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 TO IMMEDIATE BONN
 TELEGRAM NUMBER 470 OF 2 NOVEMBER
 INFO IMMEDIATE UKREP BRUSSELS.

MY TWO I.P.T.S FOLLOWING ARE FIGURES:

NET CONTRIBUTIONS AND RECEIPTS BEFORE AND AFTER CORRECTION
 MILLION ECUS ESTIMATES FOR 1981

	'UNCORRECTED' PATTERN (1)	POST 30 MAY PATTERN(2)	POSSIBLE PATTERNS PROPOSED	'CORRECTED' UNDER SCHEME(3)	'UNALLO- CATED' BUDGET(6)
	1	2	3A AT CURRENT EXCHANGE RATES	3B HIGHER £ EXCHANGE RATE VARIANT	4
GERMANY	-1650	-2155	-1810	-1695(4)	-120
FRANCE	135	- 305	- 445	- 370	- 30
NETHERLANDS	370	275	80	80	-55
BELGIUM	450	380	105	105	5
DENMARK	405	370	70	70	- 5
LUXEMBOURG	285	280	130	130	-
UK	-1865	- 455	- 5	-190	-185
ITALY	1020	775	1020	1020	-105
IRELAND	710	695	710	710	-
GREECE	140	140	140	140	- 15

NOTES

1. COLUMN 1 IS THE AVERAGE OF THE TWO CASES ILLUSTRATED IN THE COMMISSION'S PAPER SEC(81)1.281 DATED 30 JULY 1981.
2. COLUMN 2 ASSUMES THAT GREECE DOES NOT CONTRIBUTE TO THE UK REFUNDS.
3. COLUMN 3A IS BASED ON FORECAST AVERAGE EXCHANGE RATES FOR 1981 AND ASSUMES THAT UK GDP PER HEAD, IN ECUS, IS 93.4 PER CENT OF THE COMMUNITY AVERAGE. COLUMN 3B ILLUSTRATES HOW THE PATTERN MIGHT LOOK IF THE POUND/ECU EXCHANGE RATE WERE 10 PER CENT HIGHER AND UK GDP PER HEAD, IN ECUS, ROSE IN CONSEQUENCE TO 102.8 PER CENT OF THE COMMUNITY AVERAGE (SEE PARAGRAPH 5 OF THE NOTE).

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4. THE UPPER LIMITS ON THE GERMAN NET CONTRIBUTIONS IN COLUMNS 3A AND 3B WOULD BE SOME 1950 MILLION ECUS AND SOME 1725 MILLION ECUS RESPECTIVELY. ON THE FIGURES USED HERE, THESE LIMITS WOULD NOT BE 'BINDING' IN EITHER CASE - SEE PARAGRAPH 7 - BUT THE PROXIMITY OF GERMANY'S UNCORRECTED NET CONTRIBUTION TO ITS UPPER LIMIT WOULD BE REFLECTED IN MORE MODEST GERMAN CONTRIBUTIONS TO THE UK REFUNDS THAN UNDER THE 30 MAY SYSTEM.

5. SEE FURTHER PARA 2(2) OF THE NOTE.

6. THE FIGURES IN COLUMNS 1, 2 3A AND 3B RELATE TO THE 'ALLOCATED' BUDGET ONLY. UK ESTIMATES FOR NET CONTRIBUTIONS TO, AND RECEIPTS FROM, THE 'UNALLOCATED' BUDGET ARE SHOWN IN COLUMN 4. THE UNALLOCATED BUDGET INCLUDES AID, UNALLOCATED ADMINISTRATION, ERDF NON-QUOTA SECTION, TRANSPORT INFRASTRUCTURE, VARIOUS ITEMS OF FISHERIES EXPENDITURE, DISASTER RELIEF, GREEK REFUNDS ETC.

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MIPT:
 FOLLOWING IS EXPLANATORY NOTE:

A GENERAL SCHEME FOR CORRECTING NET CONTRIBUTIONS.

1. THIS NOTE OUTLINES A POSSIBLE SCHEME FOR CORRECTING MEMBER STATES' NET CONTRIBUTIONS TO THE COMMUNITY BUDGET.

2. THE MAIN FEATURES OF THE SCHEME WOULD BE:

(1) THE COMMUNITY WOULD PLACE UPPER LIMITS ON ANY MEMBER STATES CONTRIBUTION (NOT JUST THE UK'S AND GERMANY'S).

(2) THE LIMITS WOULD BE CALCULATED IN ACCORDANCE WITH A FORMULA BASED ON RELATIVE PROSPERITY AND POPULATION SIZE. (SEE FURTHER PARA 3 BELOW) MEMBER STATES WITH LESS THAN AVERAGE PROSPERITY WOULD NOT MAKE ANY NET CONTRIBUTION TO THE ALLOCATED BUDGET EXCEPT POSSIBLY TO SOME PART OF ALLOCATED ADMINISTRATION EXPENDITURE. THE LIMITS FOR THE MORE PROSPEROUS MEMBER STATES WOULD VARY DIRECTLY WITH THEIR SIZE AND RELATIVE PROSPERITY.

(3) THE COMMUNITY WOULD DECIDE ON THE OVERALL SCALE OF THE LIMITS IN THE LIGHT OF THE COMMUNITY'S NEEDS AND WHAT THE MAIN NET CONTRIBUTOR COUNTRIES COULD AFFORD.

(4) THE FINANCING OF ANY BUDGET REFUNDS MADE NECESSARY BY THE LIMITS WOULD BE SHARED BETWEEN THE MORE PROSPEROUS MEMBER STATES IN PROPORTION TO THE DIFFERENCE BETWEEN (A) THEIR UNCORRECTED NET POSITIONS AND (B) THE LIMITS ON THEIR NET CONTRIBUTIONS GIVEN BY THE FORMULA IN (2) ABOVE. THE LESS PROSPEROUS MEMBER STATES WOULD NOT BE EXPECTED TO CONTRIBUTE TO THE REFUNDS AND WOULD THUS BE BETTER OFF THAN UNDER THE 30 MAY ARRANGEMENTS.

3. FURTHER TO PARAS, 2 (2) AND (3) ABOVE, THIS LIMITS MIGHT BE SET AT SOME SMALL PERCENTAGE - SAY 1 AND 1 HALF PERCENT - OF THE AMOUNT BY WHICH A MEMBER STATE IS BETTER OFF IN AGGREGATE THAN THE COMMUNITY AVERAGE. THE LATTER AMOUNT MIGHT IF CALCULATED AS THE DIFFERENCE BETWEEN A MEMBER STATE'S GDP PER HEAD AND COMMUNITY AVERAGE GDP PER HEAD, MULTIPLIED BY ITS POPULATION SIZE OR (EQUIVALENTLY) AS THE DIFFERENCE BETWEEN A MEMBER STATE'S ACTUAL GDP AND WHAT ITS GDP WOULD BE IF IT HAD COMMUNITY AVERAGE GDP PER HEAD. DIFFERENT SCALING PERCENTAGES WOULD OF COURSE BE POSSIBLE.

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4. COLUMN 3A OF THE TABLE SHOWS HOW THE PATTERN OF 'CORRECTED' NET CONTRIBUTIONS AND RECEIPTS MIGHT HAVE LOOKED UNDER THIS SCHEME IN 1981. THESE ESTIMATES ARE BASED ON THE FIGURES PROVIDED BY THE COMMISSION AT THE END OF THE SUMMER. THE 1 AND 1 HALF PERCENT SCALING PERCENTAGE USED IN THIS TABLE (SEE PARA 3) PRODUCES A NET CONTRIBUTION BY GERMANY BELOW THAT PROJECTED UNDER THE 30 MAY ARRANGEMENTS (COLUMN 2). OTHER SCALING FACTORS WOULD OF COURSE BE POSSIBLE.

5. COLUMN 3B ILLUSTRATES HOW THE PATTERN MIGHT LOOK IF A HIGHER £/ECU EXCHANGE RATE WERE TO LIFT UK GDP PER HEAD, EXPRESSED IN ECUS, SLIGHTLY ABOVE THE COMMUNITY AVERAGE.

6. COLUMNS 1-3B RELATE TO THE 'ALLOCATED' BUDGET ONLY, AS DEFINED BY THE COMMISSION. COLUMN 4 GIVES UK ESTIMATES OF NET CONTRIBUTIONS TO, AND RECEIPTS FROM, THE REST OF THE BUDGET.

7. AS EXPLAINED IN FOOTNOTE 4, GERMANY WOULD NOT BE AT ITS LIMIT IN THE EXAMPLES ILLUSTRATED IN THE TABLE. THE UK WOULD BE THE ONLY COUNTRY AT ITS LIMIT. GERMANY WOULD HOWEVER CONTRIBUTE SUBSTANTIALLY LESS THAN UNDER THE 30 MAY ARRANGEMENTS TO THE UK'S REFUNDS.

8. A NOTE EXPLAINING THE SCHEME IN MORE DETAIL IS BEING SENT OUT FROM LONDON AND WILL BE AVAILABLE ON THURSDAY.

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30 MAY MANDATE : BUDGET

1. IT IS CLEAR FROM ALL OUR CONTACTS WITH THEM OVER RECENT MONTHS THAT THE GERMANS ARE NOT GOING TO BUY OUR 'HAGUE' APPROACH, DESPITE THE EVIDENT FINANCIAL ATTRACTIONS FROM THEIR POINT OF VIEW. ON THE OTHER HAND, THEY HAVE NOT YET DECIDED ON AN APPROACH OF THEIR OWN.
2. IN THESE CIRCUMSTANCES, MINISTERS HAVE DECIDED THAT A FURTHER ATTEMPT SHOULD BE MADE IN ADVANCE OF THE ANGLO-GERMAN SUMMIT MEETING ON 18 NOVEMBER AND OF THE EUROPEAN COUNCIL TO ESTABLISH COMMON GROUND BETWEEN US ON THE BUDGETARY CHAPTER OF THE NEGOTIATIONS. WITH THIS IN MIND OUR ORIGINAL 'HAGUE' APPROACH HAS BEEN MODIFIED TO MEET GERMAN CONCERNS AND TO APPLY LIMITS ONLY TO NET CONTRIBUTORS. THIS RESULTS IN LESS RADICAL CHANGES, BOTH IN METHODOLOGY AND IN FINANCIAL TERMS, THAN WHAT WE HAVE SO FAR BEEN PROPOSING.
3. MY TWO IFTS CONTAIN AN EXPLANATORY NOTE EXPLAINING THE REVISED APPROACH WITH AN ILLUSTRATIVE SET OF FIGURES. YOU SHOULD TRANSMIT THESE AT THE EARLIEST POSSIBLE OPPORTUNITY TO THE CHANCELLOR'S OFFICE, LEAVING ANY POSSIBLE TRANSMISSION OF THEM TO OTHER GERMAN DEPARTMENTS TO THE CHANCELLERY ITSELF AND NOT MENTIONING YOUR DEMARCHE TO OTHERS.
4. WHEN HANDING OVER THE TWO PIECES OF PAPER YOU SHOULD MAKE IT CLEAR THAT THEY DO NOT AS YET REPRESENT A FORMAL BRITISH GOVERNMENT POSITION. WE IN FACT CONTINUE TO BELIEVE THAT THE 'HAGUE' APPROACH IS A MORE LOGICAL WAY OF PROCEEDING AND ONE MORE LIKELY TO CONFORM TO THE COMMUNITY'S LONGER TERM INTERESTS. NEVERTHELESS, WE ATTACH GREAT IMPORTANCE TO ESTABLISHING COMMON GROUND WITH THE GERMAN GOVERNMENT AS THE ONLY OTHER CURRENT NET CONTRIBUTOR TO THE COMMUNITY BUDGET. IN THESE CIRCUMSTANCES,

/THE PRIME MINISTER

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THE PRIME MINISTER WOULD BE PREPARED TO CONSIDER THE ALTERNATIVE APPROACH WHICH HAS BEEN CAREFULLY TAILORED TO TAKE ACCOUNT OF THE MAIN CRITICISMS MADE OF THE 'HAGUE' APPROACH IN ANGLO-GERMAN BILATERAL CONTACTS BUT WE RETAIN THE CONCEPT OF LIMITS ON NET CONTRIBUTIONS WHICH SCHMIDT HAS ADVOCATED. MOREOVER, THIS SEEMS TO US TO FIT IN WELL WITH THE FORM OF WORDS PROVIDED BY THE GERMAN GOVERNMENT FOR INCLUSION IN THE DRAFT EUROPEAN COUNCIL CONCLUSIONS.

5. YOU SHOULD ADD THAT WE WOULD BE GRATEFUL FOR A CLEAR REACTION TO OUR LATEST THINKING BY THE END OF THIS WEEK. IF IT WERE THOUGHT USEFUL BY THE GERMANS, FRANKLIN COULD COME TO BONN FOR A CONTACT WITH THE CHANCELLERY ON THE AFTERNOON OF 5 NOVEMBER. YOU SHOULD EXPLAIN THE SHORT DEADLINE BY POINTING OUT THAT TIME IS NOW VERY SHORT BEFORE THE EUROPEAN COUNCIL IF, AS BOTH WE AND THE GERMANS WISH, DECISIVE PROGRESS IS TO BE MADE AT THAT MEETING. AS PRESIDENCY, WE HAVE A DIFFICULT TASK IN THE WEEKS AHEAD: AND BEFORE TRYING TO PERSUADE OTHERS TO ACCEPT THE NEED TO ADJUST THEIR POSITIONS (MOST OF WHICH ARE AT THE MOMENT QUITE UNACCEPTABLE TO EITHER THE BRITISH OR THE GERMAN GOVERNMENTS), WE NEED TO KNOW WHERE WE ARE BETWEEN OURSELVES (BRITISH AND GERMANS).

6. IN THE LIGHT OF THESE DEVELOPMENTS WE DO NOT THINK THE TIME IS RIGHT FOR AN INVITATION TO GENSCHER TO VISIT LONDON AS SUGGESTED IN YOUR TELEGRAM 818. SUCH AN INVITATION COULD WELL RESULT IN DELAYING THE GERMAN REACTION TO OUR NEW SCHEME UNTIL THE VISIT COULD BE ARRANGED. NOR DO WE THINK GENSCHER WOULD BE THE RIGHT PERSON TO APPROACH ABOUT THE NEW SCHEME, WHICH SHOULD GET A MORE SYMPATHETIC HEARING FROM THE CHANCELLOR'S OFFICE.

7. BEFORE HANDING OVER TABLE IN MIFTS, PLEASE CHECK THE FIGURES ON THE TELEPHONE WITH CULPIN (TREASURY) - 233-5582.

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