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Qz.03227

MR COLES

cc: Mr Kerr, H M Treasury  
Mr Fall, FCO  
Mr Lowson, MAFF  
Sir Robert Armstrong

(a) Agree with recommendations in  
para. 9 ?  
Yes - but 9(ii) b  
will require a  
Cabinet decision  
to be held  
from the  
beginning of  
1984.  
(b) if so, agree that we do not  
need a Ministerial meeting on  
Monday to discuss this?  
A.F.C. 22.7

EUROPEAN COMMUNITY BUDGET: UNITED KINGDOM 1983 REFUNDS  
AGREED AT STUTTGART AND 1982 RISK-SHARING

Background and timetable

1. The Community's 1984 budget must include the United Kingdom's 1983 refunds of 750 million ecu net, as agreed at Stuttgart. The Community's 1983 supplementary budget must include the extra payments due to the United Kingdom under the 1982 risk-sharing formula. The budgetary process has just begun and will not finish until later in the year.

2. The Council of Ministers (Budget) met on 20-22 July. In his letter of 18 July to the Foreign and Commonwealth Secretary, the Financial Secretary, Treasury set out the United Kingdom's negotiating objectives for that meeting. The Budget Council has now established the draft 1983 supplementary budget and agreed on the United Kingdom refund figure for the draft 1984 budget. (The Council is still in session but will probably establish the whole draft 1984 budget later today.) The draft budgets will then go to the European Parliament.

3. The timetable for future consideration of the draft 1984 budget is:

<u>24-28 October</u>	First Reading by European Parliament
<u>22 November</u>	Budget Council
<u>12-15 December</u>	Second Reading and Adoption by European Parliament

The timetable for future consideration of the draft 1983 supplementary budget has not been decided. If the European

Parliament considers it in September, it could be finalised and adopted in October. It is possible, however, that the European Parliament will follow the same timetable for this draft supplementary budget as for the draft 1984 budget, in which case it would not be adopted until mid-December (after the Athens European Council). If the European Parliament chose this course, the Commission could be faced with a cash crisis in the autumn and might need to borrow from member states to meet the Community's bills from about mid-October onwards.

#### United Kingdom 1983 refunds, as agreed at Stuttgart

4. In order to meet the undertaking at Stuttgart that the 1983 refunds for the United Kingdom should be 750 million ecu net (£437 million), the gross figure which must appear in the 1984 budget is 987.5 million ecu (£575 million). The objectives of the United Kingdom at the Budget Council were to obtain this figure and to ensure that the provision was made under specific measures (on the "budget line") rather than under the reserve provision (Chapter 100). The United Kingdom delegation has obtained a successful result on both these points. The Stuttgart agreement has been fully honoured by the Council.

#### 1982 risk-sharing

5. The full sum which the United Kingdom considers to be due under the 1982 risk-sharing arrangement is 408 million ecu gross (£238 million) or 304.5 million ecu net (£177 million). The discussion in the Council of Ministers (Budget) showed a strong disagreement between member states on this figure. The United Kingdom has stated that the correct basis for calculating our net contribution in 1982 (and hence our entitlement to a risk-sharing refund) is to take account of the once yearly adjustment in member states' VAT contributions in the year which they are paid (the "payments" basis). This system has been used in the past

for all net contribution figures and was also the basis of the Commission's figure. Some member states, particularly France, Germany and Denmark, citing a footnote from the text of the 26 October 1982 agreement, argued that the calculations should take account of the adjustment in VAT contributions in the year to which these relate (the "assiette" basis). The difference between these two methods is that the United Kingdom gets about 99 million ecu net less from the "assiette" basis.

6. The Council of Ministers (Budget) has now established the draft 1983 supplementary budget, with a figure of 370 million ecu for the 1982 risk-sharing payments to the United Kingdom and to Germany; of this sum we believe that 307.5 million ecu would be for the United Kingdom, which gives a net figure of 231 million ecu. This figure appears to be purely arbitrary. It is neither the "payments" nor the "assiette" basis. This increases our chances of successfully attacking it. By comparison, therefore, with our claimed risk-sharing entitlement of 304.5 million ecu net, we are 73.5 million ecu net (£42 million) short.

7. The United Kingdom asked for the vote on the draft 1983 supplementary budget to be postponed but this was refused by the Presidency. The United Kingdom then voted against the Presidency compromise which included the unacceptable figure for the risk-sharing payments. The Financial Secretary, Treasury made clear formally in the minutes of the Council that the Council's decision is insufficient fully to discharge the Community's obligation under the relevant agreement and called on the Community to take the necessary corrective action as a matter of urgency.

#### Future action

8. The budgetary process will continue for some months. So far the Stuttgart package is intact but the 1982 risk-sharing payments are about 73.5 million ecu net (£42 million) less than we claim. The European Parliament's examination of these draft budgets has not begun and we cannot yet forecast the form in

which the draft budgets will come back from the European Parliament to the Council. Strictly speaking, the United Kingdom does not have a right to the 1982 risk-sharing payments before the end of 1983.

9. I recommend that:-

- (i) the Foreign and Commonwealth Secretary should be advised to write at once to the chairman of the Council of Ministers (Foreign Affairs), setting out the approach we shall be taking in future discussions of the figure for the risk-sharing payments which should be corrected. The risk-sharing arrangements stem from a decision by Foreign Ministers. We should again formally set out our demand for satisfaction on the risk-sharing money (there are a number of options: the Community will, in any event, need another 1983 supplementary budget on the revenue side) either at the special Council meeting in August or at the next Foreign Affairs Council and should pursue this demand in the subsequent meetings of the Council;
- (ii) if the action set out in point (i) is not successful, we should then decide on further practical steps. These could include:
  - (a) refusing at that stage to meet any further Commission requests for advance payment of levies and duties; or
  - (b) while continuing to insist that the Community has not met its obligations, to take action at or after the Athens European Council, which might be as follows -

/ - if

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- if substantive agreement is then about to be reached on future financing, to insist in the final stage that the United Kingdom will only agree if the Community restores the extra 1982 risk-sharing money which we claim;
- if there seems little prospect of substantive agreement on future financing within a reasonable timetable, to decide to withhold from January 1984 in order both to recover the outstanding amount due under the 1982 risk-sharing and to protect us from the effects of having to pay in 1984 an unadjusted net contribution of some 2,000 million ecu in 1984 without benefit of a refund arrangement.

*Df Williamson*

D F WILLIAMSON

22 July 1983



## 10 DOWNING STREET

*From the Private Secretary*  
MR. WILLIAMSON  
Cabinet Office

European Community Budget: United Kingdom 1983 Refunds  
agreed at Stuttgart and 1982 Risk-sharing

The Prime Minister saw over the weekend your minute of 22 July on this subject.

Mrs. Thatcher agrees with the recommendations in paragraphs 9(i) and (ii)(a) of your minute. With regard to paragraph 9(ii)(b), she has commented that a decision to withhold from January, 1984 would require the agreement of the Cabinet.

As Departments have been told separately, the Prime Minister does not think it necessary to hold the Ministerial meeting which had been provisionally convened for later today to discuss this matter.

I am copying this minute to Mr. Kerr (H.M. Treasury), Mr. Fall (Foreign and Commonwealth Office), Mr. Lowson (Ministry of Agriculture, Fisheries and Food) and Sir Robert Armstrong.

A. J. COLES

A handwritten signature, possibly 'SC', in the bottom right corner of the page.

DRAFT STATEMENT FOR

RELEASE AT

12.30 NEWS CONFERENCE

CC JR

1982 Risk Sharing Refund

The Government deplores the unjustifiable decision by the Council to reduce the amount originally proposed by the Commission in respect of the 1982 risk sharing refunds under the no. 2 supplementary budget for 1983. This means that the Community has not yet fully discharged the obligations entered into under the agreement of 26 October 1982. The Government intends to ensure that these obligations which involve the payment of the full risk sharing entitlement for 1982, are fully discharged; and that will be our objective in the months ahead. [If asked how we will do this] There are a number of options to be considered and we will now be doing that. The budgetary procedure on this supplementary budget is not yet complete and it will probably have to come back to the Council again. There could be a further supplementary budget between now and the end of the year. There are <sup>between</sup> ~~virments~~ budget chapters towards the end of the year. [If asked whether we will withhold] We hope it will not come to that. The 26 October agreement says these sums are to be paid over in 1983; that is what we shall be insisting on.