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

14th January, 1980

Dear Alexander,

THE EEC BUDGET UK NET CONTRIBUTION

At the Prime Minister's discussion on Tuesday, 8th January with members of the European Parliament she mentioned a receipts mechanism as one of the elements relevant to a solution to the UK's budgetary difficulty.

In the briefing for Dublin one approach to the receipts problem was identified as closing the gap between the UK's receipts and Community average receipts.

The figures derived from this approach would be as follows in respect of 1980 (using Commission figures as the basis):

	<u>Gross</u>	<u>Net</u>
75%	1283 MEUA (£866m)	1058 MEUA (£714m)
80%	1368 MEUA (£924m)	1128 MEUA (£762m)

An alternative approach, which would produce lower figures, would be to bring UK receipts to 75 per cent or 80 per cent of average receipts. The correct calculation for this would, by iteration, take into account the effect on the level of Community average receipts of the payment which increased the UK's receipts, and would be:

	<u>Gross</u>	<u>Net</u>
75%	1065 MEUA (£720m)	880 MEUA (£595m)
80%	1275 MEUA (£860m)	1050 MEUA (£710m)

M. O'D. B. Alexander, Esq.,
10, Downing Street

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If this effect were not taken into account the figures would be:

	<u>Gross</u>	<u>Net</u>
75%	890 MEUA (£600m)	735 MEUA (£495m)
80%	1055 MEUA (£710m)	870 MEUA (£590m)

I should add that we cannot necessarily assume that receipts enhanced in any of these ways could simply be added to the benefits from the modified Financial Mechanism discussed in Dublin (which in respect of 1980 would have produced 630 MEUA (£425 million) gross, 520 MUEA (£350 million) net. The Financial Mechanism at present contains another restriction, which puts a maximum on refunds under it (Article 3(b)). Broadly speaking, the gross refund is not intended to be used so as to make the member state a net recipient, and specifies this on an "importer benefits" basis. (This provision is in general likely to be helpful to us by disqualifying countries like Italy and Ireland who are usually net beneficiaries from the Budget.) Certainly in respect of 1980 some of the receipts figures rehearsed above would, if added to benefits under a "stripped down" Financial Mechanism, produce a net benefit for us and this might have to be trimmed, unless the provisions in the Mechanism were further modified.

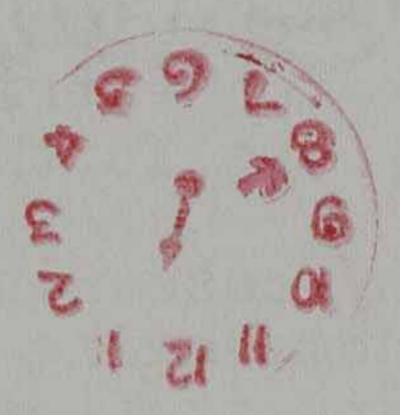
In any case, in offering these calculations the Treasury is not recommending that they should be used publicly: on the contrary it seems best to continue to avoid giving any precise interpretation of the broad order of magnitude which the Prime Minister was, at a private meeting, attaching to one possible element in an acceptable settlement.

I am sending copies of this letter to Michael Richardson (FCO) and to Michael Franklin (Cabinet Office).

yours sincerely

John Wiggins

(A.J. WIGGINS)



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