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MR ALEXANDER

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1980 AND 1981 REFUNDS

1. It is likely that President Mitterrand, (and possibly Chancellor Schmidt) will refer to the "over-payment" of 900 mecu to the United Kingdom. The background is set out in Mr Kerr's letter to Mr Alexander of 25 November. Further payments now due to us have in fact been blocked by the Budget Committee.
2. Sir M Butler will raise with Coreper at lunch today the serious consequences which could follow if they persist in the line taken in the Budget Committee; and will report the outcome.
3. We do not wish the discussion on the Mandate and the Budget Guidelines to be sidetracked into a major dispute about the 1980 and 1981 payments. If the issue is raised in the European Council, the Prime Minister (or the Foreign Secretary) might say:-
 - (i) we are not discussing the implementation of the 30 May agreement in respect of 1980 and 1981. If necessary, that will have to be discussed by Foreign Ministers on 7/8 December although we are in no doubt that the agreement entitles us to a minimum net refund. It was the rest of the Community who insisted on a minimum refund whereas we wanted a minimum net contribution. What was agreed now has legal force.
 - (ii) the argument that the "over-payment" should be deducted from future refunds is not reasonable. We are considering future arrangements. The 30 May agreement was an ad hoc arrangement limited to two (and possibly three) specific years, which did not entirely suit anyone. We need to establish what is a reasonable level of net contribution for the United Kingdom in the coming years. But I do not think we are ready to negotiate on that today. What happened in respect of 1980 and 1981 is not relevant.

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4. Copies go to the Private Secretaries to the Foreign Secretary and the Chancellor of the Exchequer.

M D M FRANKLIN

26 November 1981

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SECRET