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From the Private Secretary

6 April, 1984

REFORM OF THE COMMUNITY'S FINANCING

The Prime Minister held a meeting with the Lord President of the Council, the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and the Chief Whip yesterday in order to discuss the latest information on the reform of the Community's financing system and, in particular, Mr. Davignon's possible initiative. Sir Robert Armstrong, Mr. Hannay, Mr. Fitchew and Mr. Williams were also present.

The Foreign and Commonwealth Secretary said that Sir Michael Butler had been pressing Mr. Davignon to improve the ideas which he had put forward, in particular by reducing the threshold, by increasing the rate of compensation on the first band from 77 per cent to 80 per cent and by lowering the point at which the second band (90 per cent compensation) came into effect. It remained true that the arrangements now under discussion did gain for the United Kingdom the central features of the safety net. He was profoundly worried that, if a settlement were not reached, the valuable features of the system in the Presidency's text would slip away. The reports from Sir Michael Butler (texts of telegrams circulated under cover of Mr. Williamson's minute of 5 April) indicated that we had some chance of improving the original suggestions put forward by Mr. Davignon.

The Prime Minister said that she had been studying the figures and that she had noted that, although the United Kingdom would continue to be a substantial net contributor even under the revised arrangement, seven member states would apparently still be very substantial beneficiaries. She remained of the view that this was inequitable.

The Chancellor of the Exchequer said that it was important to keep up the pressure for improvements. Changes in the first band of compensation would be useful but the level of the threshold itself was also important. He considered that Mr. Davignon was sensible to present any new suggestions not in terms of a single reference figure for 1983 but in terms of the threshold and rates of compensation to be built into the system. These elements must, of course, be satisfactory.

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The Lord President of the Council said that if the new arrangement did give the United Kingdom a system which would stop the annual haggling about a United Kingdom refund and if there were an improvement over the position at the end of the European Council (for example, by basing the new system on 1100 million ecu refund on 1983 figures), in his view it could be justified to British public and parliamentary opinion.

In discussion there was a detailed examination of the estimated financial consequences of the original and possible modified proposals by Mr. Davignon (these figures are set out in doc. 1 annexed to Mr. Williamson's minute of 4 April). There was also some discussion of the basis for the forecasts of the excess share of levies and duties. In the light of this discussion the Prime Minister re-emphasised her determination that the United Kingdom should not agree to anything less than the results corresponding to at least 1100 million ecu on 1983 figures and that we should continue to seek the improvements in Mr. Davignon's original position. It was agreed that instructions should be given to the United Kingdom Permanent Representative in Brussels that the United Kingdom continued to demand the improvements which had been already indicated to Mr. Davignon and that in our view it was now right for the Commission to take the responsibility for a suitably improved proposal.

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

AJC

R. Bone, Esq.,
Foreign and Commonwealth Office

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Type letter pl.

*MR G.
/4.*

Qz.03664

MR COLLES

REFORM OF THE COMMUNITY'S FINANCING

--- I attach a draft record of the meeting which the Prime Minister held with Ministers chiefly concerned yesterday.

D F Williamson

D F WILLIAMSON

6 April 1984

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Draft letter from Mr Coles *to Mr. Bone.*

REFORM OF THE COMMUNITY'S FINANCING

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we had some chance of improving the original suggestions put forward by Mr Davignon.

3. The Prime Minister said that she had been studying the figures and that she had noted that, although the United Kingdom would continue to be a substantial net contributor even under the revised arrangement, seven member states would apparently still be very substantial beneficiaries. She remained of the view that this was inequitable.

4. The Chancellor of the Exchequer said that it was important to keep up the pressure for improvements. Changes in the first band of compensation would be useful but the level of the threshold itself was also important. He considered that Mr Davignon was sensible to present any new suggestions not in terms of a single reference figure for 1983 but in terms of the threshold and rates of compensation to be built into the system. These elements must, of course, be satisfactory.

5. The Lord President of the Council said that if the new arrangement did give the United Kingdom a system which would stop the annual haggling about a United Kingdom refund and if there were an improvement over the position at the end of the European Council (for example, by basing the new system on 1100 million ecu refund on 1983 figures), in his view it could be justified to British public and parliamentary opinion.

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NR $\frac{6}{4}$.

§ in copy, the letter to the British Secretary of the Director General and to Sir Robert Amery.