



Treasury Chambers, Parliament Street, SW1P 3AG
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23rd January, 1980

Dear Michael,

COMMUNITY BUDGET

You wrote to Michael Richardson on 18th January about the paper by the Lord Privy Seal for OD which would incorporate a new line on our budget contribution for use with Signor Cossiga.

The Chancellor has asked me to say that, while he agrees with the Prime Minister's general approach, he would prefer to avoid putting a figure of £800 million into circulation at this stage. As you say, there are a number of different ways in which a concession of this kind could be formulated, and the Chancellor would prefer both that the formulation be indirect and that it should now be related to what we are prepared to pay rather than to the amount we want to recover. If we put a reduced figure of refund into circulation our partners will tend to look for a settlement halfway between that figure and their last offer to us; and our domestic opponents will measure our success, when a solution is ultimately reached, against both the reduced figure and the original £1,000 million. Moreover the forecasts of our net contribution for 1980 are tending to rise. If we concentrate attention on a refund of £800 million, we may find ourselves left with a net contribution exceeding £200 million, even on an "importer benefits" basis (which is not the one used in PESC).

The Chancellor therefore suggests that we should concentrate attention on our readiness (implicit in the "genuine compromise" formula) to accept a modest net contribution for the time being; and should go on to give an indication of scale by saying that our net contribution ought to bear the same relationship to that of France as our GNP does to theirs. That might produce a net contribution roughly of the order the Prime Minister has in mind since the French

/would become

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would become moderate net contributors as a result of the redistribution of most of our present net contribution. There is a chance that our partners would accept the reasonableness of the proposition that our contribution should be below that of France, and there may also be credit to be had from concentrating on what we are prepared to pay rather than on our demand for recoupment - even if the result is in the end the same or better. We would also have to consider carefully what a "modest net contribution" approach would mean for the mechanisms we were seeking and for their duration.

I am copying this letter to George Walden (FCO) and Martin Vile (Cabinet Office).

Yours sincerely

John Wiggins

(A.J. WIGGINS)

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24 JAN 1980



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