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

CONFIDENTIAL 25 June 1981

C A Whitmore Esq
10 Downing Street
London SW1

Dear Clive,

COMMISSION REPORT ON 30 MAY 1980 MANDATE

The Chancellor has suggested that the Prime Minister may like to have a note ahead of her European Council briefing meeting this afternoon on how the proposals in the Commission's report might affect the UK's net budgetary contribution.

Commission proposal

2. The Commission's proposal is expressed in general terms, with no illustrative figures. Starting from the proposition that CAP guarantee expenditure is the only part of Community expenditure which raises distributional problems, the Commission suggest -

i. a FEOGA budget mechanism, confined to the UK and limited in time, which would reimburse to the UK a 'fairly high' proportion of the difference between (a) our actual share of FEOGA guarantee expenditure and (b) what our GDP share of that expenditure would have been - this reimbursement to be financed either from own resources or in accordance with FEOGA guarantee receipts shares; and

ii. continuation of the financial mechanism on the revenue side 'if it is needed' - the Commission to make proposals before the end of this year.

Effects on UK

3. The main point to be made is that the effects of these proposals on the UK would be highly uncertain. They would turn critically on what detailed arrangements we were able to negotiate. The Commission have deliberately avoided tackling the problem of budgetary imbalances head-on, as suggested in the Chancellor's Hague speech, and have preferred instead to suggest a technical adjustment to the Community's budgetary arrangements which is incompletely specified.

... 4. The attached table illustrates a limited range of possible outcomes, on alternative interpretations of the Commission's proposals. The effects on the UK would depend in particular on:-

a. what proportion of the difference between average FEOGA guarantee and GDP shares the agricultural mechanism would cover - the table illustrates 100 per cent, 80 per cent and 60 per cent;

b. over what period these averages would be calculated - the table assumes three years; and

c. whether or not the financial mechanism would continue - the table illustrates both cases.

The outcome would also depend importantly on a number of more technical details, including the precise rules of the financial mechanism.

5. If the proposals were already in force in 1981, the UK's net contribution on the assumptions illustrated could be anything between 250 million and 1050 million ecus. Even this range is subject to a considerable margin. If, for example, a slightly different period were used for averaging our shares of GDP and agricultural receipts, and a different assumption were made about the accounting for MCAs, the upper end of the range would rise to some 1300 million ecus.

6. For 1982, the range in the table is from zero to 1585 million ecus. Again,the upper end could easily be higher - for example if our share of Communtiy GDP turns out to be smaller than assumed in the calculations.

7. It is impossible to say that any one of the outcomes illustrated is more likely than any other.

Effects on other countries

8. The report makes no direct recommendations for protecting the Germans' position. By implication it rejects Herr Schmidt's contention that the Germans too have an unacceptable budgetary situation. It does however make a nod in the direction of the Germans by envisaging that the refunds to the UK under the FEOGA corrective mechanism might be based on agricultural receipts shares rather than own resources shares. This could (we think) reduce the Germans' contribution to our refunds by up to some 100 million ecus.

9. If the FEOGA corrective mechanism were of general application rather than confined to the UK, the Germans could in fact benefit significantly from it - by about half (or more) of the amount that the UK benefits. In that event, the burden of financing the refunds for the UK and Germany would fall on the French and/or the Dutch and/or the Italians, depending on how the scheme was drawn up. But the report specifically confines the mechanism to the UK.

10. I am copying this letter to Francis Richards, Stephen Gomersall, Kate Timms and David Wright.

Yours ever,
John Wiggins

A J WIGGINS

CHANCELLOR OF THE EXCHEQUER

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UK NET CONTRIBUTION TO EC BUDGET

		million ecus	
		1981	1982
1.	Before refunds	1990	2710
2.	After 30 May agreement	580-730	na
After agricultural correction at:			
3.	100 per cent	420	835
4.	80 per cent	730	1210
5.	60 per cent	1045	1585
After satisfactory financial mechanism as well as agricultural correction at:			
6.	100 per cent	245	0 (net receipts of 40)
7.	80 per cent	555	335
8.	60 per cent	870	710

(Assumptions attached)

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ASSUMPTIONS

a. The UK does not contribute to its own refunds.

b. Agricultural correction payments in respect of year 0 are determined by

   i. the average difference between the UK's share of Community GDP and its share of agricultural receipts in years -2, -1 and 0, multiplied by

   ii. total agricultural spending in year 0.

c. The UK's average share of Community GDP is 18.4 per cent in 1979-81 (determining the correction in respect of 1981) and 19.2 per cent in 1980-82 (determining the correction in respect of 1982).

d. The UK's average share of agricultural receipts is, for simplicity, constant at 6 per cent.

e. Total agricultural spending by the Community is 12,675 million ecus in 1981 and 14,200 million ecus in 1982.

f. A "satisfactory" financial mechanism is one which would reimburse to the UK, in net terms and without qualification, the excess of its share in budget financing over its share in Community GDP in any year, multiplied by the total size of the budget.

g. The UK's share of Community financing is 20.8 per cent in 1981 and 23.3 per cent in 1982.

h. The Community budget is 19,165 million ecus in 1981 and 21,400 million ecus in 1982.