CONFIDENTIAL

R M

cc MASTER SET

FILE cc:- LPO
HMT
CWO
CO

10 DOWNING STREET

From the Private Secretary

5 April, 1984

REFORM OF COMMUNITY'S FINANCING

The Prime Minister discussed with the Lord President of the Council, the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and the Chief Whip yesterday the state of the negotiation on the reform of the Community's financing. Mr. Unwin, Mr. Hannay and Mr. Williamson were also present.

The Foreign and Commonwealth Secretary said that the text which the French Presidency had presented to the European Council included the reformed financing system which the United Kingdom had been seeking. This text had now survived through a difficult Foreign Affairs Council and through the Finance Council. In his judgement, however, it would soon slip away if there were no settlement. The United Kingdom had won agreement to an ad hoc arrangement for one year only, with the system thereafter. The question at issue now was to establish, by derivation from a base figure, the essential financial elements, in particular the level of the threshold and the rate of compensation above the threshold. At the European Council the United Kingdom had moved on the figures. Nonetheless, a substantial disagreement remained, since the United Kingdom was ready to agree to a refund of 1250 million ecu (1983 figures) while the Nine were camped on their figures of 1000 million ecu. There was no possibility of shifting the Nine by direct contacts with the member states or with the French Presidency. It seemed, however, that Mr. Davignon might now be willing to persuade the Commission to put forward a solution based on a 1100 million ecu refund (1983 figures). The main elements of the possible Davignon proposal were a low threshold, with compensation above the level of the threshold at a rate of 77 per cent of the net contribution (the aim of this part of the proposal was to give the United Kingdom a refund of about two-thirds); and, in relation to increased expenditure, compensation to the United Kingdom at a rate of 90 per cent of the net contribution.

CONFIDENTIAL /He

He took the view that, if we missed the opportunity to clinch a deal, the package would soon begin to disintegrate and there would be little chance of reinstating it at the June European Council. If there were a break of this kind, we should expect that the other member states would move to take action independently of the United Kingdom. We might in due course be offered some patched up system which was worse than the present proposal.

The Prime Minister said that the United Kingdom could show no advantage from the very large net contribution, even after adjustment, which it would be making to the Community. We should not forget that we still had the card of refusing to agree to an increase in own resources. What we needed was a really effective safety net. The argument should not be based only on a two-thirds refund. The issues were very important. The present proposal would be very difficult to justify to parliamentary and public opinion and we should continue to work for a better offer.

The Chancellor of the Exchequer said that it would be advantageous to complete the deal during the French Presidency. As far as the present suggestions were concerned, he considered that a marginal rate of contribution of 10 per cent (compensation of 90 per cent) was acceptable. If we could get the rate of compensation up to 80 per cent (rate of contribution 20 per cent) for the first band, this part of the package would be reasonable. He was concerned, however, that by basing himself on 1100 million ecu (1983 figures), Mr. Davignon was producing results which were significantly below the figure for which the Prime Minister had stood out at Brussels.

The Lord President of the Council said that it was difficult to judge the merits of the rather complex technical suggestions now being put forward. It was, however, necessary to consider whether, if we missed an opportunity to settle the question now and later obtained a worse deal, there might not be considerable criticism.

In discussion it was pointed out that other member states took the view that, if the United Kingdom were to receive refunds of the order of two-thirds, this would be a very formidable protection for the United Kingdom. In relation to additional expenditure of the Community, the United Kingdom would be paying about 2 per cent, while France and Germany would be paying much more than 20 per cent. Although the figures for the estimated net contribution of the United Kingdom, after adjustment, were high, this partly reflected assumptions about the changes in our gross domestic product; there would be no significant change in the percentage of our gross domestic product which we contributed to the Community.

In discussion of tactics, it was agreed that the United Kingdom Permanent Representative in Brussels should seek to gain improvements in the proposal tentatively suggested by Mr. Davignon, in particular in relation to the percentage compensation on the first band and on the size of the first band. He should be instructed to say that, while Mr. Davignon's proposal represented some progress, the United Kingdom required arrangements based on a figure higher than 1100 million ecu (1983 figures). Ministers would review the matter again in the light of his further contacts with Mr. Davignon and the assessment of what President Mitterrand might be prepared to accept and advocate to other member states.

I am copying this letter to the Private Secretaries of the other Ministers who attended the meeting and to Richard Hatfield (Cabinet Office).

A. J. COLES

R. Bone, Esq.,
Foreign and Commonwealth Office

Type letter pl.

AJC 5/4.

CONFIDENTIAL

Qz.03663

MR ~~COLES~~

REFORM OF COMMUNITY'S FINANCING

--- I attach a draft record of the Prime Minister's meeting yesterday.

D F Williamson

D F WILLIAMSON

5 April 1984

CONFIDENTIAL

Draft letter from Mr Coles to Mr Gore

REFORM OF COMMUNITY'S FINANCING

The Prime Minister discussed with the Lord President of the Council, the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and the Chief Whip yesterday the state of the negotiation on the reform of the Community's financing. Mr Unwin, Mr Hannay and Mr Williamson were also present.

2. The Foreign and Commonwealth Secretary said that the text which the French Presidency had presented to the European Council included the reformed financing system which the United Kingdom had been seeking. This text had now survived through a difficult Foreign Affairs Council and through the Finance Council. In his judgement, however, it would soon slip away if there were no settlement. The United Kingdom had won agreement to an ad hoc arrangement for one year only, with the system thereafter. The question at issue now was to establish, by derivation from a base figure, the essential financial elements, in particular the level of the threshold and the rate of compensation above the threshold. At the European Council the United Kingdom had moved on the figures. Nonetheless, a substantial disagreement remained, since the

/United Kingdom

United Kingdom was ready to agree to a refund of 1250 million ecu (1983 figures) while the Nine were camped on their figure of 1000 million ecu. There was no possibility of shifting the Nine by direct contacts with the member states or with the French Presidency. It seemed, however, that Mr Davignon might now be willing to persuade the Commission to put forward a solution based on a 1100 million ecu refund (1983 figures). The main elements of the possible Davignon proposal were a low threshold, with compensation above the level of the threshold at a rate of 77 per cent of the net contribution (the aim of this part of the proposal was to give the United Kingdom a refund of about two-thirds); and, in relation to increased expenditure, compensation to the United Kingdom at a rate of 90 per cent of the net contribution.

3. He took the view that, if we missed the opportunity to clinch a deal, the package would soon begin to disintegrate and there would be little chance of reinstating it at the June European Council. If there were a break of this kind, we should expect that the other member states would move to take action independently of the United Kingdom. We might in due course be offered some patched up system which was worse than the present proposal.

4. The Prime Minister said that the United Kingdom could show no advantage from the very large net contribution, even after adjustment, which it would be making to the Community. We should not forget that we still had the card of refusing to agree to an increase in own resources. What we needed

/was

was a really effective safety net. The argument should not be based only on a two-thirds refund. The issues were very important. ~~and worth fighting for.~~ The present proposal would be very difficult to justify to parliament and public opinion and we should continue to work for a better offer.

5. The Chancellor of the Exchequer said that it would be advantageous to complete the deal during the French Presidency. As far as the present suggestions were concerned, he considered that a marginal rate of contribution of 10 per cent (compensation of 90 per cent) was acceptable. If we could get the rate of compensation up to 80 per cent (rate of contribution 20 per cent) for the first band, this part of the package would be reasonable. He was concerned, however, that by basing himself on 1100 million ecu (1983 figures), Mr Davignon was producing results which were significantly below the figure for which the Prime Minister had stood out at Brussels.

6. The Lord President of the Council said that it was difficult to judge the merits of the rather complex technical suggestions now being put forward. It was, however, necessary to consider whether ~~He was concerned, however,~~ ~~that~~ if we missed ~~the~~ an opportunity to settle the question now and later obtained a worse deal, there ~~were be justifiable~~ might not be considerable criticism.

7. In discussion it was pointed out that other member states took the view that, if the United Kingdom were to receive refunds of the order of two-thirds, this would be a very formidable protection for the United Kingdom. In relation to additional expenditure of the Community, the

/United Kingdom

United Kingdom would be paying about 2 per cent, while France and Germany would be paying much more than 20 per cent. Although the figures for the estimated net contribution of the United Kingdom, after adjustment, were high, this partly reflected assumptions about the changes in our gross domestic product; there would be no significant change in the percentage of our gross domestic product which we contributed to the Community.

8. In discussion of tactics, it was agreed that the United Kingdom Permanent Representative in Brussels should seek to gain improvements in the proposal tentatively suggested by Mr Davignon, in particular in relation to the percentage compensation on the first band and on the size of the first band. He should ~~not~~ be ~~authorised~~ instructed to say that, (while Mr. Davignon's proposal represented an improvement some progress,) the United Kingdom ~~accepted~~ required arrangements based ~~on~~ on a figure higher than 1100 million ecu (1983 figures). ~~but should seek improvements.~~ Ministers would review the matter again in the light of his further contacts with Mr Davignon and the assessment of what President Mitterrand might be prepared to accept and advocate to other member states.

9. I am copying this letter to the private secretaries of the other Ministers who attended the meeting and to [illegible] Richard Hatfield.

5/4.