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ECBI

FCS/84/278

CHANCELLOR OF THE EXCHEQUER

Net Payments to EC Institutions

1. Thank you for sending ^{with CDP?} me a copy of your minute to the Prime Minister of 15 October about the latest forecast of our net payments to EC Institutions.

2. I agree that we cannot continue to use a stylised assumption and that the House will be looking for precise estimates. I am content with the figures which you propose to publish in the Autumn Statement. I understand that the figures for the UK share of customs duties will be looked at again in the next forecasting round.

3. We can expect considerable parliamentary interest when these cash figures are published in the Autumn Statement since this will be the first occasion on which the full effects of Fontainebleau will be shown. We therefore need to pay careful attention to the public presentation of the figures. The Government will certainly be asked to explain the discrepancy between the latest forecast and the figures in the last Public Expenditure White Paper (Cmnd 9143). In particular, we can expect the Opposition to claim that our anticipated net contribution has risen as a result of the agreement to increase own resources.

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4. I broadly agree with the way in which you propose to present the figures in the Autumn Statement but I have one or two further suggestions on the public presentation of our case. In paragraph 7(a) of your minute, you say that we will be substantially better off than we should have been without an agreement. It should also be brought out that our net payments to Community Institutions by 1987/88 would have been approximately double the projected level of £830 million if the 1% ceiling had remained in place and there had been no Fontainebleau agreement.

5. In paragraph 7(b) of your minute, you refer to the fact that the figures in the last White Paper were based on a purely stylised assumption. Obviously we do not want to alert other Member States to the large VAT adjustment we expect to receive in 1985. Nevertheless, I think it would be helpful to give a rather fuller explanation of the difference between the two sets of figures than is suggested in your paragraph 7. The last White Paper was based on a stylised assumption which was clearly stated to be neither a forecast nor a negotiating objective. In particular we could point out that the differences arise partly because refunds were previously expressed gross whereas now they are net. To make the two sets of figures approximately comparable, the gross refunds in Cmnd 9143 should be reduced by about 20%.

6. I think it would also be helpful to show our latest forecasts alongside the actual figures for net payments in 1983/84 (894 mecu). This would help to illustrate that the increase in our net payments in 1984/85 is not as dramatic as the stylised assumptions imply. It may be worth drawing attention to the fact that the projections illustrate that, while our net contribution had been on a rising trend as ad hoc refunds declined, the effect of the Fontainebleau system, as can be seen from the figures for 1986 onwards, is to

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reduce the rate of increase to a level consistent with meeting our inescapable obligations as members of the Community.

7. I am copying this minute to the Prime Minister, the Minister of Agriculture and to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'G. Howe', written in a cursive style.

(GEOFFREY HOWE)

Foreign and Commonwealth Secretary
21 October 1984