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Treasury Chambers, Parliament Street, SW1P 3AG
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Dear Michael,

THE COMMUNITY BUDGET AND CHANCELLOR SCHMIDT

In his minute of 22 October to the Prime Minister, Lord Carrington suggested that it might be tactically wise that the proposed table to be given to Chancellor Schmidt's office should show a lower net German contribution. This question will no doubt be tackled at the Prime Minister's meeting on 2 November, and the Chancellor has suggested that it might be helpful to circulate in advance the attached alternative version of the table.

....

The new table shows two possible 'corrected' patterns of net contributions, one more and the other less favourable to the Germans. The new Column 3b is identical with Column 3a in the table attached to the Chancellor's minute of 19 October. The new Column 3a is derived by applying lower scaling factors to the limits formulae (1½ per cent in the case of the 'ability to pay' formula).

The new table is designed to appeal to the two different schools of thought within the German government. From the standpoint of national financial advantage, Column 3a would clearly be preferable for them. Their net contribution would fall by some 350 million ecus compared with their post-30 May position (as we interpret it), and the upper limit on their net contribution would be a little below 2 billion ecus (see footnote 3 to the table). This compares with a reduction in their net contribution of only some 150 million ecus in Column 3b and an upper limit on their net contribution of a little over 2½ billion ecus. The disadvantage of Column 3a, from a German point of view, is that it would take more away from the small rich countries, those net receipts would be reduced to about 100 million ecus each. One might hazard the guess that Schmidt and the Finance Ministry would prefer Column 3a, while Genscher and the Auswaertiges Amt would prefer Column 3b. The UK's position would not be affected.

/If we

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If we were to show two columns, as in the new version of the table, it would probably be best to drop the column in the earlier table which illustrated how the picture might look if the UK became more prosperous than the Community average. Otherwise the table would become too complicated. The point that the UK too would become a net contributor if we were more prosperous than average could then be made orally. Consequential amendments would be needed in the two accompanying notes.

Copies of this letter go to Brian Fall and David Wright.

Just now,

J. O. Kerr.

J.O. KERR
Principal Private Secretary

NET CONTRIBUTIONS AND RECEIPTS BEFORE AND AFTER CORRECTION

Million ecus estimates for 1981

	'Uncorrected' pattern	Post 30 May pattern	Possible 'corrected' patterns under proposed scheme	
	1	2	3a	3b
Germany	-1650	-2155	-1810	-2015
France	135	- 305	- 445	- 425
Netherlands	370	275	80	125
Belgium	450	380	105	160
Denmark	405	370	70	120
Luxembourg	285	280	130	165
UK	-1865	- 455	-	-
Italy	1020	775	1020	1020
Ireland	710	695	710	710
Greece	140	140	140	140

Notes

1. Column 1 is the average of the two cases illustrated in the Commission's paper SEC(81)1.281.
2. Column 2 assumes that Greece does not contribute to the UK refunds.
3. The upper limits on the German net contributions in Columns 3a and 3b would be some 1950 million ecus and some 2500million ecus respectively. On the figures used here, these limits would not be 'binding' in either case - see the accompanying specification note, paragraph 7 - but the proximity of the German uncorrected net contribution to the upper limit would be reflected in more modest German contributions to the UK refunds than under the 30 May system.
4. The figures relate to the 'allocated' budget only. No account is taken of net contributions to the 'unallocated' budget, which includes aid, unallocated administration, ERDF non-quota section, transport infrastructure, various items of fisheries expenditure, disaster relief, Greek refunds etc.