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Prime Minister

A. J. C. $\frac{16}{9}$

Qz.03308

MR COLLES

cc: Mr Fall, FCO
Mr Kerr, H M Treasury
Mr Lamport, FCO
Sir Robert Armstrong

EUROPEAN COMMUNITY BUDGET: PRIME MINISTER'S MEETING WITH
CHANCELLOR KOHL

Safety Net The United Kingdom's proposal for a safety net to correct the unfairness of the present Community budget is on the table of the Special Council in Brussels. We have recently heard that the Germans are actively considering tabling in Brussels their own proposal for a safety-net. This would be on a different basis and almost certainly less favourable to the United Kingdom.

2. We consider that an apparent conflict in the negotiating position of the two countries advocating a safety net would be very harmful. We have made clear to the Germans that the tabling of a German paper with rival ideas to our own would damage the prospects for the agreement which both countries seek on an acceptable safety-net scheme.

3. It appears that the German idea is to limit the German and United Kingdom corrected net contribution to their GDP shares in the total net contribution before correction, with some further arbitrary adjustment related to relative prosperity. The following example may illustrate the effect of the German scheme: in 1983, if Germany's uncorrected net contribution were 2.5 billion ecus and the United Kingdom's 2.0 billion ecus, then with factors of 2 for Germany and 1 for the United Kingdom the corrected net contributions would be 2.3 billion ecus for Germany and 790 mecus for the United Kingdom. But if the

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United Kingdom's uncorrected net contribution were to increase, then our corrected net contribution would also rise correspondingly. The scheme would not measure a member state's ability to pay nor would it protect net contributors adequately as total Community expenditure increased.

4. If there is any discussion of the safety-net, the Prime Minister might speak to Chancellor Kohl on the following lines:-

"I understand that your officials have been working on an alternative approach to the budgetary safety-net. From what I have heard of it, it will not solve our problem and will not increase the chances of a successful conclusion to the present negotiations. I think that, from the negotiating point of view, it is most important that the two countries advocating a safety-net should not allow themselves to be divided. I very much hope, therefore, that the German Government will not table these ideas in Brussels without the further discussions between officials which, I understand, have been suggested".

Df Williamson

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16 September 1983