Vass Péter

Small Step for Thatcher, One Giant Leap for the UK

Step-by-step diplomacy in the political fight for the British rebate

The original, now immortalised sentence of Neil Armstrong ('That's one small step for man, one giant leap for mankind') joined without delay the pantheon of the most well-known quotes after he descended from the ladders of Apollo 11 and stepped onto the lunar surface. While the alternative - use of the epoch-marking original - sentence used as title of this article appears first in the written media, it reflects adequately the continuous efforts, preparation and finally the success of British politics and diplomacy to overcome the problem of the British Budgetary Question that is widely known as BBQ or British Rebate.

The reasons behind the BBQ have been widely discussed in the international literature over the past decades. The present article intends to reveal the ever evolving characteristic of the diplomatic bargaining procedure that spanned various British governments. It had different appearance and pace with the different prime ministers but the target remained constant.

The problem of the BBQ emerged from the contradictions between the general structure of the EC and the special characteristics of the UK. In other words the BBQ embodied in the disparity between the relative wealth of Britain and the size of its net contribution to the European Community budget. The contributions consisted of three elements: the custom duties, the levies and the VAT (Value Added Tax) factor, while the receipts came largely from the EAGGF (European Agricultural Guidance and Guarantee Fund), financing the agricultural sector. The problem of the excessive British net contribution was twofold. On the one hand, its gross contribution was higher than the community average while on the other hand, its receipts from the EC budget were much less than those received by other countries. Its small agricultural sector could not benefit sufficiently from what was by far the biggest part of the EC expenditures.

These possible contradictions were obvious even before the UK's accession. In the 1960s these British specificities contributed to underpinning De Gaulle's veto arguments.

The Heath government decided that UK had to enter the EC first and then deal with the remaining problems as a member. The Accession Treaty gave the legal basis to renegotiate the terms of entry. The first attempt at this was in 1975 with only a specious solution. With the arrival of the 'Iron Lady', Mrs Thatcher the BBQ gained new impetus. The agreement of 1980 brought an interim solution but for a permanent agreement Britain had to wait another four years. However, Fontainebleau meant not only the settlement of the BBQ but also a further step in the financing of the Community.

On the door-step of EC-membership

After De Gaulle's departure as President of France and the arrival of Pompidou as new President of the Republic, Britain finally gained access to the Communities.

The negotiations were concluded in the Elysée Palace on the 21st of May 1971. On 28 October 1971 after the six-day debate Parliament voted in favour of entry to the EC. The Accession Treaty signed in Brussels on the 22nd of January 1972 came into force with the adoption of the European Communities Bill by the Parliament in February 1972. As a result of the accession negotiations, the EC enlarged for the first time on 1 January 1973 with the United Kingdom, Denmark and the Republic of Ireland all becoming members. During the whole negotiations process it was obvious for the British side that if the financial arrangements of the EC remained unchanged this would cause an excessive financial burden to the UK.[1] Despite the British consideration the reaction of the communities was to say that with the emergence of new community policies and the intended reduction of CAP expenditures the British contribution could be more balanced.[2] However, it has been added that: 'should an unacceptable situation arise… the very survival of the Community would demand that the institutions find equitable solutions.'[3]

Although the Heath government was aware of the possible financial threats of the membership, he felt there was no alternative to membership. The possibility of influencing the course of community events from inside seemed to be a satisfactory guarantee besides the EC commitment signed in the Accession Treaty. After the double veto France President Pompidou contrary to his predecessor did not raise an obstacle to the British entry, he was determined to defend the interests of French farmers in the negotiations concerning agriculture as the dialogue between Pompidou and the British Prime Minister reflects: 'If you ever want to know what my policy is, don't bother to call me on the telephone. I do not speak English and your French is awful. Just remember that I am a peasant, and my policy will always be to support the peasants.'[4] Both the French and the British side saw clearly the possible negative budgetary effects of the British accession. Despite this fact Britain found satisfactory the commitment made by the Community and the Commission's intention to reduce CAP's share in community expenditures and to develop other community programmes, from which the UK could benefit more significantly.

The Renegotiations of the terms of entry - 1975

Though certain changes and improvements took place in the Community's policies, the basic problem for Britain was not resolved. Edward Heath in his memoir claims that his government was always very keen on the fairness of the British contribution. He felt Britain was entitled to use its veto in the Council of Ministers as a last resort. He mentions that in the course of his meeting with the German Chancellor, Helmut Schmidt in January 1974 personally discussed the rearrangement of the budgetary provisions of the British Treaty of Accession.[5] However, Wilson's triple objective ('to keep his party in power and in one peace and Britain in Europe') was not easy to

[1] The Government's White Paper ('The United Kingdom and the European Communities'), which was debated in Westminster on 21-26 July 1971 treated such questions as the community budget and the relations between the UK and the Commonwealth
[2] Salmon, Nicoll, 1997
[3] ibidem
[4] Young, 1993
[5] Heath, 1988

achieve. The first wave of the renegotiation of the terms of entry goes back to Labour's manifesto of 1974. It contained the following European issues: a vote on the EC membership, the renegotiation of the terms of entry, and to reach a new agreement for the Commonwealth countries.[6] For the first time the European membership issue became a government-wrecking issue under the Wilson premiership. Callaghan, who was nominated Foreign Secretary, received the difficult task of making a deal with the Community regarding the renegotiation.

The serious financial inequity of budgetary contributions was broadly agreed, its degree was hard to define. Significant changes have occurred in European high politics: following the death of President Pompidou in 1974, Giscard d'Estaing came into power in France; in Germany, Willy Brandt had been succeeded as Chancellor by Helmut Schmidt. These changes caused a slight delay in the renegotiation process. On the 25 of July 1974 Wilson and Callaghan decided that a renegotiation period of twelve months would be followed by a referendum on Britain's EC membership.[7] Wilson, to make use of the commitments made by the Communities during the accession negotiations, used the referendum issue to influence other Member States in the bargaining over the British contribution. While a vote on the British membership was an element of the Labour manifesto, it did not stipulate that this would be a referendum. At home Wilson received numerous criticisms to endanger Britain's EC membership 'negotiating with the EEC with the threat of withdrawal in the background'.[8]

In an attempt to settle the BBQ, the newly-elected French president convened a summit in Paris. Before the December summit meeting two other meetings were arranged, first between Wilson and Helmut Schmidt and later between Wilson and Giscard d'Estaing. The importance of the first meeting was that it was the German Chancellor who convinced Wilson to arrange a bilateral dinner in Paris between Wilson his French counterpart. The Chancellor also supported his British colleague in his endeavour to renegotiate the BBQ influencing the French President to adopt a more receptive approach towards Wilson's proposal.[9] Heath evokes this agreement as a deal between the two politicians. The price of a few concessions in the renegotiation was the assurance of the British Prime Minister to take part in the 'YES' campaign.[10] Although concession regarding the temporary measure reached later at the summit of Dublin went through German mediation as outlined above, the most important obstacle to tackle was French reluctance. At the Wilson-Giscard meeting, the French president was reluctant to make any reduction to Britain on its budgetary contribution. While the French President was arguing on the basis of the 'own resources', i.e. that any monies according to the EC as 'own resources' belonged to the EC and should not be seen as the member states' funds, Wilson requested a 'refund' instead of a reduction reflecting his view that the monies were indeed British. This period avoided the total confrontation that took place later under the Thatcher era. Labour's promise to renegotiate the terms of entry reached its climax at the summit of Dublin in March 1975 where an agreement seemed to have been reached. According to the British government, the results of the Dublin's negotiation among others were that 'the CAP now works more flexibly; the new terms

[6] Butler, Kavanagh, 1974
[7] Benn, 1989
[8] Young, 1993
[9] Jenkins, 1991
[10] Heath, 1988

insure that Britain will pay a fairer share.'[11] In contrast Michael Butler from the Foreign Office characterized the deal, saying it 'never produced any financial results.'[12] Similarly, Michael Palliser, British ambassador in Brussels, linked the internal and external aspects of the renegotiation mentioning: 'It soon became clear to me that the whole object of the exercise was to keep Britain in, and get something that could be presented to the British as politically adequate.'[13] The outcome of Dublin was mainly pure formality for Britain, vital questions for the UK as its budgetary contribution and the regime of the CAP was 'barely scratched.' The formula of the temporary measure that would apply to UK's Gross National Product per head was lower than the 85 per cent of the Community average. In Nigel Lawson's view, the problem with the formula was that it was conceived to reduce the gross budgetary contribution of the UK instead of taking into consideration its net contribution.[14]

After the deal was settled in Dublin, Wilson and his Foreign Secretary seemed to have been persuaded that their country's position was strengthened within the EC. In 1975 the BBQ constituted only a part of the European issue and was still not as important as at the end of the 1970s. The importance of the renegotiation was to solve the tensions in Britain's internal political situation rather than to outline and to ensure acceptance of a well-elaborated long-term rebate mechanism. The formula concentrated on the gross, rather than the net British contribution. Due to these factors the temporary measures reached in Dublin seemed to be inoperative. The Wilson Government made political instead of economic capital out of the renegotiation. In any case, the first trial to renegotiate the British contribution under Wilson was really a cosmetic solution. Roy Jenkins evaluates the renegotiation as 'a largely cosmetic enterprise, producing a maximum of ill-will in Europe and a minimum result.'[15]

As a result of the unexpected changes in the international economic environment[16] the BBQ remained in the background during the first two years (1976-77) of the Callaghan government. Though, after the setting up of the Financial Mechanism of 1975 the structural problem of the BBQ persisted but was almost invisible due to economic reasons. As the problem 'went underground and Britain had virtually no grievance during those years'[17] it deprived the government of grounds for a further renegotiation. By 1978 the BBQ re-emerged.

In the last year of Callaghan's government Britain's contribution increased significantly. This tendency was the result of the growing community expenditures of the CAP.[18]

The Fighting Amazon

Julian Critchley described very plausibly the Thatcher phenomenon, which was also known as 'Madame with the handbag', as follows: 'She cannot see an institution

[11] Thatcher, 1995
[12] Butler, 1986
[13] Young, 1998
[14] Financial Times, 1979
[15] Jenkins, 1991
[16] The average food price level in the EC and on the world market changed significantly.
[17] Jenkins, 1991
[18] Carrington, 1988

without hitting it with her handbag.' With no doubt she was highly assertive. However we have to admit that Margaret Thatcher's entrée into the European diplomacy was marked by the resurrection of the BBQ as an issue on the EC agenda, which was considered her hobby-horse in European politics. With the elections of 1979, a new period began in the United Kingdom from numerous points of view. Margaret Thatcher was the first woman prime minister and the first post-war prime minister who experienced the WWII as a student. Another important heritage from her father was her relative Germanophilia. In her autobiography she characterised Germany as 'a cultured developed, Christian country…' She grew up under the influence of her father's Francophobia. Though it cannot be argued that her relationships with Giscard and Schmidt and later with Mitterrand and Kohl were analogue to the attitude of her father to these respective countries, it is certain that he influenced her initial views on France and Germany. Although she was on good terms with Schmidt, in the BBQ he also became a significant opponent like Giscard 'whom the British leader thought cold and patronising. Olympian but not patrician, she acutely called him.' [19] According to Lawson's assessment, unlike with Kohl, she got on well with Mitterrand who was able to 'score a hit with her by treating her as a woman', although, she also had a considerable respect for Kohl's predecessor, Schmidt.[20]

During her early political carrier Mrs Thatcher was pro-European and maintained this image until the very beginning of her premiership. Through the BBQ one can follow quite well the metamorphosis concerning her attitude towards Europe. As Young describe it 'once routinely favouring Europe, she became its passionate enemy.' [21] Another element that could be important in regarding her attitude to the BBQ is her profession and background: as a scientist she probably had a numerical and pragmatic approach rather than a flexible one.

Both constellations, Giscard-Schmidt and Mitterrand-Kohl, got on well and secured a strong and well-operating Franco-German axis to the Community. Furthermore, the two came into office within a one-year interval 1974 and 1981/82. As the BBQ had a strong economic aspect, the fact that both Giscard and Schmidt were finance ministers before, could have influenced the course of events. Thatcher, herself saw the French role within the axis as that 'France has long feared the power of Germany and hoped that by superior Gallic intelligence power can be directed in ways favourable to French interests.' She considered that Germans, in return for their high financial contributions got valuable 'international respectability and influence'[22]

Raising the Question – Strasbourg, 1979

Mrs Thatcher arrived at her first European Council with a double objective. First she aimed to raise the topic of the BBQ 'without going into too much detail'[23] and secondly she wanted to insure the support of her partners that the Commission put forward proposals regarding the issue for the next Council. The outcome of Strasbourg was that the Commission received the task to prepare proposals for the next Council meeting,

[19] Young, 1998
[20] Lawson, 1992
[21] Young, 1998
[22] Thatcher, 1995
[23] ibidem

while her partners were shown the importance and the problematic character of the BBQ.

The First Offer – Dublin, 1979

Before Dublin the Thatcher Government examined in detail the possibilities for how the UK could put pressure on the other Member States to reach a deal. It identified two possible options according to Nigel Lawson. The first, the withholding of British payments to the EC budget, was for various reasons inapplicable, while the second one, the obstruction of the agricultural price increases, affected mainly France and Germany. The atmosphere of this second Council was even worse than the previous one. The British requested for the reduction of their net contribution, and a 'broad balance'. The British net contribution was more than £1 billion at that time. The first offer made to the British request was £350 million, roughly one third ('a third of a loaf' in Thatcherite language) of the whole UK net contribution.[24] The proposal put forward by the Commission suggested the reduction of the CAP share in the Community expenditures combined with special programmes to increase the UK's benefit from the EC budget. The proposal and the sum were rejected by Thatcher for two reasons, despite appeasing advice from the Foreign Office. She considered the amount was far from sufficient and rejected a refund that was not permanent[25]. Thatcher described the situation as follows: 'Britain cannot accept the present situation on the Budget. It is demonstrably unjust. It is politically indefensible: I cannot play Sister Bountiful to the Community while my own electorate are being asked to forego improvements in the field of health, education, welfare and rest.' The BBQ that originally meant the British Budgetary Question became 'a war of words'[26] between the UK and its partners from 1980. As the struggle for British rebate 'became for a time all-dominating' issue[27], the initial abbreviation of the BBQ gained a second wittier interpretation, namely Bloody British Question.

In Mrs Thatcher's view, her government had passed the clear message to the other heads of states and governments in Dublin that they would never have any peace until the BBQ was settled. In contrast other authors as Jenkins do not back up her view.[28] The following European Council was to be held in Italy; however, finally it was held in Luxembourg due to the Italian government crisis later on, 27-28 April 1980.

Constant British Rejection - Luxembourg 1980

As a result of Thatcher's shrill behaviour Schmidt made it clear that he could not establish a normal rapport with his British counter-part and that he had adopted a hard-line position towards the BBQ.[29] The French proposal was constructive in the Commission's view and thus became the basis of the final Luxembourg offer. The negotiations of the two issues (CAP-BBQ) were held parallel and arrived at the

[24] Young, 1993
[25] Lawson, 1992
[26] Salmon, Nicoll, 1997
[27] Jenkins, 1991
[28] ibidem
[29] ibidem

following results: the French reached their intended objectives concerning the CAP, whereas the UK was offered a generous rebate of £760 million leaving the British net contribution at £325 million for 1980. The Luxembourg offer contained the same amount for 1981 meanwhile a study would be achieved to find a permanent arrangement.[30] Although the offer was found to be generous by the other participants, she rejected it for two reasons: first, it gave a possible solution for only two years instead of being permanent and secondly, the two-thirds rebate was not seen to be enough. Although the President of the Commission, her Foreign Secretary, her two senior advisers[31] and several head of states and governments tried to convince her, she replied to one of them: 'Don't try persuading me: you know I always find persuasion very counter-productive.'[32] Roy Jenkins characterised the situation as follows: 'The essential trouble was that everybody except Mrs Thatcher had become bored to death with the dispute.'

The May Mandate - Brussels 29 May 1980

The consideration of several heads of state and governments to settle the problem before the following European Council in Venice resulted in a meeting in Brussels on 29 May. The BBQ was sent to Foreign Ministers to find a solution to it. After a twenty-four hour long intensive discussion a compromise was reached.[33] At the beginning of the negotiation there was deadlock since those Member States who were in the position of financing a possible increase of the rebate were not prepared to do so and the British representatives had no permission to accept an offer that did not differ significantly from the Luxembourg one. Both the German and the French Foreign Ministers were substituted by other members[34] from their respective governments. These substitutions had a beneficial effect according to Jenkins. At two o'clock in the morning Dohnányi put forward a new proposal, which was adopted by all participants. The result was £1570 million rebate for 1980 and 1981 (for the two years) that left the British net contributions at £370 million and £440 million in these years.[35] The difference between the Luxembourg offer and the Brussels' (Mandate of May[36]) arrangement consisted of a different basis of calculation while the amount of the refund for 1980 and 1981 remained unchanged, with a more explicit arrangement for the year 1982. The Community took the commitment of solving the problem of budgetary imbalances by 1982 and making the necessary structural modifications. If another unacceptable situation arose it was agreed, 'the Commission would put forward proposals inspired by the solutions of 1980 and 1981 and the Council would decide accordingly'.[37] Thus the result could be argued to be better, the same or worse than the offer in Luxembourg according to the Foreign Ministers' needs of selling it to their governments.[38] Lord

[30] Young, 1993
[31] Robert Armstrong and Michael Palliser
[32] Jenkins, 1991
[33] Carrington, 1988
[34] Dohnanyi represented Germany instead of Genscher and Bernard-Reymond came instead of Francois-Poncet
[35] Lawson, 1992
[36] the Brussels package
[37] Bulletin des Communautes europeennes, 1980
[38] Jenkins, 1991

Carrington's opinion was summarised in the telling remark that 'half a loaf is better than no bread.'[39] While Lord Carrington's recollections of Mrs Thatcher's reaction regarding the deal are not recorded, other sources do not leave us in any doubt. Ian Gilmour, the other representative of the UK in Brussels recalls: 'She was like a firework whose fuse had already been lit; we could almost hear the sizzling.'[40] Thatcher accused Gilmour and Carrington of giving in and having made a settlement with worse conditions than she had already declined before.[41] Thatcher in her autobiography attributes her acceptance of the Brussels package to the fact that they had to accept only 5 per cent of the increase in farm prices and that it represented a huge development compared to the initial situation of her government. Undoubtedly, the threat of Gilmour's and Carrington's resignations contributed greatly to her acceptance.

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[39] Carrington, 1988
[40] Carrington, 1988
[41] Young, 1998