

P.S.
17/9

PRIME MINISTER

EC BUDGET

The Chancellor will be discussing Budget discipline with his Community colleagues this weekend and the Foreign Affairs Council will take up all the outstanding issues from Fontainebleau at the beginning of the week. We are getting very close to the point where you will need to decide whether the resulting package is the best we can get.

Since you launched the package-deal notion we have made important progress:

i) the 1984 Budget overrun has been reduced to 1003m ecu. The net cost to the UK of this will be about £60m. Parliament won't like it. But our announced readiness to contribute if all other issues are settled satisfactorily does not seem to have caused any particular stir.

The House has not been sitting. Answer from when they know the sum will be continued vigorously.

ii) it is agreed that the overrun will be financed through an inter-Governmental agreement.

iii) because it is an inter-Governmental agreement, the UK contribution will have to be approved by the UK Parliament. There is clearly no question of this happening if the European Assembly continues to block our 1983 refunds. We should need to make an explicit link: no 1983 refunds, no UK contribution to the 1984 supplementary budget. Anyway, the Assembly is showing signs of behaving more reasonably (see attached telegram).

iv) it is agreed that the 1985 preliminary budget will be within the 1% ceiling.

v) for our 1984 refunds, we have tabled a paragraph for the new own resources decision providing specifically for them to be paid on the revenue side. This would mean that, once the new own resources decision was ratified, we would get our 1984 'refund' irrespective of the date when new own resources themselves are introduced. There is still some opposition to this from other member States but a fair chance that we can push it through.

vi) on the date of introduction of new own resources, there is no realistic chance of getting the Germans to agree now that they will be introduced on 1 October 1985. Their position may change once the enlargement negotiations are completed. In the meantime, the best solution is to leave the date open so that the introduction of new own resources could be brought forward. This is all right provided we get the agreement in v) above. We must also make clear that we shall not agree to another inter-Governmental agreement in 1985: any supplementary funds needed can come only from new own resources.

I doubt that we can extract much more on these issues than is set out above. The crucial issue is therefore budget discipline. The Chancellor's judgement in Cabinet was that he would not be able to get legally binding guidelines. What we can hope to obtain at this stage is the incorporation in a detailed manner in the Community's budgetary procedures of the conclusions of the Brussel's European Council, with an explicit but not legally-binding guideline for agricultural expenditure.

In judging whether a package is acceptable, you will want to bear in mind that we have leverage over the others at present and are using it to good advantage. But once

they conclude that there is no chance of supplementary financing for 1984 before the Community runs out of money and they are forced back on national financing, they lose the incentive for concessions to us. This point could be reached by early October. That would in practice put us back where we were pre-Fontainebleau: and we should again have to consider withholding. It may still come to this. But we have made real progress: and it will be a fine judgement whether the difference between the best deal we can get in the next week or so and what we might eventually obtain after a further long struggle including withholding would be worth it.

C.D.P

14 September 1984



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Ref. A084/2476

MR POWELL

c Mr Williamson (W/O Attachment)

European Community 1984 and 1985 Budgets

--- Sir Robert Armstrong believes that
you will wish to see the attached minute
from Mr Williamson to him concerning the
United Kingdom's position regarding the
European Community budgets for 1984 and
1985. Sir Robert agrees strongly with
Mr Williamson's arguments.

Rx

R P HATFIELD

13 September 1984

13 SEP 1984

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SIR ROBERT ARMSTRONG RAEUROPEAN COMMUNITY 1984 AND 1985 BUDGETS

On the basis of the United Kingdom's position decided at the Prime Minister's meeting on 3 September we have come through the Budget Council of 6-7 September reasonably well. In particular, within the United Kingdom we have passed from an assumed position of a dead halt on the financing of the overrun to a recognition that on certain conditions there will be a supplementary budget in 1984. We have done this without any particularly strong reaction from press or public opinion. On the contrary, our position has generally been seen as a reasonable development of a negotiating position. Furthermore, the Economic Secretary, Treasury, did make a real gain in pushing down the size of the proposed supplementary budget for 1984 and in obtaining Council support both on the 1983 and 1984 refunds.

2. Much, however, of what we gained was achieved because other member states were hoping that having made reasonable progress on the other elements, we would agree to the establishment of the 1984 supplementary budget. The fact that we did not do so has been very strongly criticised in other member states and in the European press on all too familiar lines. I attach, for example, a copy of tel. No. 283 of 10 September from The Hague; Mr Van Eekelen's remarks irritated me particularly because in my view they contain an element of truth!

3. I believe that there could be a disproportionate damage to British interests in the Community if, having either gained, or gained assurances on, our objectives, we were not in a position

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to establish the 1984 supplementary budget in the Foreign Affairs Council on 16/17 September. There is a widespread expectation in the Community that we shall do so, because other member states believe that they have moved substantially towards us and think that our refusal to actually establish the budget in the last Budget Council was largely formal and technical. There is some difference of view in Whitehall about the priorities. We in the European Secretariat think that the major objective is to get the budget discipline arrangements into the budgetary procedures of the Community. Both the Treasury and the FCO do not believe that we can get a regulation on the strict financial guideline and, even in advance of the informal meeting of Finance Ministers, are advising their Ministers that it is unlikely that we can get much. On the United Kingdom rebates and the 1985 budget, however, both the Treasury and the FCO are hankering for prior commitments before we establish the budget. The European Secretariat, on the other hand, thinks that we can protect ourselves very adequately by indicating that, as a question of practical politics, the money for the United Kingdom contribution to a supplementary budget would not be forthcoming from the United Kingdom Parliament unless it is clear that the European Parliament has delivered the goods on the 1983 refund. On the 1985 budget we think that it is quite sufficient to give warning now that if at the end of 1985 other member states want supplementary finance, they will then have to provide that through the new Own Resources Decision and not through some ad hoc arrangement.

4. I am drawing these points to your attention now because there seems to be an assumption among senior officials outside the Cabinet Office that we cannot bring this to the point of establishing the budget, having obtained satisfactory assurances, in the Foreign Affairs Council next week. I believe, on the contrary, that this should be our objective

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because the risks of damage to other parts of the budgetary package, including progress on the revised Own Resources Decision, increase very markedly with each frustration of other member states' expectations on the 1984 supplementary budget.

D F Williamson

D F WILLIAMSON

12 September 1984

*I very much agree with
Mr Williamson on this.
I hope that it can be
brought to Mr Ponde's
attention.*

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TO PRIORITY FCO

TELEGRAM NUMBER 283 OF 10 SEPTEMBER

INFO ROUTINE UKREP BRUSSELS

INFO SAVING OTHER EC POSTS

BUDGET COUNCIL: DUTCH PRESS REACTION

1. THE UK IS BLAMED IN MOST DUTCH NEWSPAPERS FOR THE FAILURE OF THE BUDGET COUNCIL TO FIND A SOLUTION TO THE 1984 BUDGET DEFICIT. THE ALGEMEEN DAGBLAD IS PARTICULARLY CRITICAL, ACCUSING BRITAIN OF BLOCKING AGREEMENT ON PURELY FORMAL GROUNDS AND OF MAKING UNREASONABLE AND UNREALISTIC DEMANDS ON ITS COMMUNITY PARTNERS. IN AN EDITORIAL, THE PAPER QUOTES VAN EEKELEN AS SAYING "THE BRITISH HAVE A TALENT FOR MANOEUVERING THEMSELVES INTO THE MOST UNFORTUNATE SITUATIONS... THEY HAVE MADE A STEP IN THE RIGHT DIRECTION, BUT HAVE MADE AN AGREEMENT IMPOSSIBLE BY PUTTING FORWARD ALL KINDS OF FORMALITIES."

2. BY FAR THE MOST FAVOURABLE COMMENT COMES FROM THE HAAGSCHE COURANT FROM ITS CORRESPONDENT JAN WERTS IN BRUSSELS. IN A THOUGHTFUL AND BALANCED PIECE, WERTS UNDERLINES THE NEED FOR BUDGETARY DISCIPLINE AND CONTROL OF AGRICULTURAL EXPENDITURE IN THE COMMUNITY AND COMMENTS THAT THE RESULTS OF THE BUDGET COUNCIL SHOW THAT ONLY THE BRITISH, DUTCH AND GERMAN GOVERNMENTS HAVE TAKEN SERIOUSLY THE PROMISES OF FONTAINEBLEAU. VAN EEKELEN IS QUOTED AS SAYING THAT THE COMMUNITY SHOULD "KEEP THE LID ON THE KETTLE FOR AS LONG AS POSSIBLE."

3. THE DUTCH PRESS OF 7 SEPTEMBER REPORTS VAN EEKELEN AS DISMISSING THE COMMISSION'S THREAT TO TAKE THE COUNCIL OF MINISTERS TO COURT AND SAYING THAT ANY CASE BROUGHT BY THE COMMISSION WOULD BE HIGHLY CONTESTABLE. HE SAID HE THOUGHT THE 1984 BUDGET DEFICIT COULD BE REDUCED TO 3.4 BILLION GUILDERS (1.35 BILLION ECU).

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MANSFIELD

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P.A.
2/17/84

Qz.03884

MR BUDD (PS/FOREIGN AND COMMONWEALTH SECRETARY)
MR PERETZ (PS/CHANCELLOR OF THE EXCHEQUER)
MR ELLIS (PS/ECONOMIC SECRETARY, TREASURY)

COMMUNITY BUDGET FOR 1984 AND 1985

--- In response to the suggestion in the Economic Secretary's letter of 10 September to the Prime Minister and in preparation for the meeting at 10am on 14 September, I attach a note summarising the issues and the latest state of the discussion on the draft supplementary Community budget for 1984 and the preliminary draft Community budget for 1985.

I am sending copies to Charles Powell (10 Downing Street), Ivor Llewelyn (Ministry of Agriculture, Fisheries and Food) and to Richard Hatfield.

D F Williamson

D F WILLIAMSON

13 September 1984

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EUROPEAN COMMUNITY BUDGETS FOR 1984 AND 1985SITUATION AFTER THE BUDGET COUNCIL OF 6-7 SEPTEMBER

Note by the European Secretariat, Cabinet Office

1. The Budget Council of 6-7 September did not establish either the draft supplementary Community budget for 1984 or the preliminary draft Community budget for 1985. The meeting, however, was clearly positive for the United Kingdom: the further reduction in the size of the draft supplementary budget for 1984 and the recognition by other member states that the United Kingdom required to be satisfied on other elements (United Kingdom refunds for 1983 and 1984; budget discipline; and the 1985 budget situation) represented substantial progress since the July Budget Council.

2. Two important points are now provisionally established:

(i) that the Commission's original proposal for a 1984 supplementary budget of about 2300 million ecu will be cut down by the Council to 1003 million ecu. The latest figure is also about 300 million ecu lower than the Presidency's proposal in July. Despite the dissatisfaction of some member states, particularly Italy, the new lower figure of 1003 million ecu is likely to be confirmed, provided that the draft supplementary budget is established soon. If at the Foreign Affairs Council on 17-18 September there is a disagreement making the establishment of the draft supplementary budget impossible, it cannot be excluded that some member states may wish to reopen the size of the budget. The cuts in the draft supplementary budget have reduced the net cost to the United Kingdom in 1984 substantially to about £ 60 million. In practice, some expenditure will now be deferred into 1985 and on that expenditure the United Kingdom will benefit from the more favourable rebate system negotiated at Fontainebleau. We shall have achieved a good part of our original objective to find both real savings and some deferrals into 1985;

/(ii)

(ii) that the 1985 preliminary draft budget will be established within the limits on the Community's own resources (1 per cent value added tax ceiling). There will be a Council declaration about a possible supplementary budget later in 1985 (which in our view would have to be funded through the proper procedure of the new Own Resources Decision).

3. The problems which remain to be settled at the informal meeting of Finance Ministers on 15-16 September and at the Foreign Affairs Council on 17-18 September are:

(i) the 1983 rebate. The United Kingdom Government will not pay, nor will the United Kingdom Parliament authorise an intergovernmental agreement on the payment of, our share of the 1984 supplementary budget unless it is quite clear that the European Parliament's block on the payment of the United Kingdom's 1983 rebate is being removed. This point is understood by member states. It would be self-defeating if the European Parliament refused to remove this block until the supplementary budget had been established and the United Kingdom refused to establish the supplementary budget until the European Parliament's block had been removed. This problem, however, can be solved because the payment of contributions to the 1984 supplementary budget under an intergovernmental agreement is in any event dependent on funds being made available by national parliaments. It is proposed, therefore, that if the United Kingdom, its other conditions being met, agrees to the establishment of the 1984 supplementary budget at the Foreign Affairs Council on 17-19 September, the specific conditions in relation to the 1983 rebate should be:

(a) the President of the Council must make quite clear to the President of the European Parliament that in the view of the Council the establishment of the 1984

/supplementary

supplementary budget must carry with it the release of the funds for the United Kingdom's 1983 rebate;

(b) the United Kingdom should warn the Council that the practical consequence of the European Parliament's ill-judged decision in July to block the 1983 refund and of the angry reaction of British public opinion is that the United Kingdom Parliament will not agree to the actual release of the funds for the 1984 supplementary budget unless they know that the European Parliament is releasing the funds for the 1983 rebate. This could be reinforced by inclusion of a sentence in the intergovernmental agreement itself;

(ii) the 1984 rebate. The Fontainebleau agreement is that the 1984 rebate should be implemented on the revenue side in 1985. This implies either that the revised Own Resources Decision as a whole must come into effect during 1985 or that at least the United Kingdom's 1984 rebate should be implemented immediately after ratification. Either course would be acceptable to us (but see (iii) below);

(iii) 1985 budget. The preliminary draft budget for 1985 will be established within the 1 per cent value added tax ceiling. It is very probable that towards the end of 1985 additional funds will be needed. At the present time the Germans and Dutch are not going to agree to bring in the increased own resources in 1985 because they have made a link with enlargement of the Community and consider that, if an agreement to extra funds in 1985 has been made, other member states (eg France) may find reasons to block or exact a new price for enlargement. When enlargement is agreed, however, the German and Dutch objections to financing any extra expenditure in the latter part of 1985 through the new Own Resources Decision may evaporate. In these circumstances the United Kingdom's agreed line is to protect our own position by giving clear advance warning that we shall not provide supplementary finance in 1985 except through the proper procedure of the revised Own Resources Decision.

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(iv) budget discipline. The European Council has decided that the Community is to adopt "the measures necessary to guarantee the effective application of the principles" of budget discipline which it endorsed at Fontainebleau. This implies for us that they must be incorporated formally in the budgetary procedures of the Community and, in the case of the strict financial guideline for agriculture, that it must be specifically defined. It will be necessary at the Foreign Affairs Council on 17-18 September to have agreement not only that the European Council text on budgetary discipline but also the Commission text on the agricultural guideline will be put into the budgetary procedures. This is entirely consistent with the European Council decision which does state that "the provisions laid down in the Commission document on financial guidelines concerning the Common Agricultural Policy will be implemented". It will also be necessary to satisfy ourselves on the method of incorporation into the budgetary procedures.

Cabinet Office

12 September 1984