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Prime Minister

MR COLES

c Sir Robert Armstrong

FOLLOWING UP THE STUTTGART DECLARATION: LONG TERM SOLUTION TO BUDGETARY INEQUITY

On 8 July there will be the first special meeting of the Council of Ministers to launch the work programme resulting from the Stuttgart Declaration on Community finances. We consider it important not only that effective procedures should be decided at that Council but also that we should already begin before the end of July to direct other member states along our track. You will recall that the Declaration stated that

> "All appropriate ways and means will be examined to this end, in particular the proposals made by the Commission and the suggestions of certain Member States with a view to ensuring equitable financial situations for all Member States."

We are recommending that the United Kingdom should submit in Brussels during July notes on

(a) the budgetary safety net

and (b) the strict financial guideline for agricultural spending

so that the work gets off on the right foot.

The note on the safety net has already been agreed between Departments and will be circulated shortly by the Chancellor of the Exchequer. You may find it helpful to have this additional information -

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(a) at this first stage in the negotiations the note does not set out detailed figures. These will come later when we have made progress in convincing member states that the safety net is essential. Simulated results, however, have been prepared for our own use so that we can be sure that the scheme is good enough for us. You will see from column 5 in the annexed tables that the United Kingdom's adjusted net contribution, on the assumptions taken, would be quite low;

(b) in addition to its effect on the net contribution, the safety net scheme also has an advantage which could be important for Parliamentary and public opinion in the United Kingdom. The scheme would work by ensuring that a member state which was in an unacceptable situation and benefitted from the safety net would have the amount of its VAT contribution abated in the following year. Thus it would be possible, for example, for the Commission to establish a VAT rate of 0.95 per cent but for the United Kingdom to actually pay a VAT amount equivalent to a rate well below that level. Similarly, if it were agreed that, all other conditions being met, the maximum VAT rate was above 1 per cent and the safety net operated, it would be quite possible for the VAT rate to be established, for example, at 1.1 per cent and for the amount paid by the United Kingdom to be equivalent to a figure substantially below 1 per cent.

D F Williamson

D F WILLIAMSON
1 July 1983

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SIMULATED OPERATION OF A SAFETY NET SCHEME (METHOD A) FOR A COMMUNITY OF 12 IN 1983

	Unadjusted net receipts(+)/ contributions(-)	Safety net requires that net contribution shall not be greater than	Implied net refunds	Net receipts/ contributions after all adjustments
Belgium	210	-118		62
Denmark	260	-189		163
France	-370	-1131		-1131
Germany	-2510	-2384	126	-2384
Greece	680	-		619
Ireland	710	-		678
Italy	1380	-		777
Luxembourg	250	-7		245
Netherlands	220	-346		-30
United Kingdom	-2380	-226	2154	-226
Spain and Portugal	1550	-		1227

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SIMULATED OPERATION OF A SAFETY NET SCHEME
(METHOD B) FOR A COMMUNITY OF 12 IN 1983

	Unadjusted net receipts(+)/ contributions(-)	Safety net requires that net contribution shall not be greater than	Implied net refunds	Net receipts/ contributions after all adjustments
Belgium	210	-94		54
Denmark	260	-216		158
France	-370	-571		-571
Germany	-2510	-2624		-2624
Greece	680	-		615
Ireland	710	-		679
Italy	1380	-		746
Luxembourg	250	-4		246
Netherlands	220	-162		-43
United Kingdom	-2380	-471	1909	-471
Spain and Portugal	1550	-		1211

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