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FCS/83/282

CHANCELLOR OF THE EXCHEQUER

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Net Payments to European Community Institutions: Public / 1.

Expenditure White Paper Figures

1. Thank you for sending me a copy of your minute of 16 December.
2. In general, I agree with your approach but I have some comments as follows. In paragraph 3 of your minute you say that we should receive the bulk (90%) of our 1983 refunds by the end of the financial year. This implies that 90% is the amount we normally receive by the end of March, whereas in practice, it has only been in respect of the 1982 refund that we received 90% by the end of the financial year ie 31 March 1983. In 1980/81 we received only 54% of the refund by the end of our financial year. In 1981/82 we received 80%. In view of this and of the Community's rather special cash flow problems in 1984 which will make it distinctly difficult for a large payment to be made in one lump you may wish to consider whether it might not be wise to use a rather lower figure than 90% in scoring the refund that we expect to receive by 31 March 1984. The sums involved are not great, £352m (80%) by comparison with £396m (90%). But there might be presentational advantages in using the lower figure, particularly if we do not succeed in getting as much as

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Amendments telephoned through
from the FCO.

will
6/1/84.

we hope by the end of March. Moreover, the consequential increase in the refund figure for the 1984/85 financial year might have some advantages in PSBR terms. I recognise of course that showing the figures in this way will slightly increase the figure for our net contribution in 1983/84 and thus the gap that has to be explained away between that figure and the forecasts contained in the last White Paper.

4. My second point is that, while I am sure we must continue to use the working assumption that we shall receive the bulk of our 1983 refund in our 1983/84 financial year since that ^{has been the past practice} ~~is the agreed position~~ of the Council and even the Parliament have pointed to the need for action by the end of March, I do not think we should treat the unpaid element of our 1982 risk-sharing refund in the same way. We are about to take formal action with the Commission, calling on them to remedy the ^{Council's} ~~Commission's~~ default. In practice, the issue is likely to be resolved either in the context of the overall negotiation or by action by us decided in the light of the European Council. This means that, even if we secure the sums through negotiation, they are unlikely actually to be paid before the end of March. I suggest therefore that it would be better to deal with this problem by scoring only the figure for that part of the risk sharing refund which has already been paid (£178m) and having a footnote saying that the remaining £42m is in dispute. If you agree to this paragraph 2 of the draft White Paper would need to be amended on the following lines:

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"The estimate for 1983-84 also includes payment of £178m representing a large part of the 1982 'risk sharing' refund. This compensates the UK because our uncorrected net contribution in 1982 turned out to be greater than was originally expected. The United Kingdom does not accept that this payment discharges the obligation under the Council decision of 26 October 1982 and is pursuing the claim to the £42m (net) of this obligation that is outstanding."

5. In addition to these suggestions I have two drafting points on the White Paper text. First I do not think it is strictly accurate to speak, as the present draft does in paragraph 2, of "the first refund in 1980" since no money was actually paid over until 1981. It might be better to say:

"The effect of the agreement reached at Stuttgart is that, on average, in respect of the four UK financial years 1980/81 to 1983/84, the UK's net contribution to the budget has been reduced by around two-thirds."

6. Secondly, in describing the conditions in which the UK would be prepared to consider an increase in the Community's own resources, I think it important to stick as precisely as possible to the language used by the Prime Minister at Stuttgart, not least because this includes the vital element of the control of all Community spending, not just agricultural spending, which is missing from the present draft. I suggest that the last sentence of paragraph 5 be redrafted as follows:

"The UK has made it clear that it would be prepared

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to consider an increase in own resources provided that agreement was reached on an effective control of agricultural and other expenditure and provided this was accompanied by an arrangement to ensure a fair sharing of the financial burden so that no country has to pay a share disproportionate to its relative national wealth."

7. Finally I would observe that paragraph 6 raises a general point which is very germane to the discussion we are having as to whether expenditure by the UK on EC programmes represents a net increase in UK public expenditure for 1983/84 and 1984/85. Am I right in thinking that the figures for 1983/84 and 1984/85, annexed to the White Paper, reflect expenditure levels provided for in the 1984 EC budget as it has now been adopted? If so, it would appear to be the case that any UK expenditure involved in implementing those programmes in the years in question will not amount to an additional public expenditure cost since account has already been taken of the programmes in question, in your forecast figures.

8. I am copying this minute to the Prime Minister and the Secretary to the Cabinet.

A handwritten signature in dark ink, appearing to be 'G. Howe', is written above the typed name.

GEOFFREY HOWE

Foreign and Commonwealth Office

3 January, 1984

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