

Thru.

Ad hoc 1 or 2 years,
- -

Forwards VAT / Expenditure
payments.

In lots - in increments each
year.

2 of definite or 2 ~~date~~
definitive.

60% - 2 for resale
on definite

Initial definite

Para 10 - Income
subsidy

Understanding, 43%
less than
20 yrs.

Research $\frac{2}{7}$ corrected

Smaller entire

End of 1984
4 years
3% no
deaths

Research
MCA's

1983 - 750m
€m

Research only MC 300

Have to rethink with psychological research MC

5 years

MC

1 or

MC

① Not willing to go
further than

60%

② Case history,

High percentage
of demand

Requirements

③

Example for
1992

1-Ed. Research
Smaller → Difficult
to work



SPEAKING NOTE FOR THE PRIME MINISTER

WHY WE CANNOT HAVE A SECOND AD HOC YEAR

We must respect the logic of our own discussions here. The new own resources will be available at least from the beginning of January 1986. The 1985 refund will be made in 1986. It can therefore be financed from the new own resources. I could not justify an arrangement under which the new own resources decision made new own resources available but the United Kingdom were still required to have an ad hoc refund. For this reason I am ready to agree in 1984 to one ad hoc year/but I see no reason why we should have a second ad hoc year and I cannot accept it.

[If it is suggested that the new own resources should come into effect in October 1985 rather than January 1986]

This is not a problem for me. I want the arrangements for the budget correction to come into effect as quickly as possible. If I am satisfied on that, I have already said that I would be prepared to agree to the increase in own resources which we discussed at our last meeting.

EUROPEAN COUNCIL: SPEAKING NOTE FOR THE PRIME MINISTER ON BUDGET
IMBALANCES

1. The UK hopes that this European Council will mark a turning point in the Community. If we can fulfill the tasks we set ourselves at Stuttgart we shall have achieved the sound basis on which the relaunch of the Community can take place. We have practical, but far reaching ideas for the future development of the Community, set out in our paper which I circulated to Heads of Government two weeks ago. But for any discussion of the future of Europe to have any immediate relevance we need first to complete the negotiations. That means settling the one issue that stands in the way of overall agreement, namely budget imbalances. Want you to be in no doubt of the UK's desire to settle this issue. We want to put behind us the repeated negotiations on this subject, to settle it once and for all and to get on with realising the goals we all share for Europe's future.

2. For this reason we want to make a real effort to clinch a settlement on the budget. The basis of such an agreement must be the position we reached in March after months of negotiation. In (i) other words, one more year of ad hoc refunds in 1984 with the (ii) budget system starting in 1985. The budget system designed by the French Presidency and incorporated in the draft conclusions of the Brussels European Council endorsed the vital principle that contributions must be based on ability to pay measured by objective criteria. Issue now is how to move forward from position reached in March.

3. The simplest way to resolve the outstanding issue is to set the notional figure for 1983 which will determine how the system works from 1985 onwards. Our partners have offered 1000 mecu. We said at Brussels that we could accept 1250 mecu. An effort will be required by both sides to settle the matter; and that effort will be more costly for the UK than the Nine.

4. Our unadjusted net contribution is already 2 billion ecu a year. With an increase in own resources it would not be long before it reached 3 billion ecu. Even under the proposed system we shall still be contributing very large amounts to the Community and to the costs of enlargement.

5. We stand by our acceptance of the text tabled by the Presidency at the European Council subject to agreement on the notional figure. As I have already said, we are ready to join with others in making a real effort to resolve the remaining difference on the notional figure. This must involve movement in both directions. We can settle this on the basis of a fair compromise between 1000 and 1250 million ecu. Would remind colleagues that Britain will have to bear the total cost of such a move whereas the cost to other Member States of an equivalent move will be divided among nine. Are other Member States ready to settle this on the lines I have suggested?

BACKGROUND : NOT FOR USE

1. We should continue to point out that there is no case for a further ad hoc year in 1985 because the new own resources decision will come into effect, at the latest, on 1 January 1986. Since our budgetary correction for 1985 would operate in 1986, there is no logical case for ad hoc arrangements in 1985.
2. We shall not, however, be able to secure payment of the 1,000 mecu refunds due for 1984 in 1985 unless new own resources are brought forward by three months or other financial arrangements (which would be more undesirable) are made. This is because it was agreed at the Brussels European Council that the 1,000 mecu should not add to Community expenditure ie the correction should be made on the revenue side (and the Community has no money to pay them otherwise).
3. Although there is no direct logical link (see paragraph 1 above), other Member States are likely to continue to try to insist on further ad hoc arrangements in 1985 because they believe that correction for us under the system would be very expensive in respect of that year. They will not be able to sustain this argument if new own resources are brought forward to 1 October 1985. If not, there will be continuing strong pressure for a second ad hoc year. Other Member States are likely to agree to bring own resources forward. The Germans may resist, but are thought unlikely to oppose this on their own if overall agreement depends on this point.
4. The idea of bringing new own resources forward is also relevant to our position on the 1984 overrun which is that savings should be made and, as necessary, payments deferred into 1985.

EUROPEAN COUNCIL: SPEAKING NOTE FOR THE PRIME MINISTER ON
STRAIGHTFORWARD PERCENTAGE RETURN

1. In March we got close to agreement on a system tabled by the French Presidency. That text was the outcome of months of negotiation and we should be very hesitant about moving away from what was provisionally agreed. It can be in nobody's interest to reopen the negotiation on issues where outline agreement had been reached since this risks reopening wider issues affecting the whole negotiation.
2. The whole basis of this negotiation, from Stuttgart onwards, has been to achieve a budget system which would form part of the own resources decision of the Community. The Presidency text proposed just such a system which was carefully balanced to provide a reasonable degree of protection against an increase in the budget burden on a Member State which qualified. It is not clear how those essential elements of the system would be maintained under what is now suggested.
3. The Presidency proposal offers us only [65%] of the VAT share/expenditure share gap. That would leave us bearing a very large proportion of the burden represented by that gap, not to mention the real burden which is bigger still.
4. The 65% return on the VAT share/expenditure share gap represents 1054 mecus on 1983 figures. ^{This is too low.} ~~In other words it would produce a less equitable result for the UK than could be achieved by meeting each other half way under the system.~~ Compared with the system, the percentage return, at the level proposed would expose the United Kingdom to much greater increases in our budget burden as our VAT share/expenditure share gap rises. Whatever happens we should still be getting only a 65% return on the VAT share/expenditure share gap.

5. For this reason, and for the wider reasons I have already mentioned, we should think very carefully before moving away from the system to try to reach a settlement on a percentage figure as suggested. For the UK to accept a percentage return at all would involve a substantial degree of economic risk. We would need to look at a significantly higher figure before we could consider this approach. We must achieve results which, in the long run, would provide the United Kingdom with results as satisfactory as meeting us half way under the system.

EUROPEAN COUNCIL: FURTHER SPEAKING NOTE ON STRAIGHT PERCENTAGE OF
VAT SHARE/EXPENDITURE SHARE GAP IF DETAILED DISCUSSION IS ENGAGED

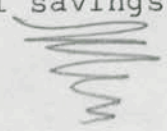
1. As I indicated earlier, by whatever route a settlement is reached we must achieve a systematic and lasting approach reflecting the fact that this is a Community problem. The principles enshrined in the March Presidency text on duration and on incorporation of the corrective mechanism in the revised own resources decision must be maintained. It would be important too to ensure that, as has always been recognised, the corrective mechanism should be linked to relative prosperity. Officials should be asked to work on a text showing how this could be achieved. [One way would be to express the link between relative prosperity and the rate of compensation in such a way that countries of below 90% of average prosperity in the enlarged Community would not be expected to have a negative VAT share/expenditure share gap at all, while countries between 90% and 115% of relative prosperity would qualify for a percentage return on the VAT share/expenditure share gap.]

There are
other
ways.
Chancellor's
advise is
better
not identify
only one.

EUROPEAN COUNCIL: SPEAKING NOTE FOR THE PRIME MINISTER
ON 1984 BUDGET OVERRUN

1. The UK is a bit surprised at this being raised in a substantive way today. Foreign Affairs Council discussed the issue last week and agreed that the question should be considered at the Budget Council on 19 July. It is very difficult for us to deal with the issue here without proper preparation. It is clear from the discussion that has already taken place that a lot more work needs to be done in searching for all available savings. Depending on the state of that work, and provided that we can reach satisfactory resolution of the wider negotiations here at Fontainebleau then we shall be prepared, on 19 July, to join in looking for ways of dealing with the problem.

2. [If pressed to accept that 1984 overrun should be financed by "advances" in accordance with VAT shares]: I understand that several Member States, like us, are opposed to the Commission's loan proposal. This proposal for advances does not seem very different. It is another way round the 1% ceiling. Our view remains that we should make substantial savings. The European


/Court

Court of Auditors has drawn attention to the fact that the Commission have not exhausted all the possibilities. At the same time, the Agriculture Council has not yet considered separate proposals put forward by ourselves and the Netherlands for savings. If, thereafter, it is clear that we cannot solve the whole problem by savings then we shall need to see how much expenditure could be deferred in 1985, bearing in mind that 675 mecu of expenditure was deferred last year.

[If others argue that deferral into 1985 will make it impossible to keep the budget within the 1% ceiling and will therefore require either supplementary financing or the early introduction of a revised own resources ceiling]

The British Government's position has always been that the Community budget must be financed within the ceiling of available own resources. If some expenditure is deferred into 1985 it will still be possible to keep the budget within the 1% ceiling. The main problem will arise in autumn when the principal burden of agricultural expenditure is felt. [In our view, therefore, the best solution in those circumstances would be to bring the new own resources

Chancellor's advice is not to give it away, at any rate in this context alone. Different if there is a settlement of our budget problem.

/decision

decision into effect from 1 October 1985, so that the
UK's 1984 refund could be financed by a reduction of
VAT in 1985 and so that any 1984 overrun deferred into
1985 could also be covered.]

WHY 70%?

SPEAKING NOTE

WHY AT LEAST 70%

We had provisional agreement in March that there should be a system with a threshold and a rate of compensation beyond the threshold. If we reached a compromise on 1125 mecus on the basis of the 1983 figures and a threshold of 250 mecus, we should have a compensation rate of about 80%. For us to drop the idea of a threshold is therefore an important concession. It means that we shall have less protection if our gap increases, as it will. So I could not agree to a solution based on a straight percentage refund unless the percentage is over 70%.

System -

FF

1984 = 1000 =

Now - 1984
not needed.

FF } of System,
86 } more 65%
87 } than

Up to early 1987

1984

1 or 2 years

1984 1000

1985

86-87
65%
Concept

50%

Threshold

60%
2/3

65%
= 50%

I. WHAT A STRAIGHT PERCENTAGE REFUND MEANS?

- (a) By comparison with the 1000 mecu (position of the Nine) and 1250 mecu (UK position) on 1983 figures it means

% of VAT share/ expenditure share gap (1622 mecu on payments basis)	mecu
70	1135
69	1119
68	1103
67	1087
66.66	1081
65	1054

- (b) The average return on the UK's full unadjusted net contribution over the period 1985-88 given by the straight percentage refund is estimated to be

% of VAT share/ expenditure gap	% of the full unadjusted net contribution
70	62
68	60
66.66	59

I. WHAT A STRAIGHT PERCENTAGE REFUND MEANS?

- (a) By comparison with the 1000 mecu (position of the Nine) and 1250 mecu (UK position) on 1983 figures it means

% of VAT share/ expenditure share gap (1622 mecu on payments basis)	mecu
70	1135
69	1119
68	1103
67	1087
66.66	1081
65	1054

- (b) The average return on the UK's full unadjusted net contribution over the period 1985-88 given by the straight percentage refund is estimated to be

% of VAT share/ expenditure gap	% of the full unadjusted net contribution
70	62
68	60
66.66	59

~~1200~~
~~_____~~
Return

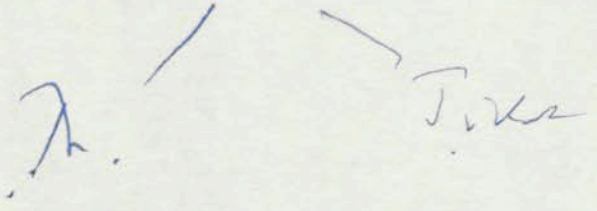
2000

~~1600~~
~~_____~~
not run



300
←

700



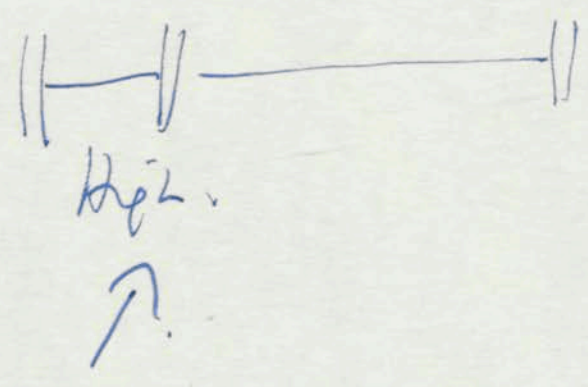
200?
~~_____~~

~~200~~ / 6 = 200 / 1200
142

Pay - whole
low

200. 70%
1125

- ① Threshold 15M.
- ② 2.



II. THRESHOLD/PERCENTAGE REFUND ABOVE THE THRESHOLD OR
STRAIGHT PERCENTAGE REFUND: TWO POINTS TO NOTE

- (a) The advantage of the threshold/percentage refund above the threshold is that it may allow us to get a higher rate of compensation (lower rate of contribution) at the margin. For example, a settlement at 1125 mecu on 1983 figures could be implemented through a threshold of about 200 mecu (0.04% of gdp) and a compensation rate above the threshold of almost 80%, ie we would pay about just under 20% of our normal contribution which means 4% of increases in Community expenditure. But beware! The threshold itself (although it might help with the German problem) is not an advantage for Britain: it is Eurojargon for an increasing amount of money which we pay to the Community without any compensation at all. If we can lose the threshold and still get a reasonably low marginal rate of contribution, that would be best of all.
- (b) the advantage of the straight percentage refund is just that it loses the threshold. The key issue is whether we can get an acceptable figure. If we get a 70% refund, this means that we would be contributing about 6% of increasing Community expenditure.

The Treasury's estimates show that in real money for Britain between now and 1988 a straight percentage refund of 70% is better than 1100 million ecu with a threshold of 0.04% of gdp.

III. ADJUSTED NET CONTRIBUTION IN REAL TERMS

If there were a settlement on an 1125 mecu refund on 1983 figures (II(b) in annex 3 to the paper of 14 June), the estimated United Kingdom adjusted net contribution to the Community in real terms (deflated to 1983 prices) would be as follows -

	Adjusted net contribution, mecu
1983	1163
1984	1011 (ad hoc year)
1985	739 (advent of the system)
1986	935
1987	926
1988	956

	<u>Refund at 65%</u>	<u>% of net contribution</u>	<u>Refund at 66%</u>	<u>% of net contribution</u>	<u>Refund at 66²/₃%</u>	<u>% of net contribution</u>
1983	1054		1071		1081	
1985	1783		1810		1829	
1986	1557		1581		1597	
1987	1554		1577		1593	
1988	1652		1677		1694	
1985-88	6546	57.6	6645	58.5	6713	59.1
	<u>at 67%</u>		<u>at 68%</u>		<u>at 69%</u>	
1983	1087		1103		1119	
1985	1838		1865		1893	
1986	1605		1629		1653	
1987	1601		1625		1649	
1988	1702		1728		1753	
1985-88	6746	59.4	6847	60.3	6948	61.2
	<u>at 70%</u>		<u>at 71%</u>		<u>at 72%</u>	
1983	1135		1152		1168	
1985	1920		1948		1975	
1986	1677		1700		1724	
1987	1673		1697		1721	
1988	1779		1804		1830	
1985-88	7049	62.1	7149	62.9	7250	63.8

	<u>Refund at 73%</u>	<u>% of net contribution</u>	<u>Refund at 74%</u>	<u>% of net contribution</u>	<u>Refund at 75%</u>	<u>% of net contribution</u>
1983	1184		1200		1217	
1985	2002		2030		2057	
1986	1748		1722		1796	
1987	1745		1769		1793	
1988	1855		1880		1906	
1985-88	7350	64.7	7451	65.6	7552	66.5

	<u>VAT/expenditure gap</u>	<u>Net contribution before refunds</u>
1983	1622	1913
1985	2743	2809
1986	2395	2780
1987	2390	2792
1988	2541	2976
1985-88	10069	11357