



SUBJECT.

JS
cc HMT
CO

cc. Minister sub.

10 DOWNING STREET

From the Private Secretary

2 November 1981

BF (see page 2)

Dear Brian,

EC BUDGET MANDATE

The Prime Minister held a meeting here this morning to discuss our approach to the discussion of the EC Budget Mandate at the European Council meeting later this month. The Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and the Lord Privy Seal took part. Mr. Franklin was also present.

1981 Figures

There was a brief preliminary discussion of the size of the UK contribution to the 1981 Budget. The Foreign and Commonwealth Secretary said that the UK contribution was likely to be small. It might not be as low as the Sunday Times had suggested the previous day, i.e. £55 million. But the latest Commission figures suggested that it would be about £70 million. The Chancellor of the Exchequer agreed that the figures were likely to be very good but said that this was the result of a number of chance factors, e.g. favourable agricultural prices. It would be essential to be cautious until the final figures were produced. In any case they provided no basis for optimism in the longer term. The Foreign and Commonwealth Secretary agreed.

New Budget Limits Scheme

The Foreign and Commonwealth Secretary said that he thought it unlikely that the Germans would be attracted to the new scheme which the Chancellor of the Exchequer had circulated under cover of his minute of 19 October (and which had been amended in Mr. Kerr's letter of 29 October to Mr. Scholar). He had no objection to the presentation of the scheme to the German Government but he was concerned about the impact on the Germans of the illustrative tables which had been prepared. He himself would prefer that no tables should be handed over. If there had to be tables, he hoped that they would not show a zero contribution by Britain. To do this would leave us open to the accusation that we were seeking a "juste retour". Moreover, if the Germans were going to have to pay as much as the tables proposed, they would certainly expect us to pay something. We would need German support if we were to get anywhere with the rest of the Community. As regards our overall objective, we had never said publicly that our aim was to contribute nothing.

/ The Chancellor

JS

The Chancellor of the Exchequer said that he was less worried than the Foreign and Commonwealth Secretary about presenting tables along the lines proposed to the Germans. It would be wrong to circulate anything which suggested that the United Kingdom was prepared to be a net contributor. OD had established our objective as being a zero contribution. The figures proposed for a German contribution might be high. But they were lower than the Federal Republic would otherwise pay and they did set a ceiling. Moreover, the effect on the anticipated receipts of the "small rich" members of the Community would be severe. If the figures in columns 3a and 3b of the enclosure to Mr. Kerr's letter under reference were unacceptable, perhaps they could be replaced with a table in which one column would show Britain as a net contributor and the other as a net recipient. In any case it would be *more effective if* the new scheme ~~should be~~ presented direct to the Chancellor's staff rather than to the Finance Ministry in Bonn. The latter could be expected to react negatively.

The Prime Minister agreed that illustrative tables would have to be provided but said that she was unhappy about handing over a table showing a zero contribution for the United Kingdom. It would be easier if the figures suggested a contribution of, say, 70 million ecus. The German contribution seemed in any case very high. The Prime Minister said that she sympathised with the Chancellor of the Exchequer's objectives. But the question was what it was realistic to expect to achieve and what tactics were most likely to succeed. Would it be possible, for instance, to include in the figures the unallocated budget? Everyone had to contribute to administrative costs.

It was agreed that a table with amended figures showing a UK contribution should be prepared and handed to the Germans as soon as possible. The best means might be for Sir J. Taylor to take action with Dr. Heick. The Germans should be asked to reply in the course of this week in order that their reaction would be available before the Italian bilateral or, at the latest, before OD on 12 November.

General

The Foreign and Commonwealth Secretary said it was not realistic to envisage a settlement of the Budget problem at the European Council later this month. But some progress had to be seen to be made. We should be attempting to get the method of Budget reform, rather than the figures, settled. It would be right also to try to ensure that our 1982 Budget contribution was determined on the basis of whatever new approach was agreed rather than by rolling forward the May 1980 arrangement. It would be essential to decide before the European Council whether we were going for a solution along the lines favoured by the Treasury, i.e. a ceiling on contributions adjusted by reference to GDP, or along the lines favoured by the Commission, i.e. a combination of Chapter 1, FEOGA reform and a balancing mechanism. The Treasury approach would, of course, be excellent if we could secure its adoption. But we might be forced back to the approach advocated by the Commission.

/ The Chancellor

The Chancellor of the Exchequer said that it would be sensible to await the German reaction to the latest version of the Treasury approach before deciding how to proceed. The Prime Minister agreed. She said that she was much concerned by the absence of progress so far. She thought it would be essential to have something to show as a result of the UK Presidency. (The Foreign and Commonwealth Secretary noted that it was in some ways a handicap for us to hold the Presidency.) It was difficult to see how a satisfactory outcome could be achieved which did not include a corrective based on Member States' ability to pay.

Bilateral Contacts

The Chancellor of the Exchequer said that a conversation in the margin of the ECOFIN meeting before the weekend had led him to the conclusion that M. Delors was the French Minister most likely to be helpful to our cause. M. Delors was looking for a solution before next summer. He was thinking of an arrangement which would last some years and would be degressive. M. Mitterrand, according to M. Delors, was anxious to keep in close touch with the Prime Minister in the run-up to the European Council. He would like to arrange a contact with the Secretary of the Cabinet. The Prime Minister said she saw no difficulty in this.

It was agreed that there would be little point, given the shortage of time, in trying to expand the Italian bilateral to include Finance Ministers.

I am sending copies of this letter to John Kerr (HM Treasury) and David Wright (Cabinet Office).

Yours ever

Michael Alexander

Brian Fall, Esq.;
Foreign and Commonwealth Office.