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Prime Minister

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There will be a number of papers to  
OD on 22 July. You may ~~like~~  
like to read this important, but  
lengthy, paper now or at the  
weekend.

A.J.C.  $\frac{14}{7}$

Qz.02639

MR COLES ✓

~~W. J. ...~~  
Please  
not

cc: Mr Wright

EC BUDGET: CONTINGENCY PLANS FOR WITHHOLDING THE UK CONTRIBUTION

OD is meeting to discuss Community policy issues on 22 July. The agenda is heavy and there will be no time to go into each subject in depth. The third item on the agenda is "withholding" and the Chancellor intends to circulate a paper as requested by OD. The Chancellor's paper will, I understand, concentrate on how best to use withholding or a threat to withhold as a means of securing equity for the UK in the Community budget arrangements. It will refer to a detailed contingency plan prepared by officials but the plan will not be on the agenda.

2. I have asked Departments to submit copies of the plan to their Ministers before the OD meeting and to report any significant reactions. I thought that the Prime Minister might also wish to see it. A copy is attached. The plan has been prepared by the Treasury after consultation with the Departments principally concerned which are the Legal Departments, MAFF, Industry, Employment, Trade, Transport and Energy.

3. There is obviously no need for the Prime Minister to read the whole paper at this stage, though I think she would wish to do so if the Government intended to announce an intention to withhold or an explicit threat to withhold in certain circumstances. For the present I would call attention to the following points:-

- (i) On pages 17-19 (paragraphs 49 and 50) there is a list of major points for Ministers to know and questions that would need to be answered before the plan could be implemented. It would be prudent for the Government to take decisions on most of these points before making an explicit threat

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to withhold. If OD decided on 22 July that withholding should be used in the autumn negotiations, a further meeting would be required before the recess to go through this list of questions.

- (ii) One of the more important of these questions is whether the Government legislate at the outset, as strongly recommended by the Attorney General, or wait until events compel. This point is discussed in paragraphs 19-24 on pages 7 and 8.
- (iii) A draft bill has been prepared - the text is on pages 21-24 and a commentary follows. It differs from the bill prepared 2 years ago in that it now incorporates a number of features that will help the Government argue that the UK is not breaking the spirit (as well as the letter) of the Accession Treaty but only taking steps to protect UK citizens from the consequences of a temporary failure by the rest of the Community to remedy an "unacceptable situation".
- (iv) The annexes include detailed assessments by the Departments chiefly concerned of the scope for retaliation by the Commission and other member states and what the Government would need to do in response. These annexes are summarized on pages 11-14 of the main paper. Departments are submitting the whole document to their Ministers calling attention to the points of particular importance to each. I will let you know if any Minister makes an important comment. Mr Walker's reaction will be especially significant. He has always been in favour of a tough negotiating line on the budget but, as Annex G clearly shows, his Department will run the risk of retaliation that could in certain circumstances create important political difficulties (for example if, despite our best endeavours, individual traders and farmers lost out).



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4. Paragraphs 30-33 on page 10a summarize Annex E, which includes an analysis of the effect of withholding on Community finances. The significant point for the Prime Minister to note is that it will take a considerable time, possibly as much as a year or even more, before the Commission actually run short of money.

D.H.

D J S HANCOCK

13 July 1982

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