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Ref: A07779

CONFIDENTIAL

Prime Minister
You may like to look at this over the weekend, in preparation for Wednesday's meeting.
A.J.C. 12/3

MR. COLES

30 May Mandate and other Community Negotiations

A meeting is being arranged on 17th March for the Prime Minister to consider with the Ministers most directly concerned the approach to the 30 May Mandate and the other current negotiations on the Common Agricultural Policy (CAP) and the Common Fisheries Policy (CFP), in particular in preparation for the Anglo-German Summit and the European Council later this month.

2. The attached note has been prepared in the Cabinet Office in consultation with officials in the relevant Departments as a basis for discussion of the 30 May Mandate and the CAP. A fuller technical note by officials on the "United Kingdom budget problem and 1 per cent ceiling" was submitted with my minute of 26th February, and I attach a copy of that note also for ease of reference.

3. I understand that the Minister of Agriculture, Fisheries and Food will be minuting the Prime Minister on the handling of the negotiations on the CFP, and his minute could provide the basis for discussion of that subject.

4. I am sending copies of this minute and its two attachments to the private secretaries of the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Minister of Agriculture, Fisheries and Food and the Secretary of State for Scotland.

RtA

Robert Armstrong

12th March 1982

CONFIDENTIAL

EC BUDGET RESTRUCTURING

NOTE BY OFFICIALS

INTRODUCTION

1. OD decided in September (OD(81)15th Meeting) that while the UK ought in logic to be a net beneficiary our fall back objective for a budget settlement should be a nil net contribution. Ministers subsequently agreed that we could for the present be willing to continue to be a net contributor, but only on a very modest scale. We have shown the Germans a table of illustrative figures which included a UK adjusted net contribution of 150 mecus to the allocated budget.

MEETINGS SINCE THE EUROPEAN COUNCIL - CURRENT POSITION ON CHAPTERS I AND II

2. Foreign Ministers met on 14/15 December, 14/15 January and 25 January in an effort to resolve outstanding points of disagreement and to complete the provisional agreement on guidelines on all three chapters of the Mandate. In the event it proved impossible to reach agreement on guidelines for milk and for the budget, and consequently outstanding reserves still remained over Mediterranean agriculture and the guidelines for agricultural expenditure. Since all three chapters of the Mandate are to be carried forward together we have made it clear that the provisional agreements on Chapters I and II are to be held in abeyance.

3. With the exception of the agreement to increase the Ortoli facility by 3 bn ecus, we have no interest in blocking the normal progress of Community business on the items covered by Chapter I (see Annex A). But the provisional agreements reached on Chapter II of the Mandate together with the issues that could not be resolved by Foreign Ministers now fall to be considered in the context of the 1982 agricultural price fixing (see Annex B). Ministers have agreed (OD(E)(82)1st Meeting) that we should block price fixing until a satisfactory agreement has been obtained on the budget.

THE BUDGET PROBLEM

4. The 30 May Agreement set levels of refunds for the UK on the basis of forecasts of our unadjusted net contribution which have turned out to be substantial over-estimates. Nobody is suggesting that this kind of arrangement should be repeated, and it is now envisaged that refunds would be calculated by

/reference

reference to actual outturns. But this would still allow the timing of payments to be broadly similar to the 30 May arrangements.

5. Since the 25 January meeting we have argued that the best way to make progress is through discussion of the substance, ie figures, rather than continuing the search for guidelines, and we have persuaded the Commission to table illustrative figures for 1980 and 1981 as a basis to make such a discussion possible. They have however declined to table figures for 1982. The Germans have made a determined effort to pursue the guidelines approach and may succeed in getting the 23 March Foreign Affairs Council meeting to work on them. The Belgian Presidency is making bilateral contacts in capitals to try to establish the room for manoeuvre.

6. Other member states are still a long way from accepting the UK's objective, but informal contacts have suggested that some may be thinking in terms of a refund of $\frac{2}{3}$ of our unadjusted net contribution. The Commission's present estimate of the UK's unadjusted net contributions to the allocated budget in 1982 is that it will fall within the range 1700-2350 mecus (the figures they have produced internally, but declined to table as we had asked, give a range of 1900-2350 mecus, but the Secretary-General to the Commission has spoken of the bottom end of the range being nearer to 1700 mecus). A $\frac{2}{3}$ refund would still leave the UK with an adjusted net contribution of 575-800 mecus.

7. The concept of net contributions is anathema to the Commission and many member states, and consistently with this the Commission have suggested looking separately at (a) the shortfall in UK receipts and, possibly, (b) the excess in our gross contributions - our percentage share of each being compared with our percentage share of Community GDP, so as to define a "receipts" gap and a "contributions" gap. A mechanism operating on the receipts side only would leave untouched an estimated "contributions" gap of some 700-750 mecus in 1982. While we managed to insert a reference to the Financial Mechanism in the budget guidelines it is far from certain that the other member states will acknowledge the need to deal with the "contributions" gap.

8. Provided that the calculations are made in the same way, the two gaps taken together would exactly measure our uncorrected net contribution. Hence refunds of any given percentage of the two gaps would in effect reimburse us the same

/percentage

percentage of our unadjusted net contribution. If Ministers wanted to have reasonable confidence that the UK's adjusted net contribution would not rise above 150 mecus per year over the five year period for which we are pressing, it would be necessary to set the rate of compensation for both gaps at 95%. The importance of providing compensation for both gaps, and the effect of altering the critical technical definitions is explained in Annex C.

9. Some member states attach importance to the German view, endorsed by the German Cabinet, that the UK adjusted net contribution should rise and Tindemans apparently intends to try to get agreement to a new formula on this on 23 March. We have made it clear to Tindemans that we could not accept any form of degressivity which would lead to an automatic reduction in the UK's refunds over the life of the agreement, regardless of whether the UK's underlying budget problem was being corrected. But we have sought to persuade Genscher that the method of correction put forward by the Commission in para 3 of the draft guidelines would be sufficiently degressive for his purposes. This method would have the effect of reducing the UK's compensation if the restructuring of Community policies led to a reduction in our unadjusted net contribution; and increasing our adjusted net contribution, other things being equal, as the total Community budget increased.

10. We should continue to press for an agreement lasting for five years with a review during the last year. But other member states remain unwilling to go beyond four years, and it may be necessary to concede this point, subject to a review, in the interests of achieving an otherwise acceptable settlement.

THE 1% CEILING

11. Because of the operation of the own resources system all ten member states at present, including the UK, pay extra VAT to finance our refunds, and we are reimbursed not only our refunds, but also our share of these extra contributions. It is generally recognised in Brussels that under any new arrangements Ireland and Greece should not make more than a token contribution. Germany has made it a condition of agreement that her contribution should be relieved; and the Italians have made it clear that they would be prepared to contribute to UK refunds but not to the relief of the German contribution. It has been agreed that the three Chapters of the Mandate should be implemented together. But if all these refunds, in addition to those on the scale we want for the UK, were

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financed from own resources, there would be insufficient room to pay for them within the 1% ceiling even for 1983, still less to pay for the development of policies under Chapter I of the Mandate to which other member states attach importance (see Annex C).

12. For these reasons, consideration is being given in Brussels to the possibility of reviving contributions under Article 200 (which provided a special key for financing before the own resources decision was adopted) when the VAT ceiling is reached. Using Article 200 specifically to finance refunds would be a much simpler way than own resources of adjusting member states' net balances, but would create a political problem for those member states who would have to seek authority from their national Parliaments every year for the Article 200 contributions since the justification for these would be to finance refunds to the UK and, even less acceptably, to Germany. They might find it presentationally less difficult to use Article 200 to finance an amount of ordinary Community expenditure equivalent in size to the refunds, and to which all member states would contribute according to their VAT key. Provided that the expenditure under Article 200 was limited to the total amount of refunds payable each year under the agreement, and was allowed to rise in line with that financing requirement, this could provide an acceptable means of obtaining a five year settlement while not surrendering our position on the 1% ceiling.

13. Some member states are likely to press for a commitment to review the own resources system, either in the context of enlargement or as a means of justifying recourse to Article 200. It might be in our interest to go along with such a proposal if necessary to secure a satisfactory budget settlement, provided that there was no question of any commitment to raise the 1% VAT ceiling. So long as the financing of UK refunds were dealt with by recourse to Article 200 and the rate of growth of CAP expenditure were kept within the growth of own resources as at present defined, it is by no means certain that an objective case could be made for extra sources of Community revenue even after enlargement. Even so, a review of the own resources system might provide us with a new opportunity to work for a fairer basis to the Community's financial arrangements.

ANGLO-GERMAN SUMMIT

14. Our view of what would constitute a reasonable settlement of the budget problem, and that of the Germans are still some way apart. We should use the

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summit as a further opportunity to seek to persuade German Ministers that the level of refund we are seeking is reasonable and that we cannot be expected to agree to the type of degressivity previously advocated by Genscher. We must continue to stress the need for an early settlement to prevent a crisis in the Community which we know Schmidt and Genscher are most anxious to avoid.

FOREIGN MINISTERS' MEETING, EUROPEAN COUNCIL, AND SUBSEQUENT TACTICS

15. The Belgian Presidency does not envisage that it will be possible to reach full agreement by the end of March; neither do we, since other member states are still a long way from agreeing to what we would regard as an acceptable solution. In the absence of unexpected developments our aim at the European Council should therefore be to renew the impetus for a political solution, rather than aiming at that point for a detailed settlement including figures. In preparation for this our objective at the meeting of Foreign Ministers on 23 March should be to build on the progress that has been made, and seek to narrow the areas of disagreement further, without sacrificing any of our points of principle.

16. Our strongest lever for bringing other member states to an acceptable solution on the Mandate is to block the agricultural price settlement. Agriculture Ministers will be meeting immediately after the European Council, (starting on 31 March),and the new marketing years for milk and beef should start at the beginning of April. Because of the complexity of the price fixing this year it may be that the Agriculture Council will not be ready to reach decisions until some weeks after that, and our veto could therefore not be used until then. But there is likely to be strong pressure from some member states at the 31 March Council for decisions to be taken on the common price increase.

17. We expect our veto on agriculture prices to do the trick. But it is possible that some member states will seek to blunt its effectiveness, either by trying to force through price increases by majority vote or by paying temporary aids to farmers from their national exchequers. Officials are considering what further steps the UK might take in those circumstances.

RECOMMENDATIONS

18. Ministers are invited to endorse the following conclusions:

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a. The UK's primary objective is to place an acceptable limit on our adjusted net contribution to the allocated budget. To this end, so long as it seems likely to achieve an acceptable outcome, the UK's negotiating approach should be to seek agreement to compensation at a very high percentage rate of the gaps between the UK's GDP and actual shares of gross receipts from the budget; and between the UK's actual and GDP shares of gross contributions to the budget. If a suitable opportunity arose in negotiation we should seek to have the two gaps merged into a single calculation.

b. The UK should aim for a budget settlement of five years' duration with a review in the last year, but we should be prepared to accept four years with a review if that would help to secure better figures. We should continue to make clear that we cannot accept a degressive settlement which would result in an automatic reduction in the UK's refunds over the life of the agreement regardless of whether the UK's underlying budget problem was being corrected; but we should be willing to see the percentage method of calculating our compensation presented as degressive in order to help other member states present the result to their publics.

c. To prevent the payment of UK refunds being constrained by the 1% VAT ceiling, we should be prepared to agree to alternative methods of financing such as the use of Article 200; but we should not allow such a device to provide an open-ended means of evading the 1% ceiling.

d. If necessary to secure an otherwise acceptable settlement, the UK should be prepared to accept a commitment to review the own resources system in the context of enlargement; but we should not accept any commitment, whether explicit or implicit, to raise the 1% VAT ceiling.

e. The UK's objectives at the Anglo-German summit should be to seek to persuade German Ministers that the level of refund we are seeking is reasonable, that we cannot be expected to accept the type of degressivity previously advocated by Genscher, and that a settlement must be of adequate duration, while impressing on them the desirability of reaching an early agreement.

/f.

f. As the other member states are not yet ready to give us what we want, the UK's objective at the European Council on 29/30 March should be to renew the impetus for a political solution, rather than aiming for a detailed settlement including figures. It will take time for the blocking of agreement on agricultural prices to become effective and to provide the incentive for Foreign Ministers to negotiate a detailed agreement in the period leading up to the June European Council. Our tactics at the 23 March meeting of Foreign Ministers should be framed in the light of this.

g. While our strategy should continue to be based on the assumption that the threat of a veto on the agricultural prices will be effective, we must be on our guard against attempts by other member states to circumvent it. Officials should continue contingency planning on ways of supplementing its effectiveness.

Cabinet Office
10 March 1982

ANNEX A

DRAFT CONCLUSIONS ON CHAPTER 1

1. When the European Council on 29/30 November considered draft conclusions on the 3 Chapters of the Mandate, it did so on the clear understanding that agreement on any part of the guide-lines was conditional on an overall agreement. On this basis, the Heads of State/Government were able to reach provisional agreement on conclusions covering the whole of Chapter 1 (the development of Community policies other than the CAP). Since no overall agreement has been reached, these guidelines remain in limbo and have no formal status. They have not been published.

2. The draft conclusions on Chapter 1 covered a wide range of Community policies:- economic; monetary; borrowing and lending; external trade; internal market; innovation, research and development; energy; social policy; regional policy and transport. On most of these subjects including internal market, research and development, energy and transport, the guide-lines are little more than a résumé of existing business and agreed priorities for the future. On these subjects, work goes on within the Community largely in accordance with the guidelines, although without the extra impetus which European Council endorsement might have given. In these areas the guide-lines contain no firm commitments which are unwelcome to the UK, but they contain a number of references to areas which are of importance to us and where we would like to see progress, for example insurance and air fares.

3. The areas in Chapter 1 which proved most contentious were the Community's borrowing and lending activities, and social and regional policies. The Community has a number of facilities for borrowing on the markets and on lending to infra-structure projects. At French and Italian insistence, the guide-lines contain a firm commitment to expand one of these, the New Community Instrument, by 3000mecu, although the Ecofin Council is left to decide on the conditions and timing of doing so. The

regulations covering both the Regional and Social Funds are due to be reviewed in 1981 and 1982 respectively and the guide-lines contain some pointers for these reviews. It was agreed that both Funds should continue to grow in real terms within the resources available. As for future priorites, the Council agreed that while the Social Fund should continue to support a major effort in the field of vocational training, it should also concentrate more on ensuring better access to the labour market for the young. Discussion on Regional Fund priorities concentrated on the distribution of the Fund's resources between Member States. It was agreed that the quota section (at present 95% of the Fund) should concentrate more, but not exclusively, on the less prosperous Member States. The non quota section, which might give preference to less prosperous Member States, could be increased and should concentrate on structural problems caused by industrial decline or the effects of certain Community policies. On balance, these conclusions are a reasonable compromise, which protect UK interests.

ANNEX B

CAP PRICES

The Commission's proposals

1. The Commission's proposals for agricultural prices for 1982/83 were published on 27 January. They provide for increases averaging approximately 9% and ranging from 6-7% (cereals) to 12% (oilseeds).

2. On milk, the Commission are proposing a 9% increase. The basic co-responsbility levy would continue at 2.5% and to take account of the situation of small milk producers the Commission will propose an income support measure costing around £70 million in the form of a modulation of the basic levy. If milk deliveries increase by more than 0.5% in 1982 compared with 1981 the Commission will propose "appropriate measures" to the Council, but these are not specified.

3. On cereals, the Commission propose increases of 6-7%. They also suggest a co-responsbility scheme whereby, for every million tons by which production exceeds a pre-determined target, intervention and reference prices would be reduced by 1% in the following season subject to a maximum of 5%. The Commission also propose to complete current negotiations to restrict trade in manioc and to examine measures to "regularise" trade in other cereal substitutes: there is a specific proposal to increase levies on cereal brans of low starch content.

4. The Commission propose price increases of 9% on olive oil and wine and 8-10% on fresh fruit and vegetables. They are in addition proposing various changes to the regimes, linked with changes to the acquis which have been proposed in connection with enlargement.

The mandate negotiations

5. In the negotiations on draft European Council conclusions on the mandate provisional agreement was reached on the need for a prudent price policy. All but the Irish could agree to the principle of introducing guarantee thresholds. On milk there was no agreement. We argued against the continuation of the basic co-responsibility levy and strongly opposed modulation of the levy in favour of small producers: we were prepared to contemplate aid to small milk producers only in the context of measures to curb surplus production and provided that the aid was separate from the milk regime and wholly or mainly nationally financed. On cereals, there was provisional agreement on the need for Community prices to come progressively closer to those of competitive countries, which the Commission took to mean the US. There was also agreement on reductions in the intervention price if production exceeded a threshold, but the French linked this to action on cereals substitutes. We were prepared to agree to discussions with third country suppliers on stabilising the level of imports of substitutes. On Mediterranean products there was virtual agreement on the need to improve the existing regulations both from the point of view of producers' incomes and for the sake of efficient and economic management of the market. Subject to reservations by a number of member states there was agreement on a guideline providing that agricultural expenditure should grow less rapidly than own resources. This was, however, subject to a formula

allowing implementation to be evaluated as an average over several years in the case of erratic development of market conditions. There was also a guideline calling for greater discipline in national aids.

6. Given that agreement on any of these points was conditional on agreement on the implementation of the mandate as a whole, it is open to us in the price fixing negotiations both to argue, where it suits us, that provisionally agreed guidelines, e.g. on price policy, guarantee thresholds and the growth of expenditure, should be adhered to and at the same time to resist, at least for the time being, proposals to implement those parts of the guidelines, e.g. on cereals substitutes where we were prepared to make concessions only in the context of an overall settlement. We can also stand firmly on the position we took up on milk.

The price fixing negotiations

7. The Commission's proposals and their link with the mandate negotiation were considered by OD(E) on 11 February. Ministers then agreed inter alia that the UK should block the 1982 CAP price fixing until a satisfactory settlement had been obtained on the budget, that we should argue for price increases lower than those proposed by the Commission, that we should resist any attempt to impose fresh restrictions on the import of cereals substitutes and that we should press for an outcome consistent with keeping the growth of agricultural expenditure below that of own resources.

8. The Minister of Agriculture spoke accordingly when Agricultural Ministers met to consider the proposals for the first time on 15/16 February. He argued in particular that there should be prudent price increases for products in surplus and that the

Commission's proposals on guarantee thresholds should be improved. On milk he argued against the continuation of the basic co-responsibility levy and resisted any discrimination against British milk producers.

9. Germany adopted a similar approach on prices, but other member states - perhaps mindful of COPA's 16.3% bid - called for higher increases than the Commission's 9% average. In particular Ireland called for a figure "substantially higher", Franch called for increases sufficient to end the fall in farm incomes, Greece demanded higher prices and a range of special measures, Denmark wanted more than 9% on livestock products and Belgium called for a more generous settlement overall. The Commission defended their proposals and Ministers agreed to meet again on 15 and 16 (and possibly 17) March and at the end of March. Meanwhile, work is proceeding in the Special Committee for Agriculture and in Council Working Groups, and the UK has so far been able to avoid isolation in these fora.

10. There have been two subsequent developments. First the EMS realignment on 21 February has given Belgium, Luxembourg and Denmark scope for devaluation of their green currency which will reduce their interest in a higher price settlement than that proposed. They have, however, been persuaded to delay any green rate devaluations at least until 1 April and France will want to prevent them taking place until the negotiations are concluded. This will therefore increase the pressure for a settlement by 1 April.

11. Secondly, the French have now established a clear link between the Commission's proposals on fruit and vegetables and wine and

reform of the acquis on these products. It is proposed that the United Kingdom's response to this should be that the mandate for negotiations with Spain and Portugal should be agreed as part of the price package and that it should cover olive oil as well as the products identified by the French. This response seems the best way of avoiding having to buy off the French and other Mediterranean countries twice - once at the price fixing and the second time in the enlargement negotiations.

UK Budget Problem and 1% Ceiling

1. This Note describes some of the technical background to the current negotiations about the British budget problem and the 1% ceiling.

SIZE OF THE BRITISH PROBLEM

2. The Commission are working on the figures. They will be examining very carefully the assumptions made because the 30 May Agreement estimates turned out to be so badly wrong. The new figures will be circulated to member states before the Foreign Affairs Council on 23 March. However the latest Commission working document we have shows that our net contribution to the allocated budget* for 1982, before refunds, may lie in the range 1950-2350 million ecus (say £1¼ billion). Forecasts for subsequent years are necessarily even more uncertain. We have realistically to assume, however, that this net contribution is likely to rise at least in line with inflation and probably in real terms as well - especially after enlargement.

3. The Commission and most other member states would like if they could to banish the whole concept of 'net contributions'. Consistently with this, the Commission have advocated looking separately at the shortfall in UK receipts and, possibly, the excess in our gross contributions. The criterion which they suggest for measuring these two components of the UK problem is our share of Community GDP, averaged over three years. The prospective split for 1982 is:

/i.

*The 'allocated budget' was the basis of calculations in the 30 May Agreement. It should be remembered that the UK also contributes substantially - perhaps some £150 million in 1982 - to the unallocated budget (about two-thirds of which goes to overseas aid, including food aid); and that our losses outside the budget on agricultural trade with other Community countries are estimated to have been around £200 - 250 million in most recent years.

i. a 'receipts' side gap of 1250 - 1650 million ecus (say, £825 million), and

ii. a 'gross contributions' side gap of some 750 million ecus (say, £425 million).

In other years, the relative magnitudes of the two gaps could be very different, with a rise in our relative GDP increasing the 'receipts' gap and reducing the 'gross contributions' gap and a fall having the opposite effect.

THE COMMISSION SCHEME AND THE FINANCIAL MECHANISM

4. The Commission's proposal for solving the UK budget problem referred to in the draft guidelines considered by Foreign Ministers at their abortive meeting on 25 January is, as we understand it, that the UK should receive a refund of some agreed percentage of the difference between:

i. the UK's actual share of receipts from the Community budget in the year in question - roughly 11%;

ii. what the UK share would be if it were the same as our share of Community GDP averaged over 3 years (the current year and the 2 preceding years) - roughly 19%.

The difference is the 'receipts' side gap. It is clear that the other member states do not envisage repaying us the whole of this sum, but, even if they did, this method on its own would still leave us to meet the 'gross contributions' gap of some 750 million ecus for 1982 - and there would be risks both ways in later years of changes in the split between the receipts and the gross contributions sides of our net contribution. For that reason, the Commission scheme would need to be combined with a revised and improved version of the financial mechanism if it were to provide the basis for a solution. During the negotiations in January we did manage to insert a reference to the financial mechanism into the draft guidelines, but it is far from sure that the others will accept that it should continue. The new version of the financial mechanism that we have in mind would be stripped of the various limitations that have rendered it inapplicable in recent years. We envisage that, by analogy with the Commission scheme described above, the new financial

/mechanism

mechanism should guarantee us a refund of some percentage of the difference between:

iii. Our share of gross contributions to the Community budget - roughly 23%; and

iv. What our share would be if it were the same as our share of Community GDP - roughly 19%.

Provided that the same definition of the Community budget were used in both cases, the same method of calculating GDP shares and a satisfactory common method of relating gross to net payments, then any given percentage of the gap between i. and ii. above <u>plus</u> the gap between iii. and iv. above would be mathematically equivalent to that same percentage of our unadjusted net contribution.

5. Thus, for example, if the Community agreed to give us a net refund of 90% of both the gaps defined above, then our net contribution for 1982 would be 10% of our unadjusted net contribution, or something in the range of 195-235 million ecu. Such figures would lie somewhat above the highest figures for our net contribution after refunds that Ministers have so far envisaged - ie, around 150 million ecu. We should need to get a refund of 95% in both cases to have a reasonable chance of staying within a figure of 150 million ecu throughout the whole of the 5 year period 1982-1986, to which we intend the agreement to apply.

6. It is unlikely that the other member states envisage a refund of more than two-thirds of our unadjusted net contribution - ie, the same proportion as would have resulted from the 30 May Agreement if the estimates had been borne out. A number of contacts have told us informally that in their view a repetition of the two thirds/one third division between the 'Community' and 'UK' shares of our unadjusted net contribution would be appropriate. We cannot be sure of getting agreement to a solution based on proportions. Some are still arguing for degressive refunds. But to illustrate the point, a two thirds refund would leave us with an adjusted net contribution of some 650-800 million ecus in 1982, a figure which is likely to rise over a five year period.

/7.

7. If we got to the position of commiting the other member states to a clear offer of two thirds, we should still have to close the gap between the 650-800 million ecus apparently on offer, and the 150 million ecus that Ministers wish to see.

THE SIGNIFICANCE OF THE 1% CEILING

8. The problem of financing the refunds within the 1% ceiling has recently moved into the centre of the informal discussions in Brussels. It is generally accepted that Ireland and Greece should be let off from making anything larger than a token contribution to the refunds to the UK. The Italians have said they are happy to contribute to UK refunds but not to the relief of the German contribution. Germany has made it a condition of the agreement that her contribution should be relieved. Germany would contribute 35-40% of our refunds if they were financed through the normal operation of the own resources system and the budget. Statements by German Ministers could be interpreted in either of two ways: that Germany should in future pay only 25% of 35-40%, ie 9-10%; or that Germany should pay 25% instead of 35-40%. The difference between these two versions of German demands is substantial.

9. At present because of the operation of the own resources system all ten member states, including the UK, pay extra VAT in order to finance our refunds under the 30 May agreement, and we are reimbursed not only our net refunds but also our share of these extra contributions. If our future refunds are to be financed through own resources in the same way, but some countries are to be excused part of the cost, then they too will need reimbursement of contributions and a still higher rate of VAT contributions will be necessary.

10. The amount of headroom available within the 1% ceiling to finance refunds to the UK through the budget in the normal way depends not only on the extent to which the less prosperous countries and Germany are relieved, but also on the rate of growth of regular expenditure. So far as agricultural expenditure is concerned, it is our firm intention that the rate of growth be held within the rate of growth of own resources. For non-agricultural expenditure (from which we currently get and intend to continue to get a modest net benefit), given the general agreement that the structural funds should be expanded, it would be reasonable to expect a significantly higher rate of growth, say 20%.

/According

According to the latest Commission estimates, there seems little prospect that money would be available even in the 1983 budget to finance refunds sufficient to reduce our net contribution in respect of the 1982 Budget to about 150 million ecu, even on the optimistic assumptions that Italy pays in full and that Germany pays as much as 25%. We certainly cannot rely on enough money being available in 1984 and later years, and we cannot tolerate any agreement in which the eventual payment of refunds due to us might be constrained by shortage of budgetary provision within the 1% ceiling.

11. The agricultural countries are concerned lest the solution to the Budget problem inhibit the financing of agricultural policies; and Italy in particular is also concerned lest it should prevent the development of non-agricultural policies as envisaged in Chapter I of the provisional Mandate conclusions. The Commission shares these concerns and has suggested that the refunds to the UK should be financed, not through the own resources system, but by a special key of financial contributions by the member states decided by unanimous vote of the Council of Ministers acting under the provisions of Article 200 of the Treaty. The legality of this proposal has been disputed: many Community lawyers argue that Article 200 became a dead letter when the own resources decision was taken in 1970 under Article 201 of the Treaty. (The text of Article 200 and 201 is attached as an Annex. It will be noted that Article 201 refers to the replacement of the financial contributions by own resources. Hence the argument that Article 200 has now lapsed). However, the Commission's Legal Adviser has formally given his opinion that Article 200 can still be used and it is possible that other governments will supress their legal doubts if no better way can be found of financing the solution to the problem.

12. The use of Article 200 would provide a very much simpler way of relieving Ireland, Greece and Germany (and, if necessary, Italy) than the orthodox use of the own resources system. The latter would necessitate refunds to those countries as well as to the UK in order to pay them back some or all of the contribution they would make to the cost of the refunds through the operation of own resources. If a special key were agreed under Article 200, the relief to Ireland and the other countries could be made simply by adjusting the financial contribution accordingly.

/13.

13. However, such an application of Article 200 would run up against a major political difficulty. The special financial contributions would have to be approved by the parliaments of the member states under their national budgetary arrangements and several member states have made it clear that they would have very great difficulty in seeking authority from their national parliaments for a special payment to finance a refund for the United Kingdom.

14. As a way round that difficulty, the following more elaborate use of Article 200 has been suggested in informal discussions in Brussels. Under this variant the UK refunds would be financed through own resources in the normal way up to the point where the 1% ceiling was reached. At that point, the Council of Ministers would agree to finance through Article 200 a block of expenditure equivalent in size to the cost of the refund scheme to the Community Budget (including the costs of the refunds to Ireland, Greece, Germany and possibly Italy). All the member states would subscribe financial contributions under Article 200 in the same proportions as their VAT share of own resources and the justification would be to enable the regular expenditure of the Community to go ahead while the future of the 1% ceiling was examined. This proposal is thus intended to disguise the fact that the recourse to Article 200 would be necessitated solely by the need to finance refunds to the UK.

15. Agreement to the use of Article 200 would raise a number of important issues for the UK. On the one hand, we share the legal doubts about the continued availability of the powers in this Article. We would also want to be quite sure that the use of this Article would not be treated as a precedent for normal expenditure because, if it were so used, it would bypass the discipline of the 1% ceiling which it is Government policy to enforce. On the other hand, even if the rate of agricultural expenditure were kept within the rate of growth of own resources, there might well not be enough money within the 1% ceiling to finance refunds to the UK on a sufficient scale for the whole of the 5 year period for which we are pressing. Ministers will therefore need to take a view on whether it would be better to acquiesce in the use of Article 200, suitably confined to the UK Budget problem, than to jeopardise either the 5 year duration of the settlement or our position on the maintenance of the 1% ceiling.

/THE 1%

THE 1% CEILING AFTER ENLARGEMENT

16. The Belgian President of the Council of Foreign Ministers is believed to have it in mind to propose some form of commitment to the renewed progress of the Community as an element in the final agreement on the Mandate. This will be attractive to a number of member states, especially Italy. Even France is committed to relance. Increasingly, the Community is considering the implications of the accession of Spain and Portugal. The date of their accession may be delayed beyond 1984 as at present planned, but it is likely to occur during the period of application of the solution of the Budget problem. (Even a 4 year solution would impose a charge on the 1986 Community budget, for example). It is generally assumed that both Spain and Portugal, because they are both so far below average GDP per head, should be net beneficiaries from the Budget at least to some extent - so that their accession will tend to erode and not to increase the leeway within the 1% ceiling. For that reason, it is quite possible that either the Belgian Presidency or the Commission, or both, will propose a commitment by the member states to consider the future of the own resources system in the context of the further enlargement of the Community.

17. It is possible that some member states at least will insist on a review of the own resources system as a condition of their agreement to the use of Article 200 to finance our refunds on a temporary basis. Even if the Germans maintained their resolve not to raise it, UK Ministers might need to consider at some point whether we could go along with some form of obligation to examine the future of the 1% ceiling, perhaps in the context of enlargement.

18. If we did agree to a review in the course of this year's negotiations, that would not commit us to accepting any change to the 1% ceiling when the review took place. But the negotiations on the future of the ceiling would provide us with a new opportunity to secure changes in the Community's financial arrangements. Possibilities that could be discussed are that a binding ceiling should be imposed on the rate of growth of agricultural expenditure corresponding to the informal political agreement incorporated in the draft Mandate conclusions; the replacement of the Value Added Tax element in own resources by some form of progressive tax; the addition of a tax on imported oil designed to bring about a significant adjustment in the UK's unadjusted net contribution; and a commitment to the principle that

/resources

resources should flow from the rich to the poor member states and not vice versa.

DEGRESSIVITY

19. Tindemans has indicated that he will make a new attempt to secure agreement to a guideline on degressivity at the Foreign Ministers'meeting on 23 March. We do not yet know what he has in mind but he is well aware that the UK will accept no form of words that commits us to an arbitrary reduction in our refunds even if our unadjusted net contribution increases. The Foreign Secretary is seeking to persuade Genscher thatthe Commission's objective indicators plus a revised financial mechanism will automatically provide quite enough degressivity to meet German requirements in the sense that (i) our net contribution after refunds will increase, other things being equal, as the size of the budget increases and (ii) the refunds will be reduced as our other receipts increase from a Budget of any given size.

THE ALLEGED OVERPAYMENT TO THE UK

20. At an earlier stage in the negotiations it was suggested that the Budget solution for 1982 and later years should take account of some or all of the 900 million ecu by which the UK's net contribution after adjustment was fortuitously reduced below the figures of 609 and 730 mentioned in the 30 May decision. Less has been heard of this suggestion recently; but we cannot be sure that it will not revive.

THE TIMING OF PAYMENTS

21. The 30 May Agreement was based on an arbitrary lump sum for refunds, derived from Commission estimates of the UK's unadjusted net contribution. The current proposal is that the adjustment should be based on actual figures established on an ex post basis. A reasonable presumption about timing, which broadly follows what happens now, might be that refunds in respect of the 1982 budget, for example, would be paid by the end of March 1983 (so that we could bring them to account in our financial year 1982-83) as a charge to the 1983 Community budget and on the basis of provisional figures for the actual effect of the 1982 budget on the UK. It would then be necessary to have a final adjustment in the middle of 1984 when complete accounts for 1982 were available, in order to bring the refunds paid exactly into line with the application of the agreed method to the actual 1982 figures.

/SUMMARY

SUMMARY

(1) The Commission's 'objective indicator' scheme would only reduce our net contribution to something of the order of 150 million ecu a year if a very high rate of compensation under it were combined with an improved form of financial mechanism.

(2) Although we were able to insert a reference to the possible need for a financial mechanism into the draft budget guidelines, the other member states and the Commission are not yet committed to either its continuation or its improvement to meet our requirements.

(3) Informal contacts suggest that some member states may be thinking in terms of a refund amounting to two-thirds of our unadjusted net contribution as established after the out-turn figures for each year's budget are known. To hold our net contribution down to a figure of around 150 million ecu a year, we should need a refund of some 95% of our unadjusted net contribution. In money terms, the gap between two-thirds and 95% is about 600 million ecu in respect of 1982; and would be likely to increase over a 5 year period.

(4) It is highly unlikely that the Community will be able to finance refunds on the scale we require within the own resources system as at present defined for the whole of the 5 year period; indeed, there is little prospect that there will be enough money in the 1983 budget to finance even the first year's refunds.

(5) It may therefore be in our interest to go along with an agreement to revive financial contributions under Article 200 of the Treaty.

(6) We may come under pressure to agree, as part of the eventual conclusion of the Mandate negotiations, to review the future of the 1% ceiling in the context of the accession of Portugal and Spain.

(7) Even if we agreed to such a review, we should not, of course, be committed to increasing the ceiling. The review, when it took place, would give us an opportunity to fight for new changes in the Community's financial arrangements. Among the possibilities are a binding ceiling on the growth of agricultural expenditure; a progressive tax to replace the VAT tranche of own resources; a levy on oil imports; and a commitment that resources should flow from the more to the less prosperous member states and not vice versa.

/(8)

(8) Tindemans is believed to intend to make a new attempt to agree a formula on degressivity at the next Foreign Ministers' meeting on 23 March.

(9) Little has been heard recently of an earlier suggestion that the '900 million ecu over-payment' to the UK be taken into account in the new settlement; but it may revive.

Cabinet Office
26 February 1982

Article 200

1. The budget revenue shall include, irrespective of any other revenue, financial contributions of Member States on the following scale:

Netherlands	7.9
Germany	28
France	28
Italy	28
Luxembourg	0.2
Netherlands	7.9

2. The financial contributions of Member States to cover the expenditure of the European Social Fund, however shall be determined on the following scale:

Belgium	8.8
Germany	32
France	32
Italy	20
Luxembourg	0.2
Netherlands	7

3. The scales may be modified by the Council, acting unanimously.

Article 201

The Commission shall examine the conditions under which the financial contributions of Member States provided for in Article 200 could be replaced by the Community's own resources, in particular by revenue accruing from the common customs tariff when it has been finally introduced.

To this end, the Commission shall submit proposals to the Council.

After consulting the Assembly on these proposals the Council may, acting unanimously, lay down the appropriate provisions, which it shall recommend to the Member States for adoption in accordance with their respective constitutional requirements.

ANNEX C

ARITHMETIC OF COMMISSION SCHEMES

This annex considers what effects compensation schemes of the kind currently under discussion in Brussels might have on our net budget contribution. It also considers what scope there is likely to be for financing UK refunds within the 1 per cent VAT ceiling. The illustrative figures in the tables are based on recent Commission estimates, given to us in confidence (see table 6). Where these estimates are expressed as ranges, we have taken the centre points.

Possible mechanisms

2. Recent discussion has focussed on the two components of the UK's budget problem - the deficiency of UK receipts and (more grudgingly) the excess of UK gross contributions - rather than on our net contribution as such. The criterion envisaged for measuring these two components is the UK share of Community GDP, probably averaged over three years.

3. Corresponding to the two components of the problem there could in principle be two mechanisms for compensating the UK (though several member states are likely to oppose the second one) -

i. an objective indicator (OI) mechanism on the receipts side, which would refund us some percentage of the difference between our actual receipts from the budget and what those receipts would have been if our share of total budget expenditure had been the same as our share of Community GDP averaged over three years, and

ii. a financial mechanism (FM) on the gross contributions side, which would refund us some percentage of the difference between our actual gross contributions and what those gross contributions would have been if our share of total gross contributions to the budget had been the same as our share of Community GDP.

If both mechanisms were in force, with an identical compensation percentage of (say) N per cent in each case and consistent definitions of coverage and entitlement, the effect would be to refund us N per cent of our uncorrected net contribution. An OI mechanism on its own, on the other hand, with a compensation rate of N per cent, would refund us substantially less than N per cent of our uncorrected net contribution.

Net contribution after refunds (table 1)

4. Table 1 illustrates what our net contribution after refunds might be (or have been) for 1980, 1981 and 1982 with (i) an OI mechanism on the receipts side and (ii) an OI mechanism plus a financial mechanism on the gross contributions side, with consistent definitions of coverage and entitlement.

5. The figures assume that (a) the mechanisms would apply only to that part of the budget which the Commission say they can allocate to individual member states - the so-called 'allocated budget' of the 30 May agreement; (b) the UK GDP share would be calculated in both mechanisms as a moving average of the current and two preceding years; and (c) the gross amounts refunded would be increased (as under the 30 May agreement but not the existing financial mechanism) so as to reimburse us for our contributions to our own refunds and thus produce the correct 'net' amounts.

6. The outcome for the UK would obviously depend critically on the rate of compensation (the N per cent in paragraph 3 above). If both mechanisms were in force, then:

- A 100 per cent rate would reduce our net contribution to that part of the budget covered by the arrangement to zero.

- A 95 per cent rate applied to both mechanisms should keep our net contribution after refunds over the next few years within the figure of 150 million ecus shown in the illustrative table discussed with the Germans in January (line 5).

- A 66 per cent rate applied to both mechanisms (line 6) - the same as the ratio of our refunds to our forecast uncorrected net contribution in the 30 May agreement for

1980 and 1981 - would produce a net contribution after refunds for 1982 similar to that expected in May 1980 for 1981 (some 700-750 million ecus).

If only the OI mechanism on the receipts side were in force, the UK's net contribution after refunds would be substantially greater, for any given rate of compensation - especially in a year such as 1982 when our gross contribution share is expected to be well above our GDP share (see lines 3-4).

7. Our estimated net contribution to the 'unallocated' budget is shown, as a memorandum item, at the bottom of table 1.

Sensitivity to critical parameters (table 2)

8. As implied above, the size of the UK's refunds would depend not only on whether we had an effective financial mechanism and what rates of compensation were agreed, but also on three more technical aspects:

i. the budget total used;

ii. the GDP shares calculation (if there were only one mechanism or if this calculation differed between the two mechanisms): and

iii. the grossing up procedure: whether or not the gross amounts refunded to the UK were increased so as to reimburse us for our own contributions to them.

It would be in the UK's interest that the budget total should be defined as widely as possible and that our refunds should be expressed 'net', payments to the UK being grossed up accordingly. The GDP shares calculation (moving average versus in-year) would be immaterial if there were two mechanisms each using the same calculation. If there were only an OI mechanism, or two mechanisms with our GDP share inconsistently defined between them, different measures of this share would affect the outcome in particular years but there would be no presumption that we would gain or lose over time. Inconsistent definitions would however produce indefensible fluctuations in our refunds. Consistency would therefore be important.

9. Table 2 shows how much we might expect (or have expected) to gain or lose from changes of specification in all the above areas in 1981 and 1982. In other years, the picture could look different. In any year, the amounts at stake are likely to be substantial.

UK refunds and 1 per cent VAT ceiling (table 3)

10. As explained in the main paper, it cannot safely be assumed that there will be enough headroom within the 1 per cent VAT ceiling to accommodate refunds for the UK even in 1983 - much less over the next four or five years. Table 3 illustrates the problem.

11. The 1982 budget estimates imply headroom of some 2.6 billion ecus within the ceiling before allowing for UK refunds (see section 1 of the table). In 1983 and 1984, the amount of headroom will depend on the comparative growth rates of own resources, agricultural expenditure and non-agricultural expenditure. The table illustrates higher and lower CAP expenditure growth cases, 7 percentage points above and 1 percentage point below the growth of own resources, respectively. Also shown is a Commission projection, which lies between the two cases. Except in the high CAP growth case, headroom within the 1 per cent ceiling is projected to remain over 2 billion ecus before UK refunds during these two years.

12. If UK refunds continue to be financed from own resources within the 1 per cent ceiling, the position becomes much tighter. In 1982 the headroom (after allowing for UK refunds for 1981) is currently put at some 1 billion ecus. In 1983, the position would deteriorate sharplyunder the Commission's proposals. For not only are the UK's net refunds for 1982 likely to be larger (at least in the 95 per cent case). But the proposals for lightening the financing burden which the refunds place on Germany and the less prosperous countries will require repayments to these countries as well as the UK, thus increasing the amount of budgetary provision required for any given level of UK refunds. We estimate that if Greece and Ireland were exempted altogether from contributing to our refunds, the Italian financing share were limited to 12½ per cent and the German share to 10 per cent the extra budgetary provision required (and hence the extra headroom used up) would be 2.2 times the net refunds themselves. If the German share were 25 per cent, this factor would fall to 1.7. These factors compare with a factor of 1.3 under the 30 May 1980 arrangements.

13. Sections 2 and 3 of the table illustrate the likely consequences. (A minus sign indicates an excess over the 1 per cent ceiling.) On these figures, there looks to be little or no realistic prospect of accommodating the higher level of UK refunds (the 95 per cent case) within the ceiling in 1983. Even the lower (66 per cent) level of refunds could only be accommodated in the case where (a) the Germans make a large contribution to our refunds and (b) the growth of agricultural expenditure is kept below the growth of own resources.

14. The above problems would disappear if some way can be found of financing the UK refunds outside the 1 per cent VAT ceiling.

Implications for other member states (tables 4 and 5)

15. Under any system for financing our refunds which gives relief to Germany and the less prosperous countries, France and the small rich countries would have to pick up most of the bill. Especially important are the implications for the French, who would have to finance a high percentage of our refunds and (probably) become net contributors on a significant scale.

16. As table 4 illustrates, France's percentage share in financing our refunds would depend critically on how much the Germans contribute. If Germany contributed 10 per cent, France would (on our assumptions) contribute more than 50 per cent. If Germany contributed 25 per cent, the French contribution would fall to some 40-45 per cent.

17. Possible implications for France's net budgetary position after refunds are shown in table 5. The Commission are projecting that France's net budgetary position before refunds will deteriorate by some 500 million ecus between 1981 and 1982. In addition, France's contribution to our net refunds could rise between the two years (on our figures) by between 160 and 660 million ecus depending on the level of our refunds and the German financing

share. On the Commission's latest figures for net positions before UK refunds, the comparison between the British and French net contributions after UK refunds for 1982 would be as follows:

Net contributions (-) for 1982, after UK refunds

(million ecus)

	High UK refunds 95% case	Low UK refunds 66% case
France	-700 to -910	-440 to -590
UK	-110	-730
Germany	-1950 to -2260	-1890 to -2110

5 March 1982

TABLE 1

UK NET CONTRIBUTIONS TO ALLOCATED BUDGET *

	million ecus		
	1980	1981	1982
Present expectations for our net contribution based on the latest Commission figures are:			
1. Before refunds	-1527	-1590	-2153
2. After 30 May agreement			
a. 'intended'	-609	-730	[-730]**
b. now expected	-352	-180	na
Without an effective financial mechanism, our net contribution after refunds would depend on the objective indicator (OI) compensation rate. For example:			
3. 95 per cent rate	-534	-545	-810
4. 66 per cent rate	-837	-864	-1220
If we could negotiate an effective financial mechanism (FM) as well, with the same compensation rate as for the OI mechanism, our net contribution would be (or have been):			
5. 95 per cent rate	-66	-76	-110
6. 66 per cent rate	-512	-538	-730
Memorandum item			
The above figures show our net contribution to the allocated budget only (excluding refunds). Our net contribution to the unallocated budget is estimated to be:	-63	-150	-250

Notes

* Both the objective indicator and the financial mechanism are assumed to use a GDP three-year moving average

** 34 per cent of line 1. Other member states, however, would probably argue for an interpretation of the 30 May agreement less favourable to the UK.

TABLE 2

EFFECTS ON UK NET CONTRIBUTION OF CHANGES IN CRITICAL PARAMETERS, 1981 and 1982

(Favourable change compared with table 1, +)	1981	1982
	million ecus	
Financial mechanism		
1. Effective FM with 95 per cent compensation rate/no FM	+470	+710
Compensation rate		
2. 10 percentage points rise in OI compensation percentage	+110	+140
3. 10 percentage points rise in FM compensation percentage	+ 50	+ 75
Budget definition		
4. OI applied to whole budget, not allocated budget (at 95 per cent)	+170	+210
5. FM applied to whole budget, not allocated budget (at 95 per cent)	+ 20	+ 40
Gross versus net payments		
6. OI refunds calculated gross (at 95 per cent)	-230	-270
7. FM refunds calculated gross (at 95 per cent)	-100	-140
GDP share calculation		
8. FM uses in-year GDP share but OI as in table 1 (at 95 per cent)	-260	- 35

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TABLE 3

POSSIBLE HEADROOM (+) WITHIN 1 PER CENT CEILING WITH AND WITHOUT UK REFUNDS

million ecus

	1981 Actual	1982 Budget estimate	1983 Projection	1984 Projection
1. Before UK refunds (or UK refunds financed outside 1% VAT ceiling)				
CAP spending grows at:				
18% pa	+3987	+2638	1645	310
10% pa			2810	2960
Commission estimate			2430	2260
2. UK net refund 95% of net contribution in previous year				
a. Germany pays 10%				
CAP spending grows at:				
18% pa	+2593	+ 984	-2750	-4525
10% pa			-1585	-1875
Commission estimate			-1965	-2575
b. Germany pays 25%				
CAP spending grows at:				
18% pa	+2593	+ 984	-1895	-3585
10% pa			- 730	- 935
Commission estimate			-1110	-1635
3. UK net refund 66% of net contribution in previous year				
a. Germany pays 10%				
CAP spending grows at:				
18% pa	+2593	+ 984	-1405	-3045
10% pa			- 240	- 395
Commission estimate			- 620	-1095
b. Germany pays 25%				
CAP spending grows at:				
18% pa	+2593	+ 984	- 815	-2395
10% pa			+ 350	+ 255
Commission estimate			- 30	- 445

Notes on next page.

TABLE 3:

NOTES

1. The projections for 1983 and 1984 (other than those of the Commission) assume that own resources grow by 11 per cent per annum and that non-agricultural expenditure grows by 20 per cent per annum, except for own resources refunds, administration and development which grow by 11 per cent per annum.

2. The UK's uncorrected net contribution is assumed to be -1590 for 1981, -2153 for 1982 and -2368 for 1983.

3. UK net refunds are assumed to rise correspondingly from 1410 for 1981 to 1420 (66 per cent case) or 2045 (95 per cent case) for 1982.

4. Under the existing system the ratio of gross budgetary provision required to UK net refunds is 1.3. Under the new system, the ratio is assumed to be 2.2 in the case where Germany pays 10 per cent and 1.7 in the case where Germany pays 25 per cent.

TABLE 4

PERCENTAGE SHARES IN FINANCING UK NET REFUNDS *

	German share fixed at: 10%	German share fixed at: 25%
	a.	b.
UK/Ireland/Greece	-	-
Italy	12.5	12.5
Germany	10.0	25.0
France	52.7	42.4
Belgium	8.5	6.9
Luxembourg	0.4	0.3
Netherlands	11.5	9.3
Denmark	4.4	3.6

*See paragraph 12 for assumptions made.

TABLE 5

NET CONTRIBUTIONS (-) AND RECEIPTS (+) BY MEMBER STATE, AFTER UK REFUNDS (Commission basis, Method II)

million ecus

	1980	1981	1982: UK net refund 95% of UK net contribution. Germany pays: 10%		1982: UK net refund 66% of UK net contribution. Germany pays: 10%	25%
				25%		
			a.	b.	c.	d.
UK	-350	-180	-110	-110	-730	-730
Ireland	630	580	710	710	710	710
Greece	-	130	610	610	610	610
Italy	520	385	730	730	810	810
Germany	-1965	-2120	-1950	-2260	-1890	-2110
France*	80	240	-910	-700	-590	-440
Belgium	195	300	290	320	340	370
Luxembourg	230	285	310	320	320	320
Netherlands	360	105	50	90	120	150
Denmark	300	275	270	290	300	310

*The Commission are projecting that France's net receipts before refunds will fall from 680 for 1981 to 160 for 1982. France's contribution to the UK's net refunds rises from 440 in 1981 to 1080 in 1982 case (a), 870 in case (b), 750 in case (c) and 600 in case (d).

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UK BUDGET PROBLEM:
Some relevant figures

TABLE 6

Table 2 - Method II

	Mecus and percentage			
	1980	1981		1982
1. Total budget	14.930	15.943		19.098
2. UK gross contributions to total budget	3.071	3.471		4.484
3. UK gross receipts excl. refunds	1.544	1.881	H.1	2.536
			H.2	2.126
UK net contribution before refunds	1527	1590	H.1	1948
			H.2	2358
4. UK contributions share of total budget %	20,6 %	21,8 %		23,5 %
5. UK receipts share of total budget %	10,3 %	11,8 %	H.1	13,3 %
			H.2	11,1 %
6. UK GDP share (in-year) %	(without Greece) 19,0 %	20,4 %		19,8 %
7. UK GDP share (average of current and two preceding years) %	(without Greece) 17,3 %	18,7 %		19,6 %
8. Objective indicator percentage				
a (6 above minus 5 above)	8,7 %	8,6 %	H.1	6,5 %
			H.2	8,7 %
b (7 above minus 5 above)	7,0 %	6,9 %	H.1	6,3 %
			H.2	8,5 %
9. "Financial mechanism" percentage				
a (4 above minus 6 above)	1,6 %	1,4 %		3,7 %
b (4 above minus 7 above)	3,3 %	3,1 %		3,9 %
10. Objective indicator gap				
a (8a times 1)	1.299	1.371	H.1	1.241
			H.2	1.661
b (8b times 1)	1.045	1.100	H.1	1.203
			H.2	1.623
11. "Financial mechanism" gap				
a (9a times 1)	239	223		707
b (9b times 1)	493	494		745

SOURCE: EC Commission, in confidence