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Foreign and Commonwealth Office

London SW1A 2AH

3 November 1982

*John T. ...*

UK Budget Contribution

I enclose a telegram recording a conversation between Mr Hurd and Mr Tugendhat on 2 November.

Mr Pym suggests that it might be helpful for the Prime Minister to see this telegram before she talks to Mr Tugendhat (my letter of 1 November refers).

*Yours ...*

(R B Bone)  
Private Secretary

A J Coles Esq  
10 Downing Street

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# OUT TELEGRAM

	Classification and Caveats <b>CONFIDENTIAL</b>	Precedence/Deskby <b>IMMEDIATE</b>
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 GRS 2 GRS  
 CLASS 3 CONFIDENTIAL  
 CAVEATS 4  
 DESKBY 5  
 FM FCO 6 FM FCO  
 PRE/ADD 7 TO IMMEDIATE <sup>UKREP</sup> BRUSSELS AND TO ROUTINE EC POSTS  
 TEL NO 8 TEL NO

9 Mr Tugendhat called on Mr Hurd this morning to discuss the UK  
 10 budget problem and the Review. As Mr Tugendhat was unaccompanied,  
 11 he has asked if we could provide him with a record of the  
 12 meeting, in particular setting out clearly the points made to him  
 13 about what we would like to see in the Community's paper on the  
 14 British budget problem. Please therefore pass a copy of this  
 15 telegram to Mr Tugendhat.

16 2. Mr Tugendhat said that, from his reading of the British press  
 17 following the Luxembourg FAC, he had gained the impression that  
 18 we would not be pressing for a settlement of the question of  
 19 1983 and later contribution until after the FRG elections in  
 20 March. Mr Hurd firmly disabused him of this idea and said that  
 21 he hoped to visit Bonn later this month for discussions with Dr  
 22 Mertes and that Dr Mertes had been invited to visit London for  
 23 further talks in December.

24 3. Mr Hurd made the following points to Tugendhat:  
 25 i. it was essential that the Commission produce their paper

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File number	Dept	Distribution <b>FRAME ECONOMIC                  ECD (I)</b>
Drafted by (Block capitals) D H A HANNAY		
Telephone number 233 3326		
Authorised for despatch <i>[Signature]</i>		
Comcen reference	Time of despatch	

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 2 before the 30 November deadline, and that the Foreign Affairs  
 3 Council on 22 November be given an opportunity to discuss it; if  
 4 no Commission paper came forward before the deadline, the  
 5 Government would be bound to criticise the Commission directly;  
 6 ii. It was important to get on negotiating a lasting solution  
 7 to the British budget problem thereafter. Whether or not it was  
 8 possible to reach a solution before the German elections remained  
 9 to be seen. But we were likely to press at the November FAC and  
 10 the Copenhagen EC for a timetable for negotiation.  
 11 iii. At this stage we were inclined to agree that it was not  
 12 desirable for the Commission to propose figures for the 1983 and  
 13 later settlement. There was a real risk that any figures put  
 14 forward, taking account of the 'overpayment' question, would be  
 15 unacceptably low. It might be better to argue for a formula  
 16 along similar lines to that used in 1980-82 ie refund of a  
 17 proportion of a Commission estimate of the UK unadjusted net  
 18 contribution (66%) with upward and downward risk sharing.  
 19 iv. It would be helpful if the Commission could re-emphasise  
 20 the analysis in its June 1981 mandate paper that the UK problem  
 21 was not a transitional one deriving from a failure to adapt,  
 22 but structural and requiring a lasting solution. This would  
 23 help to counter arguments for degressivity in any refund  
 24 system.  
 25 v. On duration it would help if the Commission made clear that  
 26 the arrangement would need to run so long as a fundamental change  
 27 in the Community's financing was not agreed.  
 28 vi. Assuming that the 'overpayment' issue had to be mentioned,  
 29 it would be helpful if three particular points could be made in  
 30 the Commission paper:  
 31 a. the 1980/81 payments were legal;  
 32 b. any adjustment to our refunds to take account of an  
 33 unexpectedly low net contribution in 1981 must be a political  
 34 decision and could not be usefully addressed by mathematical

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 2 or legalistic means;  
 3 c. a solution to the 'overpayment' question must be part of an  
 4 overall settlement in 1983 and later and could not be agreed  
 5 in advance.  
 6 4. On the question of Review, which Mr Tugendhat said would  
 7 certainly be proposed by the Commission, Mr Hurd said we remained  
 8 deeply sceptical. It was important that any proposals should  
 9 deal with the question of equitable burden sharing and should not  
 10 prejudge the desirability of creating new own resources. It was  
 11 also important to ensure that the Commission did not give the  
 12 impression that the British budget problem could be solved easily  
 13 by expanding the Community's non-agricultural spending policies.  
 14 A direct adjustment mechanism should not be precluded.  
 15 5. Mr Tugendhat replied that he hoped to see progress on 1983  
 16 and later as soon as possible, but thought that the Germans might  
 17 be more amenable to a settlement after their March elections.  
 18 The Commission would be considering the UK budget-contributions  
 19 and the Review during the weekend 13/14 November, and a document  
 20 would certainly be produced in time for the November FAC. He  
 21 sympathised with our ~~scepticism~~ <sup>concern</sup> about ~~a review~~ <sup>the terms of reference about</sup> and was not  
 22 optimistic that it would solve by structural means the underlying  
 23 problems causing the British overpayments. It might however  
 24 dispose of the belief some of our partners had that an increase  
 25 in own resources would in itself solve the UK's problem. Our  
 26 partners would have to be made aware that there was no easy way  
 27 of solving this problem and this might bring them back to  
 28 acceptance of a direct budget adjustment mechanism on a lasting  
 29 basis.  
 30 6. Copy recipients should treat the above as for their information  
 31 PYM <sup>only.</sup>  
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OO UKREP BRUSSELS  
GRS 783  
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FROM F C O 0211839Z NOV. 82  
TO IMMEDIATE UKREP BRUSSELS  
TELEGRAM NUMBER 775 OF 2 NOVEMBER.  
AND TO ROUTINE E.C. POSTS.

1. MR TUGENDHAT CALLED ON MR HURD THIS MORNING TO DISCUSS THE UK BUDGET PROBLEM AND THE REVIEW. AS MR TUGENDHAT WAS UNACCOMPANIED, HE HAS ASKED IF WE COULD PROVIDE HIM WITH A RECORD OF THE MEETING, IN PARTICULAR SETTING OUT CLEARLY THE POINTS MADE TO HIM ABOUT WHAT WE WOULD LIKE TO SEE IN THE COMMUNITY'S PAPER ON THE BRITISH BUDGET PROBLEM. PLEASE THEREFORE PASS A COPY OF THIS TELEGRAM TO MR TUGENDHAT.
2. MR TUGENDHAT SAID THAT, FROM HIS READING OF THE BRITISH PRESS FOLLOWING THE LUXEMBOURG FAC, HE HAD GAINED THE IMPRESSION THAT WE WOULD NOT BE PRESSING FOR A SETTLEMENT OF THE QUESTION OF 1983 AND LATER CONTRIBUTION UNTIL AFTER THE FRG ELECTIONS IN MARCH. MR HURD FIRMLY DISABUSED HIM OF THIS IDEA AND SAID THAT HE HOPED TO VISIT BONN LATER THIS MONTH FOR DISCUSSIONS WITH DR MERTES AND THAT DR MERTES HAD BEEN INVITED TO VISIT LONDON FOR FURTHER TALKS IN DECEMBER.
3. MR HURD MADE THE FOLLOWING POINTS TO TUGENDHAT:
  - I. IT WAS ESSENTIAL THAT THE COMMISSION PRODUCE THEIR PAPER BEFORE THE 30 NOVEMBER DEADLINE, AND THAT THE FOREIGN AFFAIRS COUNCIL ON 22 NOVEMBER BE GIVEN AN OPPORTUNITY TO DISCUSS IT: IF NO COMMISSION PAPER CAME FORWARD BEFORE THE DEADLINE, THE GOVERNMENT WOULD BE BOUND TO CRITICISE THE COMMISSION DIRECTLY:
  - II. IT WAS IMPORTANT TO GET ON NEGOTIATING A LASTING SOLUTION TO THE BRITISH BUDGET PROBLEM THEREAFTER. WHETHER OR NOT IT WAS POSSIBLE TO REACH A SOLUTION BEFORE THE GERMAN ELECTIONS REMAINED TO BE SEEN. BUT WE WERE LIKELY TO PRESS AT THE NOVEMBER FAC AND THE COPENHAGEN EC FOR A TIMETABLE FOR NEGOTIATION.
  - III. AT THIS STAGE WE WERE INCLINED TO AGREE THAT IT WAS NOT DESIRABLE FOR THE COMMISSION TO PROPOSE FIGURES FOR THE 1983 AND

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LATER SETTLEMENT. THERE WAS A REAL RISK THAT ANY FIGURES PUT FORWARD, TAKING ACCOUNT OF THE 'OVERPAYMENT' QUESTION, WOULD BE UNACCEPTABLY LOW. IT MIGHT BE BETTER TO ARGUE FOR A FORMULA ALONG SIMILAR LINES TO THAT USED IN 1980-82 IE REFUND OF A PROPORTION OF A COMMISSION ESTIMATE OF THE UK UNADJUSTED NET CONTRIBUTION (66 PERCENT) WITH UPWARD AND DOWNWARD RISK SHARING.

IV. IT WOULD BE HELPFUL IF THE COMMISSION COULD RE-EMPHASISE THE ANALYSIS IN ITS JUNE 1981 MANDATE PAPER THAT THE UK PROBLEM WAS NOT A TRANSITIONAL ONE DERIVING FROM A FAILURE TO ADAPT, BUT STRUCTURAL AND REQUIRING A LASTING SOLUTION. THIS WOULD HELP TO COUNTER ARGUMENTS FOR DEGRESSIVITY IN ANY REFUND SYSTEM.

V. ON DURATION IT WOULD HELP IF THE COMMISSION MADE CLEAR THAT THE ARRANGEMENT WOULD NEED TO RUN SO LONG AS A FUNDAMENTAL CHANGE IN THE COMMUNITY'S FINANCING WAS NOT AGREED.

VI. ASSUMING THAT THE 'OVERPAYMENT' ISSUE HAD TO BE MENTIONED, IT WOULD BE HELPFUL IF THREE PARTICULAR POINTS COULD BE MADE IN THE COMMISSION PAPER:

- A. THE 1980/81 PAYMENTS WERE LEGAL:
- B. ANY ADJUSTMENT TO OUR REFUNDS TO TAKE ACCOUNT OF AN UNEXPECTEDLY LOW NET CONTRIBUTION IN 1981 MUST BE A POLITICAL DECISION AND COULD NOT BE USEFULLY ADDRESSED BY MATHEMATICAL OR LEGALISTIC MEANS:
- C. A SOLUTION TO THE 'OVERPAYMENT' QUESTION MUST BE PART OF AN OVERALL SETTLEMENT IN 1983 AND LATER AND COULD NOT BE AGREED IN ADVANCE.

4. ON THE QUESTION OF REVIEW, WHICH MR TUGENDHAT SAID WOULD CERTAINLY BE PROPOSED BY THE COMMISSION, MR HURD SAID WE REMAINED DEEPLY SCEPTICAL. IT WAS IMPORTANT THAT ANY PROPOSALS SHOULD DEAL WITH THE QUESTION OF EQUITABLE BURDEN SHARING AND SHOULD NOT PREJUDGE THE DESIRABILITY OF CREATING NEW OWN RESOURCES. IT WAS ALSO IMPORTANT TO ENSURE THAT THE COMMISSION DID NOT GIVE THE IMPRESSION THAT THE BRITISH BUDGET PROBLEM COULD BE SOLVED EASILY BY EXPANDING THE COMMUNITY'S NON-AGRICULTURAL SPENDING POLICIES. A DIRECT ADJUSTMENT MECHANISM SHOULD NOT BE PRECLUDED.

5. MR TUGENDHAT REPLIED THAT HE HOPED TO SEE PROGRESS ON 1983

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AND LATER AS SOON AS POSSIBLE, BUT THOUGHT THAT THE GERMANS MIGHT BE MORE AMENABLE TO A SETTLEMENT AFTER THEIR MARCH ELECTIONS. THE COMMISSION WOULD BE CONSIDERING THE UK BUDGET CONTRIBUTIONS AND THE REVIEW DURING THE WEEKEND 13/14 NOVEMBER, AND A DOCUMENT WOULD CERTAINLY BE PRODUCED IN TIME FOR THE NOVEMBER FAC. HE SYMPATHISED WITH OUR CONCERN ABOUT TERMS OF REFERENCE ABOUT A REVIEW AND WAS NOT OPTIMISTIC THAT IT WOULD SOLVE BY STRUCTURAL MEANS THE UNDERLYING PROBLEMS CAUSING THE BRITISH OVERPAYMENTS. IT MIGHT HOWEVER DISPOSE OF THE BELIEF SOME OF OUR PARTNERS HAD THAT AN INCREASE IN OWN RESOURCES WOULD IN ITSELF SOLVE THE UK'S PROBLEM. OUR PARTNERS WOULD HAVE TO BE MADE AWARE THAT THERE WAS NO EASY WAY OF SOLVING THIS PROBLEM AND THIS MIGHT BRING THEM BACK TO ACCEPTANCE OF A DIRECT BUDGET ADJUSTMENT MECHANISM ON A LASTING BASIS.

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