

S E C R E T



Prime Minister ¹³ ²
[Signature]
Duty clerk
28/5

Treasury Chambers, Parliament Street, SW1P 3AG
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PRIME MINISTER

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COMMUNITY BUDGET

I should like to explain a little more fully than was possible at your meeting this morning the suggestion I made about an adaptation in our interests of a refund scheme. It is in fact a variant of formula No 7 in *attached* the table attached to Mr Franklin's minute of 27 May to your Principal Private Secretary.

2. At the Eco/Fin Council yesterday a number of other Member States expressed a preference for relating the solution to our problem to the size of the refund to us and not to our net contribution. For example, several favourable references were made to Van Agt's proposal at Luxembourg which envisaged a refund of 1,000 MUA in the years 1980, 1981 and 1982, and 800 in 1983 and 1984. One reason for this interest is, no doubt, the German desire to have a solution which is manifestly different from the one withdrawn by Schmidt. Another is probably the anxieties that Giscard has aroused by suggesting that net benefits as well as net contributions be subjected to review. A refund formula might be less of a precedent.

3. Clearly we are not in principle at all attracted by a solution which relates to the size of the refund.

/We should do nothing



We should do nothing to jeopardise our chances of getting a formula related directly to our net contribution and I am not suggesting that we should relinquish our efforts to induce the Presidency to make a compromise proposal in these terms. But it is possible that a strong movement may develop in favour of a formula related to the size of the refund. If so, we shall have to decide whether it would be better to seek to adapt such an approach to meet our essential requirements or to reject it out of hand. Certainly we would wish to present any such formula in the UK as the means of arriving at an acceptable net contribution by the United Kingdom. The fact that the formula itself would be related to the refund would not preclude such a presentation at home provided, of course, that the effect on our net contribution were sufficient.

4. A possible way of adapting a refund formula would be to index it to the growth of the Community Budget - ie the same index as you proposed at Luxembourg for the increase in our net contribution (Formula No 2 on the list that we discussed this morning). Assuming that we get a refund for about 1,350 in 1980, the effect of such a formula would be very favourable as is shown below:-

	<u>1980</u>	<u>1981</u>		<u>(1982)</u>	<u>Total refund</u>
		<u>lower</u>	<u>higher</u>		
Unadjusted net contribution	1,900	2,240	2,320	2,472	-
Refund indexed to growth of budget	1,362	1,580	1,640	1,920	4,862 or 4922
Net Contribution	<u>538</u>	660	680	<u>552</u>	-

15. You may feel,

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5. You may feel, in the light of what I have said above, that it would be unnecessary for the Foreign Secretary to refuse altogether to consider a refund formula if he ran into total resistance to a net contribution formula at tomorrow's Foreign Affairs Council. Of course, there are a number of pitfalls that we should have to avoid - and which we should need to consider carefully before going firm on this approach: I have particularly in mind, for example, the risk that our unadjusted net contribution will turn out to be substantially higher than 1,900 MUA in 1980. But a willingness to negotiate a refund basis might, in certain circumstances, create an opening towards a negotiated settlement.

6. I am sending copies of this minute to the Foreign and Commonwealth Secretary, the Minister of Agriculture and Sir Robert Armstrong.

Martin Hall

// GEOFFREY HOWE

(Approved by the Chancellor of the Exchequer and signed in his absence)

28 May 1980