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*Enno PD.*

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CABINET OFFICE  
70 WHITEHALL  
LONDON SW1A 2AS

*or Enno PD - Budget  
- At 8*

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Qz 01571

15 May 1980

*to  
Palliser 15/5*

*Dear Michael*

EUROPEAN COUNCIL LUXEMBOURG: COMMUNITY BUDGET

Thank you for your minute of 14 May with the Prime Minister's approved version of the final paragraph of the draft record enclosed with my letter of 1 May to Ken Couzens.

This has been incorporated together with other comments which I received in the attached revised text, which I hope can now be regarded as the final version.

I am sending copies of this letter and its enclosure to George Walden, Robert Armstrong, Michael Palliser, Michael Butler, Ken Couzens and Tom Bridges.

*Yours ever*

*Michael*

M D M FRANKLIN

Enc

M O'D Alexander Esq  
10 Downing Street

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COURSE OF THE NEGOTIATIONS ON THE COMMUNITY BUDGET AT THE  
EUROPEAN COUNCIL, LUXEMBOURG

1. President Giscard, having made a specific proposition to Signor Cossiga on Friday 25 April (explained even more explicitly and favourably to our Ambassador by M Wahl Paris telegram No. 398 ), the Prime Minister indicated to Signor Cossiga subsequently that this approach might form an acceptable basis for negotiation if a satisfactory base figure could be agreed upon. But our 1979 net contribution was already too high.

2. A meeting of the Ruggiero Group was called for 8.30 p.m. on Saturday 29 April which the French representative, M Paye, did not attend. The reason appears to have been that the Quai were not happy with President Giscard's proposal and were busy trying to claw it back. Even when M Paye eventually arrived for the session of the Ruggiero Group on Sunday morning he was in no position to talk about the French proposals.

3. The Budget problem was not discussed by the European Council on Sunday, but at the Heads of Government dinner on Sunday evening it was agreed that the Ruggiero Group should meet to hear the French proposals. Even then they emerged in an obscure, tentative and attenuated form. In accordance with what we had heard from Cossiga and Wahl, they proposed a UK contribution of 849 meua (as in 1979) for 1980. But instead of proposing the same net contribution in 1981 and 1982 as in 1980, the French said that we would get the same level of refund in 1981 and 1982 as in 1980. At one point it was even suggested that the UK's net contribution in 1980 should be raised to take account of the effects of the agricultural price settlement.

4. A subsequent meeting of the Ruggiero Group discussed various possible methods of calculating the UK's net contribution (or its refund) and eventually submitted three to the European Council on Monday morning (Annex 1). (There was some suggestion, not embodied in any piece of paper, that if a solution on the basis of either the second or third options were reached it might be unnecessary to resort



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to an Article 235 regulation as the vehicle for payment.)

5. The European Council decided to concentrate its discussion on the second of the three options, i.e. the Giscard scheme. We proposed that the base figure should be the average of the three years 1977-79. Chancellor Schmidt said he could accept the average of the last two years, i.e. 1978-79, but for 1980 only. Mr Jenkins confirmed that this would produce a figure of 538 meua (although the figures for 1978 are not in fact comparable with those for 1979).

6. Mr van Agt preferred the first option and proposed 1,000 meua for the first three years and 800 meua for 1983 and 1984. He subsequently offered to take account of the effect of the agricultural price settlement and raised the figure to 1,100 meua.

7. President Giscard wanted the Commission and the Council to examine during the course of 1980 the way in which the Community Budget could appropriately be financed and a final and durable mechanism found to deal with the problem of unacceptable situations. According to a subsequent account from Ruggiero, what lay behind the thought was first the imminence of the 1 per cent VAT ceiling; second the idea of a ceiling on the net benefit to be derived by countries like Netherlands and Denmark with above-average GNP; and third the possibility of supplementary Community expenditure on the CAP by national financial contributions in proportion to benefit and/or the production of surpluses. As to the figure for the United Kingdom it was understood that if the Council could not agree on any other basis, the United Kingdom's net contribution for 1981 would be reduced by the amount of the refund we received for 1980. Giscard thought this might produce a United Kingdom net contribution in 1981 of something below 849 meua, which Mr Jenkins rounded to 800.

8. The Prime Minister, after an interruption in the Council meeting, made a counter-proposal (Annex 2). This was not acceptable because it included 1982 and because the rate of increase in our net contribution was less than in the Giscard/Schmidt proposal.



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9. During the subsequent discussion the Prime Minister considered whether she might be able to accept the figures being determined for only two years. This would have been on the basis that there was a firm agreement to review the structure of the budget in the interim and that the level of our net contribution for 1981 was determined on the basis proposed by the UK, i.e. in proportion to the rise in the total Community budget. It was thought that this might produce a net contribution of 650 meua (hence Mr Jenkins' subsequent contention that the gap was only 150 meua). But at the point at which the negotiations on the budget were suspended the Prime Minister had not agreed to drop her demand that a firm figure should be fixed for the third year.

CABINET OFFICE SW1

15 MAY 1980



EXTRACT FROM DRAFT PRODUCED BY THE RUGGIERO GROUP, 28 APRIL

Three possible formulae for determining the amount are submitted for consideration by the European Council:-

- (i) A solution based on the Commission proposal. This provides for a fixed sum (partly arising from the operation of the financial mechanism and the remainder from the additional expenditure measures in the United Kingdom) which would be the same each year for whatever duration was agreed.

One delegation suggests that there should be a possibility of an automatic adjustment of this figure in future years in the same proportion as the development of the Community budget.

- (ii) There would be established for 1980 a figure which would represent the "appropriate" United Kingdom part of financing the Community budget.

One delegation proposed that this should be the United Kingdom's net part in financing the 1979 budget increased by the percentage increase of the Community budget from 1979 to 1980.

Another delegation proposed that it should be based on the average of the United Kingdom's part in financing the Community budgets for the three years 1977, 1978 and 1979. At the end of 1980 the actual United Kingdom part in financing the budget would be established. The difference between that figure and the "appropriate" figure mentioned above would be made available to the United Kingdom through the mechanisms mentioned in (i) above.

One delegation proposes that the same sums should be made available to the United Kingdom for each of the remaining years of the agreed duration.

Another delegation suggests that there should be a possibility of an automatic adjustment of this figure in future years in the same proportion as the development of the Community budget.



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(iii) At the end of each year of the agreed duration, the United Kingdom's net effective part in financing the budget would be established. The financing of this sum would be divided between the United Kingdom and the other eight member countries on a percentage to be agreed.

Certain delegations proposed that this percentage should be degressive over the years of the agreed duration.

Another delegation suggests that there should be a possibility of an automatic adjustment of this figure in future years in the same proportion as the development of the Community budget.

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## PRIME MINISTER'S COUNTER-PROPOSAL

1. I have reflected on all the suggestions which have been made, and I have considered carefully how far I could take these into account in a final effort at compromise.
2. I would be prepared to accept an arrangement lasting for only 3 years instead of 5 or 6 years.
3. Secondly, I could accept Chancellor Schmidt's proposal that for the 1980 budget we arrive at the UK's net contribution on the basis of the 1978/79 average, that is 539 MEUA (though the figures will all need to be on the same basis).
4. Thirdly, I would also be ready to agree that our net contribution for 1981 and 1982 should be increased from the 539 MEUA by the same percentage as the increase in the Community budget. But I must have 3 years.
5. There would be an amended financial mechanism and an Article 235 Regulation, as already provisionally agreed.
6. Finally, with this short duration I would have to have a satisfactory review clause providing for the review before the end of 1981 (as already specified in the financial mechanism).
7. We came to this Council meeting knowing that there were three key issues to settle: amount, duration and how to share the risk. On amount, I have agreed to accept a net contribution of 539 MEUA and on duration I have come down from 6 years to 3. On sharing the risk, I have agreed that over the next 3 years our net contribution will rise in line with the budget.



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I would be pleased to accept an arrangement...

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