EU summit

Downing Street rejects ‘freeze’ compromise

Britain’s key demand

In Brussels today and tomorrow the EU’s 27 members will attempt to reach a deal over the future budget. But prospects for an agreement do not look promising.

Britain's main demand is to maintain the British rebate — as a quid pro quo for France and Sweden’s willingness to consider increased contributions to the EU budget. If France agreed to give ground in this area, then Britain would be prepared to support Mr Chirac’s visionary proposals for the CFSP— whereas Britain made clear it was determined to reduce its payments. It has two other proposals: the freezing of the rebate at the 1995 level (negotiators generally refer to this as the “no rebates” solution); and an agreement to compensate Britain for any loss of the rebate (negotiators often speak of the “rebate compensation” solution).

Britain's key demand lies to the left of the map, and the rebate itself — before the current rebate agreement signed in 1995 — is shown by the red dot. On the left, red line, is the rebate at the 1995 level; on the right, red line, the rebate at the 1995 level plus compensation.

France’s key demand

France’s key demand is that the overall EU budget should be kept under control. A “too big” budget — which amounts to saying that Mr Chirac sees the existing budget as too large — is also high on France’s agenda, which has repeatedly threatened to veto any budget that France regards as excessive. This is to the top of the map for France. The yellow dot indicates the current level of the EU budget, as a share of EU income.

In Brussels yesterday the French government’s chief negotiator, Jean-Marc Ayrault, reaffirmed that he would not accept any budget that rose above the 1% level. This will be a deal-breaker for France.

Britain’s room for compromise

Britain may have to compromise on three issues: on the level of the future budget; on overgenerous subsidies; and on the rules governing the rebate. But Britain’s negotiating position is weakened by the fact that it is the largest net contributor to the EU budget, which means that any budget increase leaves Britain with a larger share of the overall EU budget.

France’s room for compromise

France may have to face the prospect of budgetary restraint, and of overgenerous subsidies being reduced. But France’s negotiating position is strengthened by the fact that it is the second largest net contributor to the EU budget, which means that any budget increase leaves France with a larger share of the overall EU budget.

How it all works...

Britain’s compensation for the rebate foregone is calculated by the formula agreed at the Fontainebleau summit 1984 — and thereafter revised upwards — to take account of the fact that Britain’s net contribution to the EU budget is determined by the difference between what it pays into the EU budget and what it receives back. This is the red dot on the map at the bottom.

France’s compensation is calculated in the same way. But the French avoid the calculation altogether, and argue that it is impossible to help a country which is trading with the EU outside the single market. French negotiators argue that Britain’s rebate is a “sophisticated form of war reparations. As Europe’s main paymaster, Germany regards Britain as an ally. It has two proposals: the freezing of the rebate at the 1995 level (negotiators generally refer to this as the “no rebates” solution); and an agreement to compensate Britain for any loss of the rebate (negotiators often speak of the “rebate compensation” solution).