

SUBJECT  
de Maris

Evo. Pol.

10 DOWNING STREET

From the Private Secretary

6 September, 1982

EC Budget

The Foreign and Commonwealth Secretary discussed this subject informally with the Prime Minister today. Mr. Pym said that his object was to let the Prime Minister know the line he would be taking in the various bilateral meetings which he would be having with his European counterparts in the near future. He was not, of course, seeking any fresh decisions, particularly as the Chancellor of the Exchequer was not able to be present.

Our first objective must be to complete the arrangements for the 1982 settlement at the next meeting of EC Foreign Ministers on 20 September. The German Foreign Minister had recently made it clear that he was totally behind us in our approach to this problem. But whether satisfactory arrangements would be made depended very much on the Danish presidency.

The next question would be the nature of the Commission's proposal for subsequent years. The President of the Commission was engaged on a round of consultations and would be visiting London at the beginning of next week. Mr. Pym thought that M. Thorn would probably agree to a review of the longer term financing problems in the context of enlargement and a possible breach of the 1 per cent VAT ceiling. The Prime Minister expressed some doubt as to whether either of these two considerations would lead to an effective solution of the budgetary problem. She thought it would be necessary to stiffen M. Thorn during his visit to London.

On timing, Mr. Pym said that the Commission ought to make their proposal to the October meeting of EC Foreign Ministers. Herr Genscher had made it clear that he wished the problem to be resolved at that meeting but doubted whether it would be; Genscher was inclined to think that the German presidency in the first half of 1983 might have to produce a solution. Genscher agreed with him that the solution should be based on a 66 per cent refund, together with a satisfactory risk sharing formula. As regards the problem of over-payments, Mr. Pym would be making it clear that the extent to which these could be taken into account depended on the nature of the overall agreement which was

being proposed.

The Prime Minister commented that the overall settlement must be a good one from our point of view. Otherwise it would set a disastrous precedent for the future. She wondered whether we should not begin by seeking a refund higher than 66 per cent - there was otherwise a danger that we should be pushed below our starting point. We could not go below 66 per cent, plus a satisfactory risk sharing formula, or we should be in great difficulty. Mr. Pym pointed out that 66 per cent had been the figure in many people's minds for a very considerable period; if we now talked of a higher one, it would be dismissed as a crude negotiating ploy.

The Prime Minister suggested that, if the Ten agreed to 66 per cent plus a risk sharing formula, there was no reason why this should not apply without a time limit. Mr. Pym said that the Nine were wedded to the idea of degressivity. We rejected that notion. But it led the Nine to wish to limit any settlement to the years 1983 and 1984.

The Prime Minister said that we must not be pushed into an unsatisfactory settlement. The amount of money at stake was sizeable.

The Foreign and Commonwealth Secretary suggested that there should be a further discussion in about mid-October, with the Chancellor of the Exchequer present.

I am copying this letter to John Kerr (Treasury) and Richard Hatfield (Cabinet Office).

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