

FROM: R W Renwick

DATE: 25 June 1984

cc: Sir Robert Armstrong
Sir Michael Butler
Sir Crispin Tickell
Mr Williamson
Mr Unwin

Private Secretary

BUDGET IMBALANCES

1. Mr Williamson and I saw Legras at lunch-time. We said how annoyed we had been to receive the proposal in M. Dumas' letter to the Secretary of State yesterday. This was completely unacceptable, as well as misrepresenting our position; and no negotiations would be engaged on that basis.

2. Legras agreed that this proposal was absurd. He has asked Dumas again this morning to argue against its being put forward at all. Dumas would be continuing to try to achieve a result on the basis of a percentage return, incorporating most of the elements of the Presidency system.

3. We made clear that the Prime Minister intended to negotiate on the basis of the system in the Presidency text. Legras produced a draft text which he was not authorised to show us, but which would represent the draft conclusions on the basis of a percentage return. The gist is set out in the attached note. We made clear that we would not agree to a second ad hoc year.

4. We said again that our intention was to complete the negotiations by setting the notional figure and the threshold.

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As for the percentage route, apart from the hazards of changing the basis of negotiation at this stage, the figures so far mentioned by the French were inadequate. Legras indicated that the French, nevertheless, were likely to proceed on this basis. If they did, they might start with some absurdly low figure in the region of 60%, but would then go up some way from there (presumably to two thirds of the VAT/expenditure gap).

5. The attached draft text retains the following essential features of the Presidency text: incorporation of the correction mechanism in the own resources decision; the correction to be co-terminos with the own resources decision and related to relative prosperity; and the correction to operate on the revenue side. In other respects, however, there is a lot wrong with it. If discussion were engaged on this basis it would have to be amended:
- (a) to include 'on a payments basis' in paragraph 3
 - (b) to delete the reference to a second ad hoc year in 1985 (paragraph 5)
 - (c) to delete the last sentence of paragraph 5
 - (d) delete paragraph 6
 - (e) delete or amend the second sentence of paragraph 8.*

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*(f) instruct the General Affairs Council to draft an implementing text.