

PRIME MINISTER

Outcome of Fontainebleau: Public Expenditure
Implications

May be water over the dam, as the Chancellor has already spoken to you.

Economic Secretary is before the Treasury Select Committee tomorrow (Flag A). Likely to be pressed on public expenditure implications of Fontainebleau. First line of defence will be: without a settlement we should have had to pay very much more, probably twice as much: our reliefs will be on a rising rather than a declining trend: our adjusted net contribution will be lower in real terms over the next four years than in 1983: but precise figures cannot be given until we know the size of the Community budget, changes in our share of Community expenditure and impact of budgetary discipline.

All agree on that. But David Williamson and the FCO both strongly recommend that we go no further (Flags B and C).

The Chancellor however thinks it necessary to add, if pressed, that our provisional public expenditure estimate is for an average corrected net payment to the Community of the order of £800m. a year up to 1988.

In favour of the Chancellor: a forecast is only that, it is not the last word: the committee won't believe that we haven't got an estimate of the public expenditure implications.

In favour of David Williamson and the FCO: why give figures which are uncertain, probably under-state the value

of the Fontainebleau deal for the UK and may get some headlines: the uncertainties will be less in the autumn.

So it really boils down to two questions:-

- 1) Should the Economic Secretary mention any figures?
- 2) If yes, should they be the £800m. a year figure or those attached to the FCO letter?

C.D.P.

Mr. White
Could mention £800m

(always in conjunction with
the £800m + 1500m) if

pressed
no

3 July 1984

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huc

Key

10 DOWNING STREET

From the Private Secretary

4 July, 1984

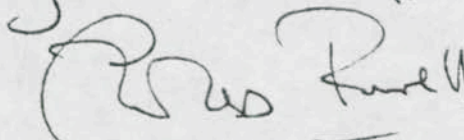
Dear David,

OUTCOME OF FONTAINEBLEAU: PUBLIC EXPENDITURE IMPLICATIONS

The Prime Minister has considered carefully the Chancellor's proposals, set out in your letter to me of 2 July, on the line which the Economic Secretary should take before the TCSC if pressed on the public expenditure implications of the Fontainebleau Agreement. She has also taken into account FCO views contained in Roger Bone's letter of 3 July.

The Prime Minister agrees that, if pressed, the Economic Secretary could mention that our provisional public expenditure estimate for our contribution in the financial years 1984/85 to 1986/87 is of the order of £800 million a year. But these figures should be used only if the Economic Secretary comes under strong pressure to reveal our estimate, and should be presented very firmly in the context of the much higher figures which the UK would have been liable to pay had there been no agreement at Fontainebleau. Caveats should be entered about the uncertainty over the Community's budget over the next few years and the provisional nature of the estimates.

I am sending copies of this letter to Roger Bone (Foreign and Commonwealth Office) and to David Williamson (Cabinet Office).

Yours sincerely,

(C.D. Powell)

D. Peretz, Esq.,
HM Treasury

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Key

CEN 10

NBPM
CDP
13/7

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

13 July 1984

R B Bone Esq
Private Secretary to the
Foreign and Commonwealth Secretary
Foreign and Commonwealth Office
Downing Street
LONDON SW1

Dear Roger

**OUTCOME OF FONTAINEBLEAU:
PUBLIC EXPENDITURE IMPLICATIONS**

Thank you for your letter of 9 July. As I explained to you on the telephone on Tuesday, we should strongly prefer to keep to the presentation in my letter of 2 July, which the Prime Minister approved. We are therefore glad that neither the Foreign and Commonwealth Secretary nor Mr Rifkind found it necessary to use your suggested alternative presentation in Tuesday's debate.

Perhaps I might restate our misgivings about the line suggested in your letter:-

(i) you say that our contribution to the allocated budget after refunds is expected to average in cash terms around £650 million a year over financial years 1984-85 to 1986-87. The use of financial years implies this is a public expenditure figure. But it is not. This could be very misleading to the House. Moreover, our "net contribution to the allocated budget" is not a concept with which the House is familiar. Most interest lies in the concepts used for public expenditure planning purposes, eg. our "net payments to the Community Budget" or our control total "net payments to Community institutions". The Treasury Committee focused on these; they are the figures that have been published in the past, and with which comparison will now be made. It will also be these figures that the Government will have to defend at the time of the Autumn Statement and the next Public Expenditure White Paper;

(ii) you also say that, in real terms, at constant 1983 prices, we expect our adjusted net contribution to decline even with the increase in the 1 per cent ceiling. As you know, we are reluctant to make use of "real terms" arguments for public expenditure purposes, since it is the cash figures that are important. In any case, our projections are not robust enough for a public prediction of this nature. It could well turn out to be a hostage to fortune. (Incidentally, we notice that this "real terms" argument was used in a draft reply which the Foreign Office submitted for the Prime Minister to send to Mr Austin Mitchell. The draft was not cleared with us, and we have now asked No 10 to amend the letter accordingly);

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(iii) finally, you say that, under the new arrangements, our net contribution to new expenditure will be no more than 7 per cent "compared with our normal financing share of 21 per cent". For accuracy, it would be better to say "... compared with our maximum financing share, at present, of around 21 per cent".

I am copying this letter to Charles Powell (No 10) and to David Williamson (Cabinet Office).

Yours ever
David

D L C PERETZ
Principal Private Secretary

EURO POL: European Council Meeting: P. 8



CCPC



Foreign and Commonwealth Office

London SW1A 2AH

NBR7

CDD
10/7.

9 July 1984

John Jarvis

Outcome of Fontainebleau: Public Expenditure Implications

Thank you for your letter. ^{-5 July} There are obvious difficulties about giving precise estimates for our adjusted net contribution under the system agreed at Fontainebleau. Mr Stewart did not find it necessary to give figures during his testimony to the Treasury Select Committee and the Foreign Secretary and Mr Rifkind will similarly aim to avoid giving figures during tomorrow's debate.

Nonetheless, we may come under pressure to give figures and we think it important, if we do so, to present those figures in a way which does not allow them to be misinterpreted. We have never questioned the fact that the Public Expenditure White Paper must give figures in cash terms and that these will be on the basis of net payments to all EC institutions rather than the net contribution to the allocated budget. The question is what figures we use in the meantime.

The Prime Minister said in the House on 27 June that if we had not secured an agreement and if the 1% ceiling had been maintained, "we should be paying to the Community between £1200 million and £1500 million". That represented an estimate of our net contribution to the allocated budget. Any figure we now give for our adjusted net contribution under the system should be on a comparable basis. I fully understand that the cash figure of £800 million is not on a comparable basis. That was why we were reluctant to see it used, because it was liable to misinterpretation by MPs, who would compare it with the figure given by the Prime Minister and draw a wrong conclusion - namely that we were getting a lower percentage relief on our unadjusted net contribution than is in fact the case.

Against this background, if pressed in the House next week, the Foreign Secretary and Mr Rifkind propose to draw on the following paragraphs, using the final paragraph only if they judge it essential to do so. The figure given is a cash figure, but is a figure for our adjusted net contribution

/to the



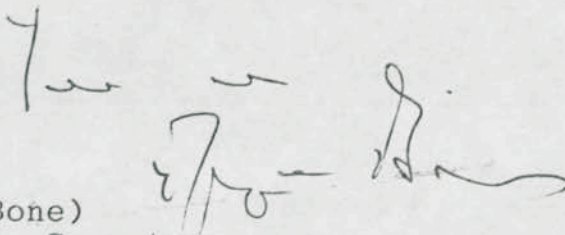
to the allocated budget and is thus directly comparable to that given by the Prime Minister.

"Hon Members will understand that it is not possible to give precise estimates of our adjusted net contribution under the system. This will depend on the size of the budget, the extent of the VAT call up and the size of our expenditure share. The size of the VAT share/expenditure share gap on which we shall receive reliefs will also depend upon the future trend of that portion of our levies and duties payments (about 12.5% at present) which will not form part of the calculations. Since this portion of "excess" levies and duties has been declining in real terms, the element of our unadjusted net contribution not covered under the system may well also diminish to our advantage.

What is clear is that we shall continue to contribute at less than 1% of the VAT ceiling even with increased own resources in place and that our refunds will now be on a firmly rising trend compared with the recent declining trend of ad hoc refunds. Moreover, our net contribution to new expenditure will be no more than 7%, compared with our normal financing share of 21%. By comparison, France will contribute at up to 27% and Germany at 32%.

In broad terms, our contribution to the allocated budget after reliefs is expected to represent an average in cash terms of around £650 million a year over financial years 1984-85 to 1986-87. If we had not reached agreement at Fontainebleau, and had relied on maintaining the 1% ceiling to safeguard our position, we should have found ourselves contributing, as the Prime Minister told the House on 27 July, at £1.2-£1.5 billion. In real terms, at constant 1983 prices, we expect our adjusted net contribution to decline even with the increase in the 1% ceiling. The remaining level of our adjusted net contribution is an inescapable part of Community membership resulting from the contribution we have to make to running costs and to transfers to the less prosperous Member States of the Community".

I am copying this letter to Charles Powell (No 10) and to David Williamson (Cabinet Office).


(R B Bone)
Private Secretary

D L C Peretz Esq
HM Treasury

Euro PA PT12

Euro Council Mtgs

Paris 25/26 June

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AT cell
to me
EDP
- 5/7.

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

R B Bone Esq
Foreign & Commonwealth Office

5 July 1984

Dear Roger

OUTCOME OF FONTAINEBLEAU: PUBLIC EXPENDITURE IMPLICATIONS

Thank you for sending me a copy of your letter of 3 July to Charles Powell. As recorded in Charles' subsequent letter, the Prime Minister decided that the Economic Secretary could, if pressed, use our suggested formulation that average net payments to Community Institutions, as defined in the Public Expenditure White Paper, could be of the order of £800 million in the financial years 1984/85-1986/87. In the event, the Economic Secretary was able to avoid giving any figures at yesterday's hearing. He said that we expected our net payments to Community institutions in 1983-84 and 1984-85 to be higher than in the last PEWP; and that the figures over the next three years would be of roughly the same order of magnitude.

Because this issue is bound to arise again soon (and certainly in next week's debate), the Chancellor thinks it very important that there should be no misunderstanding about the figures. He has asked me accordingly to set out the following comments on your letter:

- (i) your assertion (paragraph 2) that our suggested presentation is liable to be taken to mean that the system agreed at Fontainebleau will yield returns of only half our unadjusted net contribution whereas the actual returns will be much higher misunderstands the point I was trying to make. Our figures were not designed to show what proportion of our net contribution will be refunded. They were comparing what we could have paid in the event of no settlement at Fontainebleau (and no increase in the 1 per cent VAT ceiling) with what we can expect to pay following the settlement, including the increase in the ceiling

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to 1.4 per cent. On this basis, our post-settlement figure will be about £800 million a year for net payments to Community institutions (as defined in the PEWP). As table 1 attached to my letter of 2 July showed, our net payments could have been £1½ to £1¾ billion a year without a settlement but with no increase in the ceiling.

- (ii) you imply in your paragraph 2 that we should not be looking at our usual White Paper projections, but that we should instead make projections for calendar years with refunds allocated to the year in which they arise and taking account only of the allocated Community budget. It is true that the negotiations have been conducted on Commission figures calculated in this way. But to suggest that we should adopt this approach for our public expenditure projections misunderstands the purpose of public expenditure estimates. They are intended to record the actual public expenditure costs associated with the operation of the Community budget. It would be wrong for us to switch to calendar years when the rest of the public expenditure projections are for financial years; it would be wrong to deal in anything other than cash terms since the rest of the White Paper is in cash terms; and it would be wrong to disregard some elements of our net payments to Community institutions since these are public expenditure whether or not they are included in the allocated budget. The White Paper, incidentally, makes it quite clear what is and is not included and how it differs from the allocated budget concept. Generally, our figures quoted in Parliamentary Questions and elsewhere are on the White Paper basis rather than on the Commission basis.
- (iii) in your fourth paragraph you suggest that we should take the line that we shall be contributing "several hundred million ecus" a year and that this is the "most realistic way" in which to look at the path of our net contribution. In fact, as our projections make clear, our net payments to Community institutions will be considerably in excess of several hundred million ecus per annum - they are likely to be of the order of £800 million, which is over 1300 million ecu. To use your formulation could be misleading and would not be consistent with the figures which

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we will be publishing in the Autumn Statement and next year's White Paper.

- (iv) in your fifth paragraph you suggest that we should quote projections expressed in real terms at constant 1983 prices to show the prospective reduction in our adjusted net contribution in real terms. Table II attached to my letter of 2 July gave a run of past figures in constant price terms that has recently been made available in reply to a written PQ. But the idea of separating out a part of our public expenditure projections and showing it in real terms does not commend itself. The Government decided some time ago against projecting public expenditure estimates in real terms since this was tending to reduce the effectiveness of our public expenditure control. All projections in the White Paper are in cash terms, and it would be curious to project this part only in constant 1983 prices. Volume I of the White Paper will of course continue to show past figures in cost terms (see table 1.14 of Cmnd 9143); and the cash figures which we will be projecting for the future will imply some slight fall in real terms, although given our low inflation assumption the size of this fall should not be exaggerated and can certainly not be described as "sharp".

I am copying this letter to Charles Powell (No 10).

*Yours ever,
David*

D L C PERETZ

Council : EURO POL. Pt. 18.
Meeting

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- 4 JUL 1984

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Qz.03808

MR POWELL

BUDGET SETTLEMENT IN THE EUROPEAN COUNCIL: PUBLIC EXPENDITURE

Mr Peretz wrote to you on 2 July about the line which the Economic Secretary to the Treasury might take in evidence to the Treasury Select Committee tomorrow and I understand that the Foreign and Commonwealth Office are also commenting on this.

2. If the Prime Minister were to decide to maintain the line which she laid down in the discussion before her press conference in Fontainebleau and her parliamentary statement, that we should not volunteer at this stage estimates of the United Kingdom's adjusted net contribution and refund for the period 1985-88, I would draw attention to the following argument which is not included in the Treasury or FCO letters. Although we are demanding savings on the Commission's proposals for the Community's 1985 budget and are opposing the Commission's proposal for the 1984 supplementary budget, it is still unclear where these savings will be made and whether any expenditure will be deferred into 1986 or later years. **There is, therefore, at the present time a genuine uncertainty about the Community budgets for the next 2 or 3 years.** This uncertainty should be less later this year when we shall need to revise the figures for net payments to the Community which will be included in the Autumn Statement and in a revised Public Expenditure White Paper.

3. It seems to me, therefore, that it should be possible for the Economic Secretary to explain to the Select Committee that, leaving aside the element of excess levies and duties (which was about £172 million in 1983 or about £167 million on average over the period 1981-83) the remainder of the United Kingdom's

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net contribution to the Community's allocated budget in respect of 1985 and subsequent years will be abated by two-thirds (66 per cent). The composition of the Community's budget, however, for 1985 and the consequences for later years are the subject of discussion in the Community's Budget Council at the present time. The situation will be much clearer later this year. In short, there are more uncertainties about the Community budget itself than about the new system of budget refunds which the United Kingdom has negotiated.

4. I am sending a copy to Sir Robert Armstrong.

D F Williamson

D F WILLIAMSON

3 July 1984

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Foreign and Commonwealth Office

London SW1A 2AH

3 July, 1984

*John Chester,*Outcome of Fontainebleau: Public Expenditure Implications

In his letter of 2 July, David Peretz recorded the Chancellor of the Exchequer's view that, in his testimony to the Treasury Select Committee tomorrow, the Economic Secretary should say that our average net payments to Community institutions in the financial years 1984/85 - 1986/1987 could be of the order of £800 million.

We recognise that the Select Committee will be seeking to compare what was achieved at Fontainebleau with the figures published in the last Public Expenditure White Paper, even though it was made clear that they were artificial and stylised figures and did not represent a negotiating objective; and that it may be necessary, in the next PESC White Paper, to give a forecast. The manner in which the argument is presented in paragraph 6 (second sentence) of David Peretz's letter, however, is liable to be taken to mean that the system agreed at Fontainebleau will yield returns of only half our unadjusted net contribution, whereas the actual returns will be much higher than that. The projections in Table I are in cash terms and on a financial rather than calendar year basis, and therefore do not bring out the sharp decrease in our real net contribution which will be brought about from 1986 as the system comes into operation. Furthermore they relate to payments to Community institutions as a whole (ie including EIB, ECSC and a number of other items not in the allocated budget) rather than the allocated budget, which is the basis on which the Prime Minister said in the House last Wednesday that, without the settlement, we would probably have paid £1.2 billion to the Community in 1984. It is liable to cause confusion now if we start talking of future and highly uncertain estimates on a different basis.

We therefore think that the Economic Secretary should stick to the line so far taken by the Prime Minister, namely:

- (a) we shall be substantially better off under this arrangement than with no agreement and no increase in own resources;
- (b) we expect our adjusted net contribution to be lower in real terms over the next four years than in 1983;
- (c) whereas under the system of ad hoc refunds, our reliefs were on a declining trend, they will now be on an increasing trend;



- (d) whereas we shall be making a net contribution at the margin of only 7% to new Community expenditure, Germany will be contributing at a rate of 32%, and France at 27%. This will further reinforce the case for greater control over Community expenditure.

When asked about our anticipated net contribution after corrections in 1986 to 1988, we have taken the line that precise estimates are not possible, but we shall still be contributing several hundred million ecus per annum. That is an inevitable part of our membership of the Community and our contribution to its costs, including enlargement. It seems quite widely understood that this is the most realistic way in which to look at likely future pattern of our net contribution.

If the Select Committee pushes so hard on this issue that the Economic Secretary judges that the Government would appear damagingly defensive and obfuscatory by continuing to withhold even rough estimates; or if in due course more specific estimates need to be given (and we do not believe that projections based on so many variables are likely to be any more accurate in the future than they have been in the past), we consider that they should take the form of figures for our adjusted net contribution expressed in real terms at constant 1983 prices ie showing clearly the reduction in our adjusted net contribution which will take place in 1986 as the system comes into operation. We also think it would be preferable to allocate the refunds to the year in which they are generated rather than - as in David Peretz's table - to the year in which they are paid. On that basis, subject to the Treasury's comments, the run of figures would appear as in the Annex to this letter.

I am copying this letter to David Peretz.

(R B Bone)
Private Secretary

C D Powell Esq
10 Downing Street

ADJUSTED NET CONTRIBUTION TO THE EC ALLOCATED BUDGET
ON A CALENDAR BASIS IN REAL TERMS AT CONSTANT 1983
PRICES

	Adjusted net contribution in real terms £ million at 1983 prices
1983	681
1984	600
1985	534
1986	614
1987	604
1988	623



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

2 July 1984

Charles Powell Esq
10 Downing Street
LONDON
SW1

Dear Charles

OUTCOME OF FONTAINEBLEAU: PUBLIC EXPENDITURE IMPLICATIONS

We exchanged ^{see staff} letters last week about figures for public use on the financial implications of the Fontainebleau agreement.

As you may know the Treasury Select Committee have now decided to hear evidence about the settlement and the Economic Secretary and senior Treasury officials will appear before them on Wednesday morning (4 July). The evidence will then be published so as to be available to the House as soon as possible.

The Economic Secretary will almost certainly be asked to comment on how the figures resulting from the Fontainebleau settlement are likely to compare with the figures for net payments to Community institutions up to 1986-87 published in the last public expenditure White Paper (Cmnd 9143). This question was raised by Robin Cook immediately after the settlement and will be of particular concern to the Treasury Committee which is accustomed to scrutinise closely the public expenditure figures.

Table I attached (a fuller version of that enclosed with my letter to you of 27 June) shows the comparison. Our best current estimate of the likely public expenditure figures for the financial years 1984-5 to 1986-7 shows increases of some £425 million, £300 million, and £125 million respectively over the Cmnd 9143 figures. These increases are, of course, as the Prime Minister implied in the House last week, substantially less than if there had been no settlement.

If the Economic Secretary is asked about the public expenditure figures, he would propose in the first instance to indicate, as did the Prime Minister in the House last Wednesday, that without the new settlement we should probably have paid around £1.2 billion to the Community in 1984, and that this could have risen to £1.5 billion or more in later years. Thus the Fontainebleau settlement will substantially reduce our liability, although it is not possible to give any precise figures at this stage. This will depend on a number of complex factors, including the size and composition of the Community budget, changes in our share of Community expenditure, the impact of budgetary discipline etc. The Economic Secretary would, however, add that for the purposes of the autumn statement, and the next public expenditure White Paper, we shall be undertaking a full scale forecast; and he will point out that Cmnd 9143 (copy of relevant section attached) clearly stated that the basis of the figures included there was a "stylised assumption, not a forecast nor a negotiating objective."



If, however, as seems likely, the Economic Secretary is pressed further, the Chancellor thinks that it could be damaging if he were not able to give some further indication of the likely public expenditure figures for the later years. The figures will have to be published in due course (the first formal occasion will be the Autumn Statement) and the Government would be open to criticism either that it was deliberately concealing the effects of the settlement or that it had accepted the settlement without having calculated, even in broad terms, its likely effects. The briefing for backbenchers, journalists and others which was attached to the Foreign Secretary's minute of 28 June to the Prime Minister, has of course already stated that "even with an increased VAT ceiling, we shall be paying around half what we would have had to pay with no increase in the VAT ceiling and no agreement on refunds".

The Chancellor fully agrees that it would be dangerous and misleading to try to give any precise figures at this stage. He thinks, however, that there would be advantage if the Economic Secretary, if questioned, could say that our provisional public expenditure estimate, subject to a number of unavoidable uncertainties, is that our average corrected net payments to Community institutions in the financial years 1984-85 to 1986-87 could be of the order of £800 million a year; and that without the Fontainebleau settlement, including no increase in the 1 per cent VAT ceiling, the amounts could have been roughly double that. The Economic Secretary would as necessary explain that the increase in the current year would be a claim on the Contingency Reserve, thus not involving any net addition to public expenditure; and that the figures for the future years will be taken into account as part of the detailed assessment and projections of expenditure in the preparation of the next public expenditure White Paper. The Chancellor also thinks there would be advantage in the Economic Secretary assuring the Committee that the House would not be asked to ratify the Fontainebleau decisions until up to date projections have been made available to them.

The Economic Secretary will also take the opportunity to point out that, at today's prices, the net payments to the total Community budget paid in 1978 and 1979 - the inheritance from the previous Labour administration - were somewhat over £1400 million in each year. This is illustrated in Table II attached, the information in which has been made available recently in two written PQ's.

The Chancellor would be grateful to have the Prime Minister's agreement that the Economic Secretary should proceed on the above lines.

I am copying this letter to Len Appleyard at the Foreign and Commonwealth Office.

*Yours ever
David*

DAVID PERETZ
Principal Private Secretary

FONTAINEBLEAU AGREEMENT: FINANCIAL YEAR COMPARISONS

	Cmnd 9143	Net payments to Community institutions taking account of Fontainebleau agreement	£m cash (rounded to nearest £25 m) Net payments to Community institutions if there had been <u>no</u> agreement
	(1)	(2)	(3)
1984-85	375	800	1325
1985-86	550	850	1725
1986-87	600	725	1550
1987-88	-	800	1625
Annual average	-	800	1550

Note: Column 2 assumes that the own resources VAT ceiling is raised to 1.4 per cent on 1.1.86 and that the UK receives budget refunds as agreed at Fontainebleau.

Column 3 assumes that the 1 per cent VAT ceiling continues, but that the UK receives no further budget refunds.

NET PAYMENTS TO EC BUDGET

£ million

	CASH	CONSTANT* 1983 PRICES
1973	102	374
1974	29	93
1975	-56	-141
1976	167	365
1977	369	708
1978	822	1420
1979	947	1431
1980	706	890
1981	397	448
1982	606	638
1983	647	647

* Using GDP deflator

contribution to that part of the Community budget which the Commission allocate between Member States (the so called "allocated" budget, which excludes Community expenditure on overseas aid and certain other items). This follows the approach used in the last White Paper. It is, as before, a stylised assumption, not a forecast nor a negotiating objective. The Stuttgart European Council decided that, for the future, the Community should seek to agree "measures which, taken as a whole, will avoid the constantly recurrent problems between the Member States over the financial consequences of the Community's budget and its financing". Discussions are continuing within the Community on how this might be achieved. The UK has proposed that a "safety net" arrangement be introduced to ensure that no Member State bears an unreasonable burden. The estimate of the UK's net contribution to the Community budget in future years would be subject to revision in the light of the precise arrangement agreed.

35. Tables 2.2.5 and 2.2.6 present the latest estimates of our net budget contribution on a "payments" and "budget" basis, respectively. Table 2.2.5 shows the net payments actually made during UK financial years, irrespective of the Community budget to which they relate or from which they are financed. Table 2.2.6 shows our net contribution in respect of a particular Community budget, regardless of when the payments and receipts actually take place. It shows our refunds against the year to which they relate. Thus our refunds for 1981 are shown against our net contribution to the 1981 budget (excluding refunds), even though they were mostly paid from the 1982 budget.

36. Tables 2.2.5 and 2.2.6 show gross contributions and gross receipts, including negotiated refunds, as well as our net contributions. Gross contributions are made under the "own resources" system, established by a Council decision on 12 April 1970. Under this system, which has applied to the six original Member States in full since 1978 and the UK, Denmark and Ireland in full since 1980. Member States pay over monthly to the Community agricultural levies, customs duties and the yield of a value added tax not exceeding 1 per cent of the value of transactions included in a harmonised base agreed in 1977. The budget is financed almost entirely from these own resources. The projections in this White Paper assume that the existing basis of own resources will be maintained, and in particular that the 1 per cent limit on VAT own resources will remain in force. The European Commission have proposed that this limit be increased to 1.4 per cent and this proposal is supported by a number of Member States. The UK has made it clear that it would be prepared to consider an increase in own resources provided that agreement was reached on an effective control of agricultural and other expenditure, and provided this was accompanied by an arrangement to ensure a fair sharing of the financial burden so that no country has to pay a share disproportionate to its relative national wealth.

37. Gross receipts from the budget by UK public sector bodies (other than negotiated refunds) come mainly from the Agricultural Guidance and Guarantee Fund, the Social and Regional Funds, and refunds in respect of own resources collection costs. The expenditure by the Intervention Board for Agricultural Produce and other public authorities in the UK which gives rise to these receipts scores as public expenditure in the programmes concerned. The UK's share of total receipts (other than negotiated refunds) in 1984 is expected to be of the order of

Net Payments to European Community Institutions

32. The UK's net payments to European Community Institutions, shown in Table 2.2, are made up of three components: net payments to the European Community budget (excluding our share of the cost of the Community's overseas aid expenditure, which is included within the aid programme); contributions to the capital of the European Investment Bank (EIB); and receipts from the European Coal and Steel Community (the ECSC). As shown in Table 2.2, the main component is our net payments to the European Community budget. These are calculated as the difference between our gross payments to, and public sector receipts from, the budget. Since 1980-81, our EEC net contribution has been much reduced by budget refunds, which are enabling other areas of public expenditure in the UK to be maintained at higher levels than could otherwise be afforded.

33. The latest estimate of our net contribution to European Community Institutions in 1983-84 is £500 million, compared with £616 million in 1982-83. The estimate for 1983-84 takes account of the agreement reached at the European Council Meeting in Stuttgart in June 1983 that the UK would receive refunds of 750 million ecus net (about £440 million) in respect of our contribution to the Community budget in 1983. These refunds have been entered in the 1984 Community budget and it is assumed that the bulk will be paid by 31 March 1984. The remainder should be paid by the end of 1984. The Stuttgart refunds will finance expenditure in the UK on energy, transport and employment measures. The effect of the agreement reached at Stuttgart is that, on average, in respect of the four years 1980 to 1983, the UK's net contribution to the budget has been reduced by around two-thirds.

34. For future years, 1984-85 to 1986-87, it has been conventionally assumed that the UK will continue to receive a refund of two-thirds of our estimated net

2.2 Overseas Aid and Other Overseas Services

12¼ per cent. Table 2.2.7 provides a breakdown of the UK's receipts from the budget for past periods. Also shown are the Government's expectations as to future receipts.

38. The projections for future years of both our gross contributions and our receipts—and hence of our net contribution to the Community budget—are very uncertain. The forecast of our gross contributions is dependent on, amongst other things, changes in imports and import prices (particularly the prices of certain agricultural products), while the forecast of our gross receipts is dependent on future changes in the level and pattern of expenditure within the Community as a whole. Agricultural receipts are particularly difficult to predict accurately.

39. The final element in the calculation of the UK's net payments to European Community Institutions is the exclusion of the UK's contribution to the overseas aid element of the Community budget. This expenditure is attributed to the overseas aid programme, Programme 2.5.

European community budget: UK payments and receipts by UK financial years⁽¹⁾

	£ million cash				
	Gross payments	Public sector receipts	Negotiated refunds	Net payments including overseas aid ⁽²⁾	Net payments excluding overseas aid ⁽²⁾
1978-79	1,323	555	—	768	743
1979-80	1,665	781	—	884	837
1980-81	1,900	970	645	285	255
1981-82	2,330	1,128	959	243	157
1982-83	2,787	1,240	836	711	616
1983-84	3,087	1,656	809	622	522
1984-85 ⁽⁴⁾	3,171	1,625	1,061	485	375
1985-86 ⁽⁴⁾	3,493	1,680	1,148	665	550
1986-87 ⁽⁴⁾	3,761	1,785	1,251	725	600

⁽¹⁾For 1983-84 onwards, an exchange rate of 1.73 ecus to the £ is assumed.

⁽²⁾Payments in respect of overseas aid are included within programme 2.5 in Table 2.2.

⁽³⁾Included within programme 2.7 in Table 2.2.

⁽⁴⁾The figures for 1984-85 and after reflect the stylised assumption on budget refunds explained in paragraph 34.

UK contributions and receipts arising out of successive community budgets⁽¹⁾

	£ million			
	1980	1981	1982	1983
Allocated budget⁽²⁾				
Gross contributions	1,834	1,849	2,459	2,841
Gross receipts	951	1,062	1,312	1,694
Net contribution	833	787	1,147	1,143
Unallocated budget⁽³⁾				
Net contribution	31	118	-16	81
Negotiated refunds (net)	645	783	669	434
Net contribution after refunds	269	122	462	797

⁽¹⁾This table is intended to indicate the net financial obligations on the UK which result from successive Community budgets. It differs from the other tables in this chapter by bringing together as far as possible all transactions in respect of successive annual budgets, irrespective of when receipts and payments occur and by showing negotiated refunds against the annual budget in respect of which they are paid.

⁽²⁾The allocated budget covers those elements of expenditure and related financing which the Commission takes into account for the purpose of implementing the budget agreements.

⁽³⁾Includes miscellaneous revenue and timing adjustments but excludes negotiated refunds.

⁽⁴⁾Converted at the rate of 1.73 ecus to the £. It is assumed that the bulk of our refunds in respect of 1983 will be paid by 31 March 1984.

Gross receipts from the community budget

	£ million cash								
	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87
Receipts other than negotiated refunds									
Agricultural Guarantee and Guidance Fund	334	418	601	735 ⁽¹⁾	745 ⁽¹⁾	1,066 ⁽¹⁾	1,077	1,118	1,119
Social Fund	59	115	105	112	150	191	183	187	19
Regional Development Fund	52	117	119	136	155	170	183	192	20
Refund of own resources collection costs	100	112	110	113	134	135	141	150	16
Other receipts	10	19	35	32	56	94	41	33	2
Total	555	781	970	1,128	1,240	1,656	1,625	1,680	1,78
Negotiated refunds									
Financial mechanism	—	—	211	-211 ⁽²⁾	—	—	1,061	1,148	1,25
Supplementary measures	—	—	434	1,170	836	809	—	—	—
Total net refunds	—	—	645	959	836	809	1,061	1,148	1,25

⁽¹⁾The pattern of agricultural receipts between 1981-82 and 1983-84 partly reflects an uneven timing of payments.

⁽²⁾The financial mechanism instalment received in 1980-81 was repaid in 1981-82 and converted into supplementary measures in 1981-82.

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AT to see
eDP 29/6

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

29 June 1984

Charles Powell Esq
10 Downing Street
LONDON
SW1

Dear Charles

FONTAINEBLEAU AGREEMENT

We spoke ^{*att*} about the precise interpretation of your letter to me of 28 June, replying to mine of 27 June. ^{*att*}

... For the record, I attach a revised and authorised version of the note on the financial implication of the Fontainebleau Agreement.

I am also sending a copy to Len Appleyard (FCO).

*Yours ever
David*

D L C Peretz

Financial implications

The terms of the agreement are as follows:-

- The UK will get a final ad hoc refund of £590 million in respect of 1984, to be paid in 1985. With effect from 1986 the UK will get a refund each year of 66 per cent of that part of our budgetary burden in the previous year measured by the difference between our percentage share in the Community's VAT own resources and our percentage share in expenditures from the "allocated" Community Budget. These refunds will be effected by an abatement of our VAT payments to the Budget.
- Measures to guarantee the effective application of budgetary discipline will be introduced. The objectives will be to diminish the share of agricultural expenditure in the budget and to set strict limits on the growth of both agricultural and non-agricultural expenditure.
- Subject to the agreement of Parliament the ceiling on the Community's VAT revenues will be increased from 1 per cent to 1.4 per cent. The system of budgetary refunds will be legally binding and incorporated in the new Own Resources decision, which cannot be changed without the UK's agreement. This ensures that the refunds will continue as long as the 1.4 per cent VAT ceiling lasts.
- The agreement also refers to the possibility of a further increase in the VAT ceiling to 1.6 per cent. Any such further increase could only take place with the agreement of the UK Government and the approval of the House of Commons.
- France and Italy have withdrawn their objections to payments of the UK's net rebate of £440 million in respect of 1983, which will be paid as soon as possible.

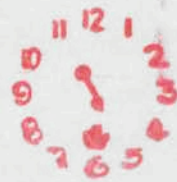
2. Financially this agreement is better than the arrangement on offer in March and far better than the alternative of having no agreement at all. If no agreement had been reached the refunds due to HMG this year would have been lost. Moreover there would have been no agreement on refunds for any future years.

3. Without any increase in the 1 per cent VAT ceiling, the UK's net contribution would have been more than twice as much as under the new system we have negotiated.

4. The agreement has the following further important features:-

- the UK's VAT rate after the refunds now agreed will remain less than 1 per cent for the foreseeable future, while all our partners pay more than 1 per cent;
- at the margin the UK's net contribution to new Community expenditure will not exceed about 7 per cent in contrast with our current maximum marginal contribution of about 21 per cent;
- the new 1.4 per cent VAT figure is a maximum, not an entitlement; it will not all be used up immediately. The purpose of the new arrangements on budgetary discipline is to ensure that the Community lives within the new ceiling for as long as possible.
- Germany will remain and France will become substantial net contributors. As a consequence they too will have a strong interest in securing effective budgetary discipline.

9 JUN 1984



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Jelo vc
bc PC
PCO.

10 DOWNING STREET

From the Private Secretary

28 June 1984

Fontainebleau Agreement

Thank you for your letter of 27 June enclosing a note on the financial implications of the Fontainebleau Agreement. The Prime Minister is content with this note provided that the passages marked with square brackets are deleted before any use is made of it. These deletions include the last sentence of paragraph 3. The Prime Minister remains of the view that we should not put out any figures for our estimated net contribution in future years at this stage.

(C.D. POWELL)

David Peretz, Esq.,
H.M. Treasury.

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Prime Minister ①
 The Chancellor would like to know if you are content with this note, with the deletions in L J.

AT

27/2

Treasury Chambers, Parliament Street, SW1P 3AG
 01-233 3000

27 June 1984

Charles Powell Esq
 10 Downing Street
 LONDON
 SW1

Yes not

Dear Charles

FONTAINEBLEAU AGREEMENT

As I agreed with Robin Butler earlier this afternoon, I am attaching a copy of a note on financial implications of the Fontainebleau agreement prepared by the Treasury today after discussion with the Chancellor. This was intended as a contribution to the note the FCO are producing for Government backbenchers, and also for use with the press.

Following my discussion with Robin, the passages marked with square brackets are not being used for the time being. The Chancellor thinks, however, that it would be very useful to put into circulation the figures given at the end of paragraph 3; and, indeed, that we will have to do so sooner or later.

You might like also to have the further table attached which give the best estimate we can make at present of what our net payments are likely to be up to 1987-88, compared to what they would have been had there been no agreement, and the 1 per cent VAT ceiling had continued.

Copies go also to Lord Appleyard (FCO) and Stephen Lamport (FCO).

Yours ever
 David

D L C PERETZ
 Principal Private Secretary

FONTAINEBLEAU AGREEMENT: FINANCIAL YEAR COMPARISONS

		fm cash
	Net payments to Community institutions taking account of Fontainebleau agreement (1)	Net payments to Community institutions if there had been <u>no</u> agreement (2)
1984-85	800	1325
1985-86	850	1725
1986-87	725	1550
1987-88	800	1625

Note: Column 1 assumes that the own resources VAT ceiling is raised to 1.4 per cent on 1.1.86 and that the UK receives budget refunds as agreed at Fontainebleau.

Column 2 assumes that the 1 per cent VAT ceiling continues, but that the UK receives no further budget refunds.

Financial implications

The terms of the agreement are as follows:-

- The UK will get a final ad hoc refund of £590 million in respect of 1984, to be paid in 1985. With effect from 1986 the UK will get a refund each year of 66% of that part of our budgetary burden in the previous year, measured by the difference between our percentage share in the Community's VAT own resources and our percentage share in expenditures from the "allocated" Community Budget. These refunds will be effected by an abatement of our VAT payments to the Budget.

[- The effect is that on average over the period 1985-1988 we will receive a refund of about 60% of our total net contribution, when account is taken of our payments of customs duties and agricultural levies.]

- Measures to guarantee the effective application of budgetary discipline will be introduced. The objectives will be to diminish the share of agricultural expenditure in the budget and to set strict limits on the growth of both agricultural and non-agricultural expenditure.

- Subject to the agreement of Parliament the ceiling on the Community's VAT revenues will be increased from 1% to 1.4%. The system of budgetary refunds will be legally binding and incorporated in the new Own Resources decision, which cannot be changed without the UK's agreement. This ensures that the refunds will continue as long as the 1.4% VAT ceiling lasts.

- the agreement also refers to the possibility of a further increase in the VAT ceiling to 1.6%. Any such further increase could only take place with the agreement of the UK Government and the approval of the House of Commons.

- France and Italy have withdrawn their objections to payments of the UK's net rebate of £440 million in respect of 1983, which will be paid as soon as possible.

2. Financially this agreement is better than the arrangement on offer in March and

far better than the alternative of having no agreement at all. If no agreement had been reached the refunds due to HMG this year would have been lost. Moreover there would have been no agreement on refunds for any future years.

Without any increase in the 1% VAT ceiling, the UK's unadjusted net contribution would have *been more than twice as much as under this agreement.*

Under the new system we have negotiated our net contribution will be held to *around*
£800m a year.

4. The agreement has the following further important features:-

- the UK's VAT rate after the refunds now agreed will remain less than 1% for the foreseeable future, while all our partners pay more than 1%;
- at the margin the UK's net contribution to new Community expenditure will not exceed about 7% in contrast with our current maximum marginal contribution of about 21%;

[- initial estimates are that over the period 1984-88 the UK net contribution in cash terms will average around £800 million a year.

In 1978 and 1979 (the last two years of the Labour Government) our net contribution in 1983 prices averaged £1,425 million.]

- the new 1.4% VAT figure is a maximum, not an entitlement; it will not all be used up immediately. The purpose of the new arrangements on budgetary discipline is to ensure that the Community lives within the new ceiling for as long as possible.
- Germany will remain and France will become substantial net contributors. [They will meet a major part of the refunds to the UK (about £140 million and £200 million respectively for 1984 alone).] As a consequence they too will have a strong interest in securing effective budgetary discipline.