

PRIME MINISTER

COMMUNITY BUDGET NEGOTIATIONS

M. Thorn was persuaded by Sir Michael Butler to make an attempt to negotiate with France and Germany a formula for applying the 30 May Agreement to 1982 within the instructions agreed by OD on Friday. But M. Thorn ran into difficulties with the French who were trying to make the risk-sharing formula a great deal worse than the formula for 1981 in the Agreement. The Germans are also sticking to their figure of 800 million ecu for the basic refund; but this is only to be expected at this stage in the negotiation. The danger for us is that, at the Council on Monday, the Commission will circulate a text which allows too much for the French position so that the Foreign Secretary will be obliged to reject it. If that happens, the other Member States may think that we are being typically inflexible and the negotiation may break down.

Sir Michael Butler has done all he can to haul the Commission back from making a proposal less favourable to the UK than what OD agreed. The Foreign Secretary will have another go first thing tomorrow morning. But he may wish you to intervene if he decides that this would be helpful.

As a precaution I have prepared the attached speaking note for you to use. It may of course need to be amended as a result of the Foreign Secretary's talk with M. Thorn tomorrow morning.

D.H.

D. J. S. Hancock

23 May 1982

POINTS TO MAKE TO M. THORN

1. I am very pleased that the Commission is taking the initiative to find a solution to the Budget problem. I am very worried about the effect on British public opinion if this negotiation goes wrong. We have dropped our demand for a multi-year settlement at this stage and agreed to the extension of the 30 May Agreement to 1982, provided of course that a deadline for the longer term solution is set and agreed.
2. I do hope that the Commission will be able to put forward a proposal to the Council that the UK can accept. It is not true that we have shown no flexibility and if we can accept the Commission proposal put forward to the Council this will expose the inflexibility of others.
3. I can accept your estimate of 1530 million ecu for the UK's unadjusted net contribution in 1982.
4. The basic refund must be 850 million ecu or more, preferably 870 or 880; and the short-fall below 66% of 1530 (i.e. 1010 million ecu) must be explained as having taken account of the results over the three years of the Agreement.
5. The risk-sharing formula needs to be at least as favourable to the UK as the 1981 formula, i.e.:-
 - first 20 million ecu excess - all to the UK
 - next 100 million ecu excess - 50/50
 - rest - 75% Community/25% UK

Obviously we should prefer the 1980 formula which is a simple 75%/25% split.

(see annex below on figures)

ANNEX

The attached table shows in summary form the four risk-sharing formulae under consideration so far and analyses their effect on UK refunds in 1982 and averaged over the three years 1980-82 assuming that the basic refund is 850 million ecu. It will be seen that they all give a 75% refund average over three years.

	1980 Formula	1981 Formula	Commission Formula of 17 May	Sir Michael Butler's Formula
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
UK pays 100%	-	20	50	20
UK pays 50%	-	100	150	50
UK pays 25%	All	Rest	Rest	Rest
Refund if outturn is 1900 million ecus and basic refund on 1530 million ecus is 850 million ecus	1128	1088	1053	1100
% refund in 1982	59%	57%	55%	58%
Average % refund 1980-1982	77%	76%	75%	76%