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Original on Budget file?

New Michael,

UK BUDGET REFUNDS FOR 1980 AND 1981

At yesterday's Budget Council the German and French delegations made unhelpful statements about the UK's Budget refunds for 1980 and 1981.

We doubt whether we shall want to advise the Prime Minister to raise this matter with either Schmidt or Mitterrand tomorrow. We know from discussions our Bonn Embassy have had with the Federal Chancellor's office that Schmidt will wish to avoid any discussion of the issue. Our Embassy in Paris are still trying to clarify the French position.

Further advice will be submitted if necessary in the light of the outcome of those enquiries.

In the meantime, I thought it might be helpful to let you have tonight a background note which explains what the point at issue is.

Copies go to Brian Fall, Tom Bridges and David Hannay (FCO) and Sir Robert Armstrong and Michael Franklin (Cabinet Office).

*Yours ever,
J O Kerr*

J O KERR
Principal Private Secretary

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UK BUDGET REFUNDS FOR 1980 AND 1981

1. The German and French delegations made unhelpful statements at yesterday's Budget Council about the UK's budget refunds for 1980 and 1981. They gave no advance warning.
2. The German representative (Dr Schulmann) said that the UK "stood to receive 900 million ecus too much" and warned the Commission that "extreme care was needed.....both in framing and using estimates of net contributions in future."
3. The French representative (M. Vidal) said, more categorically, that France would oppose further supplementary measures payments in 1981 (including advances on refunds for 1981 as well as payments in respect of 1980) until there was agreement in the mandate negotiations on a settlement which was lump-sum, temporary and degressive.
4. The background to the German and French statements is as follows:-

(i) Figures (million ecus). The 30 May agreement was based on Commission projections for the UK's uncorrected net contribution of 1784 in 1980 and 2140 in 1981. The basic figures were:-

| | <u>1980</u> | <u>1981</u> |
|---|-------------|-------------|
| Estimate of unadjusted net contribution | 1784 | 2140 |
| Refund | 1175 | 1410 |
| Net contribution | 609 | 730 |

The Commission's latest estimates, published earlier this month, put our unadjusted net contribution at 1521 in 1980 and 1505 in 1981 - a reduction of some 900 over the two years. This 900 is the figure mentioned by the German and French representatives at the Budget Council. The implication is that the refunds in the above table should be reduced by 263 in respect of 1980 and 635 in respect of 1981.

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- (ii) UK position. In our view, the 30 May agreement clearly provides for a minimum net refund to the UK, which is due to us whatever the actual level of our uncorrected net contribution turns out to be. In the negotiations before the 30 May agreement, we in fact argued for a fixed net contribution, but others insisted on a fixed net refund. We finally accepted this subject to the proviso that if our unadjusted net contribution exceeded the Commission's projections we would split the difference with other Member States.
- (iii) Commission position. The Commission stated in the autumn of last year that they shared out interpretation of the 30 May agreement but recognised that other Member States might dispute this and wish to discuss the matter.
- (iv) Council position. An agreed Council Minutes entry in October 1980 stated that the supplementary measures regulation was "without prejudice to the positions of the Member States at [the Council's] discussions in the event of the actual net balance of the United Kingdom in 1980 and 1981 falling short of the forecasts adopted by the Council in its conclusions of 30 May 1980" We cannot therefore avoid a discussion of this issue in the Council if other Member States insist on one.
- (v) German position. In last week's Summit talks in Bonn, Matthöfer made threatening noises about our refunds to the Chancellor of the Exchequer. But Schmidt appeared to go some way, at least, to over-ruling him at the press conference, when he said:-
- "Let me make it quite clear that any request on the part of the German Government for a payment back is absolutely out of the question. This is a rumour and I categorically reject that."

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As German officials have since pointed out, however, Schmidt's words do not rule out the possibility that the Germans will try to prevent us from receiving in full the amounts which we believe are due to us but not yet paid.

- (vi) French position. The French earlier appeared intent on reducing our refunds for 1980 and 1981. More recently, the line seemed to have changed. The French argued instead that we are doing "much too well" on our refunds for 1980 and 1981 and that the Community will need to exact a terrible revenge in 1982 and subsequent years. As recently as Monday of this week, Beregovoy told Sir Robert Armstrong and Mr Franklin that "although French would not ask repayment for the 'famous 900 million ecus', it had to be taken into account in the compensation paid during 1982, 1983 and 1984". The hard French line in the Budget Council came therefore as a surprise.

5. The Commission have told us that they intend to implement the regulation, as we interpret it, and to make arrangements for paying to us the provision for refunds in the 1981 Budget - unless Member States agree to a different interpretation of the 30 May agreement or decline to approve the necessary budgetary provision. Member States do however have the power to frustrate the Commission's intentions over the next two or three weeks by the following means:-

- (a) Since we have again failed to qualify for the financial mechanism, a transfer is needed from the financial mechanism to supplementary measures. The Council could block this.
- (b) A transfer is also needed from the "reserve" chapter of the Budget to the supplementary measures chapter in order to cover advances in respect of 1981. The Council could block this, too.
- (c) No further refunds can be paid to us until the ad hoc committee of Member States on supplementary measures has considered draft decisions by the

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Commission. The committee is due to meet on 10 December. If a qualified majority of Member States should vote against the draft decisions, the Commission would not be able to proceed with making the payments until the Council had resolved the matter.

The immediate concern for the UK will be to avoid blocking votes either in the Council or in the ad hoc committee.