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Prime Minute

for information.

DR 5.
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6 October 1983

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MS

New Idm,

EUROPEAN COMMUNITY: THE "SAFETY NET" AND THE GERMANS

You might like a short report on how we have been tackling the problem posed by the rival German safety net ideas described in David Williamson's minute of 28 September to you.

The Germans appear to have been much impressed by the fact that 7 or 8 other member states have criticised our safety net ideas and supported a Danish idea which would give the Germans themselves nothing and the UK either nothing or something totally inadequate. They seem inclined to conclude that our ideas are not negotiable in their present form; that they should now be watered down so as to be more acceptable to other member states, particularly France; and that this watering down should take the form of relating the corrected net contributions of net contributor countries, not to GDP or other measures of ability to pay, but to their uncorrected net contributions. As they see it, this would reassure other member states that, if total net transfers within the Community increase (e.g. with greater transfers to Mediterranean countries), then the UK and Germany would pay their fair share. It would also give the net contributor countries (by which they mean the UK in particular) a continuing incentive to keep Community expenditure under control.

Treasury Ministers and officials have been making major efforts to persuade the Germans of the serious inadequacies in their scheme and in particular to dissuade them from putting it forward. The Chancellor spoke in this sense to the German Ambassador on Tuesday. The Financial Secretary saw Herr Stoltenberg before the last Special Council. There have been several rounds of talks at official level, too.

The main points we are making to the Germans are:

- It was only to be expected that other member states would dislike the safety net - or indeed any other arrangement which would give effective protection to the UK and Germany - and criticise such ideas loudly.
- But this is largely posturing: they know perfectly well that if they want more own resources this is the kind of price they will have to pay.



- Our chances of obtaining a satisfactory lasting arrangement will be greatly reduced if the Germans break ranks and begin arguing for a different kind of safety net, and greatly enhanced if the UK and Germany stand together.
- It is anyway far too soon to contemplate making concessions now, in response to predictable criticisms.
- If at a later stage it becomes clear that some movement will be needed to clinch the deal, then the concessions which the Germans are contemplating would go much too far. If our uncorrected net contributions were, say, to double, our corrected net contributions would double too. We should thus both be at the mercy of increases in our uncorrected net contributions, which manifestly bear no relationship to ability to pay.

We have also invited the Germans to consider other less damaging ways in which the concerns referred to in paragraph 2 might be met.

In the event the Germans were dissuaded from putting their rival ideas forward at the last Special Council. However, Herr Tietmeyer, the State Secretary at the German Finance Ministry, gave clear signals at this week's High Level Preparatory Group that the Germans would be willing to make concessions on the form of the safety-net - though he did not put forward the specific proposal described in paragraph 2.

The Chancellor believes that we must keep up the pressure to convince the Germans that a safety-net along the lines we have proposed is essential to provide a satisfactory solution to the budgetary problem, and the Financial Secretary is in Bonn today for discussions with Herr Tietmeyer in order to try to persuade him of the importance of maintaining a common UK-German approach up to the Athens European Council.

I am sending copies of this letter to Brian Fall at the FCO and Richard Hatfield at the Cabinet Office.

Yours ever,
J O Kerr

J O KERR

Principal Private Secretary

EURO For Budget At 21



The chances of obtaining a satisfactory lasting arrangement will be greatly reduced if the Germans break ranks and begin arguing for a strictly kind of safety net and greatly enhanced if the UK and Germany stand united.

It is wrong for the view to contemplate making concessions now, in response to predictable criticism.

It at a later stage it becomes clear that some government will be required to climb the deal, then the concessions which the Germans are demanding would go much too far. If our anticipated net contributions were, say, to double, our corrected net contributions would double too. We should thus both be at the mercy of increases in our anticipated net contributions, which manifestly bear no relationship to ability to pay.

We have also invited the Germans to consider other less damaging ways in which the concerns referred to in paragraph 2 might be met.

In the event the Germans were dissuaded from putting their rival ideas forward at the last Special Council. However, the State Secretary at the German Finance Ministry, gave clear signals at this week's High Level Preparatory Group that the Germans will be willing to make concessions on the form of the safety-net - though he did not put forward the specific proposal described in paragraph 2.

The Chancellor believes that we are keeping the pressure to convince the Germans that a safety-net is essential to the budgetary problem, and the Financial Secretary is in Bonn today to try to persuade him of the importance of maintaining a common UK-German approach up to the Athens European Council.

I am sending copies of this letter to Brian Fall at the ECO and Richard Hatfield at the Cabinet Office.

John May
Richard
10 KIRK



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N. Butler

To me.

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A.J.C. 4/10.

MR COLES

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

EUROPEAN COMMUNITY: BUDGETARY SAFETY NET

Mr Butler asked for some figuring on the German ideas. These ideas are still a gleam in the eye of the German Finance Ministry. The following example, however, shows how the United Kingdom's proposed safety net and the German variant might work:-

(1) UK proposal

million ecu, 1982

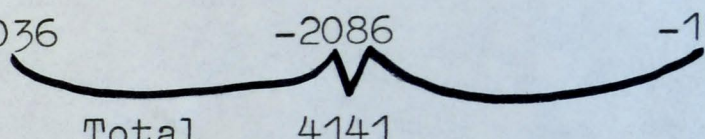
	<u>UK</u>	<u>Germany</u>	<u>France</u>
Uncorrected net contribution	-2036	-2085	-19
Limit imposed by safety net	-440	-2107	-1383
Financing of the adjustment	-	22	713
Corrected net contribution	-440	-2107	-732
[For comparison:			
actual net contribution in 1982 after			
UK refunds	-910	-2334	-424 <u>7</u>

Note: the limit to net contribution is determined by relative prosperity. It ranges from, at the bottom, a net contribution of nil for member states with a GDP per head at 90% or less of the Community average to; at the top, a net contribution of 0.35% of GDP for member states with a GDP per head at 140% or

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more of the Community average. The limit does not rise automatically if a country's uncorrected net contribution rises but, on the contrary, continues to protect the net contributor in these circumstances - in our view a valuable safeguard for the United Kingdom.

(2) German proposal

	million ecu, 1982		
	<u>UK</u>	<u>Germany</u>	<u>France</u>
Uncorrected net contribution	-2036	-2086	-19
			
First correction (contribution share not to exceed contributor's relative share of Community GDP)	20.2% of 4141 = -836	27.9% of 4141 = -1155	22.9% of 4141 = -948
Second correction (arbitrary factor to take account of relative prosperity, eg 2 for Germany and 1 for UK), giving limits of	x1 = -836	x2 = -2311	x1 $\frac{3}{4}$ = -1660
Corrected net contribution	-836	-2311	-480

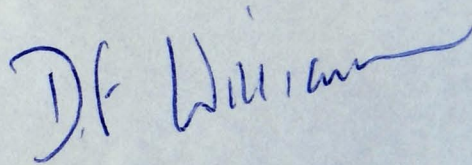
Note: this system does result in an increase in the corrected net contribution if the total uncorrected net contribution rises.

The result is also very sensitive to the arbitrary factor taken for the second correction and it is easy to foresee what difficulties this would give rise to in negotiation. If, instead of an arbitrary factor, the actual figures for relative prosperity (GDP per head, corrected for a Community

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of 12) were used, the limits on corrected net contributions would be 861 million ecu (UK), 1559 million ecu (Germany) and 1095 million ecu (France). This could be considered more objective but other member states would judge the figure for Germany to be too low and the negotiation would be seriously complicated.

A handwritten signature in blue ink, appearing to read 'D F Williamson', with a long horizontal flourish extending to the right.

D F WILLIAMSON

28 September 1983

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