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10 DOWNING STREET

From the Private Secretary

13 May 1980

Community Budget

The Prime Minister has seen the Chancellor of the Exchequer's minute to her of 12 May on this subject. In considering it she concentrated on the table in paragraph 7 of the minute.

The Prime Minister agrees that the approach summarised in row 3 of that table is acceptable. Along with the original UK proposal, summarised in row 2, it may be used by the Foreign and Commonwealth Secretary in his discussions tomorrow with Signor Colombo. The Prime Minister does not accept the figures in the final column of the table since they appear to be based on the assumption that the 1 per cent VAT ceiling will be breached. The Prime Minister does not like the arbitrary figures set out in row 4 of the table.

The Prime Minister noted that if we pursue the constant percentage reduction approach, we need not get involved in a discussion of the figures for our net contribution in 1981 and 1982. Our proposal would simply be that once the percentage relationship between a contribution of 538 meua and our unadjusted net contribution for 1980 had been established, that same percentage would be applied to our unadjusted net contribution at the end of each of the next two years to establish our actual contribution. However, the Prime Minister also indicated, taking the figures in the Chancellor of the Exchequer's minute, that she might be prepared in due course to envisage a percentage reduction of, say, 72.5 per cent instead of one of 73.5 per cent in our unadjusted net contribution for this year.

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

M. O'D. B. ALEXANDER

John Wiggins, Esq.,
H.M. Treasury.

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