



A.J.C. 4/4.

NOTE OF A MEETING HELD AT 11 DOWNING STREET ON WEDNESDAY, 4 APRIL
TO DISCUSS EC FUTURE FINANCING

Those present	Chancellor of the Exchequer Economic Secretary Mr Unwin Mr Fitchew Mr Mortimer	Foreign and Commonwealth Secretary Sir Michael Butler Sir Crispin Tickell Mr Williamson Mr Hannay
---------------	--------------------------------------------------------------------------------------------	---------------------------------------------------------------------------------------------------------------

The meeting first discussed the line which Sir Michael Butler should take when he next saw Viscount Davignon, based on the draft circulated by Mr Hannay on 3 April. There was some discussion on whether the line on enlargement in paragraph 4 could be strengthened, given the Chancellor's report that Finance Ministers had apparently accepted at ECOFIN that the system itself dealt with the problem of enlargement. It was eventually concluded that the tone was about right, given that some Ministers who had not expressed a view may not have understood the point, and that Delors was not proposing to include it in his official report to M. Cheysson.

2. Sir Michael Butler said that they had been reassessing the impact of Viscount Davignon's "franchise" proposal. It now appeared that this was intended not as a minimum contribution, but as a "trigger" below which the system would not be allowed to operate. Once, however, a member state's contributions had passed the "franchise" line, the system would operate in respect of all its contributions above its threshold so that the resulting net adjusted contribution could indeed be below the "franchise".

3. The Chancellor said that there were a number of points in the Davignon proposal that represented gains to the UK, particularly the fact that figures had now been inserted for the rate of compensation. He was also content with the "franchise" proposal. What he saw as the major remaining defect of the system was that it said nothing about the German position. Although the United Kingdom was concerned primarily with its own contributions, it had been very clear at ECOFIN that other member states' attitude to any settlement would depend crucially on what it did for the Germans. He did not see any possibility of reaching a solution without addressing this problem, as it was not just the Germans who



were interested in it. He had been struck by the fact that there was very little discussion in the UK's internal papers of the system which we hoped would apply for Germany. Sir Crispin Tickell said that he had spoken at some length to the Germans the previous day; he felt that they were determined to stick on financing only $\frac{2}{3}$ of the UK's refunds, but that it was possible they could be persuaded to accept a total refund of slightly over 1,000 mecus.

4. Sir Michael Butler said he thought the "franchise" idea had been intended solely to deal with the German problem. As he saw it, Davignon's idea was to present the Germans with a non-operable threshold. His idea was to try and leave the Germans isolated at the Foreign Affairs Council next week by getting the other member states to agree to the UK's settlement. Sir Michael accepted that this might not work, and that it was therefore crucial that the UK did not commit itself to the Davignon proposals before we knew they were acceptable to other member states.

5. The Chancellor said he thought it would be very difficult to persuade the House to accept a solution on the Davignon lines. He noted that the original proposals, over the period 1985-88, averaged an annual percentage refund of less than 60 per cent, and even taking account of the suggested variants in arriving at the 1100 mecu reference figure on the 1983 basis, this would reach only 63 per cent. He therefore felt that it was essential to devise a scheme that would bring the 1983 reference figure up to produce a system that would deliver at least a $\frac{2}{3}$ refund. He felt the best way to make this acceptable to the other member states was to ensure that the regime for the Germans was correspondingly tougher.

6. The Foreign Secretary disputed that there was any realistic possibility of getting anything beyond 1100 mecu. The Germans themselves were still wedded to the idea of 1,000 mecu as the reference figure; the proposal of 1250 which Herr Tietmeyer had at one stage floated had never been formally on the table, and certainly was not now. Sir Crispin Tickell confirmed that psychologically and politically the Germans would find it very difficult to move from the 1,000 mecu figure. The Chancellor suggested that they might move in response to French pressure, but the Foreign Secretary said he did not think this would in fact be forthcoming. The French Finance Ministry were now beginning to realise the implications for them in later years of the figures that were being talked about, and Monsieur Dumas' recent proposal of 900 mecu as the reference level had been strongly supported in the French Finance Ministry. He did not think that Viscount Davignon would



have proposed a reference figure of 1100 if he had not felt reasonably sure that the French would back him as far, but he did not think there was any realistic prospect of pushing them any further. Sir Michael Butler confirmed that the actual figures for refunds from 1985 onwards looked horribly large to other member states, and this lay behind the attempt by the French Finance Ministry to get away from any idea of an actual threshold and back to the idea of a percentage contribution for the UK. He was convinced that a reference figure of 1100 and the two tier rate of compensation of 80 per cent and 90 per cent was the very maximum that could be squeezed out of the system.

7. The Foreign Secretary said he was very much afraid that if we failed to settle this question while it could still be said to be "in the context of the March Brussels Summit", the whole negotiation would collapse. He did not see the 1 per cent VAT ceiling as an unbeatable card; he thought the reaction of other member states would be to produce methods for circumventing the ceiling, perhaps by an increase in national financing, and to abandon any idea of future refunds for the UK. It was also suggested that they could deny the UK its fair share of such community spending programmes as the regional and social funds. The Chancellor suggested that as President Mitterrand wanted the kudos of solving the problem, he would not allow this to happen before June. He suggested that the ultimate figure of 1100 or 1200 mecu as the reference figure would make very little difference to either his claims, if he got a settlement, to be the "saviour of Europe", or to the protests which would come from the Gaullists that the whole thing was a sell out, or to the reaction in the UK that the whole deal was unsatisfactory. The Foreign Secretary conceded that Mitterrand would be very glad to get a settlement, but that throughout the negotiations he had been operating a two-track policy; he had always been prepared, in the last resort, to abandon the UK if it looked as though a settlement acceptable to us would be unacceptable to him at home. Mitterrand had supported the UK hitherto, for example in putting the system into place and making a number of modifications to it that benefited the UK, but this was because he wanted a solution from the March European Council. Failure next week would almost certainly set the whole negotiation back to square one. There was no way that a reference figure of 1200 mecu could be represented in Europe as a compromise on our part. The Chancellor suggested that in accepting the Davignon proposal, the UK would be making a considerable compromise over the rate of compensation, but the Foreign Secretary said that this had never been a prominent element in public perception of the problem.



8. Mr Unwin said that although a difference of 100 mecu now might not appear very much, as it fed through into the system it would have an increasingly large effect. The Foreign Secretary maintained that as a percentage of the total refund, the gap between our optimum position and the Davignon proposal (if modified as we hoped) was still extremely small. Mr Hannay pointed out that the figure of levies and duties which had been included in the calculation, and which were the only ones that fed through on a one to one basis, had been set at a rather higher level than it was generally accepted they would reach. Mr Unwin countered by pointing out the very conservative assumptions that had been used for the growth of the EC Budget.

9. The Chancellor suggested that the Foreign Secretary was now urging acceptance of a deal rather worse than the one he had rejected the previous week. The Foreign Secretary pointed out that what had been on offer then had not included the system itself, as all that has been talked about was the figures. The political implications if the rest of the community did decide on an ad hoc increase in own resources were insupportable.

10. In conclusion, there was some further discussion as to how forthcoming Sir Michael Butler should be with Viscount Davignon, given the danger that if we seemed too pleased with the proposal, we would find it withdrawn and a tougher one substituted. It was agreed that we should give him no definite hint of acceptability at least until he could show that the other member states were also prepared to accept such a proposal. Sir Michael should stress that neither the Prime Minister nor the Chancellor were prepared to accept the idea at present, that he did however think it worth Davignon's while sounding other member states out, but that there would clearly be no question of the Prime Minister agreeing to anything until she could be reasonably sure that not only the Presidency but the Germans would also accept it.

B

MISS J C SIMPSON

4 April 1984

Circulation

Those present

A J Coles Esq, 10 Downing Street

APR 1984

12 1 2 3 4 5 6 7 8 9 10 11 12

REFUNDS AND NET CONTRIBUTIONS 1985-1988

(All figures in million ecu)

Year	Unadjusted Net Contribution	System to give ^(A) 1250 million ecu refund in 1983 (95% compensation rate)			System to give ^(B) 1250 million ecu refund in 1983 (90% compensation rate)		
		Refund	% Refund	Adjusted Net Contribution	Refund	% Refund	Adjusted Net Contribution
1985	2310	1520	66	790	1518	66	792
1986	3090	2208	71	882	2176	70	914
1987	3390	2434	72	956	2397	71	993
1988	<u>3530</u>	<u>2505</u>	<u>71</u>	<u>1025</u>	<u>2471</u>	<u>70</u>	<u>1059</u>
Total	12320	8667	70	3653	8562	69	3758

Year	Unadjusted Net Contribution	System to give ^(C) 1100 million ecu refund in 1983 (95% compensation rate)			System to give ^(D) 1100 million ecu refund in 1983 (90% compensation rate)		
		Refund	% Refund	Adjusted Net Contribution	Refund	% Refund	Adjusted Net Contribution
1985	2310	1342	58	968	1340	58	970
1986	3090	2015	65	1075	1983	64	1107
1987	3390	2226	66	1164	2189	65	1201
1988	<u>3530</u>	<u>2280</u>	<u>65</u>	<u>1250</u>	<u>2246</u>	<u>64</u>	<u>1284</u>
Total	12320	7863	64	4457	7758	63	4562

Year	Unadjusted Net Contribution	Davignon Proposal ^(E) (with marginal compensation of 77% up to 0.4% of GDP and 90% thereafter)			Davignon Proposal ^(F) modified so that compensation of 80% up to 0.33% of GDP with 90% compensation thereafter		
		Refund	% Refund	Adj. Net Contribution	Refund	% Refund	Adjusted Net Contribution
1985	2310	1283	56	1027	1333	58	977
1986	3090	1866	60	1224	1979	64	1111
1987	3390	2064	61	1326	2185	64	1205
1988	<u>3530</u>	<u>2107</u>	<u>60</u>	<u>1423</u>	<u>2238</u>	<u>63</u>	<u>1292</u>
Total	12320	7320	59	5000	7735	63	4585

Additional expenditure

1985-88 compared with

Tutmayes
Tutmayes + 10% TM
1100 + 5% TM
1100 + 10% "

1347 macu

1242 "

543 "

438 "