



A. S. C. 6/4.
p.a.

NOTE OF A MEETING HELD AT NO.11 DOWNING STREET ON TUESDAY, 3 APRIL,
TO DISCUSS EC FUTURE FINANCING

Present	Chancellor of the Exchequer	Foreign and Commonwealth Secretary
	Economic Secretary	Sir Michael Butler
	Mr Unwin	David Williamson
	Mr Fitchew	David Hannay
	Mr Mortimer	
	Mr Peretz	

The Chancellor reported briefly on his conversations at the ECOFIN lunch the previous day. He stressed that he had found no disposition at all among his fellow Finance Ministers to challenge the assumption that a permanent system was needed to solve the question of the UK's contributions, and that the system which was now on the table was along the right lines.

2. The meeting then turned to detailed consideration of the proposals contained in UKREP telegrams 1219 and 1220. The Foreign Secretary said that he thought it important to reach a settlement as soon as possible, because the more time other Member states were given to look at the system, the less they would probably like it. He felt that we had taken the French as far as we could on the system itself, and the only question that remained to be settled was how far we could persuade them to go on the figures. He thought Viscount Davignon's proposal a valuable step in this direction. There were 3 questions that particularly deserved consideration: the calculation of the refund, the "franchise" and the timing of an eventual settlement.

Calculations

3. The Chancellor pointed out that the figures used to illustrate the Davignon scheme were defective in a number of respects. Not only were they adjusted so as to produce a refund of only 1100 mecu in 1983, but this had been done from a base of 1680 mecu, rather than the 1622 mecu which the UK had always claimed. This made the effective rate of compensation only 1040 mecu in 1983. Similarly, the correction base for 1985 was also



higher than that calculated by the UK. Sir Michael Butler suggested that the crucial elements in the scheme were the 3 successive thresholds. He did not think it was possible to persuade our partners

to accept a total refund of more than 1100 mecu but he suggested that internal adjustments to the figures could produce a scheme that was both more accurate and more satisfactory from the UK's point of view. This would involve arriving at the 1100 compensation on the 1983 basis by a combination of reducing the base to 1622 mecu and the compensation rate above the threshold to 80 per cent. Applying this 80 per cent compensation rate to the corrected base figure for 1985 of between 2,000 and 2,100 mecu would produce a final level of compensation of roughly $\frac{2}{3}$. The only other side effect of this would be that the higher 90 per cent marginal rate of contribution would be reached slightly quicker. The Chancellor pointed out that the House of Commons was not interested so much in the amount of the refund, as in the resulting net contributions. He therefore foresaw considerable difficulties in persuading them to agree to a scheme on these lines. Mr Unwin pointed out that the net effect in simple terms of this calculation would be to leave the UK with the basic compensation rate of 1100 mecu and a 10 per cent ticket modérateur, which was actually a worse deal than the Foreign Secretary rejected last week.

"The Franchise"

4. Sir Michael Butler explained that this element of Davignon's scheme was very much intended to cope with the problem of German refunds. As far as the UK was concerned, it would probably be a largely cosmetic exercise, but in the case of Germany, the idea would be to set such a large minimum net contribution that they might never qualify for a refund. The Chancellor said that he did not particularly like the ideas, and the Foreign Secretary concurred. The Chancellor thought it highly likely the Germans would see through the proposal, and he had also at ECOFIN found that the Danes and the Dutch were very anxious, before they signed up on any deal with the UK, to know how the Germans would be treated. He also suggested that there would be great difficulty in presenting the scheme to Parliament, even if it made no practical difference. It would look rather odd to begin talking about minimum contributions when the whole thrust of the UK's argument had up to now been to define our maximum contribution. Mr Fitchew also pointed out that the franchise figure was in addition to, and did not subsume, the basic VAT/own resources gap.

Timing

5. The Chancellor suggested that there was no need to rush into agreement on the basis of these figures or any others. President Mitterrand clearly urgently desired a settlement during his presidency of the Community, but this gave the UK up to 30 June to settle. The Foreign Secretary disagreed with this assessment. He pointed out that the momentum of the successive Foreign Affairs councils had depended considerably on being able to represent them as extensions of the Brussels Summit. This argument was becoming increasingly difficult to sustain, and unless a settlement were reached quickly, it would be widely argued that the Summit had finally collapsed, and any future negotiation would have to be ab initio. Sir Michael thought that although the Davignon scheme was susceptible to marginal improvement, there was little likelihood of making much more progress by 30 June would be possible by 9 April. He foresaw a considerable problem with delay in that it would allow other member states to focus on both the 1986 figures for the UK compensation, and the problem of the "hump" in CAP expenditure that would come at the end of 1984. The Chancellor reiterated the dangers he saw in appearing too keen for a settlement; he suggested that if it looked as if we would accept this deal, we would find it was no longer on offer and we would find ourselves pressed to accept something even less satisfactory. He therefore felt that the UK must continue to ask for more, whatever its private assessment of what was actually achievable, and that in particular she must insist on some increase in the 1100 mecu compensation on the basis of the 1983 figures. He also pointed out that the other arm of the great negotiation, the question of budgetary discipline, was also not yet in a satisfactory condition and that the French were at one with the UK on wishing for more work to be done on this.

J

MISS J C SIMPSON

3 April 1984

Circulation

Those present