



Mr Alexander

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

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(4)

Michael Scholar, Esq.,
Private Secretary,
10, Downing Street

MS

Robin Alexander

Paul

Dear Michael,

EC BUDGET: NEW ESTIMATES OF NET CONTRIBUTIONS AND RECEIPTS

The Chancellor has asked me to let you know that, as he foreshadowed when he spoke to the Prime Minister and the Foreign and Commonwealth Secretary on Monday, the Commission have now released to the press new estimates for Member States' net contributions and receipts in respect of the EC Budgets for 1980 and 1981. These show lower net contributions by the UK than previously expected. They also show higher net receipts by France and lower net receipts by Italy. The attached table sets out the figures, which are before refunds to the UK.

The Chancellor has asked our Press Office to take the following line:-

We shall need to examine these new Commission estimates with care. If it is true that our adjusted net contribution in respect of 1980 and 1982 will turn out to be lower than expected, that is very satisfactory, because the 30 May Agreement left us paying a large net contribution even though we are one of the poorer Member States. But the problem of 1982 and later years remains to be solved.

If it is argued that our refunds should be reduced because of the shortfall in our unadjusted net contribution, we shall reply that the 30 May Agreement gives us refunds of 1175 million ecus in respect of 1980 and 1410 million ecus in respect of 1982. There is no provision for these refunds to be reduced.

If it is argued that the latest figures show our budget problem to be disappearing, we shall reply that the figures relate to the past, but the current negotiations are about the future. A number of factors are tending to reduce our net contribution at present. Some may be reversed, some certainly will be. On the expenditure side of the Community Budget, high world food prices are tending to curb the costs of the CAP. On the financing side, the behaviour of the sterling/ecu exchange rate has

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switched some of the UK's contributions from 1981 into 1982. Our net contribution in respect of 1982 may well be of the order of 2 billion ecus (before refunds).

Finally, I should mention that we have one or two technical doubts about the Commission's figuring. In particular, we believe our net contribution in respect of 1980 to have been of the order of 1700 million ecus, rather than the 1512 million ecus suggested by the Commission. We are pursuing detailed methodological points with the Commission.

I am sending copies of this letter to Brian Fall (FCO), Kate Timms (MAFF) and David Wright (Cabinet Office).

Yours ever

J. O. Kerr

J.O. KERR

COMMISSION ESTIMATES OF NET CONTRIBUTIONS (-) AND
RECEIPTS (+) BEFORE UK REFUNDS

Million ecus

	<u>1980</u>	<u>1981</u>
Germany	- 1540	- 1647
France	+ 423	+ 624
Netherlands	+ 441	+ 223
Belgium	+ 225	+ 388
Denmark	+ 331	+ 302
Luxembourg	+ 232	+ 262
UK	- 1521*	- 1505*
Italy	+ 735	+ 619
Ireland	+ 644	+ 591
Greece	n.a.	+ 123

+ On our interpretation, the 30 May agreement gives the UK refunds of 1125 million ecus in respect of 1980 and 1410 million ecus in respect of 1981.

* The forecasts in the 30 May agreement were -1784 million ecus in respect of 1980 and -2140 million ecus in respect of 1981.