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Prime Minister.

Fair sharing.

Qz.03623

MR COLES

COMMUNITY BUDGET: FAIR SHARING OF THE BURDEN

If there is a settlement of the post-Stuttgart negotiations at the next European Council involving a new financing system and an increase in the Community's own resources, the first question which will be asked is whether the United Kingdom is better off. It may be helpful to have the following figures set out -

I The 4 year average

The United Kingdom's net contribution to the Community budget, after receipt of refunds, on average over the 4 years 1980-83 was about £350 million →

II The situation in 1983

The United Kingdom's net contribution in 1983, before adjustment, was £1115 million

The United Kingdom's actual net contribution in 1983, adjusted by the ad hoc 1983 refund, was £675 million

If we deduct from the United Kingdom's net contribution in 1983 the average refund obtained under the 4 year ad hoc arrangements, the result is £480 million

III The United Kingdom's safety net proposal, if applied to 1983

The United Kingdom's adjusted net contribution, if the new fair sharing arrangement (safety net) had applied in 1983, would have been -

- (a) £120 million [UK safety net proposal]
- (b) £310 million [UK safety net proposal, using relative prosperity index of Community of 12]

Even if the Community had increased the VAT ceiling to 1.4% and had used all the extra money, the United Kingdom's adjusted net contribution in 1983 under the new fair sharing system (safety net) would have remained at £120 million (or £310 million).

IV The VAT share/expenditure share gap proposal, if applied to 1983

You will recall that, in the paper for President Mitterrand, we suggested some technical changes in order to make the basic VAT share/expenditure share gap scheme give a low UK limit.

If the VAT share/expenditure share gap scheme had applied, the United Kingdom's adjusted net contribution in 1983 would have been -

- (c) £170 million [VAT share/expenditure share gap proposal, using threshold 1 in the paper for President Mitterrand]
- (d) £170 million [VAT share/expenditure share gap proposal, using threshold 2 in the paper for President Mitterrand]
- (e) £230 million [(c) using relative prosperity index of Community of 12]
- (f) £270 million [(d) using relative prosperity index of Community of 12]

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2. You will note that all the figures under the United Kingdom's own proposal and under the technically corrected VAT share/ expenditure share scheme are substantially better than our actual adjusted net contribution in 1983.

3. If the new system were to contain a "ticket moderateur" of 5%, the figures at (a) to (f) above would be £170 million, £350 million, £220 million, £220 million, £280 million and £310 million. All these figures are better than the United Kingdom's actual net contribution in 1983. With a small "ticket moderateur" there would also be a small increase in our adjusted net contribution if the Community's total spending rose: the smaller the "ticket moderateur", the smaller will be this effect.

4. It seems to me that the crucial figures with which comparisons will be made are the figures underlined in I and II above. In fact, the fairest comparison is with the £480 million in point I because it reflects the latest budget and the average level of ad hoc refund with which we were satisfied. We should be prepared, however, for comparisons to be made also with the £350 million (4 year average net contribution after receipt of ad hoc refunds). The ad hoc refunds were presented to United Kingdom parliamentary and public opinion as giving a relief of about two-thirds of our unadjusted net contribution (ie an adjusted net contribution of about one-third of the unadjusted net contribution). If we can beat this and obtain a lasting system, we should be two goals up.

5. I am sending a copy to Sir Robert Armstrong.

E. Griffiths

for D F WILLIAMSON

12 March 1984