



Foreign and Commonwealth Office

London SW1A 2AH

22 July 1982

Prime Minister

To note

AOL 2/7

Dear John,

Public Expenditure Survey and Net Contributions to European
Community

The Foreign and Commonwealth Secretary has seen a copy of John Kerr's letter to you of 13 July about the figures for net contributions to EC institutions which will appear in this year's public expenditure survey.

He understands the Chancellor's concern that the actual figures for 1983 - 84 and later could be worse than the survey figures. The immediate problem is one of presentation in view of the presumption that the same figures will be published in the White Paper next March, unless some agreement is reached in the Community before then. On the one hand, we do not wish to publish figures which are so high as to weaken our negotiating position, but on the other, we may face criticism domestically if the outturn in future years turns out to be considerably worse than the forecast. It is the latter possibility which is of particular concern in relation to the figures proposed in the letter, as indeed the letter points out.

We realise that the new figures are based on revised estimates of our unadjusted net contributions, but these estimates are extremely uncertain, as we have discovered in the last two years, and are liable to be drastically altered as a result of such unpredictable factors as world agricultural prices. The Foreign and Commonwealth Secretary feels strongly that it would be wiser to reduce the risk of overshoot by leaving the estimates for 1983/84 and later unaltered from those in the last White Paper. As far as our negotiating position was concerned, this would mean that our partners found only figures which they had seen before.

/In explaining

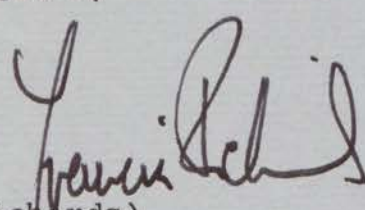


In explaining the figures, we would be able to say that the 1982/83 figures had been changed to take account of the agreement on 1982 refunds, but that for later years the Government had not thought it necessary, in view of the very many uncertain and conflicting factors involved in estimating the unadjusted net contribution and of the delicacy of the estimates in relation to our Community partners, to alter the estimates made in last year's White Paper.

If the Treasury were pressed on the justification for leaving the estimates of the unadjusted net contributions for 1983/84 and 1984/85 unaltered, despite the improvements which should result from the payment in the two years of refunds of £115 m delayed from 1982/83, they could I think take the following line:

estimates for these years are clearly very uncertain and subject to numerous factors which are difficult to quantify. Against the reductions resulting from late payments of 1982 refunds must be set the increases which would result if we assume that the same change in the timing of payments were to repeat itself in respect of refunds for 1983 and 1984. Overall the effect of these factors would be some increase in public expenditure in 1983/84, and no change in 1984/85. However other factors, in particular the lower forecast unadjusted net contribution in respect of FEOGA pointed to some reduction in the 1983/84 forecast. Hence our conclusion that, on balance, it was reasonable to leave the figures as they were.

I am copying this to the Private Secretaries of Members of the Cabinet, and to David Wright in the Cabinet Office.

For use,

 (F N Richards)
 Private Secretary

A J Coles Esq
 10 Downing Street



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