will receive £97.6 million in the form of advance payments under the "supplementary measures" scheme before the end of December.

2. The total amounts of the United Kingdom's refunds were agreed by the Council on 30 May. These refunds are to take the form of payments under the amended financial mechanism and the "supplementary measures" scheme, the Regulations for which were formally adopted on 27 October.

3. The latest decisions in Brussels have two components. First, it is agreed that the Community should contribute the sums shown in the table below in respect of the current year's investment programmes by central government and public corporation spending authorities in the North West and Wales. The percentage figures show the Community contribution as a proportion of total estimated expenditure in the current year on the programmes concerned.

Community contributions in respect of UK public expenditure programmes 1980-81

	<u>North West</u>		<u>Wales</u>	
	<u>£M</u>	<u>%</u>	<u>£M</u>	<u>%</u>
Roads	15.9	30	24.6	30
Rail	12.0	30	6.0	30
Water and sewerage	15.6	30	9.3	30
Advance factories	0.8	20	14.2	20
Telecommunications	48.6	30	30.3	30
Total	92.9		84.4	

4. Second, it is agreed that £97.6 million of the Community contributions now approved will be made available in the form of advance payments to the United Kingdom before the end of December. The bulk of the receipts estimated due to us under the scheme in respect of the 1980 budget will follow between the end of December and the end of March. The Commission is expected to decide in that period on the amounts of the Community contributions in respect of the investment programmes of central government and public corporation spending authorities in other areas of the United Kingdom, in particular Scotland, Northern Ireland, the North, Yorkshire and Humberside and the South West.

5. The refunds from the Community, of which the advance payments announced today are the first instalment, are enabling public expenditure programmes generally in the United Kingdom to be sustained at levels higher than the country could otherwise have afforded. Expenditure programmes throughout the country are benefiting accordingly. The refunds do not, however, open the way to increases in domestic expenditure programmes beyond the levels already planned. These planned levels were set on the assumption that substantial refunds would be received from the Community budget.

6. Projects which form part of the programmes in Wales now attracting support from the Community budget include construction of the M4 (Bridgend Northern By-pass), the A40 (Raglan to Abergavenny), the A55 (diversion East of Abergele) and the Queensferry Sewerage Works Extension and Wye Abstraction Schemes. Community support will also be linked to the programme of rail investment in Wales, covering the reconstruction and improvement of track, signalling, depots and stations; the modernisation and extension of the telecommunications service in Wales; and the advance factory building programme, which is spread over both industrial and rural Wales with a concentration in the former to help alleviate the effects of the restructuring of the steel industry

7. A summary of the programmes in Wales put forward by the United Kingdom for Community support is available on request from the Information Division, Welsh Office, New Crown Building, Cathays Park, Cardiff, CF1 3NQ.

8. Projects which form part of the programmes in the North West region now attracting support from the Community budget include several motorway schemes which form part of the Manchester Outer Ring Road, the top priority road in the region; the covering of reservoirs and provision of new treatment facilities at Prescot, Liverpool; and the Manchester/Davyhulme sludge digestion scheme. The Community is also supporting an extensive programme of investment to improve the rail network in the North West, which includes many projects for track reconstruction and modernisation of signalling; telecommunications investment in the region, including the provision of a number of new telephone exchanges; and the continuing advance factory building programme of the English Industrial Estates Corporation.

9. A summary of the programmes in the North West put forward by the United Kingdom for Community support is available on request from the North West Regional Offices of the Departments of the Environment, Transport and Industry, Sunley Building, Piccadilly Plaza, Manchester M1 4BE.

10. Summaries of all eight programmes put forward by the United Kingdom for Community support are available on request from the Directorate of Development Plans and Regional Policy 4, Department of the Environment, Becket House, Lambeth Palace Road, London SE1 7ER.

PRESS OFFICE
H M TREASURY
PARLIAMENT STREET
LONDON SW1P 3AG
01-233-3415

203/80

EC BUDGET REFUNDS

ADDENDA TO SUPPLEMENTARY BRIEFING

Answer 3.4. In line 7, insert 'some £98' before 'million'

Answer 3.4. In line 10, insert 'some' before '£' and
'375 ' before million.

Table on p.11. Supplementary measures advance payments:
insert '174 ' in MEUA column and ' 98 ' in
£ million column.

Table on p.11. Supplementary measures main instalment:
insert '616 ' in MEUA column and '375 approx' in
£ million column.

Table on p.11. 2nd footnote: delete '1' and insert '1.78' before EUA.

Answer 6.1. Insert '55' before 'per cent' in second paragraph,
(page 17), lines 2, 4 and 7.

RESTRICTED



17 December 1980

PS/Paymaster General
Privy Council Office
Whitehall
LONDON SW1A 2AT

Tell A. Laffey.

Home

Printing: postponed by 30 mins.

Hg
[Signature]

Dear Mr Prescott

EC BUDGET REFUNDS
PUBLICITY FOR FIRST INSTALMENT

I regret to say that there has been a hitch in Luxembourg since the Financial Secretary sent his letter of yesterday.

The EC Parliament have declined to approve the open transfer within the 1980 Budget which is needed to finance the first instalment of our budget refunds. We still hope to obtain this instalment before the end of the year; but it is now virtually certain that the announcement will slip for a few days.

May I ask you, therefore, to regard the announcement previously scheduled for tomorrow morning as being postponed indefinitely?

The Financial Secretary will write again as soon as a new date for the announcement is known.

I am copying this letter to the Private Secretaries of the recipients of the Financial Secretary's letter of 16 November.

Yours sincerely,
Roy Westwater

R G WESTWATER
Assistant Private Secretary

RESTRICTED

CONFIDENTIAL

cc. Euro P.D.: CAP: Pt 7

Ref. A03834

PRIME MINISTER

Cabinet: Community Affairs

The Chancellor of the Exchequer might be invited to report on the outcome of the Finance Council on 15th December, at which he put up a marker for discussion of CAP expenditure at the Council's next meeting. He will also mention that we expect very shortly to receive the first advance payment under our budget refund. He may also be able to report on discussions between the Council and the European Parliament aimed at getting the 1981 budget adopted.

2. The Lord Privy Seal (who attended) might report on the 15th-16th December Foreign Affairs Council. The Council adopted a useful declaration calling for a fresh Community initiative on United States textiles and the energy price differential; agreed a 13 per cent share of the Regional Fund for Greece, with a satisfactory though reduced share for the United Kingdom; reached agreement on food aid for Poland; and formally nominated the members of the new Commission, though without settling the allocation of Vice-Presidencies.

3. You will want the Minister of Agriculture to report on the 15th-16th December Fisheries Council, which sat through Tuesday night but broke up without agreement mainly because of French intransigence on access. As a result the earlier compromise proposal on quotas was withdrawn, though there remains clear scope for agreement on a 36 per cent share for the United Kingdom if the access problem can be resolved. No date was fixed for the next Fisheries Council, it being left to the Presidency to decide how to take matters forward.

4. The Agriculture Council meets on 18th December to tackle New Zealand butter again; and the Fiscal Council on 22nd December.


ROBERT ARMSTRONG

(approved by Sir R. Armstrong
and signed on his
behalf)

17th December, 1980

CONFIDENTIAL

36% Quotas
Access.



Buro Pol.

Treasury Chambers, Parliament Street, SW1P 3AG

16 December 1980

The Rt Hon Angus Maude TD MP
 Paymaster General
 68 Whitehall
 LONDON
 SW1

cc. Buro Office

Dear Paymaster General,

EC BUDGET
 PUBLICITY FOR FIRST INSTALMENT

... 1. Further to my letter of 10 December, I now enclose a near-final draft of the press notice, together with some supplementary briefing material for use by Ministers and press offices.

Timing of announcement

2. The Commission are now planning to make their announcement on Thursday of this week (18 December) at 11.00 am our time (12 noon Brussels time). This remains subject to confirmation. The reason for the delay is that the task of finding savings elsewhere in the 1980 budget provision to finance our advance payments has taken the Commission longer than expected. We still do not know exactly how much the advance payments will be. We expect to know in the course of tomorrow.

3. Subject to final confirmation of the date and time, we plan to issue the Treasury press notice simultaneously with the Commission's announcement. The near-final draft of the press notice which I am enclosing still lacks figures for the advance payments (see the dots in the margin). We will insert these figures as soon as we know what they are.

4. The Welsh Office, the Central Office of Information (in the North West Region) and the Office of the UK Representative in Brussels will issue copies of the Treasury press notice as well, under a short covering notice. The Treasury press notice will be reproduced, with minor modifications, in a written Parliamentary answer to the question put down by Mr Bruce-Gardyne.

Ministerial coverage

5. If the Thursday announcement is confirmed it would be natural and helpful for Ian Gilmour to mention the first instalment of our refunds in his opening speech in the House of Commons debate on the European Community now arranged for Thursday afternoon. I understand that Ian intends to do just this.

6. A Thursday announcement would also coincide with publication of the report by the Treasury and Civil Service Committee (TCSC) criticising the Government's economic policies. This is unfortunate. But Treasury Ministers may have the opportunity to comment on the first instalment of our refunds when they are questioned (as they are likely to be) about the TCSC report.

Line to take

7. As suggested in my earlier letter, the main points for us to get across are -

- i. the refunds are coming through;
- ii. they are enabling us to maintain public expenditure programmes in general at a higher level than the country could otherwise have afforded;
- iii. they do not, however, open the way to increases in domestic public expenditure programmes beyond the levels already planned.

It will be particularly important to get the third point across as well as the first two. Otherwise, false expectations will be aroused and we shall be criticised later, when these expectations are disappointed.

8. There are a number of tricky points which will require sensitive handling. Examples are the PSBR effects, the position of local authorities and the payment and accounting arrangements. The supplementary briefing for use by Ministers and press offices, which I am circulating with this letter, deals with these among other points. See especially supplementary briefs 5 and 6.

Programme summaries

9. The Treasury is arranging for summaries of the public investment programmes put forward by the UK for Community support under the supplementary measures scheme to be placed in the libraries of the House of Commons and House of Lords. In addition, the press notice states that copies of these summaries are available on request from the Department of the Environment and from Regional Offices in Wales and the North West. Copies of the summaries will be circulated at official level tomorrow to the Departments concerned.

Liaison with Commission and MEPs

10. As noted in Ian Gilmour's letter of 12 December, for which I am grateful, the FCO will be giving copies of the press notice, supplementary briefs 1 and 2 and the programme summaries to the UK offices of the Commission and to MEPs. The UK representatives in Brussels will also be fully briefed to deal with queries received from correspondents in Brussels.

I am copying this letter to those listed on the attached sheet.

Yours sincerely,

Stephen Lodge
(Private Secretary)

NIGEL LAWSON

pp

(Approved by the Financial
Secretary, and signed in
his absence)

DISTRIBUTION OF FINANCIAL SECRETARY'S LETTER OF 16 DECEMBER TO
PAYMASTER GENERAL

Prime Minister
Secretary of State for the Home Department
Chancellor of the Exchequer
Foreign Secretary
Lord Privy Seal
Lord President of the Council
Secretary of State for Industry
Secretary of State for Employment
Minister of Agriculture
Secretary of State for the Environment
Secretary of State for Scotland
Secretary of State for Wales
Secretary of State for Northern Ireland
Secretary of State for Social Services
Minister of Transport
Sir Robert Armstrong



H. M. TREASURY

Parliament Street, London SW1P 3AG, Press Office: 01-233-3415
Telex 262405

RESTRICTED
(until release, then UNCLASSIFIED)

18 December 1980

EUROPEAN COMMUNITY BUDGET REFUNDS

ADVANCE PAYMENTS TO THE UK UNDER THE "SUPPLEMENTARY MEASURES" SCHEME

The Commission has today published its first decisions on payments of budget refunds to the United Kingdom. The United Kingdom will receive £ meua (about £ at today's exchange rate) in the form of advance payments under the "supplementary measures" scheme before the end of December.

2. The total amounts of the United Kingdom's refunds were agreed by the Council on 30 May. These refunds are to take the form of payments under the amended financial mechanism and the "supplementary measures" scheme, the Regulations for which were formally adopted on 27 October.

3. The latest decisions in Brussels have two components. First, it is agreed that the Community should contribute the sums shown in the table below in respect of the current year's investment programmes by central government and public corporation spending authorities in the North West and Wales. The percentage figures show the Community contribution as a proportion of total estimated expenditure in the current year on the programmes concerned.

Community contributions in respect of UK public expenditure programmes 1980-81

	<u>North West</u>		<u>Wales</u>	
	<u>£M</u>	<u>%</u>	<u>£M</u>	<u>%</u>
Roads	15.9	30	24.6	30
Rail	12.0	30	6.0	30
Water and sewerage	15.6	30	9.3	30
Advance factories	0.8	20	14.2	20
Telecommunications	48.6	30	30.3	30
Total	92.9		84.4	

4. Second, it is agreed that £ million of the Community contributions now approved will be made available in the form of advance payments to the United Kingdom before the end of December. The bulk of the receipts estimated due to us under the scheme in respect of the 1980 budget will follow between the end of December and the end of March. The Commission is expected to decide in that period on the amounts of the Community contributions in respect of the investment programmes of central government and public corporation spending authorities in other areas of the United Kingdom, in particular Scotland, Northern Ireland, the North, Yorkshire and Humberside and the South West.
5. The refunds from the Community, of which the advance payments announced today are the first instalment, are enabling public expenditure programmes generally in the United Kingdom to be sustained at levels higher than the country could otherwise have afforded. Expenditure programmes throughout the country are benefiting accordingly. The refunds do not, however, open the way to increases in domestic expenditure programmes beyond the levels already planned. These planned levels were set on the assumption that substantial refunds would be received from the Community budget.
6. Projects which form part of the programmes in Wales now attracting support from the Community budget include construction of the M4 (Bridgend Northern By-pass), the A40 (Raglan to Abergavenny), the A55 (diversion East of Abergele) and the Queensferry Sewerage Works Extension and Wye Abstraction Schemes. Community support will also be linked to the programme of rail investment in Wales, covering the reconstruction and improvement of track, signalling, depots and stations; the modernisation and extension of the telecommunications service in Wales; and the advance factory building programme, which is spread over both industrial and rural Wales with a concentration in the former to help alleviate the effects of the restructuring of the steel industry.
7. A summary of the programmes in Wales put forward by the United Kingdom for Community support is available on request from the Information Division, Welsh Office, New Crown Building, Cathays Park, Cardiff, CF1 3NQ.

8. Projects which form part of the programmes in the North West region now attracting support from the Community budget include several motorway schemes which form part of the Manchester Outer Ring Road, the top priority road in the region; the covering of reservoirs and provision of new treatment facilities at Prescot, Liverpool; and the Manchester/Davyhulme sludge digestion scheme. The Community is also supporting an extensive programme of investment to improve the rail network in the North West, which includes many projects for track reconstruction and modernisation of signalling; telecommunications investment in the region, including the provision of a number of new telephone exchanges; and the continuing advance factory building programme of the English Industrial Estates Corporation.

9. A summary of the programmes in the North West put forward by the United Kingdom for Community support is available on request from the North West Regional Offices of the Departments of the Environment, Transport and Industry, Sunley Building, Piccadilly Plaza, Manchester M1 4BE.

10. Summaries of all eight programmes put forward by the United Kingdom for Community support are available on request from the Directorate of Development Plans and Regional Policy 4, Department of the Environment, Becket House, Lambeth Palace Road, London SE1 7ER.

PRESS OFFICE
H M TREASURY
PARLIAMENT STREET
LONDON SW1P 3AG
01-233-3415

NORTH WEST REGIONAL PROGRAMME

1. ROADS

The programme of roads investment is drawn from the Department of Transport's motorway and trunk road programme. The regional strategy for roads is to concentrate on closing gaps in the basic network and resolving local industrial and environmental problems. The completion of the Manchester Outer Ring Road is the top priority. Four schemes in the programme form part of this road. Also in the programme are new roads in north Cheshire, the M56 and M531, which will not only help the North West Region but will bring benefits to North Wales too.

2. RAIL

The investment in railways is made up of British Rail's investment in fixed assets : it does not include rolling stock. Signalling projects are the largest group of projects in the railways programme in the Region. They will replace old-fashioned semaphore signals with modern electronic signalling. Track reconstruction is another major area of work. The programme also includes improvements to depots and stations, some electrification, and other reconstruction work.

3. WATER AND SEWERAGE

Water and Sewerage services in the region are provided by the North West Water Authority and their agents. Half of the planned investment will be on sewerage, replacing sewers that are now inadequate. The balance will be spent equally on remedying sewage treatment inadequacies and on improving water supply. One major scheme, the covering of reservoirs and provision of new treatment facilities at Prescot, Liverpool, will improve the water supply for about a million people on Merseyside. A second major project is the Manchester/Davyhulme sludge digestion scheme.

4. ADVANCE FACTORIES

The programme includes provision for estimated expenditure in the region of some £4 million by the English Industrial Estates Corporation for the provision of advance factories for industry.

5. TELECOMMUNICATIONS

Considerable investment in Telecommunications is planned in order to meet the more sophisticated requirements of industries new to the area such as mail order businesses and firms providing professional and scientific services. This capital programme is expected to total some £162 million at current prices in 1980/81 and can be broken down as follows:-

	£m 1980/81 Outturn Prices
Exchange Equipment	70
Buildings	29
Local Lines	12
Trunks and Junctions	13
Other (Telex, Telegraphs, Computer equipment, Data services, Terminal apparatus, Motor transport)	38
TOTAL	<hr/> 162 <hr/>

These categories of investment comprise a large number of projects spread throughout the region, with no individual projects predominating. The investment is aimed at modernising and extending the existing telecommunications network to meet the future needs of industrial and domestic subscribers. The replacement of old equipment such as electro-mechanical Strowger exchanges and the introduction of digital exchanges are of particular importance in providing a reliable basis for the new information technologies which will add a new dimension to business communication in the next decade.

6. Will Community support under the supplementary measures scheme have any effect on other Community assistance to the North West?

The Government's intention is that the supplementary measures scheme should not affect the existing scope and operation of other Community instruments such as the European Regional Development Fund.

7. Will the North West derive any benefit from the scheme?

Yes : See paragraph 5 of press notice.

8. Have the Commission declined to support any of the public investment programmes put forward by the UK?

The Commission have not thus far chosen to make financial contributions in respect of the following investment categories included in the programme put forward by HMG for Community support:

	£ million 1980/81
Electricity	164
Gas	49
New Towns	79

9. Will the Government publish the programmes put forward for Community Support?

Summaries of the North West programme are available from the North West Regional Offices of the Departments of the Environment, Transport and Industry, Sunley Building, Piccadilly Plaza, Manchester, M1 4BE.

WELSH PROGRAMME

1. ROADS

The primary aim has been to achieve a major improvement in communications between Wales and its markets to the East through England to the Continent. To this end, emphasis is being given to improving the main East-West routes in both South and North Wales. Examples of this are the M4 Bridgend Northern By-pass, and improvements to the A55 such as the St Asaph-Aber (stage 1) scheme, now the scene of advance works, and the Diversion East of Abergele.

In addition, there are very important road schemes to improve the inadequate communications between population centres in Wales, especially those which have recently experienced rapid job losses in the steel industry, and the strategic East-West routes in Wales or the strategic road network in England. Work is in hand on, for example, the A40 Raglan - Abergavenny Link Road and the A4042 Pontypool/New Inn By-pass.

2. RAIL

Investment in railways is made up of British Rail's investment in fixed assets; it does not include rolling stock. Over half the projects in railway investment programme in Wales are track reconstruction. The other main types of investment are the improvement of stations and depots, signalling and telecommunications.

3. WATER AND SEWERAGE

The provision of adequate water and sewerage facilities is essential for development. Major schemes under way in 1980/81 include for example:-

(a) Wye Abstraction Scheme

The availability and security of water supplies are of major importance to the industrial area of S.E. Wales, where many firms are heavy water users. The Wye Abstraction scheme will make an additional 30m gallons per day (136,380 cubic metres) available in that area by taking water from the River Wye across land to the South West of Monmouth. The estimated total cost of the scheme is nearly £13 million and expenditure during 1980/81 is expected to be over £900,000.

(b) Queensferry Sewerage Works Extension

The River Dee has been affected by the heavy industries of N.E. Wales, and it is proposed to update and expand the treatment facilities at Queensferry and Five Fords.

4. ADVANCE FACTORIES

The Welsh Development Agency and the Development Board for Rural Wales have under construction, or planned to start this financial year, approximately 3.2 million sq ft of factory units ranging in size from nursery ones suitable for a person starting up in business, up to 50,000 sq ft capable of accommodating 200 job opportunities. The bulk of the units are in the range 1,500-10,000 sq ft. A total of 2.4 million sq ft of new buildings are expected to be started during 1980/81, with the majority being constructed in the steel closure areas. Almost 750,000 sq ft will be started in North East Wales in the area affected by the run-down at Shotton, and 1.3 million sq ft in South Wales in the areas affected by de-manning at the Llanwern and Port Talbot steelworks.

5. TELECOMMUNICATIONS

The contraction of traditional heavy industries, the growth of a wider range of manufacturing industries with more sophisticated communications needs and the changing locations of industry in

Wales require substantial investment in telecommunications. This capital programme is expected to total some £101 million at current prices in 1980/81 and can be broken down as follows :-

	£m 1980/81 Outturn Prices
Exchange Equipment	38
Buildings	16
Local Lines	18
Trunks and Junctions	10
Other (Telex, Telegraphs, Computer equipment, Data services, Terminal apparatus, Motor Transport)	19
	<hr/>
TOTAL	101
	<hr/>

These categories of investment comprise a large number of projects spread throughout Wales with no individual projects predominating. The investment is aimed at modernising and extending the existing telecommunications network to meet the future needs of industrial and domestic subscribers. The replacement of old equipment such as electro-mechanical Strowger exchanges and the introduction of digital exchanges are of particular importance in providing a reliable basis for the new information technologies which will add a new dimension to business communication in the next decade.

6. Will Community support under the supplementary measures scheme have any affect on other Community assistance to Wales?

The Government's intention is that the supplementary measures scheme should not affect the existing scope and operation of other Community instruments such as the European Regional Development Fund.

7. Will Wales derive any benefit from the scheme?

Yes : see paragraph 5 of press notice.

8. Have the Commission declined to support any of the public investment programmes put forward by the UK?

The Commission have not thus far chosen to make financial contributions in respect of the following investment categories included in the programmes put forward by HMG for Community support :

	£ million 1980/81
Electricity	90
Gas	39
New Towns	13

9. Will the Government publish the programmes put forward for Community support?

Summaries of the Welsh programme are available from the Information Division, Welsh Office, New Crown Building, Cathays Park, CARDIFF, CF1 3NQ.

DETAILS AND TIMING OF REFUNDS DUE

NOTE: Unless otherwise stated, all EUA figures have been converted into sterling at the exchange rate of 1.65 eua to the £ used in the Lord Privy Seal's statements in the House on 2 June and 27 October.

1. Total refunds due (see table)

The Lord Privy Seal made a full written statement on this in the House on 27 October (WA Cols 96-100).

We expect to receive net refunds of not less than 1175 meua in respect of 1980 and not less than 1410 meua in respect of 1981. (If our unadjusted net contributions exceed those assumed in the 30 May agreement, the refunds due will be higher.) These sums are equivalent to about £710 million and £860 million respectively, when converted at an exchange rate of 1.65 eua to the £.

2. Gross and net refunds (see table)

As explained in the Lord Privy Seal's 27 October statement, we have to contribute towards the financing of our own refunds, as with other Community expenditure. To allow for this, the gross amounts of the payments made to us will exceed the agreed net refunds and will be calculated so as to produce the correct net amounts.

We expect to receive gross payments of the order of £870 million in respect of 1980: £280 million under the amended financial mechanism and £590 million by way of Community contributions under the supplementary measures scheme.

The Commission have not yet calculated what gross payments will be due to us in respect of 1981 in order to provide the agreed amount of net refunds.

3. Timing of refunds (see table)

By the end of the current financial year, we expect to receive 80 per cent of our expected gross entitlement for 1980 under the supplementary measures scheme (some £480 million) and 75 per cent

of our expected gross entitlement under the financial mechanism (some £210 million).

In net terms, after allowing for our contributions to these refunds, we expect to receive some £550 million in 1980-81 and some £650 million in 1981-82. (The relationships between these various figures are complicated by the fact that the timing of the gross refund receipts differs from that of our contributions towards them.)

4. Why so little in 1980?

It was made clear in the 30 May agreement that the amounts due to us would be included in the budget of the following year. However Article 5.2 of the supplementary measures regulation permits the Council, acting by qualified majority, to make advance payments in the actual year to which they relate. As now announced, we are to receive advance payments of

million* before the end of December. The bulk of the refunds due will follow between January and March - some £210 million under the financial mechanism in January and a further £ million under the supplementary measures scheme by 31 March. The precise amounts of these gross refund instalments will depend on the exchange rate at the time.

5. Net contribution after refunds? (see table)

The Government's March 1980 public expenditure White Paper (Cmd 7841) put our net contributions to the European Community at some £1.1 billion in 1980-81 and some £1.2 billion in 1981-82. In the next public expenditure White Paper, the refunds mentioned in answer 3 above will be deducted from these figures. There are also likely to be estimating changes.

[The coverage of the White Paper figures is not identical with that which formed the basis for the 30 May refunds agreement.]

6. Exchange rate

For convenience, this briefing uses the 1.65 eua to the £ exchange rate used in the Lord Privy Seal's 2 June and 27 October statements. A higher exchange rate reduces the sterling value of the refund instalments but tends also to reduce our unadjusted net contribution. There is unlikely to be much effect on our residual net contribution.

*This is a sterling amount.

7. What if Community expenditure hits the 1 per cent VAT ceiling?

That is a Community problem to which a Community solution will have to be found. The Council will need to take action to curb the increase in the expenditures which are causing the problem.

8. Would our refund be cut back?

The 30 May agreement contains precise figures for the refunds due to the UK in respect of 1980 and 1981. Our refund is an obligatory commitment.

9. What about 1982 and the later years?

The Council is committed by the 30 May agreement to finding a solution to the budget problem by means of structural changes by the end of 1981. If a solution has not been agreed in time, the Commission will put forward proposals on the lines of the 1980 and 1981 arrangements and the Council will act accordingly. The Regulations on each of the two refund mechanisms include a reference to the Council's decision on this point.

NET CONTRIBUTIONS TO EC BUDGET AND NEGOTIATED REFUNDS*

	<u>MEUA</u>	<u>£ million</u>
<u>Net contributions as in Cmnd 7841</u>		
1980-81 (at 1979 survey prices)	1750	1060
1981-82 (at 1979 survey prices)	1980	1200
<u>Net refunds</u>		
In respect of 1980	1175	710
In respect of 1981	1410	860
Estimated receipts in 1980-81 (at 1980 survey prices)		550
Estimated receipts in 1981-82 (at 1980 survey prices)		650
<u>Gross refunds in respect of 1980</u> (Supplementary measures)		
.. Advance payments (December 1980)		**
.. Main instalment (Feb/Mar 1981)		
Later instalments (autumn 1981)	185	110
<u>Gross refunds in respect of 1980</u> (Financial mechanism)		
Main instalment (Jan 1981)	350	210
Later instalment (autumn 1981)	115	70

*All MEUA figures have been converted into sterling at an exchange rate of 1.65 ECU to the £, unless stated.

**Actual sterling receipt. Exchange rate used for conversion was 1. ECU to the £.

INVESTMENT PROGRAMMES AND APPROVAL PROCEDURES1. Approval procedures

In accordance with the supplementary measures regulation adopted on 27 October, the British Government invites the Community to participate in the financing of a range of programmes of eligible public sector investments in the UK, broken down by regions and investment category. The Commission proposes a choice of programmes and a level of Community participation in each for the financial year in question. These proposals are considered by an ad hoc committee of member states chaired by a Commission representative and are adopted unless a qualified majority of member states vote for rejection.

2. Why such a complicated procedure? Why not a cheque in favour of the UK?

The procedure is admittedly somewhat complicated. It reflects the outcome of negotiations with other member states and the Commission over a considerable period.

3. What if the ad hoc committee rejects?

The Commission can refer the matter to the Council within a month. If the Council has not taken a new decision within two months of this reference, the Commission's original proposal prevails.

4. Eligible categories of investment

The Council has agreed that the categories of investment eligible for Community support under the regulation should include energy supply, transport and communications, telecommunications, water supply and sewerage, land reclamation, and advance factories. Housing and urban renewal programmes are also eligible where these form an integral part of an economic development programme.

5. Why no local authority programmes?

As explained to local authority associations in August, the Government are inviting Community support in respect of central government and public corporations' investment programmes, not local authority programmes. We are anxious to keep to a minimum the administrative

burden associated with the refunds. It would in the Government's view have been wrong to set up a large administrative apparatus for the scheme, covering a large number of public sector authorities, particularly given its uncertain duration. There is no question of discrimination against local authorities.. (See further supplementary brief 5.1 and 5.2.)

6. UK programmes or Community programmes?

The Community will be contributing to the financing of public expenditure programmes planned by public authorities in the UK and proposed by the Government for Community support. The Government will continue to decide the allocation of public expenditure between individual programmes.

7. Community powers over money once paid over

If a programme departs substantially from the plan originally submitted to the Commission, the Commission may suspend any payments still due and sums already paid may be reallocated to other sub-programmes. In such cases, the money due would not be forfeited but would be applied to another programme. A similar adjustment would be made if it turned out, because of the pattern of expenditure on a programme, that the Community contribution had risen above 70 per cent of the total cost of the programme.

8. Publication of programmes and Commission decisions

The Commission's decisions on the amounts of financial support for each main element in the programmes will be published in due course, as the decisions are taken. Summaries of the programmes submitted by the British Government for Community support under the scheme have been placed in the House of Commons and House of Lords Libraries and are available on request from the addresses given in paragraphs 7-10 of the Press Notice.

9. How are the programmes submitted for Community support affected by the public expenditure changes announced on 24 November?

The UK public expenditure figures shown for 1981/82 and 1982/83 in these programmes are provisional planning figures, based on and very similar to the plans published in the March 1980 public expenditure White Paper, Cmnd 7841. They do not take account of the changes in expenditure programmes announced by the Chancellor of the Exchequer on 24 November 1980, nor of the Government's decisions on public expenditure in 1982/83 to be published in the next public expenditure White Paper. It is not possible to say at this stage to what extent, if at all, the figures will be affected by these changes.

The expenditure figures for all years in these programmes are expressed at estimated 1980/81 outturn prices (a more up-to-date price basis than that used in Cmnd 7841).

10. If there are cuts in the expenditure programmes put forward by the UK for Community support, do we then receive less refunds?

No. Calculation of our total refund entitlement was settled on 30 May and is not affected by changes in UK public expenditure programmes.

DOMESTIC POLICY ASPECTS1. Additionality

There is additionality in the important sense that the refunds are making possible a higher level of public expenditure in the regions and elsewhere than would otherwise have been possible. Both the participating authorities and other spending authorities are gaining the advantage of a higher level of expenditure than the country could otherwise have afforded.

The scheme does not, however, open the way to increases in expenditure by participating authorities beyond the levels already planned. In that sense there is no additionality.

2. Will the participating regions and programmes benefit?

Yes - in the important sense explained in answer to question 1 above.

3. How can the refunds both enable a higher level of public expenditure and reduce the PSBR?(cf Prime Minister's answer on 3 June).

There is no inconsistency here. The refunds are reducing the PSBR. Without them, further cuts in domestic expenditure programmes would have been needed to reduce the PSBR..

4. Implications for regional policy?

The Government's regional policies are in no way affected by this scheme. The Government remains totally responsible for these policies. The Community will be contributing finance in respect of programmes, principally in the regions, planned by public authorities in the UK and proposed by the Government for Community support.

5. Why Wales and the North West first?

The order of consideration of programmes in Brussels has no significance. Community contributions in respect of two programmes had to be agreed in December so as to enable the Commission to make us advance payments under the scheme. Community contributions in respect of our other programmes will be decided over the next two or three months.

6. What other programmes have been submitted?

There are eight programmes in all. In addition to Wales and the North West, there are programmes for Scotland, Northern Ireland, the North, Yorkshire and Humberside and the South West. There is also a special roads programme.

7. Payments arrangements

The Community payments will be made to the Government Departments with policy responsibility for the investment programmes concerned.

PAYMENT AND ACCOUNTING ARRANGEMENTS1. Payment arrangements

Community payments under the scheme will be made to the Government Departments with policy responsibility for the investment programmes concerned.

The advance payments which we are to receive this month amount to some ^{thus far} per cent of the total Community contributions agreed. Hence the Departments of Transport, Industry and the Environment and the Welsh Office will receive this month per cent of the agreed Community contributions in respect of the sub-programmes for which they have policy responsibility: that is, - per cent of the sums given in the table included in the press release and written Parliamentary answer.

ONLY IF PRESSED

2. Does this mean that the spending authorities immediately concerned will not receive the Community money?

That depends on the programme. The payments will, as stated, be made to the appropriate Government Departments. In some cases these Government Departments are in fact the responsible spending authorities. In other cases, where the immediately responsible spending authority is a public corporation, payment will be made to the relevant Government sponsor Department.

ONLY IF PRESSED

3. Accounting arrangements

In all cases, Government Departments will formally account for the payments as Consolidated Fund extra receipts, and they will be paid, like other receipts, into the Consolidated Fund. This procedure is in accordance with the Government's established accounting procedures, and in particular with the European Communities Act, 1972, Section 2(3), which provides that the Consolidated Fund should be used for payments to and receipts from the Community.

ONLY IF PRESSED

4. Why can the Government or the Community not pass the monies direct to the public corporations concerned?

The Government attaches the highest importance to firm control

RESTRICTED

of public expenditure and fair treatment as between different public spending authorities, with a minimum of bureaucratic complexities. It would not be compatible with these objectives for extra sums on the scale involved here to be paid direct to a considerable number of public corporations. A standard accounting procedure is laid down in any event in the European Communities Act, 1972.

We have also agreed with other member states that payments under the scheme must not be allowed to distort competition with the Community contrary to the proper functioning of the Common Market. It would be difficult to be certain of carrying out that undertaking if the monies went direct to individual public corporations.

Some Community payments are admittedly paid direct already to public sector bodies other than Government Departments, and indeed to the private sector. But this is a departure from established practice which the Government does not want to extend, and the amounts involved are relatively small.]

PRIME MINISTER

~~Mr. Walker~~ . Phud

Original filed on:-
Euro P.O.: CAP: P&T.

The PM agreed (on (i)) that the Chancellor
should mention he and Mr Walker .

Meeting with the Chancellor: 1500, 17 December

I understand the Chancellor will raise the following:-

(i) CAP. The Chancellor has heard on the European grapevine that Mr. Walker has been going around the capitals saying that the UK would be content with farm price increases next year of up to 12%. The Chancellor is, rightly, most concerned about this - if true. It has been made quite clear to Mr. Walker that we should be going for something in single figures; and the so-called "intermediate" approach which the Chancellor recently put forward, and which you endorsed, would involve an increase of 5 to 5½%. (Michael's contacts in the Foreign Office confirm that Mr. Walker has been reported to be canvassing a figure of 12%, though they don't have any evidence in writing.)

(ii) Enterprise Zone for the Shotton area. You have asked that this should be considered urgently. The Chancellor's initial reaction is to oppose it strongly on the grounds that it would dilute the EZ concept.

The Chancellor is meeting the nationalised industries chairmen on Thursday. It would be helpful if you could stiffen the Chancellor up for this meeting: in particular, he needs to emphasise that the Government expects their industries to achieve settlements in line with the pay assumptions in their EFLS, and that we do not want higher settlements financed by higher charges this year.

I have arranged for Brian Griffiths to come in with Peter Middleton next Monday to discuss monetary policy. I don't know whether you would like the Chancellor to come too. He might find it educative.

/ You

You have the latest unemployment figures - in the hot box. I suspect they will continue getting worse for some months. But as the Financial Times Editorial today argued, there are some signs that we are nearing the bottom of the recession. One interesting point which is emerging is that the recession has been largely caused by industry's massive de-stocking: final demand in terms of consumer expenditure and exports has held up pretty well, and investment (a relatively small component of GDP) is not down all that much. This could be taken to suggest that the recession has been caused to a considerable extent by industry taking an excessively pessimistic view of what was going to happen to final expenditure - which has not been borne out by the facts. You might like to have a word with the Chancellor about all this, and the prospects for the upturn.

Another question to be discussed, if there is time, is what we say publicly between now and the Budget on the monetary strategy. Fortunately, the Opposition have not really got onto this; but there is at present rather a big hiatus between what is happening on the monetary front, and what the strategy says ought to be happening. It may be that we simply have to blur our response until decisions have been taken on the new monetary target, etc.

16 December, 1980.



fol 2
PRIME MINISTER

To note that the first stage of the EEC refunds is likely to be announced on Tuesday. We will get a line for questions on that day.

Treasury Chambers, Parliament Street, SW1P 3AG

M O D B Alexander Esq
Private Secretary
10 Downing Street
LONDON
SW1

11 December 1980
MS
12/12

Dear Michael,

MS

EC BUDGET REFUNDS UNDER "SUPPLEMENTARY MEASURES" SCHEME: ANNOUNCEMENT OF FIRST COMMUNITY CONTRIBUTIONS AND ADVANCE PAYMENTS

... I enclose a letter the Financial Secretary has sent to the Paymaster General describing the background to the expected announcement by the Commission next week of the first instalment of our EC Budget refunds, together with a draft of a proposed press notice and Written Answer.

I am sending a copy of this letter to Bernard Ingham.

Yours ever,
Stephen

S A J LOCKE
Private Secretary



Treasury Chambers, Parliament Street, SW1P 3AG

10 December 1980

The Rt Hon Angus Maude TD MP
 Paymaster General
 Paymaster General's Office
 68 Whitehall
 LONDON
 SW1

Angus Maude

EC BUDGET REFUNDS UNDER 'SUPPLEMENTARY MEASURES' SCHEME

ANNOUNCEMENT OF FIRST COMMUNITY CONTRIBUTIONS AND ADVANCE PAYMENTS

The Commission expect to announce next week - probably, but not certainly, on Tuesday 16 December - the first instalment of our EC budget refunds. The announcement is likely to cover -

(a) the amounts which the Community will contribute under the supplementary measures scheme in respect of the Wales and North West public investment programmes, and

(b) within the totals at (a) above, the amount of advance payments which we shall receive before the end of December.

The Commission's decisions on (a) have been approved by member States in Brussels to-day (Wednesday). By early next week, the Commission will be in a position to decide how much of these total contributions can be paid to us before the end of the year, in the form of advance payments.

As you know, the question of publicity for these refunds was discussed in OD(E) on 13 November. While the need to attract the best publicity value from the refunds was recognised it was agreed that the emphasis should be placed, not on local publicity, but rather on the proposition that public spending would have been less without the Community refunds.

In accordance with the OD(E) conclusions, I suggest that UKREP Brussels and the Treasury should issue a press notice simultaneously with the Commission's announcement. The other Departments concerned with the scheme - especially the Departments of the Environment, Industry and Transport and the Welsh Office - would likewise have copies of the press notice and supplementary briefing and make it available to their regional offices. A draft of the press notice is attached.

FCO officials are co-ordinating publicity arrangements with the Commission in Brussels and with the Commission's London offices. Arrangements will also be made for the Press release and other briefing material to be given to MEPs.

We shall need to inform Parliament about the Commission's decision at the earliest possible moment, without anticipating the Commission's announcement. An (ordinary) written Parliamentary answer would seem to be the most suitable vehicle for this purpose. I suggest that the same text should be suitable, with minor modifications, for the written answer as well as the press notice (see annex). However, you may well feel that a rather different press notice would be more effective. In which case, I would be happy to consider any suggestions you may have.

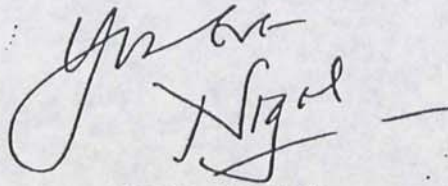
As you will see from the draft press release and written answer, it is proposed that summaries of the programmes put forward for Community support should be made available on request. For the rest, the main points which we need to get across publicly are -

- (a) the Community refunds are actually being paid to us; and
- (b) they are enabling us to maintain public expenditure programmes in general at a higher level than the country could otherwise have afforded; but
- (c) they do not open the way to increases in domestic public expenditure programmes beyond the levels already planned.

This is all in accordance with what was agreed at OD(E).

We unfortunately do not yet know the precise amount of the advance payments, and the Commission has still to reach a firm decision on the timing of the announcement (though it is unlikely to be this week). I will circulate copies of the final versions of the press release and written answer as soon as the amount and the timing are known precisely.

Copies of this letter go to Geoffrey Howe, Peter Carrington, Ian Gilmour, Michael Heseltine, Keith Joseph, David Howell, George Younger, Humphrey Atkins, Norman Fowler and Sir Robert Armstrong.



NIGEL LAWSON

DRAFT OF PRESS NOTICE AND WRITTEN PARLIAMENTARY ANSWEREUROPEAN COMMUNITY BUDGET REFUNDSADVANCE PAYMENTS TO THE UK UNDER THE "SUPPLEMENTARY MEASURES" SCHEME

Mr , to ask Mr Chancellor of the Exchequer, what progress has been made in securing UK budget refunds from the European Community.

The Commission has today published its first decisions on payments of budget refunds to the United Kingdom. The United Kingdom will receive 000 meua (about £000 at today's exchange rate) in the form of advance payments under the 'supplementary measures' scheme before the end of December.

2. As announced by my rt hon Friend the Lord Privy Seal on 2 June (OR, Columns 1043-7) and 27 October (WA, columns 96-100), the total amounts of the United Kingdom's refunds were agreed by the Council on 30 May. These refunds are to take the form of payments under the amended financial mechanism and the 'supplementary measures' scheme, the Regulations for which were formally adopted on 27 October.

3. The latest decisions in Brussels have two components. First, it is agreed that the Community should contribute the sums shown in the table below in respect of the current year's investment programmes by central government and public corporation spending authorities in the North West and Wales. The percentage figures show the Community contribution as a proportion of total estimated expenditure in the current year on the programmes concerned.

Community contributions in respect of UK public expenditure programmes 1980-81

	<u>North West</u>		<u>Wales</u>	
	<u>£M</u>	<u>%</u>	<u>£M</u>	<u>%</u>
Roads	15.9	30	24.6	30
Rail	12.0	30	6.0	30
Water and sewerage	15.6	30	9.3	30
Advance factories	0.8	20	14.2	20
Telecommunications	48.6	30	30.3	30
	<u>92.9</u>		<u>84.4</u>	
TOTAL				

4. Second, it is agreed that £600 million of the Community contributions now approved will be made available in the form of advance payments to the United Kingdom before the end of December. The bulk of the receipts estimated due to us under the scheme in respect of the 1980 budget will follow between the end of December and the end of March. The Commission is expected to decide in that period on the amounts of the Community contributions in respect of the investment programmes of central government and public corporation spending authorities in other areas of the United Kingdom, in particular Scotland, Northern Ireland, the North, Yorkshire and Humberside and the South West.
5. The refunds from the Community, of which the advance payments announced today are the first instalment, are enabling public expenditure programmes generally in the United Kingdom to be sustained at levels higher than the country could otherwise have afforded. Expenditure programmes throughout the country are benefiting accordingly. The refunds do not, however, open the way to increases in domestic expenditure programmes beyond the levels already planned. These planned levels were set on the assumption that substantial refunds would be received from the Community budget.
6. Projects which form part of the programmes in Wales now attracting support from the Community budget include construction of the M4 (Bridgend Northern By-pass), the A40 (Raglan to Abergavenny), the A55 (diversion East of Abergele) and the Queensferry Sewerage Works Extension and Wye Abstraction Schemes. Community support will also be linked to the programme of rail investment in Wales, covering the reconstruction and improvement of track, signalling, depots and stations; the modernisation and extension of the telecommunications service in Wales; and the advance factory building programme, which is spread over both industrial and rural Wales with a concentration in the former to help alleviate the effects of the restructuring of the steel industry.

PRESS NOTICE. A summary of the programmes in Wales put forward by the United Kingdom for Community support is available on request from the Information Division, Welsh Office, New Crown Building, Cathays Park, Cardiff, CF1 3NQ.7

7. Projects which form part of the programmes in the North West region now attracting support from the Community budget include several motorway schemes which form part of the Manchester Outer Ring Road - the top priority road in the region - the covering of reservoirs and provision of new treatment facilities at Prescott, and the Manchester Davyhulme sludge digestion scheme. The Community is also supporting an extensive programme of investment to improve the rail network in the North West, which includes many projects for track reconstruction and modernisation of signalling; telecommunications investment in the region, including the provision of a number of new telephone exchanges; and the continuing advance factory building programme of the English Industrial Estates Corporation.

✓PRESS NOTICE. A summary of the programmes in the North West put forward by the United Kingdom is available on request from the North West Regional Office of the Departments of the Environment and Transport, Sunley Building, Piccadilly Plaza, Manchester M1 4BE.7

8. ✓PARLIAMENTARY ANSWER. Summaries of the eight programmes put forward by the United Kingdom for Community support under the supplementary measures scheme have been placed in the Library.7

✓PRESS NOTICE. Summaries of all eight programmes put forward by the United Kingdom are available on request from the Directorate of Development Plans and Regional Policy 4, Department of the Environment, Becket House, Lambeth Palace Road, London SE1 7ER.7



CONFIDENTIAL

PRIME MINISTER

Community Affairs

If it has not already been covered under 'Foreign Affairs' you might wish to inform the Cabinet of your visit to Rome when you had talks with Signor Forlaini on 24th-25th November and had an Audience with The Pope. You may also like to tell the Cabinet that you discussed the agenda for the forthcoming European Council with M. Werner on 25th November.

2. The Chancellor of the Exchequer might report on the outcome of the 24th November Budget Council, which agreed to part of the increases in the Regional and Social Funds sought by the European Parliament for the 1981 Budget. The Council also accepted some cuts in agricultural expenditure proposed by the Parliament. It is likely that the Council will need to make further concessions to the Parliament in December if the Budget is to be adopted then.

3. You might invite the Foreign and Commonwealth Secretary to report on the 24th-25th November Foreign Affairs Council. On the main items in a long agenda, the Council completed preparations for next week's European Council meeting, but failed to settle access for New Zealand butter because the French refused to go beyond a one year duration. The question now goes back to the December Agriculture Council, although you may wish to raise it at the European Council. The Foreign Affairs Council also adopted a position on trade with Japan, on which the Secretary of State for Trade could report.

4. The Energy Council and the Social Affairs Council will be meeting while Cabinet is in progress. Next week the European Council takes place in Luxembourg on 1st-2nd December and the Transport Council meets on 4th December.

(Robert Armstrong)

26th November 1980

CONFIDENTIAL



EU 10 P21

to Prime Minister

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

14 November 1980

(2)

G.G.H. Walden, Esq,
Private Secretary,
Foreign & Commonwealth Office

~~to~~ Prime Minister
To note.

mb Print

Dear George,

EC BUDGET REFUNDS: SUPPLEMENTARY MEASURES SCHEME (POSTSCRIPT)

As explained in my letter of 4 November, the Commission proposed at the beginning of this month that the Wales and Northern programmes be chosen to cover the advance payments which we are due to receive next month under the supplementary measures scheme. My letter suggested that we should accept the Commission's proposal, and no Department dissented from this.

We have now heard from the Commission, however, that because of translating and printing problems they cannot circulate the Northern programme until the end of the month. This would leave too little time for member states to study the programme ahead of the ad hoc committee meeting on 10 December. The Commission have therefore proposed substituting the North West programme for the Northern programme. Translation and printing of the North West programme is virtually completed.

Tiresome as this change of plan is, our first priority must be to obtain the advance payments due to us with a minimum of fuss and controversy. The Chancellor therefore proposes that we should accept the Commission's change of plan and agree that the North West programme be substituted for the Northern programme.

I hope we may assume that this is agreed unless you or other recipients of this letter let me know to the contrary by close on Wednesday, 19 November.

I am copying this letter as before to the Private Secretaries to the Prime Minister, the Lord Privy Seal, the Secretaries of State for Energy, Environment, Industry, Transport, Wales and Northern Ireland, and Sir Robert Armstrong.

Yours ever

John Wiggins

A.J. WIGGINS



Europe
BSC

Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

4 November 1980

NBPA yet

G.G.H. Walden, Esq.,
Private Secretary,
Foreign & Commonwealth Office

Am

Dear George,

EC BUDGET REFUNDS: SUPPLEMENTARY MEASURES SCHEME

As you will know, the Council adopted on 27 October the regulations governing our EC budget refunds - the Financial Mechanism Regulation (FM) and the Supplementary Measures Regulation (SM). In accordance with the agreements reached in Brussels, we expect as of now to receive refunds in respect of the 1980 budget as follows (though the precise sterling amounts will depend on exchange rates):

	<u>Date</u>	<u>Approximate amounts</u> <u>(£ million)*</u>
SM Advance payment	December	100
FM 75 per cent down payment	January	210
SM balance of 81 per cent down payment	Feb/March	370
SM payments after certification of expenditure	May/June	57
FM balance to complete	autumn	70
SM balance to complete	autumn	63
		<hr/>
TOTAL		870
		<hr/>

* gross of the UK's own contribution i.e. approx. 18%

Now that the regulations have been agreed, our next task must be to obtain the payments due to us as promptly as possible and with a minimum of fuss and controversy. The financial mechanism raises no particular problems in this connection. But there are two aspects of the supplementary measures scheme on which decisions are needed.

/The supplementary



The supplementary measures refunds will, as you know, take the form of Community financial contributions in respect of certain investment programmes in the United Kingdom by the central government and public corporations. These payments will be broken down by region and investment category, as shown in the matrix annexed to this letter. The agreed procedure is that the Commission, in consultation with an ad hoc committee of member states, will assign at appropriate times during the year specific amounts of Community financing (zero or otherwise) to each box in the matrix. The sum of these figures will be the total amount due to us.

In accordance with this procedure, the Commission will have to decide some programmes and sub-programmes sooner than others. In particular they will have to decide

- (a) what programme or programmes should be used to cover our advance payments this December, and
- (b) what programme or sub-programme decisions should be left over to cover the balance to complete which we expect to receive later in 1981 (see paragraph 1 above).

These are the points on which decisions are needed. Formally, they are for the Commission to decide; but the Commission will almost certainly respect our wishes.

So far as (a) is concerned, the Commission have suggested that the Wales and Northern programmes should be used to cover December's advance payments. This means that Community contributions in respect of these two programmes would be decided in December, two or three months ahead of decisions on the other programmes. The question is whether this raises any difficulties from a political and presentational standpoint. The Chancellor believes that it does not. We could readily explain that one or two programmes had to be considered first for the purpose of covering advance payments; that the other regional programmes would be considered over the next two or three months; and that we had therefore seen no reason to object to the Commission's proposal to take the Wales and Northern programmes first.

In view of Ministers' decisions earlier in the year on non-additionality and no passing-on, there is in fact no point of real substance in any of this - no question of any financial benefit or disbenefit for individual regions or spending authorities as a result of earlier or later Commission decisions; but we could not make this point too aggressively in public without giving unnecessary offence to the Commission and others.



So far as (b) is concerned, there is again no point of real substance but here too we need to avoid charges of discrimination - both between different regions and between different public corporations. Our inclination is to suggest to the Commission that they reserve decisions on the special roads investment programme, and possibly also the roads elements in the regional programmes, to cover the balance to complete in the autumn. There could then be no question of discrimination against any individual region. Neither could there be any question of discrimination between individual public corporations: the roads programme which we are submitting is a central government programme.

For the reasons given, the Chancellor proposes that officials be authorised to tell the Commission that:

(a) we accept their choice of the Wales and Northern programmes to cover our payments in advance this December, and

(b) we see advantage in reserving the special roads investment programme, and possibly also the roads elements in the regional programmes, to cover the balance to complete in the autumn.

I hope we may assume that this is agreed unless you or other recipients of this letter let me know to the contrary by close on Friday, 7 November.

I am copying this letter to the Private Secretaries to the Prime Minister, the Lord Privy Seal, the Secretaries of State for Energy, Environment, Industry, Transport, Scotland, Wales and Northern Ireland, and Sir Robert Armstrong.

Yours ever

John Wiggins

A.J. WIGGINS



PLEASE ATTACH TO JOHN
LIGGINS' LETTER TO GEORGE
With the Compliments
of the

Chancellor of the Exchequer's
Private Secretary

WALDEN OF 4 NUBURNIAN APTS
EC BUDGET FUNDS: ETC.

Treasury Chambers,
Parliament Street,
S.W.1.



Quis for

CONFIDENTIAL

Ref. A03386

PRIME MINISTER

Cabinet: Community Affairs

You may wish to inform the Cabinet of the main points discussed during Mr. Thorn's visit on 27th October, with particular reference to the discussion of the agenda for the December European Council.

2. The Secretary of State for Industry might report on the latest prospects for settling steel quotas, although the Council of Ministers will be in session as the Cabinet meets.
3. The Lord Privy Seal may be able to report on the informal Foreign Ministers' meeting which Lord Carrington attended at Echternach on 25th October.
4. In view of the discussions in last week's Cabinet and in OD on 23rd October, you might invite the Chancellor of the Exchequer to report on the outcome of the 27th October Fiscal Council. It reached no agreement on the harmonisation of excise taxes on alcoholic drinks, though the Presidency accepted that the United Kingdom demand for a single rate of VAT on all drinks should be added to their compromise package. Another Fiscal Council will try to reach agreement in December.
5. The Minister of Agriculture might report on the outcome of the 28th October Fisheries Council, which made progress on a control regulation but reserved a decision on quotas for its next meeting on 17th November.

REA

(Robert Armstrong)

29th October, 1980

CONFIDENTIAL

Original + Correspondence
on Econ Act: Pt 11
Public Expenditure

Ref. A03339

MR. ALEXANDER

EC Contributions and the Public Expenditure White Paper

You will recall that the Prime Minister was struck by the apparent disparity between the figures which were presented to her and to the House following the 30th May Community budget settlement, and the figures which the Treasury had in mind to include in the next Public Expenditure White Paper, as shown in Mr. Wiggins' letter to Mr. Lankester of 2nd July 1980 and his subsequent letter to you of 9th July. The Prime Minister went through these figures with the Chancellor on 11th July. It clearly emerged that the main explanation lay in the delay in the payment of our refunds and the necessity, for PESC purposes, to show the figures in constant survey prices. The Prime Minister invited the Chancellor to consider how the presentation could be improved.

2. The Chancellor's minute of 22nd October contains both substance and presentation. On substance, he is saying that the earlier Treasury estimates probably took too gloomy a view about what our unadjusted net contribution might be. They now think that we should not have to hand over so much VAT and that our receipts will be higher because more of the money will be spent on other things and less on agriculture. Discussions on the 1981 Community budget suggests that both the Commission and the European Parliament will be useful allies in achieving the latter. Since our refund is basically a fixed amount (it does not seem likely that the 'risk sharing' formula will apply in respect of 1980), our adjusted net contribution will be correspondingly lower (by £25 million for 1980-81 and by £255 million for 1981-82). The figures may of course be subject to further revision before they need to be published in the White Paper.

3. As regards presentation, the Chancellor suggests that, while calendar year figures could not be dropped without provoking suspicion, they could be changed from a yearly cash flow basis so that they show receipts and payments

relating to each Community budget year. The change can be represented as a response to the PAC report published on 23rd October which criticised the confusing way in which the figures were presented. On this basis the negotiated refunds appear as 68 per cent, 62 per cent and 62 per cent of the unadjusted net contributions in 1980, 1981 and 1982 respectively. This is certainly an improvement.

4. If the Prime Minister agrees, you might wish to tell the Treasury:
- (a) that the Prime Minister is agreeable to the revised estimates being used for the forthcoming discussions on public expenditure but that she would like to see the latest forecasts before they are finally included in the White Paper;
 - (b) that the Prime Minister agrees to the proposed presentational change and that the PAC should be informed through the Treasury's reply to the PAC Report.

D. J. WRIGHT

pp (Robert Armstrong)

24th October, 1980

Ref: A03325

CONFIDENTIAL

PRIME MINISTER

Community Affairs

The Chancellor of the Exchequer might report on the 20th October Finance Council, which agreed some details on the Ortoli loan facility but put off decisions on export credits and a new loan facility for Member States in balance of payments difficulties.

2. The Secretary of State for Industry, who is meeting the German Economics Minister (Count Lambsdorff) after the German Cabinet meeting on 22nd October, might report on the latest state of play on the proposal to introduce mandatory production quotas in the European steel industry.

3. The Secretary of State for Trade might be invited to inform the Cabinet of the background to his decision to reject applications for cheap fares to Europe from Laker Airways and British Caledonian.

4. Next week there is a Fiscal Council on 27th October (a propos of which you have said the Minister of Agriculture's letter of 21st October to the Chancellor of the Exchequer on the harmonisation of excise duties should be discussed in OD in the afternoon, not in Cabinet in the morning) and a Fisheries Council on 28th October. Mr. Thorn will visit London on 27th October for talks in his dual capacity as President of the Council and President elect of the new Commission.

RA

(Robert Armstrong)

22nd October 1980

CONFIDENTIAL

Europe

cc Euro Budget
Nat Ind Steel
Europe UK Air
T/Port

010
QZ 01793

CONFIDENTIAL

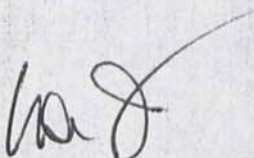
Buro Pbl.
La. Amt 16/14

SIR ROBERT ARMSTRONG

c Mr Alexander

BUDGET RESTRUCTURING: CONTACT WITH THE GERMANS

1. Following your message to Dr Schuler, Herr Dieter Hiss telephoned me and I have now arranged to meet him in Berlin on 3 November.
2. The Foreign and Commonwealth Office is aware of this contact and has informed Sir Oliver Wright; but it is not being referred to in any way in the telegrams or interdepartmental correspondence about the bilateral contacts on budget restructuring as now agreed by OD.



M D M FRANKLIN

16 October 1980



European
Rt

CONFIDENTIAL

Ref. A03251

PRIME MINISTER

Cabinet: Community Affairs

You may wish to confirm for the record that you have nominated Mr. Tugendhat (for the second term) and Mr. Ivor Richard as the United Kingdom members of the new Commission. Although it is clear that we shall want Mr. Tugendhat to retain the Budget portfolio because of its importance in the restructuring review, you may prefer not to get into discussion of what Mr. Richard's portfolio might be until you have had the Foreign and Commonwealth Secretary's advice on this subject for the visit on 27th October of Mr. Thorn.

2. You may also wish to inform the Cabinet that OD on 13th October considered the approach we should take to the forthcoming budget restructuring negotiations and agreed the line on the basis of which officials will embark on exploratory contacts with our partners and the Commission. Further consideration is to be given to our line on the CAP.

3. The Lord Privy Seal might be invited to report on the outcome of the 7th October Foreign Affairs Council. The Council settled the outstanding points on the United Kingdom supplementary measures regulation, agreed a package of aid for Portugal amounting to 275 MEUA, and accepted the need - with only the Germans dissenting - for the introduction of obligatory cuts in steel production. The Germans are still holding out against mandatory measures but have since offered voluntary cuts. You might ask the Secretary of State for Industry to report on the current state of play on this issue.

4. The Minister of Agriculture might be invited to report on the informal meeting of Agriculture Ministers on 13th-14th October which was due to have a general discussion on the future of the CAP.



CONFIDENTIAL

5. OD(E) met on 15th October to settle the United Kingdom line on Product Liability for the next round of negotiations in Brussels on the relevant draft Directive and for the impending Parliamentary debates on this subject. The Sub-Committee also decided how we should respond to a move by the Commission to seek changes in our Regional Development Grant scheme to bring it into line with the Treaty. No discussion should be necessary.

6. Next week there is a Finance Council on 20th October and an Agriculture Council on 20th-21st October.

(Robert Armstrong)

15th October, 1980

*(for inclusion in brief for OD on Monday)**Prime Minister**Euro Rd**Print
- 10/7x*

PRIME MINISTER

FUTURE COMMUNITY STRATEGY: RESTRUCTURING THE COMMUNITY BUDGET

As I shall be abroad when OD meets on Monday to discuss the report by officials on Restructuring of the Community Budget, I am writing to give you a few personal observations.

2. I liked the report by officials: I found the careful examination of our objectives and options valuable and interesting. But the remit given to officials was a narrow one, and we cannot sensibly decide our negotiating tactics without deciding how we want the Community to develop as a political organism.

3. I realise that there are deep but genuine differences of opinion about the Community among colleagues: an excellent demonstration of that division of views arose in Cabinet when two weeks ago we discussed a minor issue relating to Commission powers under Article 90. But it is clear from the whole tenor of the officials' report that, had its authors participated in that interesting debate, they would have come to an opposite conclusion to that reached by Cabinet. Nothing wrong with that - but it is relevant to our approach to budget restructuring which must be wholly political - and not economic.

4. For my part I believe that far too much power already resides with the institutions of the Community (particularly the unelected Commission) and not enough with the elected tribunes of the people. The Council often meets too late to influence decisions which have already been pre-empted by officials. The onward march of unnecessary bureaucracy and harmonisation proceeds regardless



of Ministerial misgivings. This is a central criticism of the Community by the British Parliament, and it is in my view the intuitive reason for the growing disenchantment with the EC in this country. The Commission, which people confuse in their minds with the Community, seems to the majority of British people to be a fundamentally anti-democratic body (beside the British Parliament) because the administrative machine proceeds remorselessly forward, often unchecked.

5. Thus at this very early stage (and I agree it is much too early to decide on our tactics) I would make the following comments.

6. It would be quite contrary to the instincts and views of the British electorate - and therefore damaging to our place in the Community in the longer term - if we were to modify our approach to the VAT ceiling even in order to gain some possible economic advantage as through progressive VAT contributions. It would involve a greater volume of own resources and therefore of "taxation without representation" and prove counter-productive with United Kingdom electoral opinion. The same arguments apply (quite apart from the legal dangers) to oil levies, co-responsibility levies and all the other devices for increasing Community resources whether they bring net benefits to us or not.

7. Similarly proposals to increase expenditure in non-CAP areas, even if they proved to be of minor economic benefit to the United Kingdom, diminish our capacity to control the level of public expenditure and involve a continuing re-distribution of resources by taxation from private spending to public provision. This is in complete contradiction to our domestic policies.

Agreed

Agreed



8. My own view therefore is that we should hold absolutely firm as a matter of principle (we need not say this publicly) against any increase in own resources by whatever device even if an increase had some ephemeral Treasury benefit in the short term. It follows that, by whatever tactics are thought appropriate, we should reduce CAP expenditure by every means - price, standard quantities, etc - with the aim of achieving a return to a major degree of national financing (see my minute of 14 November 1979). Only in this way will a proper discipline ever be exerted on the present net beneficiaries of the CAP. One of the misfortunes for me of the Budget negotiations was that we had very nearly achieved this objective as a result of French threats, but we lost the opportunity when we accepted a temporary settlement.

9. Furthermore, it follows that I favour slowing down the move towards enlargement until such time as this objective is achieved: otherwise we will be assuring for ourselves either intolerable friction with Spain and Portugal or intolerable burdens.

10. I realise that some colleagues will profoundly disagree with this approach which is of course "anti-Communautarie" as that phrase is sometimes defined. But I strongly favour our place in the Community; it is inconceivable that we could leave it. My fear is that under pressure from some colleagues the Conservative Government will so distance itself from electoral opinion on Community issues that we will create a real anti-Communautaire spirit in the country as a whole. In the reform of the Budget structure we have a unique opportunity to reform the Community in our own domestic image. If we throw away that chance either for narrow economic gains or for the sake of some easy consensus with our partners it will be the Community, the UK and the Conservative Party that loses in the longer term.



11. I am copying this minute to other members of OD, to Keith Joseph, Jim Prior, Peter Walker, David Howell, John Biffen and to Sir Robert Armstrong.

J. N.
(dictated by the Secretary of
State and signed in his absence)

Department of Trade
10 October 1980

CONFIDENTIAL

PRIME MINISTER

OD: Restructuring the Community Budget

The only paper before the Committee is the Report by Officials, with a cover Note by the Secretary of the Cabinet (OD(80)57), discussing how best we can exploit the mandate to restructure the Community Budget. It looks in substance at various possibilities but does not deal in detail with immediate issues like what happens when the Community hits the 1 per cent VAT ceiling (on which you but not all OD Ministers have already had papers). The report by officials tries to estimate the extent to which the different solutions would reduce our net contribution; but the key figures are summarised in a note attached to this brief.

2. No substantive decisions are called for at this stage; but it is important that the Committee should give a sufficient steer on our objectives and the possible means for attaining them to clear the way for early exploratory contacts with our partners and the Commission. We shall in particular need to have a clear view of our aims in time for the 17 November Anglo-German Summit. Specific tactical issues will be brought before Ministers, in OD(E) or OD, in separate papers as the negotiations proceed.

3. Ministers will want to express general views on the importance of the exercise and the relative merits of the different approaches. The two issues likely to cause most discussion are CAP reform and the idea of a possible Community oil levy. It would be preferable not to rule out any options at this stage but be ready on tactical grounds to explore them without commitment.

HANDLING

4. You will probably find it convenient to base discussion on the cover Note, referring as necessary to the main Report. The sequence of discussion might then be:

- (a) Objectives (paragraph 3). There should be general agreement that we must aim at a permanent solution giving us at least

CONFIDENTIAL

as much relief as the arrangements for 1980 and 1981. Reference to the additional aim of reducing the resource cost of the CAP would lead on to discussion of the first of the means open to us, viz:

- (b) Reform of the CAP (paragraph 5). The Committee may not be ready to resolve the incipient conflict between the two possible approaches - price restraint and quantitative limitation - on both of which officials are in any case doing further work (see paragraphs 28 and 31 of the main Report). But you will want the views of the Minister of Agriculture, the Chancellor and the Foreign and Commonwealth Secretary in particular on the tactical and domestic implications of both approaches. The Chancellor is likely to argue that we should try to agree with the Germans on a tough price policy. Mr Walker will be afraid that this will damage our own industry. The discussion is bound to turn towards the 1981 CAP price fixing and how our line on that will fit with our broader objectives. But since the Committee will not have the facts e.g. on the income position of British farmers, you may wish to suggest that officials should urgently prepare a paper on the prospects for next year's agricultural price fixing and our longer term objectives for the CAP so that OD(E) can agree a line before the Anglo-German summit meeting. Are the other conclusions in paragraph 37 of the main Report also agreed, especially the idea of a limit on the proportion of the Budget devoted to agriculture?
- (c) On non-agricultural Community expenditure (paragraph 6), is it agreed that this can make only a small contribution to the solution but that we should be ready to look constructively at any proposals and take our studies of the more promising possibilities further? The Chancellor, the Secretary of State for Employment and the Secretary of State for Industry may want to comment.

CONFIDENTIAL

- (d) Introducing progressivity into the VAT system (paragraph 7 of the cover note and paragraphs 44 and 56 of the main Report). Is it agreed that, while there may be little hope of negotiating such a change within the present 1 per cent ceiling, we should float it none the less for tactical reasons? The Chancellor and the Foreign and Commonwealth Secretary/Lord Privy Seal may have comments.
- (e) On an oil import levy, the paper does not ask for substantive conclusions but for authority for further study (paragraphs 53 and 70). You will nevertheless want to get the reactions of the Secretaries of State for Energy and Industry, who fear that such a scheme would create problems for the North Sea fiscal regime, open the door to increased Community influence on our oil policies and undermine the competitiveness of our energy intensive industries. The Foreign and Commonwealth Secretary, the Chancellor and the Lord President, on the other hand may press its potential as a new Community policy from which the UK could expect to be the main beneficiary.
- (f) Corrective Systems (paragraph 8 of the cover Note). Is it agreed (paragraph 70) that we should contrive to get this subject aired in the restructuring discussions without being labelled as its authors? The Chancellor is likely to see particular attraction in the solution but the Foreign and Commonwealth Secretary will be cautious about its acceptability.
- (g) Negotiating style and tactics (paragraph 9). Most of this should be uncontentious. The question whether and if so, under what conditions we might accept an increase in the 1 per cent ceiling need not be decided now, but you may want to hear from the Chancellor, the Foreign and Commonwealth Secretary and the Lord President on this point.

CONCLUSIONS

5. Subject to the discussion you may be able to conclude that the Committee -

- (i) Endorses the general approach proposed in OD(80)57 and the official Report and agrees that further work should proceed as suggested.
- (ii) Authorises early contacts at official level with the other member states and the Commission to explore and influence their thinking on the restructuring exercise.
- (iii) Invites OD(E), before the Anglo-German Summit, to consider our tactics for the 1981 CAP price fixing and how they should be aligned with our wider objectives for restructuring the 'Community Budget.



M D M FRANKLIN

10 October 1980

CONFIDENTIAL

BUDGET RESTRUCTURING: THE BASIC FIGURING

1. Our unadjusted net contribution in 1981 is assumed to be 2,200 million units of account (meua). It will be held at about this level in real terms so long as the 1 per cent limit holds.
2. The paper assumes that our aim should be to get this down to 5-600 meua which would be a reduction of 1600 or approximately three-quarters. This is better than the 30 May Agreement which secured a reduction of two-thirds.
3. The scope for savings on CAP is potentially very large but the options in the paper are not costed. Every 1 per cent reduction in CAP guarantee expenditure saves us 15-20 meua if the pattern of expenditure is assumed to remain unchanged. If 20 per cent of the cost were paid by national governments in proportion to the existing CAP receipts we might save nearly 300 meua.
4. Benefitting from increases in non-agricultural expenditure depends on the resources available (and the current dispute over the 1981 budget shows how difficult it is to retain even the present share against pressure from rising CAP costs on the one hand and the 1 per cent ceiling on the other). Our earlier target of reducing CAP expenditure to 55 per cent of the budget - a highly ambitious one - would, if the resultant savings were spent on regional and social funds, reduce our net contribution by up to 500 meua depending on how the CAP was cut (figure based on previous work). But we do already have on the table in Brussels a suggestion for aids to coal investment which would give us a net benefit of about 80 meua over three years.
5. If the present 1 per cent VAT tranche was made progressive, we would get a saving of up to 500 meua (400 meua in a Community of 12). But this is very unlikely to be negotiable except in the context of raising the 1 per cent ceiling.
6. An oil levy at say \$2 per barrel (about 6 per cent at current oil prices) would give us a net gain of 860 meua if we could get 25 per cent share of the resultant expenditure - not an unrealistic target. So this scheme could give us more than half of what we want. On top of the 860 meua budgetary gain there would be a resource benefit to the UK of 580 meua.

CONFIDENTIAL

7. The budget corrective mechanisms discussed in Section VIII are simply designed to give us what we want: but their effect on other countries would be more transparent than the other alternatives. Taking Scheme B, Germany would be better off by 600 meua as compared with the way they have to finance the 30 May Agreement. France and Italy would also gain at the expense of Denmark and the Benelux. But these figures assume that our net contribution is cut by three-quarters: the gains and losses would be smaller if the reduction was only two-thirds. They also assume that administration costs are allocated as a benefit to Belgium and Luxembourg.

CONFIDENTIAL



es
Euro PA

10 DOWNING STREET

From the Private Secretary

7 October, 1980.

Community Budget Refunds

The Prime Minister has seen Sir Robert Armstrong's minute to her of 3 October on this subject, and has given authority for Ministers and officials to negotiate with their French opposite numbers on the basis of the proposal in the note by officials attached to your minute.

I am sending copies of this letter to George Walden (Foreign and Commonwealth Office), John Wiggins (HM Treasury) and Garth Waters (Ministry of Agriculture, Fisheries and Food).

MODBA.

David Wright, Esq.,
Cabinet Office.

CONFIDENTIAL

es



10 DOWNING STREET

Prime Minister.

There might be advantage in trying to capitalise on the present warmth in Anglo-French relations by giving Ministers authority to negotiate the best arrangement they could on points (a) - (c) in the attached note. I doubt if we would lose anything of substance by doing so: we might well gain.

On (d) [convergence with first] we must of course be unyielding beyond ^{perhaps} making the presentational gesture suggested by officials.

If you are not content
you should, I think, discuss
with Lord Carrington on Monday
me

3/x



*Assumed with Prime Minister
who agrees that we may
negotiate on the basis described.*

CONFIDENTIAL

Ref. A03155
PRIME MINISTER

*Prime Minister.
Hope that Ministers & Officials may
negotiate on the basis described in the note
attached?
Rmt*

Rmt - 6/x

European Community Budget Refunds

The draft regulations to implement the 30th May budget settlement will be on the agenda of the Foreign Affairs Council on Tuesday, 7th October. Prolonged discussions in Coreper have resolved most of the technical problems but the difficulties with the French, and to a lesser extent with the Germans, have still not been resolved.

2. Since your talks in Paris with President Giscard and Monsieur Barre, the French have allowed both the sheepmeat regime and the 1980 arrangement for New Zealand butter to go through the Agriculture Council. They were also noticeably co-operative in the recent agreement on conservation in the Fisheries Council.

3. Mr. Franklin has been talking to his French opposite number, Monsieur Achard, to see if there was a basis for resolving the outstanding differences and in particular if the French were still insisting on linking the Budget regulations with progress on the fisheries negotiations. There appear to be divided counsels in Paris but the latest message is that, while the French are still willing to try to resolve the disputed points on the budget regulations (and Monsieur Achard has arranged to meet Mr. Franklin in London first thing on Monday morning), they do not envisage them being adopted before the next Council meeting in November. This attempt to keep the link with progress on fisheries is clearly unacceptable and I understand that the Foreign and Commonwealth Secretary is hoping to speak to Monsieur Francois-Poncet in order to make that clear. There have also been discussions between the Financial Secretary and Herr Lahnstein on the particular German problem of advances for 1980.

1) they are not careful they will have trouble with the next Agriculture Prime Minister's intervention they had want- have

4. I attach a note agreed by officials of the Treasury, FCO and Cabinet Office which describes the four points of outstanding difficulty and suggests where possible solutions might be found. On one point, the procedure for approving

Our budget settlement was linked with the last prime minister. They have had their bill of the Budget, we want ours.

CONFIDENTIAL



CONFIDENTIAL

programmes, you took the view before the Paris Summit (Mr. Alexander's letter of 16th September to Mr. Wiggins refers) that we should not move from the Commission's proposal for a purely consultative procedure. It is now clear that we have no chance of speedy agreement without some voting procedure.

5. You and your colleagues will wish to consider whether a resolution of the outstanding issues on the budget regulation, as indicated in the attached note, would be acceptable. If so, we should press hard for such a solution when Monsieur Achard sees Mr. Franklin on Monday and, if necessary, at the Council on Tuesday. If this proved impossible to get a solution on Tuesday, we should need to ask for another meeting of the Council within the next couple of weeks. The next meeting of the Foreign Affairs Council is not due until 25th November. If the Regulation is not adopted until then, the Government will face strong criticism when the House reassembles and the possibility of receiving advance payments out of the 1980 Budget may be effectively ruled out. It will also be easier for the French to argue in public that there is a link with progress on fish.

6. I am copying this minute to the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer and in view of the fisheries implications to the Minister of Agriculture, Fisheries and Food.

(Robert Armstrong)

3rd October, 1980

CONFIDENTIAL

EUROPEAN COMMUNITY BUDGET REFUNDS
SUPPLEMENTARY MEASURES REGULATION

Note by Officials

Following is a brief account of the obstacles to reaching an agreement on this regulation:-

a) Procedure for the Approval of Programmes

We and the Commission have argued that a consultation procedure with member states should be sufficient given that the 30 May agreement would require the Commission to report to the Council at six monthly intervals. The French have hitherto been insisting on unanimous Council approval for programmes, which would give any member state a power of veto, and hence endless opportunities for delay.

Possible Solution: Any procedure adopted must avoid providing opportunities for delay. A possible solution consistent with this objective might involve the choice of programmes for support and the amounts to be paid in respect of each programme being subject to a qualified majority voting procedure in an ad hoc committee of member states. Under this arrangement we could stop the Commission's proposals being rejected provided we got either the Italians or the Benelux countries on our side. The French and the Germans would not therefore be able to block proposals on their own.

If the ad hoc committee did vote by a qualified majority against the Commission's proposals, the Commission would have then to amend the proposals or to withdraw them or to appeal to the Council. If this solution were to be pursued we should try to achieve a formula under which, if the Council failed to reach a conclusion in (say) two months, the Commission would be free to go ahead. But we cannot be certain of obtaining agreement to this.

CONFIDENTIAL

CONFIDENTIAL

b) Procedure for the Approval of Advances

Given the terms of the German cabinet decisions published after the 30 May agreement, the German Government sees it as a political imperative that payments made in advance during 1980 should be subject to unanimous approval by the Council. So far the French have supported the German position on this. As before, therefore, any member state would have a power of veto.

Possible Solution: The German commitment to unanimous Council approval does not appear to extend to the years following 1980, and bilateral contacts suggest that they might be willing to go along with majority approval for the years after 1980 provided they have an effective veto for 1980 itself. Although this would still leave the French with the ability to veto advances in 1980, our latest contacts suggest that they now positively favour making such payments this year as a means of lessening the strain on next year's Community budget.

c) The Staging of Approvals and Payments

The French were previously pressing strongly for spreading programme approvals and payments throughout the year. However, it is now possible that they may accept an agreement whereby the "bulk" of the refunds estimated to be due to us in respect of 1980 would be paid over by 31 March 1981, with the provisional outstanding balance following in May or June 1981. Similar arrangements would apply to payments due in respect of 1981. The key question is what is meant by the "bulk" of the refunds. Up to the summer break we had been assuming that we would get 90 per cent of what was estimated to be due to us from supplementary measures. (This, together with 75 per cent from the Financial Mechanism, would make an average of 85 per cent of the estimated total due.)

Possible Solution: The French have indicated informally to us that the "bulk" should not exceed 75 per cent of the estimated total due to us (though they may start in the Council at the $\frac{2}{3}$ figure they have hitherto argued for). Our position in COREPER has been consistent with 100 per cent

CONFIDENTIAL

CONFIDENTIAL

of programmes being approved, which under the normal rules would give us 90 per cent of the money. But this gives the French no staging of programmes and they will not accept it. The latest indications are that the Presidency and the Commission will recommend a compromise that would give us 81 per cent of the estimated amount due (ie 90 per cent of 90 per cent of the programmes). We will obviously try to negotiate this up but we do not believe that it will be possible to get agreement to a higher figure than 85 per cent (ie 90 per cent of 95 per cent of the programmes). The question for decision is whether 81 per cent would be acceptable in the last resort.

Agreement on a figure below the 90 per cent previously assumed would make the cash figures for 1980-81 published in the Public Expenditure White Paper next spring look less attractive. The Treasury are working on ways of improving the traditional presentation so as to reduce the significance of this problem.

d) Linkage with Common Fisheries Policy (CFP)

We have maintained that progress on the CFP should be made in parallel with but should not formally be linked to the implementation of the 30 May agreement. Any such link would seriously prejudice the chances of success in the fisheries negotiations. The French maintain there is a formal link and may want to delay adoption of the Article 235 Regulation until more progress has been made on fish.

Possible Solution: If it would help the French on this point we could agree that the 7 October Council should welcome the progress made at the Fisheries Council on 29 September (which adopted Community fish conservation measures) and reaffirm the commitment to complete negotiations on a revised CFP by the end of the year. If, however, the French persist in maintaining their attempts at formal linkage there is no avoiding a public row.

Cabinet Office

3 October 1980

CONFIDENTIAL

CONFIDENTIAL

EUROPEAN COMMUNITY BUDGET REFUNDS
SUPPLEMENTARY MEASURES REGULATION

Note by Officials

Following is a brief account of the obstacles to reaching an agreement on this regulation:-

a) Procedure for the Approval of Programmes

We and the Commission have argued that a consultation procedure with member states should be sufficient given that the 30 May agreement would require the Commission to report to the Council at six monthly intervals. The French have hitherto been insisting on unanimous Council approval for programmes, which would give any member state a power of veto, and hence endless opportunities for delay.

Possible Solution: Any procedure adopted must avoid providing opportunities for delay. A possible solution consistent with this objective might involve the choice of programmes for support and the amounts to be paid in respect of each programme being subject to a negative qualified majority voting procedure in an ad hoc committee of member states. Under this arrangement we could stop the Commission's proposals being rejected provided we got either the Italians or the Benelux countries on our side. The French and the Germans would not therefore be able to block proposals on their own.

If the ad hoc committee did vote by a qualified majority against the Commission's proposals, the Commission would have then to amend the proposals or to withdraw them or to appeal to the Council. If this solution were to be pursued we should try to achieve a formula under which, if the Council failed to reach a conclusion in (say) two months, the Commission would be free to go ahead. But we cannot be certain of obtaining agreement to this.

CONFIDENTIAL

CONFIDENTIAL

b) Procedure for the Approval of Advances

Given the terms of the German cabinet decisions published after the 30 May agreement, the German Government sees it as a political imperative that payments made in advance during 1980 should be subject to unanimous approval by the Council. So far the French have supported the German position on this. As before, therefore, any member state would have a power of veto.

Possible Solution: The German commitment to unanimous Council approval does not appear to extend to the years following 1980, and bilateral contacts suggest that they might be willing to go along with majority approval for the years after 1980 provided they have an effective veto for 1980 itself. Although this would still leave the French with the ability to veto advances in 1980, our latest contacts suggest that they now positively favour making such payments this year as a means of lessening the strain on next year's Community budget.

c) The Staging of Approvals and Payments

The French were previously pressing strongly for spreading programme approvals and payments throughout the year. However, it is now possible that they may accept an agreement whereby the "bulk" of the refunds estimated to be due to us in respect of 1980 would be paid over by 31 March 1981, with the provisional outstanding balance following in May or June 1981. Similar arrangements would apply to payments due in respect of 1981. The key question is what is meant by the "bulk" of the refunds. Up to the summer break we had been assuming that we would get 90 per cent of what was estimated to be due to us from supplementary measures. (This, together with 75 per cent from the Financial Mechanism, would make an average of 85 per cent of the estimated total due.)

Possible Solution: The French have indicated informally to us that the "bulk" should not exceed 75 per cent of the estimated total due to us (though they may start in the Council at the $\frac{2}{3}$ figure they have hitherto argued for). Our position in COREPER has been consistent with 100 per cent

CONFIDENTIAL

CONFIDENTIAL

of programmes being approved, which under the normal rules would give us 90 per cent of the money. But this gives the French no staging of programmes and they will not accept it. The latest indications are that the Presidency and the Commission will recommend a compromise that would give us 81 per cent of the estimated amount due (ie 90 per cent of 90 per cent of the programmes). We will obviously try to negotiate this up but we do not believe that it will be possible to get agreement to a higher figure than 85 per cent (ie 90 per cent of 95 per cent of the programmes). The question for decision is whether 81 per cent would be acceptable in the last resort.

Agreement on a figure below the 90 per cent previously assumed would make the cash figures for 1980-81 published in the Public Expenditure White Paper next spring look less attractive. The Treasury are working on ways of improving the traditional presentation so as to reduce the significance of this problem.

d) Linkage with Common Fisheries Policy (CFP)

We have maintained that progress on the CFP should be made in parallel with but should not formally be linked to the implementation of the 30 May agreement. Any such link would seriously prejudice the chances of success in the fisheries negotiations. The French maintain there is a formal link and may want to delay adoption of the Article 235 Regulation until more progress has been made on fish.

Possible Solution: If it would help the French on this point we could agree that the 7 October Council should welcome the progress made at the Fisheries Council on 29 September (which adopted Community fish conservation measures) and reaffirm the commitment to complete negotiations on a revised CFP by the end of the year. If, however, the French persist in maintaining their attempts at formal linkage there is no avoiding a public row.

Cabinet Office

3 October 1980

CONFIDENTIAL

MR ALEXANDER



With the Compliments of

MR M D M FRANKLIN

CABINET OFFICE,
Whitehall,
London, S.W.1.A 2AS
Telephone : 01-930 5422

CONFIDENTIAL

BUDGET RESTRUCTURING: THE BASIC FIGURING

1. Our unadjusted net contribution in 1981 is assumed to be 2,200 million units of account (meua). It will be held at about this level in real terms so long as the 1 per cent limit holds.
2. The paper assumes that our aim should be to get this down to 5-600 meua which would be a reduction of 1600 or approximately three-quarters. This is better than the 30 May Agreement which secured a reduction of two-thirds.
3. The scope for savings on CAP is potentially very large but the options in the paper are not costed. Every 1 per cent reduction in CAP guarantee expenditure saves us 15-20 meua if the pattern of expenditure is assumed to remain unchanged. If 20 per cent of the cost were paid by national governments in proportion to their existing CAP receipts we might save nearly 300 meua.
4. Benefitting from increases in non-agricultural expenditure depends on the resources available (and the current dispute over the 1981 budget shows how difficult it is to retain even the present share against pressure from rising CAP costs on the one hand and the 1 per cent ceiling on the other). Our earlier target of reducing CAP expenditure to 55 per cent of the budget - a highly ambitious one - would, if the resultant savings were spent on regional and social funds, reduce our net contribution by up to 500 meua depending on how the CAP was cut. (figure based on previous work). But we do already have on the table in Brussels a suggestion for aids to coal investment which would give us a net benefit of about 80 meua over three years.
5. If the present 1 per cent VAT tranche was made progressive, we could get a saving of up to 500 meua (350 meua in a Community of 12). But this is very unlikely to be negotiable except in the context of raising the 1 per cent ceiling.
6. An oil levy at say \$2 per barrel (about 6 per cent at current oil prices) would give us a net gain of 860 meua if we could get 25 per cent share of the resultant expenditure - not an unrealistic target. So this scheme could give us more than half of what we want. On top of the 860 meua budgetary gain there would be a resource benefit to the UK of 580 meua.
7. The budget corrective mechanisms discussed in Section VIII are simply designed to give us what we want: but their effect on other countries would be more transparent than the other alternatives. Taking Scheme B, Germany would be better off by 600 meua as compared with the way they have to finance the 30 May Agreement. France and Italy would also gain at the expense of Denmark and the Benelux. But these figures assume that our net contribution is cut by three-quarters: the gains and losses would be smaller if the reduction was only two-thirds. They also assume that administration costs are allocated as a benefit to Belgium and Luxembourg.

European
Budget 1102BA
3/10



CONFIDENTIAL

Ref. A03122

PRIME MINISTER

Cabinet: Community Affairs

If not already covered under the Foreign Affairs item, you might wish to inform the Cabinet of any major Community points that arose in your discussions with President Giscard during the 19th September Anglo-French Summit.

2. You might wish to invite the Chancellor of the Exchequer to report on the outcome of the 23rd September Budget Council, which established the 1981 draft Community Budget. Satisfactory provision was made for the United Kingdom's supplementary measures, but Franco-German insistence on cutting back non-obligatory expenditure to make room for agriculture within the 1 per cent ceiling produced increases in the Regional and Social Fund that will barely be adequate to discharge existing commitments. The Commission dissociated themselves from the Council's action; the Budget now goes to the European Parliament.

3. The Minister of Agriculture might be invited to report on the 29th September Fisheries and 30th September Agriculture Councils, both of which scored notable successes. The Fisheries Council agreed a comprehensive conservation Regulation and endorsed the new pout box negotiated between the United Kingdom and Denmark. The Agriculture Council reached agreement on the introduction of the new sheepmeat regime later this month and the French lifted their reserve on the arrangements for imports of New Zealand butter for the rest of 1980.

4. The Foreign Affairs Council meets next week on 7th October when we shall try to settle the outstanding points on the regulations to give effect to the 30th May budget settlement.

REA

(Robert Armstrong)

1st October, 1980

CONFIDENTIAL

CONFIDENTIAL

vb

Ernie PA

30 September 1980

ERDF Quota Share

Thank you for your letter of 29 September enclosing a draft telegram to Athens on the question of the Greek share of the ERDF quota section. I agree that the draft should issue.

MODBA

S.J. Gomersall, Esq.,
Lord Privy Seal's Office.

CONFIDENTIAL

[Handwritten signature]

CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

29 September 1980

Dear Michael,

ERDF NON QUOTA SHARE

Athens telegram no 254 reported that the Greek Prime Minister raised with Mrs Thatcher the question of the Greek share of the ERDF quota section. I attach a draft telegram which replies to the points made in the Greek note on this subject, and we would be grateful for your clearance of the instructions to be sent to Mr Sutherland in Athens.

The views set out in the telegram reflect the contents of the letter which the Secretary of State for Industry has sent to Mr Giolitti, the Commissioner for regional development, a copy of which is enclosed, and the telegram has been cleared in Whitehall at official level.

Yours ever
Stephen Gomersall

S J Gomersall
Private Secretary to the
Lord Privy Seal

M O'D B Alexander Esq
10 Downing Street

CONFIDENTIAL

File No.

Department ECD(I)

Drafted by (Block Capitals) JONES PARRY

Tel. Extn.

OUTWARD

TELEGRAM

Security Classification CONFIDENTIAL
Precedence IMMEDIATE
DESKBYZ

FOR COMMS. DEPT. USE	Despatched (Date) (Time)Z	POSTBYZ
----------------------	---------------------------------------	---------------

PREAMBLE

(Time of Origin) Z (G.M.T.) (Restrictive Prefix)
 (Security Class.) CONFIDENTIAL (Caveat/ Privacy marking)
 (Codeword) (Deskby) Z

TO IMMEDIATE ATHENS (precedence) (post) Tel. No. of

AND TO (precedence/post)

AND SAVING TO

REPEATED TO (for info) IMMEDIATE UKREP. BRUSSELS

SAVING TO (for info)

tribution:-

FRAME SOCIAL

[TEXT]

YOURTEL 254: REGIONAL DEVELOPMENT FUND

1. We have considered the points made in your TUR and in the Greek paper (yourtel No 255). We do not think that we should reply in writing to the Greeks but would be grateful if you could speak to the Greeks at whatever level you consider appropriate. You should draw on the points in MIFT. We leave it to you to judge how much of this ground you might cover with them. Given that no proposal has been made and the Commission are not yet agreed, we do not want to take too high a profile on this.

Background

2. The Council needs to agree a quota for Greece for 1981. It is for the Commission to make proposals.

/Responsible

CONFIDENTIAL

pies to:-

CONFIDENTIAL

Responsible Commissioner (Giolitti) has suggested a 15% share with reductions in the quotas of the Nine based on a relative GDP formula. The UK share would decline from 27.03% to 23.34%. The Commission's line has not yet been agreed. We have consistently argued that the quota shares of the UK, Ireland and Italy should not be reduced, and that provision for Greece be at the expense of the six more prosperous Member States. We have also told the Commission that the suggested Greek share appears high, and have let them see illustrative calculations which suggest a range of 7 - 9% to be more appropriate. We are also concerned that a high Greek quota would be used as a precedent by Spain and Portugal.

NOTHING TO BE WRITTEN IN THIS MARGIN

CONFIDENTIAL

File No.....

Department ECD.(I.).....

Drafted by
(Block Capitals) ... E. JONES. PARRY..

Tel. Extn.....

OUTWARD
TELEGRAM

Security Classification CONFIDENTIAL
Precedence IMMEDIATE
DESKBYZ

FOR COMMS. DEPT. USE	Despatched (Date) (Time)Z	POSTBYZ
----------------------------	--	---------------

PREAMBLE

(Time of Origin) Z (G.M.T.) (Restrictive Prefix).....
 (Security Class.) (Caveat/
 Privacy marking)
 (Codeword) (Deskby)..... Z

TO IMMEDIATE. ATHENS Tel. No. of
(precedence) (post)

AND TO (precedence/post)

AND SAVING TO

REPEATED TO (for info) IMMEDIATE UKREP BRUSSELS.....

SAVING TO (for info)

distribution:-

FRAME SOCIAL

[TEXT]

MIPT REGIONAL DEVELOPMENT FUND

POINTS TO MAKE

1. The United Kingdom fully understands the Greek need to demonstrate the economic benefits of Greek accession. We share with the Greeks a strong interest in the action of the Community to promote convergence between the more prosperous and the less prosperous members.

2. We too need to demonstrate economic benefits. The ERDF is the most important of the few Community policies from which we gain a net benefit. Unlike the Greeks, we have no benefit from the agricultural policy. The 30 May budget agreement has eased our overall position but we are the second largest net contributor to the

/budget

copies to:-

CONFIDENTIAL

budget while being the fourth least prosperous Member of the Community of Ten. So it is a major UK interest to maintain our net benefit from the ERDF.

3. No Commission proposal for new quotas has yet been made. We are aware that the responsible Commissioner is thinking of 15% for Greece. We are puzzled by this figure, the justification for which has never been explained to us. Our own calculations seem to indicate that a rather lower figure would be appropriate.

4. This is only part of our concern. We also consider that the redistribution of quotas to accommodate Greece should not be at the expense of the less prosperous. The arrangements made on this occasion will of course set a precedent which will affect us all at the time of further enlargement.

5. The Greek note suggests that we should be content if our quota receipts from the ERDF are more in cash terms than last year. This cannot be our approach. We need to maintain our net benefit. In the case of Greece, a substantial net benefit is assured even at a lower rate of participation. Even after the transitional period, the Greek marginal rate of contribution is ~~only~~ likely to rise to ^{less than 3} 6%.

6. It is for the Council of Ministers to decide, on a proposal by the Commission, what the quotas should be. The Council has not yet considered this question, nor has it been consulted by the Commission on any aspect of it. The Council

/is not

CONFIDENTIAL

NOTHING TO BE WRITTEN IN THIS MARGIN

CONFIDENTIAL

is not associated with the assurances given by the Commission to the Greek Government. The size of the Greek quota was not part of the package negotiated when Greece signed the Accession Treaty. Had the Greek Government wished to make this a condition of their signature, it should have been made clear that this was the case during the negotiations.



Secretary of State for Industry

DEPARTMENT OF INDUSTRY 192
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

23 September 1980

Mr Antonio Giolitti
Member of the Commission of the
European Communities
Rue de la Loi 200
1049 Brussels

MWR095/1		
RECEIVED IN REGISTRY NO. 37		
24 SEP 1980		
DESK OFFICER		REGISTRY
INDEX	PA	Action Taken

A. — Dear Mr. Giolitti,

I am writing to you about the amendments to the national quotas of the European Regional Development Fund (ERDF) which will be necessary to take account of the accession of Greece.

I understand that the Commission is considering proposing to the Council that the Greek quota should be 15%, and that the quotas of the present nine members should be reduced by proportions which are based on the values of the national Gross Domestic Product per head of population. This would mean that the quotas of the six richer members would be reduced more than the quotas for the three poorer members (Ireland, Italy and the United Kingdom). Our quota would be reduced from 27.03% to 23.34%?

There are two aspects of these proposals which give me particular cause for concern. In the first place, it seems to us that a quota of 15% cannot be justified as it does not take into account the relative prosperity of the Athens area. Secondly, it sets a precedent which the Community might well find it difficult to follow when Spain and Portugal join. In addition there are the wider considerations arising from the 30 May decisions on budget restructuring, and I am therefore also concerned that the proposals would reduce the UK's net benefit from the ERDF at a time when the Community collectively has agreed to look at means of restructuring the budget to provide a permanent solution to the UK's problems; the re-negotiations of the quotas must be seen in this context.

In the light of these factors, the proposals for amending the national quotas should not reduce the UK net benefit nor contradict the decisions taken at the 30 May Council. Indeed, I would find it very difficult to justify to Parliament proposals which have this effect.

/While ...



While I welcome the Commission's acceptance of the principle of differentiation between the richer and poorer Member States, I think that the principle has not been carried far enough, and that the Greek quota should be provided from within the quotas of the six richer Member States. I recognise that it would be difficult to find a Greek quota of 15% from these six quotas, but this difficulty would be eased if the proposed Greek quota were reduced to, say, 9% or 10%. I hope that all these points can be fully considered before the Commission comes to a final decision.

B

Unity

Kear Joseph



Euro PD

10 DOWNING STREET

From the Private Secretary

29 September 1980

a men off

Thank you for your letter of 25 September to Nick Sanders, about the White Paper on Developments in the European Communities.

We are content for this to be published on 1 October.

I am sending copies of this letter to Robin Birch (Office of the Chancellor of the Duchy of Lancaster) and Peter Moore (Chief Whip's Office).

M. A. PATTISON

E.R. Worsnop, Esq.,
Foreign and Commonwealth Office.

A



Foreign and Commonwealth Office

London SW1A 2AH

26 September 1980

NBA

Paul
29/9

Dear Michael,

White Paper: Developments in the European
Community, January to June 1980

I wrote to you on 21 February, explaining that we intended to revert to the normal six monthly cycle of publishing these White Papers.

The draft of the latest White Paper in this series was circulated by the Lord Privy Seal on 8 August to OD(E) and other Ministers directly concerned. It is now being printed, and will be published on 1 October.

I am sending copies of this letter to the Private Secretaries to the Chancellor of the Duchy of Lancaster and the Chief Whip, the Parliamentary Secretary of the Privy Council Office, the Chief Press Officer (No 10) and David Wright (Cabinet Office).

Yours etc

Paul

(P Lever)
Private Secretary

M O'D B Alexander Esq
10 Downing Street



Government Chief Whip
12 Downing Street, London SW1

26 September 1980

copy off

Thank you for sending me a copy of your letter of 25 September to Nick Sanders about the proposal to publish a White Paper on Developments in the European Communities covering the period January to June 1980.

We have no objection.

I am copying this to Nick Sanders (No 10) and Robin Birch (Office of the Chancellor of the Duchy of Lancaster).

(P J MOORE)

E R Worsnop Esq
Foreign and Commonwealth Office
SW1A 2AH



Foreign and Commonwealth Office

London SW1A 2AH

25 September 1980

N Sanders Esq
10 Downing Street
London
SW1

Ca Press Off.

Dear Nick,

DEVELOPMENTS IN THE EUROPEAN COMMUNITIES : JANUARY - JUNE 1980

We propose to publish on Wednesday 1 October a White Paper on Developments in the European Communities covering the period January to June 1980. The report is by definition 'factual' and one of a series normally produced every 6 months.

I should be grateful if you, and those to whom I am copying this letter, would kindly confirm that there is no objection to publication.

*Yours ever,
Edwin.*

E R Worsnop
Parliamentary Clerk

cc: R Birch Esq
Office of the Chancellor of the
Duchy of Lancaster
70 Whitehall
SW1

P Moore Esq
12 Downing Street
SW1

CONFIDENTIAL

GR 400

CONFIDENTIAL [FRAME SOCIAL]

FM ATHENS 231552Z SEP

TO IMMEDIATE FCO

TELEGRAM NUMBER 255 OF 23.9.80

INFO IMMEDIATE UKREP BRUSSELS

DISTRIBUTION SELECTORS
FILE COPY

MIPT: GREEK QUOTA IN THE REGIONAL DEVELOPMENT FUND.

FOLLOWING IS TEXT OF GREEK PAPER

"DURING THE NEGOTIATIONS FOR GREECE'S ACCESSION TO THE EUROPEAN COMMUNITY - AS WELL AS IN THE OPINION OF THE COMMISSION ON GREECE'S APPLICATION FOR ENTRY INTO THE EEC - THE GREEK PARTICIPATION IN THE REGIONAL FUND WAS ESTIMATED AT 15%. THIS QUOTA FORMED THE BASIS OF ALL SUBSEQUENT CALCULATIONS AND FOR THE ASSESSMENT OF THE IMPLICATIONS OF GREEK ACCESSION FOR THE COMMUNITY'S BUDGET MADE BY THE COMMISSION IN ITS FRESQUE (THE STUDY OF THE IMPLICATIONS OF ENLARGEMENT).

TO ENABLE GREECE TO PARTICIPATE, AS FROM JANUARY 1ST, 1981, IN THE REGIONAL FUND, IT IS NECESSARY TO AMEND THE REGULATION DEFINING THE QUOTAS FOR EACH MEMBER-STATE.

THE COMMISSION - CONSISTENT WITH WHAT WAS AGREED DURING THE NEGOTIATIONS AND WITH THE ASSURANCES GIVEN BY THE COMMISSIONER MR A GIOLITTI TO THE GREEK MINISTER MR KONTOGEORGIS - HAS ALREADY PROPOSED TO THE COUNCIL OF MINISTERS THAT THE GREEK QUOTA BE FIXED AT 15%. ON THE BASIS OF THIS QUOTA THE COMMISSION HAS MADE THE RELEVANT CALCULATION IN ITS "DRAFT BUDGET" FOR THE YEAR 1981 WHICH HAS ALREADY BEEN SUBMITTED TO THE COUNCIL OF MINISTERS.

NEVERTHELESS, ACCORDING TO INFORMATION REACHING US, SOME MEMBER-STATES ARE CURRENTLY TRYING TO BRING ABOUT A REDUCTION IN THE GREEK QUOTA. MORE SPECIFICALLY, THE UNITED KINGDOM PROPOSES A REDUCTION OF THE QUOTA TO 8%.

SHOULD THE NEW REGULATION DEFINING THE QUOTAS BE ISSUED BEFORE JAN 1ST, IT IS ABSOLUTELY ESSENTIAL TO FIX THE GREEK QUOTA AT 15%, THE QUOTA, THAT IS, ON THE BASIS OF WHICH THE COMMUNITY AND GREECE MADE ALL THEIR CALCULATIONS DURING THE GREEK ACCESSION NEGOTIATIONS.

IT MUST BE EMPASIZED THAT, AS THE COMMISSION ITSELF ARGUES, GREECE'S PARTICIPATION IN THE REGIONAL FUND BY 15% BY NO MEANS ENTAILS A REDUCTION IN THE FUNDS SPENT ON THE OTHER MEMBER STATES, GIVEN THE CONSIDERABLE INCREASE ENVISAGED IN THE RESOURCES OF THE FUND. INDEED THE RESOURCES DEVOTED TO THE REGIONAL FUND WILL REACH 1,600 M ECU S IN 1981 - ACCORDING TO THE COMMISSION'S PROPOSAL - FROM 1,200M IN 1980 AND 900 IN 1979.

CONFIDENTIAL

/FOR

CONFIDENTIAL

FOR THE ABOVE REASONS GREECE BELIEVES THAT SHE IS ENTITLED TO THE 15% QUOTA. ANY REDUCTION OF THE QUOTA WOULD HAVE ADVERSE ECONOMIC AND POLITICAL REPERCUSSIONS. IT WOULD BE UNFORTUNATE IF IT WERE TO BE MADE KNOWN THAT THE UNITED KINGDOM HAS PREVENTED GREECE FROM PARTICIPATING IN THE FUND WITH THE QUOTA TO WHICH SHE FEELS ENTITLED."

SUTHERLAND

FRAME SOCIAL
ECD(I)
SED

COPIES TO:-

MR PULVERMACHER D/INDUSTRY
MR J SCOLLS TREASURY
MR J BAKER D/ENVIRONMENT

-2-

CONFIDENTIAL

GR 330

CONFIDENTIAL

CONFIDENTIAL [FRAME SOCIAL]

FM ATHENS 231543Z SEP

TO IMMEDIATE FCO

TELEGRAM NUMBER 254 OF 23.9.80

INFO IMMEDIATE UKREP BRUSSELS

UKREP BRUSSELS TEL 867 (NOT TO ATHENS): REGIONAL DEVELOPMENT FUND (RDF)

1. DURING DISCUSSION OF COMMUNITY AFFAIRS WITH THE PRIME MINISTER ON 22 SEPTEMBER THE GREEK PRIME MINISTER SPOKE OF THE DIFFICULTY HIS GOVERNMENT WAS HAVING IN FACE OF OPPOSITION CRITICISM IN DEMONSTRATING TO THE ELECTORATE THE ECONOMIC BENEFITS OF GREEK ACCESSION. HE SAID THAT A PARTICULAR PROBLEM HAD ARISEN AS A RESULT OF SUGGESTIONS BEING MADE IN BRUSSELS THAT THE QUOTA OF 15% IN THE RDF PROPOSED FOR GREECE SHOULD BE REDUCED. THE FIGURE OF 15% HAD BEEN SUGGESTED BY THE COMMISSION AND HAD BEEN USED DURING THE ACCESSION NEGOTIATIONS, GREECE MAKING CONCESSIONS IN OTHER FIELDS ON THE ASSUMPTION THAT SHE WOULD RECEIVE THAT QUOTA. THEODOROPOULOS (SECRETARY GENERAL, MFA) SAID THAT ACCORDING TO REPORTS FROM BRUSSELS THE UK WAS SUGGESTING THAT THE GREEK QUOTA SHOULD BE ONLY 8%.

2. THE PRIME MINISTER SAID THAT SHE UNDERSTOOD THAT THE MATTER HAD NOT YET BEEN CONSIDERED BY MINISTERS, BEING STILL IN THE HANDS OF THE COMMISSION. IT WAS AGREED THAT THE GREEKS WOULD PRODUCE A NOTE ON THE MATTER. THIS WAS GIVEN TO ME BY MITSTAKIS AT THE PRESIDENT'S LUNCH ON 23 SEPTBER. (TEXT IN MIFT).

3. OUTSIDE THE MEETING, SENIOR GREEK OFFICIALS MADE IT CLEAR TO FERGUSSON THAT THE GREEK GOVERNMENT ATTACHED CONSIDERABLE IMPORTANCE TO THIS ISSUE.

4. IT WILL BE NECESSARY TO REPLY TO THE GREEK PAPER. I SHOULD BE GRATEFUL FOR INSTRUCTIONS, WHICH, AS THE NOTE WAS PREPARED BY AGREEMENT WITH THE PRIME MINISTER, SHOULD BE CLEARED WITH THE PRIVATE SECRETARY.

SUTHERLAND

FRAME SOCIAL
ECD(I)
SED

COPIES TO:-

MR PULVERMACHER D/INDUSTRY
MR J SCHOLLS TREASURY
MR J BAKER D/ENVIRONMENT

CONFIDENTIAL