PREM 19/1226

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
CC(84) 8th Meeting, item 3	01/03/1984
CC(84) 7th Meeting, item 3	23/02/1984
EQO(L)(84) 22	23/02/1984
OD(84) 2	16/02/1984
CC(84) 6th Meeting, item 4	16/02/1984
OD(84) 4	15/02/1984
OD(84) 3	15/02/1984
CC(84) 5th Meeting, item 4	09/02/1984
E(A)(843) 12	08/02/1984

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB** (CABINET OFFICE) CLASSES

Signed J. Gray Date 17/9/2013

PREM Records Team

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

House of Commons HANSARD, 22 February 1984, columns 823 to 830: Foreign Affairs Council

House of Commons HANSARD, 20 February 1984, columns 573 to 660: European Communities (Budget)

Signed J. Gray Date 17/9/2013

PREM Records Team

CONFIDENTIAL

file Bre

10 DOWNING STREET

From the Private Secretary 1 March 1984

Community Cash Position 1984:
1983 Refunds

The Prime Minister has seen the minute of 28 February by the Chancellor of the Exchequer to the Foreign and Commonwealth Secretary.

Subject to the views of Sir Geoffrey Howe and Mr. Jopling, the Prime Minister agrees with the action proposed in paragraph 5. of Mr. Lawson's minute.

A. J. COLES

John Kerr, Esq.,
Foreign and Commonwealth Office

CONFIDENTIAL

Prime Minister.

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

A.J.C 29/2

FOREIGN SECRETARY

Agreed MT.

COMMUNITY CASH POSITION 1984: 1983 REFUNDS

In my minute of 24 ~~February~~ January, I reported that we then thought the Commission would hold sufficient cash to pay up to 90 per cent of our refunds (some £515m) by the end of March.

2. The advice from Brussels has changed: it now seems that unless the Commission take action to reduce expenditure and increase their cash flow, this will not be the case.

3. The main reason for the disappearance of the "surplus" £700m, as calculated in my minute of 24 January, is that expenditure is running higher than expected. FEOGA expenditure is expected to be some £380m above forecast, while other expenditure, in particular that deferred from the 1983 budget, is likely to be up by some £240m. There has also been a shortfall against forecast of some £100m in own resources.

4. The Commission have three options. They can:-

a. reduce expenditure during March, principally by phasing the April advances, which the Commission have at present assumed will all be paid on or about 20 March. Advances in earlier months have been paid in tranches: they could be again. But this would only reduce, not eliminate, the problem;

b. once again invite member states to advance own resources payments by one month under Article 10(2) of the Own Resources Regulation. But time is short for this, and it would in any case be unwelcome to the UK, since we could not make the payments direct from the Consolidated Fund. Instead, it would be necessary to seek a supplementary estimate, followed by a special Consolidated Fund Bill. In the present circumstances, this would obviously be particularly embarrassing, and, given past TCSC concern, we would probably have to reckon with an estimates day Debate, which would be particularly unwelcome since it would presumably fall immediately after the European Council. A further potential cause of embarrassment is that we are still resisting a claim for interest for not making last May's advance;

c. seek overdraft facilities, under Article 12(2) of the regulation, up to April, when VAT own resources are paid. Our payment could be made direct from the Consolidated Fund.

5. (a) and (c) clearly suit us best. If you agree I propose, therefore, to ask Sir Michael Butler to see Christopher Tugendhat and press for other expenditure to be restrained, particularly by phasing FEOGA advances, and for any shortfall in cash requirements (including our refunds) to be covered by overdrafts under Article 12(2).

6. I am copying this minute to the Prime Minister, Michael Jopling and Sir Robert Armstrong.

pp. NL

28 February 1984

Euro Pol. Budget Pt 23

29 FEB 1984

FOR 1834Z

DD

CB ~~BONN/FCO~~ 009/27

ADVANCE COPY

IMMEDIATE

DD FCO 271830Z

ECD (I)

OO UKREP BRUSSELS

OO PARIS

Sir C. Tickell
Mr. Hannay
Mr. Fairweather
Mr. Wall

GRS 870
CONFIDENTIAL
DESKBY 271830Z
FRAME ECONOMIC
FM BONN 271715Z FEB 84
TO IMMEDIATE FCO
TELEGRAM NUMBER 219 OF 27 FEBRUARY
INFO IMMEDIATE UKREP BRUSSELS, PARIS

POST-STUTTGART NEGOTIATIONS:
PRIME MINISTER'S MEETING WITH CHANCELLOR KOHL, 28 FEBRUARY

1. COUNSELLOR (ECONOMIC) HAD AN OPPORTUNITY TODAY TO TALK TO GRIMM (FEDERAL CHANCELLERY).

2. GRIMM SAID THAT TOMORROW THE FEDERAL CHANCELLOR WOULD WANT TO CONCENTRATE ON THE IMMEDIATE ISSUES OF THE STUTTGART PACKAGE AND ALSO WANT TO TALK ABOUT CLOSER EUROPEAN COOPERATION IN THE POLITICAL AND SECURITY FIELDS.

3. ON THE OUTCOME OF THE KOHL/MITTERRAND MEETING ON 24 FEBRUARY, GRIMM (WHO HAD NOT SEEN THE CHANCELLOR SINCE 24 FEBRUARY) DECLINED TO BE VERY SPECIFIC. HE SAID THE TWO HEADS OF GOVERNMENT HAD SPENT SOME TIME DISCUSSING THE LORRY DRIVER'S BLOCKADE AND ITS IMPLICATIONS BUT, ON THE STUTTGART PACKAGE DID NOT SEEM TO HAVE NARROWED THE GAPS BETWEEN THEIR RESPECTIVE POSITIONS VERY MUCH. GRIMM SAID THAT ON THE QUESTION OF THRESHOLDS AND SUPER LEVIES FOR MILK AND MEDITERRANEAN PRODUCTS THERE WAS STILL A GAP BETWEEN THE TWO SIDES. THE FRENCH ACCEPTED THE NEED FOR BUDGETARY DISCIPLINE BUT WERE NOT READY TO GO AS FAR AS THE GERMANS. ON THE QUESTION OF BUDGETARY IMBALANCES THE FRENCH ACCEPTED THE PRINCIPLE THAT THESE SHOULD BE CORRECTED BUT WERE NOT YET READY TO TRANSLATE THAT PRINCIPLE INTO ACTION, AS FAR AS THE FEDERAL REPUBLIC WAS CONCERNED. GRIMM THOUGHT THAT MITTERRAND WAS STILL RELUCTANT TO SHOW HIS HAND.

4. SPEAKING MORE GENERALLY, GRIMM SAID THAT AT FIRST THE FRENCH APPROACH SEEMED TO HAVE BEEN BASED ON EXTRACTING A FINANCIAL PRICE FROM THE GERMANS FOR THE SETTLEMENT OF THE STUTTGART PACKAGE IN EXCHANGE FOR AGREEMENT ON WAYS TO BRING ABOUT CLOSER EUROPEAN (INCLUDING FRANCO/GERMAN) COOPERATION IN THE POLITICAL FIELD. THE GERMANS WERE NOT HOWEVER PREPARED TO PAY THE FINANCIAL PRICE THE FRENCH WERE ASKING AND GRIMM THOUGHT THAT THE FRENCH NOW UNDERSTOOD THAT THERE WAS NO WAY THE CONCRETE ISSUES OF THE STUTTGART PACKAGE COULD BE DUCKED. GRIMM SAID THAT MITTERRAND NEEDED THE PRESTIGE AND ''GLOIRE'' FLOWING FROM A SUCCESSFUL EUROPEAN COUNCIL UNDER HIS CHAIRMANSHIP AND A RESULT ON THE SUBSTANCE THAT COULD BE PRESENTED TO HIS VOTERS AS NOT DISADVANTAGEOUS TO FRANCE. THE GERMANS FELT THAT HE HAD COME TO ACCEPT HOWEVER THAT FRANCE WOULD HAVE TO PAY SOME PRICE FOR THESE DEMANDS. GRIMM THOUGHT THAT THE PRIME MINISTER AND THE EDEEEE
AND THE FEDERAL CHANCELLOR COULD AND SHOULD REMAIN FIRM ON THE SUBSTANCE BUT SHOULD DO ALL THEY COULD TO HELP MITTERRAND. IN THIS CONNECTION THERE WAS HE THOUGHT A REAL NEED, ACCENTUATED BY THE FORTHCOMING EUROPEAN ELECTIONS, FOR ALL HEADS OF GOVERNMENT TO COOPERATE IN TALKING UP THE FUTURE OF THE COMMUNITY AND THE POSSIBILITY OF CLOSER EUROPEAN INTEGRATION. THIS SEEMS TO ECHO WHAT VON WECKMAR SAID TO BULLARD ON 24 FEBRUARY (PARA. 6 OF BULLARD'S MINUTE). THE GERMANS DID NOT SEE THERE WAS ANYTHING TO BE GAINED BY TRYING TO COMBINE WITH THE FRENCH AGAINST THE BRITISH OR WITH THE BRITISH AGAINST THE FRENCH. NEITHER WOULD SERVE GERMAN OR THE COMMUNITY'S INTEREST. BUT BOTH IN PARIS AND IN BONN THERE REMAIN UNCERTAINTY ABOUT THE DEGREE AND NATURE OF THE BRITISH COMMITMENT TO THE SHAPE OF POST-STUTTGART

EUROPE. BEAMISH POINTED OUT THAT UNTIL THE STUTTGART ISSUES WERE SUCCESSFULLY RESOLVED IT WAS DIFFICULT FOR THE BRITISH OR ANYONE ELSE FOR THAT MATTER TO HAVE A CLEAR IDEA OF HOW EUROPE COULD DEVELOP. BUT OF THE BRITISH INTEREST IN A BETTER INTEGRATED EUROPE THERE COULD BE NO DOUBT. GRIMM ADMITTED THAT IT WAS DIFFICULT TO SEE WHAT CONCRETE STEPS MIGHT BE TAKEN AND ACKNOWLEDGED THAT ALTHOUGH MANY LAY PEOPLE WOULD IMMEDIATELY THINK OF THE EMS, ECONOMISTS KNEW THAT ''MONETARY UNION'' WOULD BE ONE OF THE LAST STAGES IN EUROPEAN INTEGRATION. LOOKING AHEAD TO THE EUROPEAN COUNCIL, GRIMM REPEATED THE ANXIETY HE HAD EXPRESSED TO WILLIAMSON ABOUT THE HEADS OF GOVERNMENT BEING ON THEIR OWN. THE CHANCELLOR WOULD ONLY BE SUPPORTED BY THE VICE CHANCELLOR (GENSCHER). HOWEVER, IF THE PRIME MINISTER WERE FIRM THAT WOULD MAKE IT EASIER FOR THE CHANCELLOR. A BREAKDOWN IN BRUSSELS IN MARCH WOULD BE VERY SERIOUS, ALL THE MORE SO IF RESPONSIBILITY COULD BE PINNED ON ONE PARTICIPANT. HE SEEMED TO SUGGEST THAT IF THE GERMANS, THE BRITISH AND THE DUTCH WERE STEADY THAT COULD HAVE A DECISIVE IMPACT ON THE PROCEEDINGS.

5. HE ALSO SAID, AS HE HAD TO WILLIAMSON ON 24 FEBRUARY, THAT IF FINANCE MINISTERS COULD IN SECRET AGREE BEFOREHAND ON A SYSTEM FOR CORRECTING BUDGETARY IMBALANCES THAT COULD BE ADOPTED AT THE COUNCIL BY THE HEADS OF GOVERNMENT WITHOUT GOING INTO DETAIL. IN THAT WAY NO-ONE WOULD SUFFER DEFEAT. THE PARAMETERS COULD BE AGREED ON LATER AGAINST A BACKGROUND OF WIDER SUCCESS ON THE STUTTGART PACKAGE AND A POSITIVE PICTURE ABOUT THE FURTHER DEVELOPMENT OF THE COMMUNITY. HE THOUGHT IT WOULD BE DIFFICULT FOR THE FRENCH TO ACCEPT A SYSTEM LABELLED ''MADE IN BRITAIN'' AND NOT MUCH EASIER FOR THEM TO ACCEPT ONE LABELLED ''MADE IN GERMANY''.

6. ON THE QUESTION OF CLOSER COOPERATION IN THE DEFENCE AND SECURITY FIELDS, GRIMM SAID THAT KOHL WAS CONCERNED ABOUT THE NEED FOR EUROPEANS TO DO MORE TOGETHER IN THE LIGHT NOT ONLY OF REAGAN'S WAYWARDNESS IN CONSULTING HIS PARTNERS BUT ALSO GIVEN THE FACT THAT IN THE FUTURE (CF KISSINGER'S SPEECH IN BRUSSELS IN JANUARY) THE AMERICANS WOULD BE LESS ABLE TO DEVOTE AS MUCH EFFORT AND RESOURCES TO EUROPE BEARING IN MIND THEIR GROWING INVOLVEMENT IN THE PACIFIC BASIN AND THE STEADILY SHIFTING FOCUS OF AMERICAN POLICY.

7. COMMENT. I HAVE NO DOUBT THAT GRIMM WAS GIVING US HIS EXPERT VIEWS, WHICH ARE REPRESENTATIVE OF THOSE HERE WHO WANT TO GET A SENSIBLE SOLUTION IN MARCH, BUT THERE ARE OTHER, LESS HELPFUL INFLUENCES HERE TO WHICH THE CHANCELLOR IS ALSO EXPOSED.

FCO PLEASE ADVANCE TO:
WILLIAMSON, DURIE: CAB OFF
SIR C TICKELL, HANNAY, FAIRWEATHER, WALL: FCO
UNWIN, FITCHEW, MORTIMER:TSY
ANDREWS, MRS ATTRIDGE:MAFF

TAYLOR

CCN: ADD FULL STOP AFTER ''INTO DETAIL'' IN PARA 5, LINE 4.

NNNN

SENT AT 271830Z GU

Foreign and Commonwealth Office

London SW1A 2AH

27 February 1984

Miss Stevens!

~~Please~~ confirm that this is OK

27/2.

T Flesher Esq
10 Downing Street
LONDON
SW1

Dear Tim,

DEVELOPMENTS IN THE EUROPEAN COMMUNITY : JULY TO DECEMBER 1983

We propose to publish in late March a White Paper on Developments in the European Community covering the period July-December 1983. The report is purely factual and one of a series normally produced every six months.

I should be grateful if you, and those to whom I am copying this letter, would kindly confirm that there is no objection to publication.

Yours sincerely

Jim

J C A Clephane
Asst. Parliamentary Clerk

cc: D C R Heyhoe Esq
Office of the Lord President of
the Council and Leader of the House
70 Whitehall
LONDON
SW1

C Roberts Esq
Government Chief Whips Office
12 Downing Street
LONDON
SW1

RESTRICTED

GRS 600
RESTRICTED
FRAME ECONOMIC
DESKBY 270800Z
FM BONN 260900Z FEB 84
TO IMMEDIATE FCO
TELEGRAM NUMBER 213 OF 26 FEBRUARY
INFO IMMEDIATE UKREP BRUSSELS
INFO PRIORITY PARIS ROME
INFO SAVING ATHENS BRUSSELS EMBASSY COPENHAGEN DUBLIN LUXEMBOURG
THE HAGUE

VISIT OF KOHL TO PARIS: CRAXI TO BONN

1. THESE VISITS RECEIVED FULL AND PROMINENT COVERAGE IN TODAY'S PRESS, THE FORMER DOMINATING WITH HEADLINES SUCH AS ''BONN AND PARIS GETTING TOGETHER?'' AND ''BONN READY TO MAKE FINANCIAL SACRIFICES (FOR EUROPE).'' STORIES LARGELY SPECULATIVE: DETAIL SCANTY.

2. KOHL BEING AWAY FROM BONN THIS WEEKEND, OFFICIALS ARE UNABLE TO BRIEF US BUT WE SHALL BE IN TOUCH WITH GRIMM ON 27 FEBRUARY AND WILL REPORT FURTHER. GRIMM, LIKE TELTSCHIK EARLIER IN THE WEEK, DOUBTED THAT KOHL AND MITTERRAND WOULD MAKE MUCH PROGRESS.

KOHL TO PARIS
3. KOHL'S VISIT TO PARIS SEEN AS EVIDENCE OF HIS DETERMINATION TO SOLVE EUROPE'S CRISIS BUT ALTHOUGH HE IS RECORDED AS READY TO MAKE THE FINANCIAL SACRIFICES NECESSARY, THAT COULD ONLY BE IF OTHER PARTNERS WERE READY TO MAKE COMPROMISES AND ON CONDITION THAT THE STUTTGART PACKAGE WAS KEPT TOGETHER. CLOSER FRANCO/ GERMAN COOPERATION WAS ESSENTIAL FOR SUCCESS, ESPECIALLY TO SOLVE THE MCA PROBLEM, AND FOR THE FUTURE DEVELOPMENT OF THE COMMUNITY AFTER THE EUROPEAN ELECTION. THE FRANKFURTER ALLGEMEINE ZEITUNG ASSUMES THAT FRENCH READINESS TO SECOND KOHL IN HIS AIM TO ACHIEVE CLOSER SECURITY COOPERATION IN EUROPE (INITIALLY VIA DISCUSSIONS BETWEEN FRENCH AND GERMAN OFFICIALS ON STRATEGIC AND NON-NUCLEAR QUESTIONS) IS DEPENDENT UPON KOHL'S READINESS TO HELP SOLVE THE IMMEDIATE FINANCING PROBLEMS. BUT IT ADMITS THAT BECAUSE EXCHANGES SO FAR HAVE BEEN AT HEAD OF GOVERNMENT LEVEL IT IS NOT YET POSSIBLE TO DISCERN WHAT MAY BE ENVISAGED. THE GENERAL ANZEIGER SEES THE FRG'S AGREEMENT TO SUPPORT ESPRIT AS THE FIRST CONCRETE SIGN OF BONN'S WILLINGNESS TO GO FORWARD, NOTES THAT CONCESSIONS FROM OTHERS WILL ALSO BE NECESSARY TO SOLVE THE OTHER FINANCING PROBLEMS BUT SUGGESTS THAT KOHL IS HAVING PROBLEMS WITH A RELUCTANT STOLTENBERG.

4. IN A COMMENT, THE SAME PAPER EXPRESSED DOUBTS THAT A TWO HOUR DINNER WILL GIVE THE TWO HEADS OF GOVERNMENT ENOUGH TIME TO ASSESS THE RESULTS OF MITTERRAND'S TOUR OF CAPITALS, TO CLEAR UP OUTSTANDING BILATERAL QUESTIONS AND AGREE A COMMON TACTIC TOWARDS THE UK. IT GOES ON TO WARN THAT, TIME BEING SHORT, THE TWO WOULD BE WELL ADVISED TO SET ASIDE THEIR DREAMS ABOUT THE FUTURE OF EUROPE AND CONCENTRATE ON SOLVING IMMEDIATE ISSUES. ASSERTING THAT THE KEY TO THE FUTURE OF EUROPE LIES IN MRS THATCHER'S HANDS BUT NOTING THAT VISITORS TO LONDON SEE LITTLE SIGN OF COMMUNITY SPIRIT THERE IT CLAIMS THAT PARIS SEES TWO POSSIBILITIES FOR PUTTING PRESSURE ON LONDON A) A DEMONSTRABLE INTENSIFICATION OF COOPERATION BETWEEN PARIS AND BONN AND B) A DECLARATION OF INTENTION THAT IF THE MARCH EUROPEAN COUNCIL FAILS, FRANCE AND THE FRG ARE DETERMINED TO PURSUE THEIR OWN COOPERATION WITHOUT TOO MUCH CONCERN FOR OTHER PARTNERS.

CRAXI IN BONN

5. CRAXI AND KOHL AGREED THAT A FAILURE IN MARCH WOULD BE A CATASTROPHE, THAT POSTPONEMENT WOULD ONLY MAKE DIFFICULTIES WORSE BUT WERE UNABLE TO AGREE ON REFORM OF THE MILK REGIME. KOHL REJECTED CRAXI'S DEMAND FOR AN EXCEPTION FOR ITALY. KOHL EMPHASISED THAT IT WAS ILLUSORY TO THINK IN TERMS OF EUROPEAN UNION UNTIL THE CURRENT FINANCING AND RELATED PROBLEMS WERE SOLVED. CRAXI ASKED KOHL FOR CLARIFICATION OF HIS IDEA FOR CLOSER FRANCO/GERMAN COOPERATION WITHIN THE EC AND WARNED THAT CLOSER FRANCO/GERMAN RELATIONS BETWEEN THE TWO WOULD ONLY BENEFIT EUROPE IF THAT LEAD TO ''NO NEW IMBALANCES''.

6. ANDREOTTI AND GENSCHER DISCUSSED FRENCH IDEAS FOR A REVIVAL OF WEU TO WHICH IN ADDITION TO FRANCE, ITALY AND THE FRG, BENELUX ALSO BELONGED (NO MENTION OF UK). PROVISIONS PREJUDICIAL TO THE FRG IN THE TREATY WOULD THEY AGREED HAVE TO BE REMOVED. WEU COULD STRENGTHEN THE EUROPEAN PILLAR OF THE ALLIANCE.

7. WITH REFERENCE TO THE ITALIAN CUSTOMS GO SLOW KOHL DECLARED A EUROPE WITHOUT FRONTIERS FOR GOODS OR PEOPLE WAS NEEDED.

FCO PLEASE PASS TO SAVING ADDRESSEES.

TAYLOR

FRAME ECONOMIC
ECD (I)

(REPEATED AS REQUESTED)

GRS 480

UNCLASSIFIED
FRAME ECONOMIC
FM PARIS 251140Z FEB 84
TO PRIORITY FCO
TELEGRAM NUMBER 249 OF 25TH FEBRUARY
INFO PRIORITY UKREP BRUSSELS, BONN, ROUTINE ATHENS, BRUSSELS,
COPENHAGEN, DUBLIN, THE HAGUE, LUXEMBOURG, ROME.
INFO SAVING MADRID, LISBON.

MY TELNO 248: POST-STUTTGART NEGOTIATIONS, KOHL/MITTERRAND MEETING IN PARIS, 24 FEBRUARY.

SUMMARY.
1. FIRST REPORTS SUGGEST THAT WHILE THERE MAY HAVE BEEN A MEETING OF MINDS ON SEVERAL ASPECTS OF THE NEGOTIATIONS NO UNCONDITIONAL AGREEMENT ON MCAS EMERGED.

DETAIL
2. ACCORDING TO AGENCE FRANCE PRESSE, AFTER THE TWO-HOUR MEETING AND WORKING DINNER AT THE ELYSEE, MITTERRAND TOLD THE PRESS THAT THE FRANCO-GERMAN AGREEMENT WOULD BE NO SUBSTITUTE FOR A GENERAL AGREEMENT. KOHL IS REPORTED TO HAVE SAID THAT THE FRG AND FRANCE HAD A PARTICULAR COMMITMENT TO EUROPE. ON THE POST-STUTTGART DOSSIERS, KOHL COMMENTED THAT THEY HAD MADE PROGRESS BUT HAD NOT YET ARRIVED AT THEIR GOAL: MORE HARD WORK WOULD BE NEEDED. BUT FOR THE GERMANS THERE WAS NO ALTERNATIVE TO EUROPE AND IT WAS VITAL THAT THE EUROPEAN COUNCIL IN MARCH SHOULD BE A SUCCESS. KOHL HAD STRESSED THE NEED TO GO BEYOND THE SETTLEMENT OF EUROPEAN FINANCIAL PROBLEMS AND TO RELAUNCH EUROPEAN POLITICAL INTEGRATION. MITTERRAND HAD INDICATED THAT THE FRENCH AND GERMAN GOVERNMENTS WOULD REMAIN IN CLOSE CONTACT UNTIL THE SUMMIT.

3. MITTERRAND IS REPORTED TO HAVE SAID CRYPTICALLY THAT HE AND KOHL HAD SPOKEN OF MCAS, AND THAT THEY TRIED NOT TO DISCUSS MATTERS WITHOUT HAVING ANYTHING TO SAY. AFP QUOTES GOOD SOURCES AS SAYING THAT A REDUCTION OF GERMAN MCAS WAS DIRECTLY LINKED WITH THE NEGOTIATION ON THE ANNUAL CAP PRICE FIXING. IN ORDER TO ALLOW THE GERMANS TO MEET THE FRENCH REQUEST FOR A 3 - 4 PERCENT REDUCTION OF MCAS, THE COMMISSION WOULD HAVE TO RAISE ITS FARM PRICE PROPOSALS.

4. YESTERDAY EVENING'S PRESS CONFERENCE WAS TOO LATE FOR THIS MORNING'S PAPERS AND ONLY LIBERATION (LEFT WING INDEPENDENT)

/CARRIES

CARRIES AN ARTICLE ON THE MEETING. THIS COMMENTS THAT MITTERRAND'S TOUR OF EUROPEAN COUNTRIES WAS INTENDED TO VERIFY THE EXISTENCE OF REAL POLITICAL WILL TO GIVE LIFE TO EUROPE AND THAT A COMMON FRONT WAS EMERGING WHICH COULD MAKE BRITAIN, THE MOST UNYIELDING PARTNER, COME INTO LINE. ACCORDING TO LIBERATION, BONN CONSIDERED THAT THE BRITISH DEMAND FOR A PERMANENT ANNUAL REDUCTION OF 1.5 MILLIARD ECU IN THEIR BUDGETARY CONTRIBUTION WAS VERY EXAGGERATED WHEN THEIR PARTNERS DID NOT WISH TO GRANT AN ANNUAL REBATE OF MORE THAN 750 MILLION ECUS. BONN HAD WELCOMED THE FRENCH IDEA OF LIMITING THE FUTURE ANNUAL GROWTH OF THE EC BUDGET TO 5 PERCENT, THUS PERMITTING A CEILING ON THE EXORBITANT COSTS OF THE CAP. BUT THE ARTICLE COMMENTS THAT THE FRANCO GERMAN AXIS WOULD ONLY BE WATERTIGHT IF THE PROBLEM OF MCAS WAS SATISFACTORILY SETTLED.

FCO PLEASE PASS SAVING ADDRESSEES.

FRETWELL

REPEATED AS REQUESTED

FRAME ECONOMIC
ECD (I)

THIS TELEGRAM
WAS NOT
ADVANCED

N. Barker.
The F.C.O. have
AJC considered. I am
content.
AR 24/2.

Does this have
any significance beyond
Parliamentary timing?

TJ.

Treasury Chambers, Parliament Street, SWIP 3AG

Mrs Stevens

Be tell the
FMT that this is
acceptable

DJ
24/2

PS/Prime Minister
10 Downing Street
LONDON
SW1

24 February 1984

Dear Mr Flescher

... I attach a draft of a White Paper on the 1984 Community Budget which, if you and other recipients of this letter agree, we should like to present and publish in the name of the Economic Secretary on 1 March. Treasury Ministers consider that this is the most suitable date in relation to the timing of future Community business.

The White Paper will be the fourth in a series of annual statements which the Government agreed to provide in response to a recommendation of the Public Accounts Committee. All the information has been taken from documents already published. This is the first White Paper which includes firm outturn information about Community expenditure and UK contributions to and receipts from the EC budget.

As the text of the Statement makes clear the treatment of refunds is different from that adopted in last year's White Paper. In this Statement a cash flow presentation is used rather than the budget based figures used in the 1983 Statement. This is covered in paragraph 7 of the draft and for further clarification a table showing the adjustments which have to be made to the refund figures in the 1983 Statement is included in the Annex.

We shall of course provide press briefing which will explain the differences between the calendar year figures in the Statement and the financial year figures in the PEWP. We considered this year, for the first time, publishing a reconcilliation between the figures in the two documents but decided against it as this would highlight the fact that the Community's 1984 published budget does not include provision for the balance of our 1982 'risk sharing' refund. As you know this money was included in the PEWP, but not explicitly mentioned.

I am copying this letter to Murdo Maclean (Chief Whip's Office), David Heyhoe (Privy Council Office) and David Wright (Cabinet Office) and Roger Bone (FCO).

Yours sincerely
Adrian Ellis

ADRIAN ELLIS
Private Secretary

THE 1984 BUDGET OF THE EUROPEAN COMMUNITIES

INTRODUCTION

1. Following a recommendation in the 28th Report (1979-80 session), by the Committee of Public Accounts (PAC), the Government agreed to present a statement giving details of each European Community Budget, both after its adoption and after the outturn is known. This White Paper is the fourth in the series. It provides details of the 1984 Community Budget as adopted, the 1983 Budget as amended by the two Supplementary and Amending Budgets and the outturn for 1982 and 1981. The Community's budgetary terminology is explained in the Annex to the White Paper.

2. In addition to providing a summary of the Community Budgets for 1981 to 1984 the Statement shows the implications of these budgets for the UK's gross and net contributions. These contributions are also shown in the Public Expenditure White Paper (see Cmnd 9143) but on a UK financial year basis.

Commitment and payment appropriations

3. Tables 1 and 1A show commitment and payment appropriations in the 1984 Budget as adopted, in European Currency Units (ecu) and sterling respectively. The table also shows the appropriations in the 1983 Budget taking account of the supplementary and amending budgets.

4. The outturn figures for 1981 and 1982 shown in tables 1 and 1A have been taken from the Court of Auditors' 1982 Annual Report and the Commission's accounts, which have been audited by the Court of Auditors. (See the Annex for the definition of outturn used in this White Paper.)

1984 Community Budget

5. The 1984 Community Budget as adopted provides for expenditure of about £14,700 million, 98 per cent of which is expenditure by the Commission. Agricultural spending accounts for slightly more than two-thirds of the total budget. Regional Development and Social Fund expenditure together make up a further 10 per

cent. The 1984 Budget as adopted also contains provision for the agreed basic refund to the United Kingdom in respect of 1983 of 991 million ecus gross (about £573 million).

Gross and net contributions by the UK

6. Table II shows gross contributions to and receipts from the Community Budgets for 1981 to 1983 and the resulting net contributions figures; the figures for 1984 are calculated on the basis of the published 1984 Budget. Our gross contribution for that year is put at some £3080m, and gross receipts (including the UK's refund in respect of 1983) at some £2360m. The estimated net contribution is therefore about £720 million.

7. The outturn figures for 1981 and 1982 differ from those shown in the Statement in the 1983 Community Budget (Cmnd 9030) in part because firm information is now available and because in this White Paper the refunds are presented on a cash flow basis. In Cmnd 9030 the 1981 and 1982 refunds figures were shown on a basis which attributed them to the budget from which they were financed irrespective of when they were paid over to the UK. The necessary adjustments are shown in more detail in the Annex.

9/1(a)

COMMITMENTS AND PAYMENTS BY INSTITUTION AND TYPE OF EXPENDITURE

TABLE 1

million ECUS

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17

	COMMITMENTS				PAYMENTS			
COMMISSION	1981	1982	1983	1984	1981	1982	1983	1984
Administration	643.9	713.3	756.8	803.5	635.4	688.3	756.8	803.5
EAGGF - Guarantee	10980.2	12371.6	15811.0	16500.0	10960.2	12369.5	15811.0	16500.0
EAGGF - Guidance	695.1	733.6	782.2	723.5	566.5	638.2	597.1	595.6
Fisheries	39.9	68.8	107.2	159.1	49.9	54.8	84.4	112.4
Regional Fund	1636.8	1844.8	2010.0	2140.0	798.7	973.0	1259.0	1412.5
EMS interest rate subsidies	234.0	272.4	257.0	-	227.2	264.8	257.0	-
United Kingdom refunds	1248.4	1819.2	1399.6	991.0	1248.4	1819.2	1399.6	991.0
German refunds	-	-	272.5	211.0	-	-	272.5	211.0
Social fund	996.2	1510.2	1696.5	1846.0	745.8	905.6	1350.0	1220.0
Energy	64.1	83.9	111.6	209.7	63.1	44.0	99.5	156.8
Research and investment	356.8	443.1	446.1	740.1	295.6	367.6	428.0	475.8
Industry and transport	8.6	19.3	57.4	145.8	8.3	16.3	61.1	95.7
Own resources refund	814.0	907.6	966.9	1057.3	807.0	909.3	966.9	1057.3
Transitional refunds to Greece	111.6	98.0	65.1	46.2	110.4	91.2	65.1	46.2
Development aid	903.4	899.5	1124.2	1022.8	858.5	786.1	992.2	897.2
Miscellaneous	40.3	203.6	259.2	350.7	110.3	172.8	251.2	355.9
Reserves	-	-	5.0	5.0	-	-	5.0	5.0
Total Commission	18773.3	21988.9	26128.3	26951.7	17485.3	20100.7	24656.3	24935.9
OTHER INSTITUTIONS								
Parliament	171.3	199.0	228.0	239.1	168.0	173.3	228.0	239.1
Council	106.9	111.7	130.5	137.1	103.9	109.7	130.5	137.1
Court of Justice	23.2	25.8	29.1	31.3	23.1	25.4	29.1	31.3
Court of Auditors	12.8	14.1	17.2	18.1	12.5	13.6	17.2	18.1
Total Other Institutions	314.2	350.6	404.8	425.6	307.5	322.0	404.8	425.6
TOTAL BUDGET	19087.5	22339.5	26533.1	27377.3	17792.8	20422.7	25061.1	25361.5

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COMMITMENTS AND PAYMENTS BY INSTITUTION AND TYPE OF EXPENDITURE

TABLE 1A

£ million

	COMMITMENTS				PAYMENTS			
COMMISSION	**1981**	**1982**	**1983**	**1984**	**1981**	**1982**	**1983**	**1984**
Administration	355.8	399.6	444.0	464.5	351.1	385.6	444.0	464.5
EAGGF - Guarantee	6067.7	6930.5	9276.0	9537.6	6056.7	6929.3	9276.0	9537.6
EAGGF - Guidance	384.1	411.0	458.0	418.2	313.1	357.5	350.3	344.3
Fisheries	22.1	38.5	62.9	92.0	27.6	30.7	49.5	65.0
Regional Fund	904.5	1033.4	1179.2	1237.0	441.4	545.1	738.6	816.5
EMS interest rate subsidies	129.3	152.6	150.8	-	125.6	127.3	150.8	-
United Kingdom refunds	693.0	1019.4	807.2	572.8	693.0	1019.4	807.2	572.8
German refunds	-	-	159.9	122.0	-	-	159.9	122.0
Social fund	550.5	846.0	995.3	1067.1	412.1	507.3	792.0	705.2
Energy	35.4	47.0	65.5	121.2	34.9	24.6	58.4	90.6
Research and investment	197.2	248.2	261.7	427.8	163.4	205.9	251.1	275.0
Industry and transport	4.8	10.8	33.7	84.3	4.6	9.1	35.8	55.3
Own resources refund	449.8	508.4	567.3	611.2	445.9	509.4	567.3	611.2
Transitional refunds to Greece	61.7	54.9	38.2	26.7	61.0	51.1	38.2	26.7
Development aid	499.2	503.9	659.5	591.2	474.4	440.4	582.1	518.6
Miscellaneous	22.3	114.1	152.1	202.7	60.9	96.8	147.4	205.7
Reserves	-	-	2.9	2.9	-	-	2.9	2.9
Total Commission	10377.4	12318.3	15314.2	15579.2	9665.7	11239.5	14451.5	14413.9
OTHER INSTITUTIONS								
Parliament	94.7	111.5	133.8	138.2	92.8	97.1	133.8	138.2
Council	59.1	62.6	76.6	79.2	57.4	61.5	76.6	[illegible]
Court of Justice	12.8	14.5	17.1	18.1	12.8	14.2	17.1	18.[illegible]
Court of Auditors	7.1	7.9	10.1	10.5	6.9	7.6	10.1	10.5
Total Other Institutions	173.7	196.5	237.6	246.0	169.9	180.4	237.6	246.0
TOTAL BUDGET	10551.1	12514.8	15551.8	15825.2	9835.6	11419.9	14689.1	14659.9

UNITED KINGDOM CONTRIBUTIONS TO AND RECEIPTS FROM THE COMMUNITY BUDGET

TABLE II

	million ECUs				£ million			
	1981	1982	1983	1984	1981	1982	1983	1984
GROSS CONTRIBUTION								
Agricultural and sugar levies	395.5	548.3	394.9	491.6	218.2	307.3	231.7	284.2
Customs duties	1550.9	1784.5	1832.5	1920.0	860.5	1001.0	1075.1	1109.8
VAT own resources	1930.8	2782.7	2844.6	2918.5	1095.2	1554.4	1668.9	1687.0
TOTAL	3877.2	5115.5	5072.0	5330.1	2173.9	2862.7	2975.7	3081.0
RECEIPTS								
Own resources refund	190.2	236.3	221.2	241.0	113.5	133.7	129.8	139.3
EMS interest rate subsidies compensation	39.3	48.2	36.6	-	21.2	32.5	21.5	-
United Kingdom refunds	1248.4	1819.2	1399.6	991.0	693.0	1019.4	807.2	572.8
Other receipts	1912.7	2057.9	2268.2	2855.0	1057.0	1152.8	1330.7	1650.3
TOTAL RECEIPTS	3390.6	4161.6	3925.6	4087.0	1884.7	2338.2	2289.2	2362.4
NET CONTRIBUTION	486.6	953.9	1146.4	1243.1	289.2	524.3	686.5	718.6

GROSS CONTRIBUTION BY MEMBER STATE

TABLE III

Million ECUS

	Agricultural and Sugar levies				Customs duties				VAT/FINANCIAL contribution				Total			
	1981	1982	1983	1984	1981	1982	1983	1984	1981	1982	1983	1984	1981	1982	1983	1984
Belgium	206.2	283.0	349.1	385.2	408.4	403.7	435.0	451.0	375.9	461.6	432.9	502.5	990.5	1148.3	1217.0	1338.7
Denmark	29.4	32.8	45.6	51.6	135.2	142.6	160.0	166.0	189.8	226.8	274.3	290.2	354.4	402.2	479.9	507.8
Germany	306.8	392.1	485.8	558.4	1943.8	1966.5	2080.0	2180.0	2806.5	3339.9	4039.0	4187.8	5057.1	5698.5	6604.8	6926.2
Greece	18.4	76.6	60.0	116.3	84.6	108.7	120.0	130.0	151.5	196.3	214.9	230.8	254.5	381.6	394.9	477.1
France	257.6	281.9	371.9	464.5	977.3	1071.2	1105.0	1257.0	2256.2	2872.8	3088.0	3317.3	3491.1	4225.9	4564.9	5038.8
Ireland	8.9	13.0	18.9	20.2	81.9	87.8	100.0	105.0	68.1	107.7	147.1	125.6	158.9	208.5	266.0	250.8
Italy	310.1	368.6	451.2	529.2	633.0	660.8	690.0	800.0	1582.9	1457.8	1924.1	2231.5	2526.0	2487.2	3065.3	3560.7
Luxembourg	0.1	0.1	0.1	0.2	4.5	4.3	4.6	4.5	22.6	25.2	39.2	35.9	27.2	30.1	43.9	40.6
Netherlands	214.5	231.4	257.2	332.7	572.8	585.2	630.0	610.0	499.8	649.8	714.7	725.9	1287.1	1466.4	1601.9	1668.6
United Kingdom	395.5	548.3	394.9	491.6	1550.9	1784.5	1832.5	1920.0	1930.8	2782.7	2844.6	2918.5	3877.2	5115.5	5072.0	5330.1
Total	1747.5	2227.8	2434.7	2949.9	6392.4	6815.3	7157.1	7623.5	9884.1	12121.1	13718.8	14566.0	18024.0	21164.2	23330.6	25139.4

GROSS CONTRIBUTION BY MEMBER STATE

TABLE IIIA

£ Million

	Agricultural & Sugar levies				Customs duties				VAT/FINANCIAL contributions				Total			
	1981	1982	1983	1984	1981	1982	1983	1984	1981	1982	1983	1984	1981	1982	1983	1984
Belgium	113.9	158.5	204.8	222.7	225.7	226.1	255.2	260.7	207.7	258.6	254.0	290.5	547.3	643.3	714.0	773.9
Denmark	16.2	18.4	26.8	29.8	74.7	79.9	93.9	96.0	104.9	127.1	160.9	167.7	195.8	225.3	281.6	293.5
Germany	169.5	219.7	285.0	322.8	1074.2	1101.6	1220.3	1260.1	1550.9	1871.0	2369.6	2420.7	2794.6	3182.2	3874.9	4003.6
Greece	10.2	42.9	35.0	67.2	46.7	60.9	70.4	75.1	83.7	110.0	126.1	133.4	140.6	213.8	231.5	275.7
France	142.4	157.9	218.2	268.5	540.1	600.1	648.3	726.6	1246.8	1609.3	1811.7	1917.3	1929.3	2367.3	2678.2	2912.6
Ireland	4.9	7.3	11.1	11.7	45.3	49.2	58.7	60.7	37.6	60.3	86.3	72.6	87.8	116.8	156.1	145.0
Italy	171.4	206.5	264.7	305.9	349.8	370.2	404.8	467.4	874.7	816.6	1128.8	1289.9	1395.9	1393.3	1798.3	2058.2
Luxembourg	0.1	0.1	0.1	0.1	2.5	2.4	2.7	2.6	12.5	14.4	23.0	20.8	15.1	16.9	25.8	23.5
Netherlands	118.5	129.6	150.9	192.3	316.5	327.8	396.5	352.6	276.2	364.0	419.3	419.6	711.2	821.5	939.8	964.5
United Kingdom	218.2	307.3	231.7	284.2	860.5	1001.0	1075.1	1109.8	1095.2	1554.4	2668.9	1687.0	2173.9	2862.7	2975.7	3081.0
Total	965.3	1248.2	1428.3	1705.2	3536.0	3819.2	4199.0	4406.6	5490.2	6785.1	8048.6	8419.7	9991.5	11853.1	13675.9	14531.5

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EUROPEAN COMMUNITY BUDGET

The detailed rules which define the structure and implementation of the Community Budget are to be found in part 5, Title II of the Treaty establishing the European Economic Community and in the Financial Regulation of 21 December 1977 as amended. There are several important differences between the Community's budgetary process and the UK's. In particular the Community's financial year runs from January to December.

Commitment and payment appropriations

2. The UK presents its Public Expenditure Plans in a multi-annual form: the Community presents its expenditure plans in its annual Budget proposals, together with the necessary revenue for the year. The Budget distinguishes between appropriations for commitments and appropriations for payments. Commitment appropriations are the total cost of legal obligations which can be entered into in the current financial year for activities which will lead to payments in the current and future financial years. Payment appropriations are the amount of money which is available to be spent in that year arising from commitments made in the current or preceding years.

Carry forwards and transfers

3. At the end of the year there may be appropriations which, for timing or other reasons, have not been used but are still needed. Such appropriations may be 'carried forward' to the following year. They remain, however, part of the budget in which they were originally entered. During the course of the year appropriations not needed in one part of the Budget may be transferred to another part where they are needed. Both of these operations are strictly controlled.

Outturn

4. The outturn of Community expenditure can be expressed in a number of ways. In this White Paper outturn means expenditure arising from commitments made in either the current year or from commitments made in previous years. This is similar to the cash flow presentation used in Government Public Expenditure plans (Cmnd 9143). The sterling figures for 1981 to 1983 are actual cash receipts or payments where this is known, where the sterling outturn is not known the appropriate average annual sterling/ecu exchange rate has been used(1) to convert ecu figures to sterling. The 1984

(1) The annual average rate for 1981 is £1 = 1.8096
The annual average rate for 1982 is £1 = 1.7851
The annual average rate for 1983 is £1 = 1.7045

sterling figures have been constructed using the average sterling rate for October 1983 (£1 = 1.73 ecu). This is consistent with the exchange rate used in Cmnd 9143.

5. In the statement on the 1983 Community Budget (Cmnd 9030) UK refunds were shown on a basis which scored them against the budget from which they were financed. The table below shows the adjustments necessary to translate the budget based figures in Cmnd 9030 into the cash flow figures in this statement (Cmnd 9174).

Reconciliation between UK refunds in Cmnd 9030 and Cmnd 9174

	1981	1982	million ecus
Cmnd 9030	1394.1	1654.2	
less carry-forwards to next year	165.0	-	
plus carry-forwards from previous year	19.3	165.0	
Cash flow figure in Cmnd 9174	1248.4	1819.2	

<u>Own Resources</u>

6. The Community Budget is almost entirely financed by 'Own Resources'. These comprise agricultural and sugar levies, customs duties and VAT 'Own Resources'. Broadly, agricultural levies and customs duties are taxes on trade between the Community and the rest of the world. Sugar levies are taxes on the production and storage of sugar. VAT 'Own Resources' are the product of a notional rate of VAT not exceeding 1 per cent levied on a Community harmonised expenditure base.

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RECORD OF A MEETING BETWEEN THE SECRETARY OF STATE FOR FOREIGN AND COMMONWEALTH AFFAIRS, THE RT HON SIR GEOFFREY HOWE QC MP AND THE FRENCH MINISTER FOR EUROPEAN AFFAIRS, M ROLAND DUMAS HELD AT 1 CARLTON GARDENS, LONDON, AT 8.00 AM ON FRIDAY 24 FEBRUARY 1984.

A.S.C. 1/3
p.a.

Those Present:-

The Rt Hon Sir Geoffrey Howe QC MP	M Roland Dumas
Mr D H A Hannay CMG	M Guy Legras,
Mr J S Wall MVO	Chef de Service,
	Quai d'Orsay

Budget Discipline

Sir Geoffrey Howe said that encouraging progress had been made at la Celle Saint Cloud on this subject. The Commission's new proposals had some good points but needed strengthening. M Dumas wondered whether the Commission might firm up their paper in some respects. Mr Hannay said that the Commission's proposals were reasonably satisfactory on obligatory expenditure, although some detailed work would need to be done on them; on non-obligatory expenditure, it was difficult to see them volunteering anything more satisfactory, because they were terrified of the Parliament. M Dumas agreed and thought that the French Presidency would produce a new document which could either be given to the Commission or circulated as a separate text. The first requirement was to find a system which would contain overall Community expenditure within agreed limits and which could be effectively applied. The second requirement was how to control the CAP.

Sir Geoffrey Howe said that we needed a system incorporated in Community rules so that it would be binding on all three

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institutions. Those like the European Parliament who were demanding more own resources must accept the discipline which went with it. We should not rule out Treaty amendment.

Mr Hannay said that we were concerned that the present Commission text was not clear enough on the control of agricultural expenditure, ie the extent to which the Commission would be bound by any proposals it made and in its administration of the CAP. There were also technical issues to be resolved, eg clawback, the workings of the three year moving average etc. Those detailed issues could probably not be decided by the time of the March European Council. But the European Council should decide on a framework which would ensure that the agreed mechanisms were implemented in a binding way. As regards control of agricultural expenditure, we wanted language to ensure that it rose at a markedly lower rate than the growth of the Community's own resources base.

M Dumas said that this latter point caused problems. He agreed that we needed a special agreement on the CAP, implemented through a directive or something similar which might emanate from the Commission document or from a separate Presidency paper. The French would be inclined to say that the rate of growth of agricultural spending should not exceed that of the own resources base. Sir Geoffrey Howe said that this was not tight enough. We must have an effective constraint keeping the growth of agricultural expenditure below that of own resources, if there was to be room for growth of new policies. M Dumas said that he thought the French could accept that the rate of CAP spending should be lower (not markedly lower) than the rate of growth of the own resources base.

M Legras said that the Community was taking steps to deal with surplus milk and cereal production. But that still left the problem of other products. Mr Hannay said there clearly needed to be a text committing the Community to applying guarantee thresholds for all sectors which were or were likely to be in

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surplus, or where such measures proved necessary because of a significant increase in expenditure or where production was increasing more rapidly than consumption. The Germans had put forward a good formula on these lines at Athens. M Dumas said that he liked this formula and would look positively at the German text for a possible base for Presidency language for Brussels.

Turning to non-obligatory expenditure, Sir Geoffrey Howe said the Commission proposals needed tightening up. Mr Hannay said that we did not wish to exclude the possibility of Treaty change. But we were not insisting on Treaty change at this stage. What was needed was language indicating that whatever arrangements were agreed for budget discipline would be incorporated as an integral part of the Community's budget procedures. M Dumas agreed. M Cheysson had wanted to avoid any reference to Treaty change. He himself thought that there should not be a precise reference to Treaty change. If the Parliament was not willing to accept the necessary discipline then it would be up to the Community to take action. Any new arrangements which were agreed by the Council should be put to the Parliament. Mr Hannay said that it would be important to stipulate that the agreed measures should be part of the agreed budgetary procedures. Otherwise we would simply be writing in a very weak political undertaking. M Dumas agreed.

Sir Geoffrey Howe picked up the point made by M Dumas about the European Parliament. It was the Parliament which was most enthusiastic for an increase in own resources. National Governments were all constrained by financial reality. The Parliament was not. The old revolutionary cry of 'no taxation without representation' had been turned by the Parliament into 'no representation without subsidisation'. This was why we were insisting on incorporation of budget discipline in the budgetary procedures. M Dumas said that he envisaged language saying the the Community would take all the necessary measures to ensure observance of the guideline. This would keep open the possibility of revising the Treaty.

/Mr Hannay

Mr Hannay said that there was a problem of timing. It was essential that incorporation in the budget procedures should take place at the same time as approval of any legal texts required to amend the own resources decision. The British Parliament would not accept any amendment to the own resources decision unless they could see clearly at the same time how budget discipline would work. Sir Geoffrey Howe endorsed this view. M Legras accepted the position, reiterating that a reference to all necessary measures being taken ("toutes mesures necessaires") was called for.

M Legras said the Community would face a real problem in that there would be a significant jump in agricultural spending in the first year of enlargement. We must find some means of reconciling that with the guideline. Mr Hannay said that this pointed to the need for detailed work to be done after March on how a three year moving average would work. The same problem arose over the own resources base, particularly if there were an increase in own resources. Some way must be found of accomodating a possible jump in expenditure from enlargement without increasing overall expenditure levels. Sir Geoffrey Howe said that these issues were not suitable for detailed solutions at the Summit.

M Legras said we also needed, at some stage, to sort out the problem of the confustion over obligatory and non-obligatory expenditure. Mr Hannay said this could be easily resolved if we went down the route of Treaty amendment. The original Delors proposal had included the abolition of the distinction between obligatory and non obligatory expenditure; but once it had been realised that this would mean Treaty amendment the proposal had been rapidly withdrawn. If the Community were to decide a Treaty amendment, was necessary, that problem could be easily addressed.

Budget Imbalances

Sir Geoffrey Howe said that, while the French must be tired of hearing about net budgetary contributions, it was not only the UK

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which spoke in those terms. The Commission had been producing figures on that basis since 1978 and this method of calculation had been used as a bench mark by all in the Community. The British had become accustomed to our burden being measured in terms of our net contribution. The result of any agreement would be measured in that way. The same applied to the Germans and would also apply to the Portuguese who would were likely to find themselves net contributors. M Cheysson had said at the weekend that if we British chose to present the issue in that way, that was our funeral. But it was not quite as simple as that. No-one in the Community should deceive themselves that the issue could be presented differently when it came to ratification. As to the VAT/expenditure share measurement we did not believe that was satisfactory. If it were to deliver sustainable results, defensible before Parliament, the parameters of the scheme shown to us by the French would need to be very substantially changed.

M Dumas said that he understood the problem but our approach was anathema to all our partners, none of whom accepted the idea of net contributions which was not in conformity with the Treaty. Nonetheless, he understood the UK's domestic problem and the way in which we would wish to present the results of the negotiation. He thought, however, that only Mrs Thatcher and President Mitterrand could discuss figures.

Sir Geoffrey Howe said that there should be no misconception as to what we were talking about. The Prime Minister had said at Athens that we should consider a net contribution for the UK, in the first year of a new system applying to the enlarged Community, of 400-500 mecus. The fact that in 1983 we had accepted a refund of 750 mecus, leaving us with an adjusted net contribution in that year of about 1150 Mecus, did not mean that that kind of figure was acceptable for the future. We had accepted to bear a higher than justified net contribution in 1983 because of the unintended over payment of refunds in 1980 and 1981. M Legras commented that President Miterrand had sent a letter after the Stuttgart Summit

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making clear that he did not accept that the "trop perçu" had been dealt with by the Stuttgart agreement. Sir Geoffrey Howe commented that it was nonetheless necessary to understand what the realities were.

Mr Hannay said that when the Prime Minister had spoken of a scheme leaving a net contribution for the UK of 400 to 500 mecus that had been an adjusted net contribution figure. If the French were proposing a scheme which scored our levies and duties as VAT in the measurement of the gap then some 350 mecus on the average of the last few years would have to be added to any residual figure which emerged from such a scheme. If we were to agree a system that would bring about the results suggested by the Prime Minister, then the perameters of a scheme built on the VAT/expenditure share would need to be very generously drawn indeed because of the need to take account of this point.

M Dumas asked whether the UK was resolutely opposed to a scheme based on the VAT/expenditure share gap. Sir Geoffrey Howe said that it was difficult - perhaps not impossible - to see how such a scheme might deliver the right result but the discounts currently built into the French scheme would have to go. M Dumas said that the scheme should be measured by the results it gave which could be adjusted to fit anything that emerged on figures when President Mitterrand and the Prime Minister met.

Commenting on the detail of the scheme Mr Hannay said that the French proposal to omit 50% of administrative expenditure was designed to reduce the apparent amount of our net contribution. We saw no justification for such a change. Both M Dumas and M Legras acknowledged that this was not an important alement of the scheme from their point of view. Mr Hannay said that if the system was to work it must give sustainable results. Both the levies and duties element and the VAT element in our net contribution tended to fluctuate. M Legras commented that our GDP share fluctuated even more. Mr Hannay saidthat another issue was whether to use the payments, the assiette or the budget basis for

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the measurement of VAT. The payments basis had many advantages, noteably because it avoided a large number of subsequent adjustments. But the main point, as experience has shown, was to adopt one particular system and then stick to it.

Sir Geoffrey Howe said that, even more important, was the French system of steps in the correction rate under their proposed system. This meant that if relative prosperity improved by 1% compensation could decrease by 35%. We thought it better to base the correction rate on a linear curve. M Legras said that this would not cause problems provided that the system operated only for the UK. Britain should help press the FRG not to be covered by the scheme. Mr Hannay said that we were reluctant to accept that there should be any contribution above the threshold at all. The threshold was designed to establish what constituted a fair burden. But if there was to be a so called ticket moderateur then it should be set on the basis of a linear curve relating to relative prosperity. M Dumas said that this depended upon the position of the Germans. Mr Hannay said that it was possible to move the starting point of the line and/or make the angle of the line steeper to give a higher figure for the German threshold. As far as financing of the scheme was concerned, if the Germans participated fully then it must be clear that our relief would be net of any contribution to our own reliefs. But if the Germans too were to get relief, our relief would need to be net of any contribution to German relief as well. M Dumas asked why Britain should not contribute to German reliefs. Mr Hannay said because then the reliefs would not be proper reliefs. M Legras said that the scheme should be net for the UK alone; but the UK would have to contribute to any reliefs for the FRG. This was why it was so important to keep the Germans out of the scheme. Mr Hannay said that it would be impossible for us to argue against a German claim that they bore an inequitable budget burden. The Prime Minister had always said that she understood their need to have an upper limit on their contribution, albeit at a higher level than our own because of their greater prosperity. The Prime Minister would be unlikely to take the view that there was now no justification for

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an upper limit for the FRG. M Dumas said that this was why he would act as our advocate in the matter.

Mr Hannay said that it was essential that any new mechanism for budget imbalances should apply in respect of 1984 and each year thereafter. Mr Dumas said that this was well understood. ("Cela va de soi")

Turning to duration, Sir Geoffrey Howe said that the suggestion that the scheme should last as long as the new own resources decision appeared to meet our needs, in other words the scheme would remain in place unless and until there was a further own resources decision, ie it would survive unless displaced by a further unanimous decision on new own resources which would require ratification by national Parliaments. M Dumas agreed that the application of the system would be linked to new own resources and would come up for review with any change in own resources.The higher the level of new own resources that UK could accept the longer the new system would last. If the UK could accept an increase to 2% that would mean longer duration. Sir Geoffrey Howe said that the size of any increase in own resources must be determined on its own merits. M Dumas interjected that there were different ways of appreciating merits. Sir Geoffrey Howe said that we must approach the question in the light of budget discipline. M Dumas said that any increas would be a ceiling; we did not have to gobble up everthing at once. Sir Geoffrey Howe said that the appetite tended to grow with feeding. We would have a problem with national Parliaments who would see the increase as a transfer of own resources. Mr Hannay added that any increase to a figure above 1.4% would surely be unsaleable in the British or German Parliaments. He acepted that we would not be using up all the money straight away but Parliaments would see the proposal as a transfer of fiscal capacity away from national Governments. M Dumas said that anything above 1.4% might cause problems in France too. Sir Geoffrey Howe added that the Commission's original proposal that, after the initial increase in own resources there

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could be further increases without the approval of national parliaments was equally unacceptable. Mr Hannay said that it was important not to speculate about how long any new own resources decision might last. M Dumas readily agreed. We should avoid any suggestion of a time limit by simply linking duration of a corrective system to the duration of the amended own resources decision.

New Policies

Sir Geoffrey Howe said that it was very important psychologically to have something in the Brussels declaration on New Policies. He would give M Dumas a paper which set out our priorities . We also hoped that there would be an early meeting of the Internal Market Council (M Dumas said that one would take place on 8 March) and also a meeting of the Transport Council. This could be politically useful particularly given current difficulties. M Dumas did not dissent. He said that he would ask President Mitterrand to discuss new policies with Mrs Thatcher. They would in any case otherwise only have budget figures to argue over.

CAP

M Dumas said that milk was a difficult problem. There was general agreement on the figure of 97.2 million tonnes. The problem was how to get there. Mrs Thatcher had said to him it was necessary to do it in one year but had not dissented when he had had commented that it was politically impossible for France to do so. He recognised that the absence of "no" did not mean yes. But France did need a 3 year phasing, ie, from 107 to 102 million tonnes in year one; from 102 to 99 million tonnes in year two and from 99 million to 97.2 million tonnes in year three.

Sir Geoffrey Howe said he understood why the French wished to approach the problem in that way but he was not sure it was politically wise. The British Government had taken a similar approach to increasing gas prices and had suffered much political criticism in the second and third years; there was a strong

/argument

argument in favour of taking these unpalatable measures all at once. A 3 year approach would provoke an outcry each year adding to the political pressures to abandon the system before it was properly in place. The question was, how to finance the extra expenditure that would be involved under the French proposal. Cost implications were fairly terrifying. Mr Hannay said that M Villain had produced figures showing that every additional one million tonnes of dairy produce cost the Community 235 million ecus. We were thus talking about an additional cost of 2 billion ecus over the 3 year period. M Dumas acknowledged the problem of finance but said that politically speaking France favoured phasing.

Sir Geoffrey Howe said that we favoured 1983 as the right base year as being the closest to existing patterns of production. There could even be legal problems over a 1981 base year since some farmers could argue that they had been encouraged by the Community to increase production since 1981, whereas no one could argue that from 1983 onwards a super-levy had not been in prospect. We were however prepared to accept that people could arrive at the target figure by different routes, ie 1983- in our case and 1981+ in the case of some others.

M Dumas asked whether we would accept two-year phasing for France rather than 3-year. Sir Geoffrey Howe said that we would have to go on opposing such a proposal because we did not see how money for such a proposal could be found. He added that, while there might be a need for some flexibility the more flexible the scheme was, the more opportunity for fiddles. The intensive levy laid itself open to abuse of this kind. Nor could we allow exemptions of the kind Italy was seeking. Italy was seeking an exemption because it was not self sufficient in milk but Britain was not self sufficient in milk either (M Dumas registered surprise.) Nor did we think an exemption should be allowed for the Irish. M Dumas said that he thought that exemption for Ireland had already been agreed at Athens. Sir Geoffrey Howe said that

/this

this was not so and explained that, if an exemption were granted to Ireland, we would have to seek one for Northern Ireland, which would in turn lead others to seek exemptions. The Prime Minister had suggested at Athens that, if something needed to be done for Ireland, it should take the form of some special compensation outside the milk sector M Dumas said that this did not seem to be a bad idea.

M Dumas said that we must take account of the problems of small farmers. Sir Geoffrey Howe said that we faced a similar problem but were opposed to special treatment for small farmers. Countries like France and Britain could no doubt effectively introduce and administer a scheme for them but in countries which did not have
the equivalent of the Milk Marketing Board, the opportunities for fraud were enormous.

Concluding this part of the discussion, Sir Geoffrey Howe referred to the need for progressive cereal price reductions to bring Community prices nearer to the world prices. Mr Hannay said that we understood the French Government was not opposed to decreasing the gap between the EC cereal prices and world prices in a series of steps.

Enlargement

M Dumas asked whether Sir Geoffrey Howe agreed that we should have something in the Brussels statement on enlargement. The requirements of the enlargement negotiations pointed to the need for decisions at Brussels. If there was no agreement on own resources there could be no enlargement. How did we see the text?

Sir Geoffrey Howe said that we did not think a long text was needed. The Community should be firm on the date for completion of the substantive negotiations (end-September) and the date for

/accession

accession (January 1986). The idea of enlargement was not universally applauded within the Community. France had problems and many in Britain were questioning the costs of enlargement. This was why the concept of an overall package as laid down at Stuttgart was so important. M Dumas suggested that there should be a sentence in the passage on enlargement about the need to avoid surplus production, though this passage should not name names, but should refer to managing the problem. Mr Hannay said that such a passage should refer to the need to avoid surpluses in the enlarged Community; it should not be directed solely against Spain. M Dumas agreed. The problem was even greater with the existing Mediterranean Member States. Sir Geoffrey Howe referred to our suggested language on guarantee thresholds as a suitable model.

Future Meetings

Sir Geoffrey Howe and M Dumas agreed that it would be useful if they were to meet again after the Prime Minister's meeting with President Mitterrand in London on 5 March.

The meeting ended at 10.15 hours.

Distribution

PS
PS/Mr Rifkind
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Sir J Bullard
Sir C Tickell
Mr Hannay
Mr Houston
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PS/Sir Robert Armstrong, Cabinet Office
Mr Williamson, Cabinet Office

Mr Unwin, H M Treasury
Mr Andrews, MAFF
Ms Lackey, DTI
Sir M Butler, UKRep, Brussels
Sir Jock Taylor, Bonn
Sir John Fretwell, Paris

Ref. A084/605

PRIME MINISTER

Cabinet: Community Affairs

The Foreign and Commonwealth Secretary will report on the informal meeting of Foreign Ministers on 18-19 February which discussed the major elements of the post-Stuttgart package. It was a more useful meeting than press reports have suggested. There was progress on budgetary discipline, with more support for a strict financial guideline on agricultural spending (which we require to be incorporated in the Community's budgetary procedures) and more questioning of the European Parliament's budgetary powers. On the correction of the budget inequity most member states supported our view that the revised system should be included in a revised Own Resources Decision. This would be lasting: the system would continue unless there was unanimous agreement to a change. Other member states were once again unwilling to agree that relief should relate to the full net contribution. There was, however, some movement of those who had taken up the most unrealistic positions towards the German proposal for a system of relief based on a member state's VAT share/payments share gap. This was modest progress. There was, however, no substantive discussion of actual figures, which seems long overdue. There will be a further informal meeting of Foreign Ministers on 13 March after the next Foreign Affairs Council.

2. The Foreign and Commonwealth Secretary will also report on the Foreign Affairs Council on 20-21 February. The Council agreed the statement of the Community's position on agriculture for presentation to Spain in the enlargement negotiations. This had been holding up the enlargement negotiations for some time. We resisted numerous last-minute French amendments and the text is now broadly satisfactory to the United Kingdom. The Council also agreed the terms of Greenland's departure from the Community. The principal point was the terms on which the Community would continue to fish in Greenland waters. As this is

now agreed, it will not disturb the common fisheries policy. In return for fishing opportunities the Community will make a payment of 26.5 million ecu a year. We achieved our objective of ensuring that Greenland will not receive aid from the European Development Fund. On the United Kingdom's 1983 budget refunds it was agreed that the President of the Council should write to the European Parliament requesting an urgent Opinion from the European Parliament in time for a conciliation meeting and a decision at the next Council on 12-13 March. The Foreign and Commonwealth Secretary stressed the importance of the United Kingdom receiving the bulk of its refund by the end of March in accordance with past Community practice, so that this issue did not overshadow the post-Stuttgart negotiations.

3. Over the next seven days the Foreign and Commonwealth Secretary will be seeing the French Minister for European Affairs on 24 February (this visit has not been made public) and you will be meeting Chancellor Kohl on 28 February.

RA

ROBERT ARMSTRONG

22 February 1984

10 DOWNING STREET

AJS

EC Issues
Wed 7 March.

Do you wish
this meeting to
be confirmed
now?

CR

M. Jospin will
now be in
London on
that day.

Caroline

Yes pl.

AJS 22/2.

dave

TO BE CHECKED AGAINST DELIVERY

STATEMENT ON THE FOREIGN AFFAIRS COUNCIL:
20 - 21 FEBRUARY 1984

With permission, Mr Speaker, I will make a statement on the outcome of the Foreign Affairs Council held in Brussels on 20 and 21 February, at which I represented the United Kingdom and my Rt Hon Friend the Minister for Trade was also present. A Co-operation Council with Israel on 20 February and a Ministerial conference with Spain on 21 February were also held in the margins of the Council.

The Council gave unanimous support to my proposal for a request for the Parliament's opinion on the 1983 refund regulations to be given in time for them to be considered at the next meeting of the Foreign Affairs Council on 12/13 March.

There was a follow-up discussion to the talks which had taken place over the weekend on preparation for the European Council next month. It was agreed that the Commission should now produce a document covering all those aspects of the negotiations not already being handled in other specialist Councils. The paper will therefore cover the central budgetary issues - budget imbalances and budget discipline - for discussion at the March European Council. Separate discussions between individual member states will of course continue in the meantime.

The Council agreed a substantive declaration on the agricultural transitional arrangements with Spain, which was presented to the Spaniards at the Ministerial conference.

The Council reached agreement on the arrangements which will govern Greenland's relationship with the Community from 1 January 1985. There will be a Treaty amendment linked to agreements on fisheries which balance the development of Greenland's own fisheries with the needs of the Community. The change in status is subject to ratification by Member States in accordance with their constitutional procedures.

The Council had a first discussion, without taking any decisions, of the Commission's proposal to stabilise imports of certain cereal substitutes.

The Council agreed a declaration emphasising the Community's concern at the build-up of protectionist pressures in the US. The Council also discussed the proposal for a new Common Commercial Policy Regulation. Work is to continue on the technical aspects of this.

The Council reviewed progress in negotiations to renew Voluntary Restraint Agreements for steel imports from EFTA suppliers and Spain.

MR COLES

21 February 1984

cc Mr Redwood

EC BUDGET: CONTINGENCY PLANS

Used as a threat these plans could strengthen our negotiating position; as a device for clawing back our money there are dangers. The contingency measure under discussion is somewhat akin to a nuclear weapon - more use when it is not used, and likely to have irreversible and unforeseeable effects if it is used. It would set UK domestic law against the Treaty, which at article 207 obliges Member States to place financial contributions "at the disposal of the Community", and at article 208, enables the Commission to transfer its holdings "into the currency of another Member State". As paragraph 26 of the paper indicates, a Withholding Bill would be regarded by our partners as a fundamental change to the Community's rules, despite our assurances to the contrary.

In domestic political terms, such a measure would be very popular. An amendment to this effect was moved by the Opposition yesterday. However, if it went wrong (eg was successfully challenged, or lost us more money than we gained, or led to damaging retaliation), it would be interpreted as a sign that the Government had blundered precipitately, trying to win an argument in a high-handed fashion. It may be important, therefore, to design the withholding plan with an eye to correcting past wrongs, rather than one which is a unilateral step to secure clawbacks which we may not be able to negotiate. It is unfortunate that there is asymetry between our Treaty obligation to pay money to the EEC, and the negotiated agreement to make refunds to us.

Following the logic of this argument, the withholding plan ought:

(i) only to restrict payments out of the Commission's No 1 Account. We would need to find ways of blocking attempts by the Commission to withdraw funds from this account, pending legislation;

(ii) in the first instance we should accumulate only those funds which the Council considers obligatory (Option (iii) - some £425 million);

(iii) legislation ought to precede any blocking action. If the Government was successfully challenged in domestic law, its moral authority would be weakened;

(iv) the Foreign Secretary might be the most appropriate person to pilot the legislation, given the pressure of the Finance Bill on Treasury Ministers, and Foreign Secretary's expertise on the subject; he can also make the best assessment of the risks of retaliation;

(v) we should not sue the Commission, the Council or the Parliament in the European Court of Justice since this would make it difficult for us to maintain, or threaten to introduce the withholding arrangements if, as is almost certain, we failed in our action.

Such a withholding plan could be a useful reserve against further EC delay in making our payments. Escalation of the dispute is best phased with measured warnings rather than launching all our missiles at one go.

Nicholas Owen

NICHOLAS OWEN

PRIME MINISTER

EC Expenditure Programmes and UK Public Expenditure Control

I have tried to set down as briefly as possible the main points for the discussion this afternoon.

(i) Departments are agreed on establishment of a Forward Look, backed by a PESC(EC) Committee.

(ii) For existing programmes it is agreed that:

(a) Agriculture stays as it is, i.e., Community expenditure replaces UK expenditure.

(b) Structural funds (for example, regional and social funds) to operate as now on principle of non-additionality, i.e., money received from Brussels by the public sector is not allowed to add to spending in the UK, but is paid into the Consolidated Fund.

(iii) For aid, existing treatment applies principle of attribution, i.e., 20% of Community expenditure on aid is attributed to the aid programme. ODA see the current discussion as an opportunity to secure a change as this review squeezes the bilateral portion of the aid programme. The Treasury wish to maintain the existing treatment, and I suggest you support them.

(iv) For new programmes, in particular R and D, where payments will be flowing to the private sector, the Treasury wanted to attribute 22% of the cost of the European programme to the Departments programme. This would have meant that establishment of the Esprit programme would have required savings to be found, probably from the Alvey programme.

Departments wanted a system of control on programme 2.7 (net contribution to the EC) excluding agriculture. The UK share of new programmes would be offset within programme 2.7 or, failing that, would become a claim on the Contingency Reserve. The Treasury rejected this because it left them rather than Departmental Ministers with the task of finding the offsetting savings.

(v) Treasury and Department of Trade and Industry have agreed on a variant of Option 3. Within programme 2.7 there will be a separate block for R and D and and industrial support. This is referred to as the Mini Euro Programme. The base line for this is the UK's share of what is provided in the 1984 Community budget. For later years the block will be allowed to increase only as fast as the total of UK public expenditure.

Additional claims on the block will be measured by 22% of any new Community programme less any receipts coming to the public sector which are surrendered to the Consolidated Fund. That amount will then be dealt with in the following sequence:-

(a) Offsetting savings will be sought within the Mini Euro Programme;

(b) If savings are not found, the domestic programme of the Department will be scrutinised;

(c) If no savings are found there, the excess will be treated as a claim on the Contingency Reserve or, in the PESC Round, as requiring savings from the totality of public expenditure.

I recommend that you endorse these arrangements.

(vi) The agreement on Esprit is set out in the attached annex which is taken from the paper circulated by the Chancellor and Mr. Tebbit

AT

21 February, 1984.

ANNEX B

ESPRIT

1. The UK should be prepared to agree to the launching of the ESPRIT programme only if there is also agreement on an annual total payments ceiling for all Community R & D programmes and on the necessary decisions to cut back commitments on other R & D programmes (see 3 below). The Germans have proposed that this payments ceiling should be fixed at 600 mecus. We should support this figure, but in the last resort be prepared to move to 670 mecu (which is the maximum available within Chapter 70-73 of the 1984 Budget, including some provision within Chapter 100).

2. Within the agreed payments ceiling priority would be given, as proposed by Germany, to ESPRIT, the agreed JRC programme and fusion programme. Expenditure on other R & D programmes would have to be contained within what was left.

3. To ensure that the payments ceiling is observed the size of the Community's other multi-annual R & D programmes may have to be cut back or deferred. Specifically the Commission would have to undertake to hold down commitments on other R & D programmes in 1984 and 1985 to a level which ensured that the 600-670 mecu payments ceiling was respected. The level of the R & D payments ceiling for 1986 and onwards could be reviewed before the end of 1985.

4. No decision to go ahead with the ESPRIT programme until the Commission had produced forward profiles for expenditure on ESPRIT and the other R & D programme for at least 1984 and 1985 showing that they could be accommodated within the 600-670 mecu payments ceiling in those years.

020

W.0150 20 February 1984

PRIME MINISTER

E(A): EUROPEAN COMMUNITY EXPENDITURE AND THE CONTROL OF UK PUBLIC EXPENDITURE - RESEARCH AND DEVELOPMENT

The arrangements proposed in the memorandum by the Chancellor of Exchequer and the Secretary of State for Trade and Industry are satisfactory for Research and Development except in one respect.

2. Whilst the third requirement in paragraph 5 properly points out the need to allow for public expenditure by the EC in assessing the UK's domestic public expenditure programme, once this has been settled, it is in the UK's interest to maximise receipts to UK laboratories from each EC R & D programme rather than seeing these flow to our Continental competitors.

3. This will only be achieved if UK laboratories benefit from winning EC R & D contracts. Such incentives must be part of the detailed arrangements to be worked out by officials as per paragraph 25(iv) of E(A)(84) 12.

RBN.

ROBIN NICHOLSON
Chief Scientific Adviser

cc: Sir Robert Armstrong
Mr Williamson
Mr Young

MR TURNBULL

20 February 1984

cc Mr Redwood

EC EXPENDITURE PROGRAMMES AND UK PUBLIC EXPENDITURE CONTROLS

The agreement which has been reached between the Treasury and the DTI looks as good as one could hope for. The original Treasury proposal was too rigid for Departments to accept. The present proposals allow a degree of flexibility but they also force Departments to think about the UK financing share of Community expenditure within their responsibilities at an early stage, to weigh Community programmes against their own, and to negotiate effectively in Brussels. At present Departments have little incentive to do any of these things.

A key feature of the arrangement is that the Euro-PESC programme is based on the 1984 Community budget and allowed to increase only as fast as UK planned public expenditure. This is bound to imply a slower rate of increase than Community expenditures. This means that Departments which wish to make "additional bids" are unlikely to find much slack in the Euro-PESC and will be under pressure, in that event, to make room within their own domestic budgets. We recommend these arrangements.

MT

Nicholas Owen

NICHOLAS OWEN

CONFIDENTIAL

Qz.03600

MR TURNBULL

E(A) AT 5pm ON 21 FEBRUARY: COMMUNITY EXPENDITURE PROGRAMMES AND UNITED KINGDOM PUBLIC EXPENDITURE

--- I attach a revised brief for the Prime Minister, which takes account of the joint memorandum by the Chancellor of the Exchequer and the Secretary of State for Trade and Industry just circulated under cover of John Kerr's letter of 20 February to John Coles and copied to the Private Secretaries of those attending E(A).

Sophia Lambert

pp D F WILLIAMSON

20 February 1984

CONFIDENTIAL

MINISTERIAL STEERING COMMITTEE ON ECONOMIC STRATEGY, SUB-COMMITTEE ON ECONOMIC AFFAIRS, 21 FEBRUARY, 5pm

Community expenditure programmes and control of United Kingdom public expenditure

Revised brief for the Chairman

References: E(A)(84) 12 and

Memorandum of 20 February by the Chancellor of the Exchequer and the Secretary of State for Trade and Industry

Questions at issue

When E(A) had a second reading discussion of this question in December, it instructed officials to pursue the proposals for a "Forward Look" at Community expenditure and to consider ways in which the objective of non-additionality could be achieved for Community expenditure. Following official discussions the paper (E(A)(84) 12) is now submitted by the Chairman of the Steering Committee on European Questions. The paper invites Ministers to take decisions on three issues which will allow a long term and better system for controlling the United Kingdom public expenditure element of Community expenditure. These issues are:-

(i) should we establish a co-ordinated "Forward Look" at Community expenditure? There is a unanimous recommendation in favour of this;

(ii) should we continue the existing control arrangements for the United Kingdom public expenditure element of Community expenditure on the structural funds, the agricultural guarantees and on aid. The paper recommends the continuation of these arrangements but two Departments dissented;

/(iii)

(iii) what should be the new control arrangements for the United Kingdom public expenditure element of other Community expenditure, where existing arrangements are unclear or unsatisfactory? Three options are presented for decision by Ministers.

2. The memorandum of 20 February circulated jointly by the Chancellor of the Exchequer and the Secretary of State for Trade and Industry proposing arrangements agreed between them should make an agreement in the Sub-Committee much easier. It would be advantageous if the Sub-Committee could endorse, as far as possible, these arrangements. The practical effect on the issues above is:-

(i) there is an agreement on the "Forward Look" and no problem is foreseen;

(ii) there is an agreement to continue the existing arrangements on the structural funds and to apply these arrangements also to the non-quota section of the Regional Fund. This means that the only disputed point as regards the existing arrangements is whether to continue those for Community aid;

(iii) the Chancellor of the Exchequer and the Secretary of State for Trade and Industry have agreed on new arrangements which would apply to the United Kingdom share of other Community expenditure in support of industry, research and infrastructure. These are a modified version of option 3 in E(A)(84) 12. There will be a block programme (a mini-Euro PESC programme) within PESC Programme 2.7. The baseline figures will be those in the Community's 1984 budget, which will rise in later years only in line with the general rate of increase in total United Kingdom planned public expenditure. The details are in Annex A of the joint memorandum by the Chancellor of the Exchequer and the Secretary of State for Trade and Industry.

 /3.

3. When Ministers have decided on appropriate arrangements, they can be phased in from the beginning of the next United Kingdom Public Expenditure Survey and the Community's draft budget for 1985, which will be presented in the summer of 1984. In the interim the United Kingdom will need to give its view in Brussels before the end of February on the funding of the Community's programme on research and development in information technology (ESPRIT). E(A)(84) 12 therefore proposes a line to take on this. There is also an agreement between the Chancellor of the Exchequer and the Secretary of State for Trade and Industry on this question. The cost of ESPRIT (United Kingdom share about £18 million a year for 5 years, without taking account of the receipts of United Kingdom industry) would be added to the PESC baseline figures, without of course any double counting because a small element is already included. The United Kingdom would agree to the ESPRIT programme provided that it can be financed within an agreed "financial envelope" for all Community research and development programmes (600-670 million ecu a year in 1984 and 1985), so that the Community genuinely established priorities and, if necessary, cut back in later years the lower priorities.

4. It is recommended that you should deal with the four questions - "Forward Look", existing arrangements, new arrangements and ESPRIT - in that order. It may be possible to conclude at the end of the discussion that there is an overall agreement on the arrangements set out in the joint memorandum of 20 February by the Chancellor of the Exchequer and the Secretary of State for Trade and Industry.

4

(1) "Forward Look" (paras 3-8 of E(A)(84) 12)

5. The paper indicates unanimous agreement on setting up the "Forward Look" at Community expenditure within the responsibility of a new PESC sub-committee ("PESC(EC)"); on the main tasks of the new sub-committee; and on its relationship with existing arrangements for inter-departmental co-ordination of Community matters. It is also proposed in the joint memorandum of 20 February that the new PESC(EC) should have a role in the

/new

new control procedures proposed by the Chancellor of the Exchequer and the Secretary of State for Trade and Industry; this, however, would best be discussed under point 3 (new arrangements for public expenditure control). Accordingly you may wish to conclude that E(A) endorses officials' recommendations on the establishment of the "Forward Look".

(2) Existing arrangements on the United Kingdom share of Community expenditure (paras 9-11 of E(A)(84) 12)

6. There are already arrangements for ensuring public expenditure control of the United Kingdom share of Community expenditure on the structural funds (such as the Social Fund and the Regional Fund), agricultural guarantees and overseas aid. The paper recommends in favour of the Treasury's proposal that all these arrangements should continue. There is no disagreement on agriculture. On other items the Department of Trade and Industry dissented because they wanted their original proposal for new arrangements (option 2 in E(A)(84) 12) to apply to the United Kingdom share of all Community expenditure. This disagreement was more apparent than real, because the Department of Trade and Industry has been operating without difficulty the existing procedures for the structural funds described in para 10 of the paper and can continue to do so. This is recognised in the joint memorandum of 20 February from the Chancellor of the Exchequer and the Secretary of State for Trade and Industry, Annex A of which recommends continuing the existing arrangements, including for the non-quota section of the Regional Fund. The Secretary of State for Trade and Industry, however, attaches importance in future years to looking at priorities on all Community expenditure together: this can be done through the "PESC(EC)".

7. The Overseas Development Administration is in disagreement with the Treasury about the continued attribution of Community aid expenditure to the ODA Budget. The Overseas Development Administration argue that they cannot control some increases in Community aid expenditure and that it is wrong that increases in the United Kingdom share of Community aid expenditure should require a corresponding cut in the United Kingdom's bilateral aid. The Treasury argue that the aid budget is a single block

 /of

of public expenditure: higher expenditure on one action should be matched by savings on others.

8. You may wish to ask the Chancellor of the Exchequer to explain why he sees no need for change in the existing system of public expenditure control of the structural funds and Community aid expenditure. The Secretary of State for Trade and Industry for the structural funds (the Secretaries of State for Scotland and Wales and Employment, the Ministers of State for Northern Ireland (Mr Butler) and the Environment (Lord Bellwin) also have an interest) and the Foreign and Commonwealth Secretary for the Community aid expenditure will wish to comment.

(3) New arrangements on the United Kingdom share of Community expenditure (paras 12-21 of E(A)(84) 12)

9. This is the crux of the problem, although (as para 12 of E(A)(84) 12 points out) the economic significance of the expenditure not covered by existing arrangements is very small. E(A)(84) 12 sets out three possible options for the Sub-Committee to consider, the first proposed by the Treasury, the second by the Department of Trade and Industry and the third put forward as avoiding some of the disadvantages of both the others. Since, however, the Chancellor of the Exchequer and the Secretary of State for Trade and Industry have now agreed on a modified version of the third option (Annex A of their joint memorandum of 20 February), you are recommended to seek agreement on the basis of that memorandum.

10. The two principles on which the third option was based are as follows. First, the United Kingdom public expenditure element of each proposed Community programme would be subject to the same basic PESC procedure and rigour as any other United Kingdom public expenditure: if accepted, the public expenditure item would be included in the block programme within PESC Programme 2.7 in the same way as other United Kingdom public expenditure items are included in other block programmes. The United Kingdom share of a Community programme would not require an automatic offsetting reduction elsewhere but would be considered on its merits.

/Secondly,

Secondly, there would be rules to be applied if the United Kingdom public expenditure provision for any item in the block PESC programme within Programme 2.7 were exceeded.

11. These principles have been carried into the version set out in Annex A to the joint memorandum of 20 February from the Chancellor of the Exchequer and the Secretary of State for Trade and Industry. More specifically, the memorandum now establishes the baseline figures for the PESC block programme or "mini Euro programme", ie that these figures would be derived from the figures in the 1984 Community budget. It also confirms the recommendation in E(A)(84) 12 that, after the new arrangements have been introduced, officials should review progress, if and when the revised Community financing arrangements now under discussion in the post-Stuttgart negotiations are in place.

12. You may wish to invite the Chancellor of the Exchequer and the Secretary of State for Trade and Industry to present their agreed views. The Secretaries of State for Energy and Transport and the Minister of State for the Environment (Lord Bellwin) have an interest, as also do the Secretaries of State for Scotland and Wales and the Minister of State for Northern Ireland (Mr Butler) and, because of the possible effects on discussions within the Community, the Foreign and Commonwealth Secretary.

(4) ESPRIT

13. It is important that the United Kingdom should be in a position to give its view at the Council of Ministers (Research) on 28 February on the funding of the Community's proposed five year programme on research and development in the information technologies (ESPRIT). All other member states are expected to be ready to do so. The pilot programme is completed. A specific decision by E(A), consistent with its decision on the United Kingdom share of Community expenditure generally, is

/now

now needed. There is no substantive disagreement between Ministers on the value of the programme: both the Secretary of State for Trade and Industry and the Chief Scientist consider that it should have priority within the Community's research and development effort. There is a good chance that United Kingdom industry will obtain a disproportionate share of the contracts, as we did on the pilot programme.

14. The Secretary of State for Trade and Industry and the Chancellor of the Exchequer have agreed on the public expenditure handling of the United Kingdom share of the ESPRIT programme. It is also agreed that we should now accept the five year programme under which the United Kingdom share of the cost should not exceed an average of £18 million a year without taking account of United Kingdom receipts (a Community programme of 700 million ecu over 5 years) but subject to certain important conditions. We would require assurances from the Commission on agreed overall figures for spending on research and development expenditure in the Community (600-670 million ecu a year in 1984 and 1985, with a review thereafter) thus working towards an effective system of priorities.

15. You may wish to invite the Secretary of State for Trade and Industry to speak on ESPRIT and thereafter to invite the Chancellor of the Exchequer and the Foreign and Commonwealth Secretary to give their views.

Conclusion

16. You may wish to conclude, if the Sub-Committee agrees -

(i) that the "Forward Look" should be established on the basis set out in paras 3-8 of E(A)(84) 12;

(ii) that the existing arrangements relating to the United Kingdom share of Community expenditure on agricultural guarantees, structural funds (including both the quota and non-quota section of the Regional Fund) and aid should be unchanged (paras 9-11 of E(A)(84) 12);

/(iii)

(iii) that the new arrangements relating to the United Kingdom share of other Community expenditure on support of industry, research and development and infrastructure, as defined in the joint memorandum of 20 February by the Chancellor of the Exchequer and the Secretary of State for Trade and Industry, should be adopted and that officials should be instructed to work out the details; and that the arrangements should be reviewed if and when a revised budgetary system is established as a result of the post-Stuttgart negotiations;

(iv) that we should agree to the five year programme on ESPRIT on the conditions set out in the joint memorandum of 20 February by the Chancellor of the Exchequer and the Secretary of State for Trade and Industry.

Cabinet Office

20 February 1984

CONFIDENTIAL

Treasury Chambers, Parliament Street, SWIP 3AG
01-233 3000

20 February 1984

A J Coles Esq
No 10 Downing Street

Dear John,

EUROPEAN COMMUNITY EXPENDITURE AND THE CONTROL OF UK PUBLIC EXPENDITURE

The Chancellor and the Secretary of State for Trade and Industry have discussed in some detail the options set out in E(A)(84)12, and as a result wish to table, before tomorrow's E(A) discussion, the joint proposal set out in the attached memorandum.

I am accordingly sending copies of this letter and the memorandum to the Private Secretaries of all members of E(A), the Foreign Secretary and the Secretary of State for Education and Science; as well as to Sir Robert Armstrong, Dr Nicholson and David Williamson in the Cabinet Office.

Yours ever,

John Kerr.

J O KERR

CONFIDENTIAL

EUROPEAN COMMUNITY EXPENDITURE AND THE CONTROL OF UK PUBLIC EXPENDITURE

Memorandum by the Chancellor of the Exchequer and the Secretary of State for Trade and Industry

We are to discuss the question of European Community expenditure and the control of UK public expenditure at E(A) on Tuesday.

2. There is general agreement that we should set up a new PESC Sub-Committee. This will be a useful instrument for improving our forecasting of Community expenditure and more importantly, determining our priorities within it.

3. The note by the Chairman of EQS (E(A)(84)12) usefully sets out three possible options for bringing new Community expenditure programmes properly within the ambit of our public expenditure control procedures and for avoiding additionality. It is highly desirable that we should settle the questions raised in his note quickly in advance of the 1984 PES round. We also need to take urgent decisions on our approach to ESPRIT before the 28 February Research Council.

(a) PES Procedures for EC Expenditure

4. Paragraphs 9 and 10 of E(A)(84)12 describe the agreed existing arrangements for non-additionality and attribution which have governed the traditional areas of Community expenditure since our accession in 1973.

5. As we agreed at E(A)(83)8th meeting, we need to complement these arrangements with effective mechanisms for ensuring that UK public expenditure is not increased by the proliferation of new

spending programmes, already totalling some billions of ecus, which have been tabled by the Commission in recent months. There are three requirements which any effective mechanism has to meet. It must provide:

- a strong incentive to hold down the cost of Community programmes;

- a procedure for assessing the priority of new Community expenditure proposals in comparison with each other and with domestic public expenditure programmes;

- a means of ensuring that our agreed domestic public expenditure programme totals are not exceeded by the addition of receipts from the Community Budget.

6. We have examined the Cabinet Office's Option 3 with these criteria in mind. After discussion we believe that - with some modifications - it can provide the basis for a satisfactory system, which will ensure that these new Community expenditures are subjected to proper scrutiny as part of our normal PES arrangements, but with a degree of flexibility to take account of the Community dimension.

7. The note at Annex A sets out our agreed proposals for a new system modelled on Option 3. The main points in it are:-

- a mini-Euro programme will be established for R & D, industrial and infrastructure support expenditures. The UK's priorities and negotiating aims on these programmes will be discussed early in the year as part of the PES process;

- within the new programme UK spending Departments will act as the sponsors for the UK financing share of the Community expenditures which fall in their functional areas. But there will be opportunity for offsetting increases in Community expenditure on one part of the programme against genuine savings elsewhere within the programme;

- subject to what is said below on ESPRIT the baseline for the mini-Euro programme will be calculated from the provision for the relevant expenditures in the 1984 Community Budget. This baseline will subsequently be uprated each year in line with the general rate of increase in UK public expenditure;

- any proposals for increases going beyond the baseline will be the subject of scrutiny under the normal PES procedures. Where Cabinet agrees that some increase in Community expenditure on these programmes is inescapable, but that offsetting savings cannot reasonably be found by the sponsor Department, the increases will be offset across public expenditure programmes as a whole;

- in the case of multi-annual Community spending programmes which are subject to a fixed ceiling any underspending in one year can be carried forward and added to the baseline in the later years, provided the total size of the programme remains the same. Where expenditure on an agreed multi-annual programme runs above the profile in a particular year, offsetting savings within the year would not be required, but corresponding reductions would be made in the baseline in the later years of the programme.

8. So far as ESPRIT is concerned we are now agreed that we should seek to ensure that it is given special priority within the funds available within the Community Budget. Paragraph 10 and Annex B below set out the line we believe we should now take at the 28 February Research Council. In these circumstances it is considered reasonable that ESPRIT should be accorded the same priority within the new PES control programme. A special addition will accordingly be made to the EURO-PES baseline to cover our full contribution to ESPRIT throughout the PES period.

9. We believe that, if E(A) can endorse these proposals, they will provide a satisfactory framework for deciding on our priorities among Community expenditure programmes and controlling the consequences for our own public expenditure totals.

(b) ESPRIT

10. On ESPRIT itself, the next step must, we believe, be to build on the German proposal made at the last Foreign Affairs Council - that the money for ESPRIT must be financed from within an overall "financial envelope" for payment credits on Community R & D of 600 mecu a year at least for the next two years. In order to establish the implications of this the Commission must now be pressed hard to bring forward their estimates both of the payments needed to meet R & D commitments already entered into in 1984 and 1985 and of the amounts left available within the 600 mecu figure for new expenditures. We will need convincing assurances that the lower priority R & D programmes will be scaled down in size in order to make room for ESPRIT and other high priority commitments such as the Joint Research Centre. Annex B sets out in more detail the form we believe these assurances should take. Provided we can get satisfactory answers from the Commission, we should be in a position to agree to the ESPRIT programme going ahead, preferably at a level of 700 mecu, but, in the last resort at 750 mecu.

NL	NT
HM Treasury	DTI

20 February 1984

Annex A.

EC EXPENDITURE PROGRAMMES AND UK PUBLIC EXPENDITURE CONTROLS

(a) THE "FORWARD LOOK"

(1) A Sub-Committee of PESC (PESC(EC)) will be set up to carry out the "Forward Look" at Community expenditure, as proposed in paragraphs 4-8 of E(A)(84)12. Its tasks will include, as part of the "Foward Look", the collective discussion of, and where possible agreement on, the UK's priorities across all Community expenditure programmes for use in substantive discussions in Brussels. In addition, PESC(EC) would also be the forum for discussion of any questions on the proposed new PES control procedures set out in paragraphs 2-11 below.

(b) PESC TREATMENT OF COMMUNITY EXPENDITURE

(2) The existing arrangements for non-additionality and attribution set out in paragraph 9 of E(A)(84)12 will continue to apply. The arrangements for the non-quota section of the ERDF are discussed in paragraph 12 below.

(3) A separate mini-EURO-PESC programme would be established as an internal control total for the UK's financing share in all new Community expenditure on R & D, and industrial and infrastructure support, as proposed in Cabinet Office Option 3. Within this programme each spending Department will follow the procedures set out below for the UK financing share of any Community spending proposals for which it had functional responsibility.

(c) CALCULATION AND UPRATING OF BASELINE

(4) The 1984-85 baseline figure for the mini-EURO programme should be based on the level of payments appropriations in the 1984 Community Budget. For later years the 1984/85 baseline would be increased in line with the general rate of increase in total UK planned public expenditure. A special supplementary addition to the baseline will also be made throughout the PES period to cover the full costs of the ESPRIT programme to the extent that these exceed the provision for ESPRIT in the baseline.

(5) The UK public expenditure consequences of any increase in Community expenditure above the baseline will be measured in terms of the UK financing share of the Community expenditure in question (currently 22%) less those public sector receipts which are required to be surrendered to the Consolidated Fund under the European Communities Ac

(6) There will need to be safeguards to prevent invididual projects receiving like support from a Community and a domestic programme. (ERDF trigger expenditure apart).

(7) Where the Community agrees a multi-annual commitments programme, the best possible forecast of the payments profile would be made in order to assess whether it could be contained within the baseline. The forecast will however be uncertain. In order to deal with that uncertainty there should be provision, where Community expenditure on a multi-annual programme falls below the expected profile provided for within the baseline, for any underspend to be carried forward and added to the baseline for the next year. Where expenditure on an agreed multi-annual programme runs above the profile in a particular year, offsetting savings within the year (see paragraph 10 below) would not be required, but corresponding reductions would be made in the baseline over the later years of the programme.

(d) OPERATION OF THE PROGRAMME IN THE PE SURVEY

(8) As early as possible in each year's PE Survey PESC(EC) would establish agreed baseline figures for the programme for the years covered by the PES Survey in accordance with the ground rules above and would collectively seek to agree on the UK's priorities within the baseline as a guide to determining the UK line in Brussels.

(9) Where Community expenditure was expected to rise above the baseline level, the UK public expenditure consequences of this excess would be put forward by the sponsor Department as an "additional bid" within the normal rules of the PE Survey. Where it is proposed that such an additional bid should be accepted within the agreed totals for public expenditure, offsetting savings would need to be made as follows:

(a) offsetting savings would be sought from elsewhere within the total available for the mini-Euro programme to the extent that genuine and continuing reductions in other elements within the baseline could be identified with certainty. The scope for and use of such offsetting savings would need to be determined collectively in PESC(EC).

(b) where no savings within the Euro-programme were available, the domestic expenditure programmes of the sponsor Department (where there is one) would be scrutinised for offsetting savings as part of the normal PES procedures.

(c) when as a result of the PES scrutiny it is proposed to Cabinet that the offsetting savings cannot fully be made from within the Departmental programme, any excess would have to be found by savings within the public expenditure programme.

(e) CONTROL OF THE PROGRAMME DURING THE YEAR

(10) Where the level of Community expenditure increased during the year (eg as a result of new decisions or a Supplementary Budget) beyond the level allowed for in the PES, offsetting savings would be looked for within the total available for the mini-Euro programme. Where no savings within the Euro-programme are available, the domestic expenditure programmes of the sponsor Departments would be scrutinised for offsetting savings.

Where such savings cannot be made, access to the Reserve would be considered in accordance with normal rules. Any continuing increase in later years would have to be put forward as an additional bid in the next year's Survey.

(f) SAFETY NET

(11) This mechanism will need to be reviewed once the corrective budgetary mechanism within the Community has been established.

(g) ERDF NON-QUOTA SECTION

(12) The non-quota section of the ERDF would, as at present, be subject to the non-additionality rule. Receipts going to the private sector would be disregarded. The "trigger payments" which the Government will have to make to enable the private sector to claim these receipts will continue to be financed on the DTI's programme. The PES treatment of these trigger payments will be reviewed when any new non-quota section programmes for the UK are proposed.

ANNEX B

ESPRIT

1. The UK should be prepared to agree to the launching of the ESPRIT programme only if there is also agreement on an annual total payments ceiling for all Community R & D programmes and on the necessary decisions to cut back commitments on other R & D programmes (see 3 below). The Germans have proposed that this payments ceiling should be fixed at 600 mecus. We should support this figure, but in the last resort be prepared to move to 670 mecu (which is the maximum available within Chapter 70-73 of the 1984 Budget, including some provision within Chapter 100).

2. Within the agreed payments ceiling priority would be given, as proposed by Germany, to ESPRIT, the agreed JRC programme and fusion programme. Expenditure on other R & D programmes would have to be contained within what was left.

3. To ensure that the payments ceiling is observed the size of the Community's other multi-annual R & D programmes may have to be cut back or deferred. Specifically the Commission would have to undertake to hold down commitments on other R & D programmes in 1984 and 1985 to a level which ensured that the 600-670 mecu payments ceiling was respected. The level of the R & D payments ceiling for 1986 and onwards could be reviewed before the end of 1985.

4. No decision to go ahead with the ESPRIT programme until the Commission had produced forward profiles for expenditure on ESPRIT and the other R & D programme for at least 1984 and 1985 showing that they could be accommodated within the 600-670 mecu payments ceiling in those years.

Mr AJ Coles

CONFIDENTIAL

Ref. No: EA (84)3
Date: 20.2.84

Notes in connection with a motion
in the House of Commons on

Monday 20th February 1984

to take note of the European Community
documents on the Draft General Budget
for 1984

Conservative Research Department,
32 Smith Square,
London SW1
Tel. 222 9000

Enquiries on this brief to:
Peter Cropper

Five items are before the House:

1) The Preliminary Draft Budget of the European Communities for 1984. (Presented 10th June 1983).

2) The Draft budget of the European Communities for 1984.

3) The European Parliament's modifications and amendments to the Draft General Budget of the European Communities for 1984.

4) The Annual Report of the European Court of Auditors for the financial year 1982.

5) Sixth Report from the House of Commons Select Committee on European Legislation.

The Draft General Budget for 1984 consisted of seven volumes, including individual budgets relating to the Community institutions. The Budgets of the Council, the European Parliament, the Court of Justice and the Court of Auditors are almost entirely for their administrative and running expenses. The main Community policies (e.g. the Common Agricultural Policy, the Social Fund, Regional Development Fund, Aid etc) are financed out of the Commission's budget, which accounts for some 98% of the expenditure in the Draft Budget as amended and modified by the Parliament.

The Parliament considered the draft Budget as decided by the Council of Ministers on 20-22 July 1983, and made various proposals for increased expenditure. These proposals were in turn amended by the Council; the Budget was declared adopted on 20 December 1983. The principal proposals were:

	Parliament's proposals		Council's decisions	
	Payments	Commitments	Payments	Commitments
Social Fund	£74m	£136m	£74m	£68m
Regional Development Fund	£69m	£216m	£69m	£62m
Aid	£72m	£132m	£43m	£56m
Energy	£50m	£69m	£30m	£34m
Research and Investment	£18.5m	£129m	£3m	£46m
Transport	£1m	£28m	£0.7m	£10m

European Court of Auditors for 1982 represents, in the view of the British Government, an important step in the development of financial control within the European Communities.

Sixth Report for the House of Commons Select Committee (23 November 1983) considered problems of the future financing of the European Community viz:

i) Various proposals to increase the revenue of the Community;

ii) a fairer sharing of the burden of funding Community expenditure;

iii) control of CAP expenditure.

The Select Committee noted the British Government's position, that the United Kingdom would be prepared to consider an increase in own resources provided:

> 'First, that agreement was reached on an effective control of the rate of increase of agricultural and other expenditure; and secondly, that it was accompanied by an arrangement to ensure a fair sharing of the financial burden' (Sir Geoffrey Howe, Hansard, 14th November 1983, Col. 611).

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215) 5422
GTN 215)
(Switchboard) 215 7877

JF5676

PS/ *Secretary of State for Trade and Industry*

20 February 1984

Roger Bone Esq
Private Secretary to the
Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
LONDON
SW1A 2AL

N.B.P.R.

A.J.C. 20/2.

Dear Roger,

UK POSITION IN THE NEGOTIATIONS ON THE STUTTGART DECLARATION

See Pt 22

The Foreign Secretary copied to my Secretary of State his minute of 27 January to the Prime Minister.

2 We think that the aide memoire enclosed with that Minute is a very useful summary of our position on the main issues in the post-Stuttgart negotiations. There are two amendments we would like to suggest to cover nuances in the UK's position. First, Paragraph 6 should, we think, refer to "discussions in the context of Article XXVIII" rather than to "negotiations". We are anxious to avoid escalating the issue to a full scale confrontation in the GATT. In the same paragraph, the reference to citrus pellets has now been overtaken because the Commission are no longer proposing action on this product. We would also like the reference in Paragraph 8 to our wish to see adoption of the Common Commercial Policy Regulation modified slightly. As it stands at present the proposed decision making procedure in the Regulation is unacceptable. All that would be needed would be a reference in that section of Paragraph 8 to "on suitable terms".

3 I am copying this letter to the Private Secretaries to the Prime Minister, Chancellor of the Exchequer, the Minister for Agriculture and Sir Robert Armstrong.

Yours sincerely,

Ruth

RUTH THOMPSON
Private Secretary

EURO POL
Budget
Pt 23

Qz.03598

MR TURNBULL

COMMUNITY EXPENDITURE PROGRAMMES AND CONTROL OF UNITED KINGDOM PUBLIC EXPENDITURE (E(A)(84) 12)

This question is on the agenda of the Sub-Committee on Economic Affairs of the Ministerial Steering Committee on Economic Strategy at its meeting on 21 February at 5pm. A brief for the Prime Minister was submitted on 13 February. I am glad to report that further discussions between the Chancellor of the Exchequer and the Secretary of State for Trade and Industry seem likely to lead to an agreement (or a large measure of agreement) between them both on the public expenditure control of the United Kingdom share of Community expenditure and specifically on ESPRIT. Texts are being submitted by officials for consideration over the weekend and we shall know on Monday whether the agreement has been reached. If so, the two Ministers will circulate to E(A) a note recording their agreed view.

2. My advice is that the agreement, as it is emerging, is very satisfactory. On public expenditure control it is likely to be a slightly modified version of option 3 in E(A)(84) 12. It should make it possible to reach agreement in E(A) on the following points:-

(i) there will be a "Forward Look" at Community expenditure;

(ii) existing arrangements on the United Kingdom share of Community expenditure (structural funds, agricultural guarantees and Community aid) will be unchanged and this will apply also to the non-quota section of the Regional Fund. This does not mean that these programmes are excluded from our overall consideration of priorities. (The Treasury and the Department of Trade

/and

Industry are still in dispute about the public expenditure treatment of the "triggering payments" for the non-quota section of the Regional Fund but this does not seem a fundamental point);

(iii) the new arrangements in relation to the United Kingdom share of other Community expenditure (the Treasury has been asked to define this accurately in any note by the Chancellor of the Exchequer) would be, as in option 3 in E(A)(84) 12, the establishment of a block programme within PESC Programme 2.7 (a mini-Euro PESC programme), with rules applicable to any savings or overspendings. The Chancellor of the Exchequer and the Secretary of State for Trade and Industry are likely to agree that the baseline PESC figure should be the figures in the Community's 1984 budget and that they would rise in future years only in line with the general rate of increase in total United Kingdom planned public expenditure. The Chancellor of the Exchequer would also agree to the United Kingdom share (about £18 million a year for 5 years) of Community expenditure on ESPRIT, provided that the other conditions on ESPRIT were met;

(iv) we should agree to the ESPRIT programme (United Kingdom share of the cost about £18 million a year for 5 years, without taking account of receipts by United Kingdom industries) on condition that there was a ceiling on Community research and development expenditure. Within this ceiling priority would be given to ESPRIT, to agreed joint research centre programmes and the fusion programme; expenditure on other programmes would have to be contained within what was left.

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

D F Williamson

D F WILLIAMSON

17 February 1984

CONFIDENTIAL

Qz.03597

MR COLES

DEFENCE AND OVERSEA POLICY COMMITTEE, 22 FEBRUARY

I attach briefing for the Prime Minister on item 2 (European Community budget: contingency plans for withholding). For this item the Secretary of State for Northern Ireland, the Attorney General, the Lord Advocate and Minister of State, Ministry of Agriculture, Fisheries and Food (Mr MacGregor) are also invited. The Secretary of State for Trade and Industry will be represented by the Minister of State (Mr Lamont). The Secretary of State for Defence and the Chancellor of the Duchy of Lancaster will not be present.

I am sending a copy to Sir Robert Armstrong.

D F Williamson

D F WILLIAMSON

17 February 1984

CONFIDENTIAL

Qz.03596

DEFENCE AND OVERSEA POLICY COMMITTEE: 1600 ~~4.45pm~~ WEDNESDAY 22 FEBRUARY 1984

BRIEF FOR THE CHAIRMAN

FLAG A Item 2: EC Budget: Withholding Contingency Plans (OD(84) 2)

Also relevant are -

FLAG B EC Budget: Relationship between Payment of the United Kingdom's 1982 and 1983 Refunds and the post-Stuttgart Negotiations (OD(84) 3)

and

FLAG C EC Budget Contingency Plans: Draft White Paper (OD(84) 4)

Purpose

1. To take forward contingency planning in case the Government should decide to withhold Community funds after the European Council on 19-20 March. The Committee is invited to take provisional decisions on a number of issues (summarized in para 2 of OD(84) 2) and to decide in principle whether, in the event of a decision to withhold Community funds, the Government should simultaneously publish a White Paper.

Background

2. The main paper is OD(84) 2. This is a note by the Secretaries to which is annexed a Treasury paper on the practical questions which would arise in the event of a decision to withhold Community funds. The Treasury paper is a revised version of that circulated to (but not discussed by) OD last summer (OD(83) 9). It has been extensively discussed and broadly agreed between Departments at official level.

FLAG D

/3.

3. There are two other papers:-

OD(84) 3 to which is attached a background paper by officials. This is not intended for discussion. Its purpose is to explain to those members of the Committee who have not been closely involved in the negotiations on the Community budget, what those negotiations are and how the different aspects inter-relate; and

OD(84) 4 to which is attached a draft White Paper. The draft is an updated version of that circulated to (but not discussed by) OD last summer (OD(83) 8). It has been extensively discussed and broadly agreed between Departments at official level. The Committee is invited (para 2) to decide in principle to publish a White Paper in the event of a decision to withhold, and in that case to invite the secretaries to submit a revised and updated draft for approval at the time.

FLAG E

Questions for decision (OD(84) 2)

4. The Government will not wish to take the major decision, even in principle, whether or not to withhold Community funds until after the European Council on 19-20 March and until it is clear whether the United Kingdom will receive the bulk of its 1983 refunds by 31 March 1984. Such a decision would be of major constitutional and political importance, requiring the agreement of the full Cabinet. The Law Officers have advised that it would be unlawful in Community and United Kingdom law. It would significantly affect our relations with other member states and within the Community as a whole. A number of technical and operational questions, however, need to be resolved before the Government would be in a position to withhold. These are listed in paragraphs 2 and 3 of OD(84) 2. It would considerably ease the contingency planning if the Committee could now take provisional decisions on the points in paragraph 2 of OD(84) 2, while noting the remaining major points in paragraph 3. These latter points (the extent of withholding and its public presentation and whether to legislate at the time of withholding or later), although not presented for immediate decision by the Committee, may still give rise to some discussion at the meeting.

5. The issues for decision, on a contingency basis, now are -

(i) whether to limit withholding to payments out of the Commission's account or to limit payments in as well. The Treasury recommendation is that initially the Government should only limit payments out, but should hold in reserve the possibility of restricting payments in. The arguments are set out in paragraphs 6 and 7 of the Treasury paper. There are strong presentational arguments for restricting payments out only, but it may be necessary later to restrict payments in as well to meet agreed objectives on the extent of withholding. Paragraph 9 explains the arguments against opening a special suspense account.

(ii) content of the legislation. The draft Bill at Annex C to the Treasury paper provides that:-

(a) the Treasury's consent shall be required for any payments into or out of the Commission's account held with the Paymaster General;

(b) with certain exceptions, United Kingdom courts shall not entertain proceedings to declare or enforce Community obligations the implementation of which could be prevented under (a) above;

(c) these provisions shall have effect notwithstanding anything in the European Communities Act, 1972, and

(d) in the event of retaliation by the Community, the Government can, in substitution for the Commission, make payments to normal recipients of Community funds in the United Kingdom.

One particular point for decision is whether the Bill should provide for retaliation ((d) above) or whether, if necessary, a second Bill should be introduced later to deal with retaliation. The arguments are set out in paragraphs 31 and 32 of the Treasury paper. Officials are agreed that the balance of argument favours a single comprehensive Bill.

/On

On Ministerial responsibility for the legislation, the Treasury suggest (para 33) that the main responsibility would fall on a Foreign Office or a Treasury Minister; but the Law Officers and possibly other Ministers might also need to be involved.

Paragraphs 34 and 35 suggest that if the Government does decide to legislate at the outset, it would be important for both legal and administrative reasons that the Bill should pass rapidly; if possible, within a week, while withholding by administrative delay in the interval. The agreement or the acquiescence of the Opposition will be necessary.

(iii) The UK should defend itself before the European Court. Researches and consultations with Counsel last year have served to confirm the Law Officers' view that our defence to proceedings before the European Court for breaches by the United Kingdom of Community law by withholding, would be very weak. The Treasury paper (para 38) suggests, therefore, that while we should argue our case strongly both technically in law and in mitigation, we should not attempt to sue the Commission, the Council or the European Parliament under the Treaty.

(iv) Retaliation. Paragraphs 39-45 of the Treasury paper discuss the likely extent and effect of possible retaliation, recommend that the United Kingdom should make every effort to dissuade the Community from retaliating, particularly against United Kingdom recipients of Community funds, and recommend that the Government should be in a position to take over the Commission's role in the event of retaliation. The draft bill provides for this. Paragraph 45 suggests some broad objectives for the Government in dealing with retaliation. There is likely to be broad agreement on these objectives.

Even so, it is difficult to predict the likelihood or the scope of the retaliation and thus to decide now how to deal with it. Departments have, however, prepared contingency plans. A number of important decisions will need to be

/made

made in the event of retaliation. The Treasury paper (para 47) identifies two main financial options. Paragraph 50 suggests that Ministers would need to decide between them at the time.

6. The issues listed for later decision in paragraph 3 of OD(84) 2 are -

(i) the sum we should aim to accumulate and how to present any decision publicly. If Ministers have decided initially only to restrict payments out, then the maximum rate at which we can accumulate refunds by withholding is about £100 million a month. The Government have three broad options as to the amount they might announce that they are initially seeking to accumulate:-

(a) the full amount of the remaining (disputed) element of the risk-sharing payment for 1982 and the full refund for 1983, together totalling about £630 million;

(b) the full amount of the 1983 refund (£572 million);

(c) the 'obligatory' element of our 1983 refund (£425 million).

The arguments in favour of each course are set out in paragraph 12. A decision can only be taken in the knowledge of the precise circumstances which has led the Government to withhold. It is important, however, that a decision to start with the withholding of the £425 million which the European Parliament has wrongly classified as non-obligatory and transferred to the reserve chapter of the budget would not preclude a decision to withhold further sums later if a settlement had not been reached. The financial impact on the Community of withholding in 1984 would be small, since the budget already provides for expenditure on our 1983 refunds, unless we were to continue withholding more than our refund entitlement.

The draft statement at Annex A to the Treasury paper has been prepared to deal with each of the options, and also

 /with

with the possibility of both early or deferred legislation. Ministers will need to consider this carefully at the time of any decision to withhold.

(ii) when to legislate. The arguments are dealt with in paragraphs 22 to 28 of the Treasury paper. The effective choice lies between legislating at the outset and legislating retrospectively in response to need.

On the one hand, the Law Officers have advised that, with one exception, the only safe course would be to introduce legislation at the outset. The Law Officers' clearly expressed advice (at Annex B) is that withholding would be illegal in both Community and in domestic law and that the risk of action against the Government either in the United Kingdom Courts or before the European Court is not negligible, and that sooner or later a Court could be expected to find against the Government. If questioned in the Houses of Parliament, the Law Officers would have to say that withholding was unlawful. There is also the problem of the position of Sir Peter Middleton, the Accounting Officer for the Consolidated Fund, and of the Treasury Accountant. In the absence of legislation, other action (see para 27) would be needed to protect the position of officials, but this would expose Ministers further.

On the other hand, it is argued that the introduction of this legislation would itself have major consequences, both constitutionally and in the eyes of the rest of the Community, going well beyond the act of withholding alone. It might be seen as setting an undesirable precedent for other member states and would be seen as a major escalation of the dispute.

An additional point of importance is that the Law Officers took the view that it would not have been unacceptable to have acted without legislative cover in the circumstances of 1982 when only the European Parliament was blocking our agreed refunds, which the Council and the Commission had said they would honour. The most likely hypothesis is that

 /these

these circumstances will be repeated and that our dispute will be with the European Parliament which is continuing to block the agreed 1983 refund. If so, the test which the Law Officers will apply is whether the risk of challenge is likely to be sufficiently small. This major question can only be decided at the time of a decision to withhold, but it would be most useful for the issues to be given preliminary consideration at this stage.

Handling

7. You may wish to invite the Chancellor of the Exchequer to comment on the Treasury paper attached to OD(84) 2 before inviting the Committee to give its provisional views on the points in paragraph 2 of OD(84) 2 and having a preliminary discussion of the points in paragraph 3. The Foreign and Commonwealth Secretary, the Attorney General and probably the Lord Chancellor will have views.

8. You may also wish to invite the same Ministers to comment on the question whether a White Paper on the lines of the text in OD(84) 4 should be published in the event of a decision to withhold Community funds.

Conclusions

9. You will wish the Committee -

(i) to reach provisional conclusions on the operating questions listed in paragraph 2 of OD(84) 2, so that contingency planning can be completed;

(ii) to have an exchange of views on the questions (extent of withholding, timing of legislation) in paragraph 3 of OD(84) 2 and to reach provisional conclusions, if this seems appropriate. The final decisions on these very important questions could only be taken in the context of a decision on withholding itself;

/(iii)

(iii) to decide (para 2 of OD(84) 4) in principle whether or not a White Paper would be published simultaneously if the Government were to decide to withhold Community funds.

Cabinet Office

17 February 1984

MR. BUTLER
MR. COLES ✓ 12/2.
MR. TURNBULL
MR. FLESHER
MR. BARCLAY
MR. ALISON
MR. SHERBOURNE

I have arranged the following meeting with the Prime Minister:-

Subject ... EC Issues ...

Date ... Wed 7th March ...

Time ... 1600 ...

Venue ... No 10 ...

Person/people invited ... Ch Ex, FCS ...
... Min of Ag Representative, RTAO Williamson ...

Added Ministerial attendance ...

<u>Briefing</u>

a) I have commissioned briefing from ...

✓ b) Could you arrange briefing if necessary

<u>Caroline Ryder</u>

10 DOWNING STREET

Mr. Ryder.

We may need a meeting on about 7 March on EC issues. Can you keep 90 minutes?

PM

FCS

~~[illegible]~~

Chancellor

Mr. Lilley

1 official each

+ RTA

Mr. Williams.

A. J.C. 15/2.

Reference

Mr Clements, News Dept

1983 REFUNDS: REGULATIONS: REUTER REPORT

1. The attached Reuter Report from Strasbourg suggests:

(i) that the UK will call on Community Foreign Ministers to press for an emergency session of the European Parliament to give its opinion on the Refund Regulations, and;

(ii) that if the Parliament remains unwilling to give its opinion Foreign Ministers could approve the Regulations anyway.

Line to Take

2. We want the Parliament to give its opinion as soon as possible so that the Council can then take a decision on the Regulations. The possibility of asking the Parliament to hold a special session is one of the options which we and our partners will wish to discuss.

3. If asked about the possibility of the Council approving the Regulations in the absence of an opinion of the Parliament: Community rules provide that the Council should take a decision on the Regulations when it has received the opinion of the Parliament. This is why we want the Parliament to give its opinion quickly. We shall need to discuss this fully with our EC partners. Next opportunity will be at the Foreign Affairs Council on 20/21 February.

J S Wall
European Community Department
(Internal)

16 February 1984

cc: PS
PS/ Mr Rifkind
Sir C Tickell
Mr Hannay
Mr Houston
Mr Fairweather
Miss Marsden
Mr Durie, Cab Off
Mr Mortimer, Treasury

CODE 18-77

UKP164 EPF061
161220 :AM-COMMUNITY-BRITAIN
BRITAIN MAY SEEK EMERGENCY SESSION ON BUDGET REFUND:
BY STEPHEN NISBET
STRASBOURG, FEB 16, REUTER - THE BRITISH GOVERNMENT MAY PRESS FOR THE EUROPEAN PARLIAMENT TO HOLD AN EMERGENCY SESSION TO APPROVE REGULATIONS FOR PAYMENT OF BRITAIN'S 1983 COMMON MARKET BUDGET REFUND, DIPLOMATIC SOURCES SAID TODAY.

THEY SAID ADVISERS TO PRIME MINISTER MARGARET THATCHER HAD PROPOSED THAT BRITAIN CALL ON COMMUNITY FOREIGN MINISTERS TO VOTE FOR AN EMERGENCY SESSION OF PARLIAMENT WHEN THEY MEET IN BRUSSELS ON MONDAY.

COMMUNITY LAW PROVIDES FOR PARLIAMENT TO MEET IN EXTRAORDINARY SESSION AT THE REQUEST OF THE COUNCIL OF (FOREIGN) MINISTERS.

PARLIAMENT FROZE BRITAIN'S 750 MILLION EUROPEAN CURRENCY UNITS (640 MILLION DOLLARS) BUDGET REFUND IN DECEMBER FOR AT LEAST THREE MONTHS, PENDING A LONG-TERM SETTLEMENT OF THE PROBLEM OF LONDON'S EXCESSIVE CONTRIBUTIONS.

BUT BRITAIN'S CHANCES OF GETTING THE MONEY BY THE MARCH 31 DEADLINE SET BY THATCHER SUFFERED A NEW SETBACK YESTERDAY WHEN PARLIAMENT'S BUDGET COMMITTEE POSTPONED FOR A WEEK ITS CONSIDERATION OF REGULATIONS ON HOW THE MONEY WOULD BE PAID.
MORE SN/BCM/DM

UKP165 EPF062
161224 :AM-COMMUNITY-BRITAIN =2 STRASBOURG:
DIPLOMATIC SOURCES SAID BRITAIN MIGHT DEMAND THAT THE SPECIAL PARLIAMENTARY SESSION BE HELD IN TIME FOR THE FOREIGN MINISTERS TO COMPLETE THE REGULATIONS AT A SCHEDULED MEETING ON MARCH 12-13.

THEY SAID THATCHER'S ADVISERS BELIEVED THAT IF THE PARLIAMENT HAD NOT DELIVERED ITS OPINION BY THEN, THE FOREIGN MINISTERS COULD COMPLETE THE REGULATIONS ANYWAY ON THE GROUNDS THAT THEY HAD DONE EVERYTHING POSSIBLE TO OBTAIN PARLIAMENTARY APPROVAL.

BUT PARLIAMENTARY SOURCES SAID SUCH AN APPROACH WOULD BE SEEN AS AN ASSAULT ON THE PARLIAMENT'S RIGHTS AND WOULD BE SURE TO STIFFEN RESISTANCE IN THE ASSEMBLY OVER THE BUDGET REBATE QUESTION.

THEY SAID THERE WAS STILL SCOPE FOR COMPROMISE BETWEEN THE PARLIAMENT AND THE COMMUNITY'S EXECUTIVE COMMISSION ON THE CONDITIONS NECESSARY BEFORE THE REBATE COULD BE DRAWN.

THE PARLIAMENTARY SOURCES SAID THAT IN ANY CASE THE ASSEMBLY WAS UNLIKELY TO BEND ON ITS BASIC CONTENTION THAT A FUNDAMENTAL SOLUTION MUST BE FOUND TO BRITAIN'S BUDGET PROBLEM BEFORE THE 1983 REBATE IS RELEASED.
REUTER SN/BCM/DM

Ref. A084/538

PRIME MINISTER

Cabinet: Community Affairs

The Foreign and Commonwealth Secretary may report on two points relating to the United Kingdom's 1983 refunds. First, we are informed that the Commission has decided to propose to the European Parliament a transfer of the budget provision from the reserve chapter to budget lines. If so, this will increase our chance of receiving the bulk of these refunds by the end of March. It will put the ball back in the European Parliament's court and demonstrate that for the present the Commission and the member states are standing by the Stuttgart agreement. Secondly, the European Parliament decided on 13 February to request some amendments to the regulations implementing these refunds. The amendments would require refunds to be spent only on projects started in the last year and would reduce the proportion of costs of individual projects which can be paid, thus reducing our chances of obtaining the full refunds. We shall be asking the Council to reject any changes which would prevent us obtaining the full agreed refund of 750 million ecu net.

2. There was an informal meeting of Energy Ministers on 14 February at which the Minister of State, Department of Energy, Mr Buchanan-Smith, represented the United Kingdom. There was a further attempt to make progress on the related issues of coking coal, energy demonstration projects, social measures and investment aid for economic coal production, but no decisions were reached requiring a report to Cabinet.

3. There was a Ministerial meeting on 9-10 February as part of the negotiations for the third Lomé convention, at which the Minister for Overseas Development represented the United Kingdom.

4. The Vice-President of the Commission, Monsieur Davignon, had discussions with the Foreign and Commonwealth Secretary, the Secretaries of State for Trade and Industry and for Energy and yourself on 13 February.

5. Over the next seven days there will be an informal meeting of Foreign Ministers on 18-19 February and a meeting of the Foreign Affairs Council on 20-21 February. These meetings are important. If no progress is made, particularly at the informal meeting, on the major elements of the post-Stuttgart package, the chances of an agreement at the March European Council will be further reduced.

RtA

ROBERT ARMSTRONG

15 February 1984

CONFIDENTIAL

H M Treasury

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J B Unwin
Deputy Secretary

Sir Michael Butler KCMG
United Kingdom Permanent Representative
Office of the United Kingdom
rond-point Robert Schuman 6,1040
BRUSSELS

A. J.C. 16/2

15 February 1984

Dear Michael,

BUDGETARY IMBALANCES AND THE COST OF ENLARGEMENT

Many thanks for copying to me your note of 13 February about your conversation with Lever about sharing the costs of enlargement. The same point has been put separately to both Geoffrey Fitchew and myself by French officials during the past week or so.

2. I think we really must be very robust on this one. Apart from the point you made about the prosperity related threshold, and the fact that we have indicated that we should be prepared to consider a modest ticket moderateur, the French argument is a wholly falacious one which we should despatch to the boundary promptly. The fact is that we start from an inequitable financing base- and far from seeking to avoid our fair share of the costs of enlargement, our efforts are directed towards establishing a fair financing arrangement for the totality of Community expenditure, including enlargement. It is as if we had treated the French to dinner and they then felt hard done by because it was suggested that they might make a generous contribution to the cost of the coffee.

3. I hope, therefore, that if the French or anyone else tries this on again, we can all give it the treatment it deserves.

Yours ever,
Brian

J B UNWIN

cc D H A Hannay Esq, CHG, FCO
D Williamson Esq, Cabinet Office
Miss M J Lackey OBE, DTI
A J Coles Esq, 10 Downing Street
Mr Fitchew
Miss Court
Mr Bostock
Mr Mortimer

Treasury

EURO POL: Budget: Pt 23

ECNO

NBPM AT 15/2

SECRETARY OF STATE FOR SCOTLAND

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

CONFIDENTIAL

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON SW1

15 February 1984

Dear Nigel,

EC EXPENDITURE PROGRAMMES AND CONTROL OF UK PUBLIC EXPENDITURE

I have seen Norman Tebbit's letter to you of 3 February about the arrangements for UK contributions to Community expenditure, with particular reference to the ESPRIT programme.

It is inequitable that the UK's share of expenditure in Community programmes, which are in the national interest, should be charged to the programmes of individual Departments. As Norman says, this could be damaging to the UK's interest in maximising our receipts from the Community. I therefore support his view that the UK's share in Community programmes should be related to the overall level of public expenditure, and I hope that we can agree in principle to an arrangement on this basis.

I am copying this letter to the other members of E(A).

Yours ever,

George.

Euro Pol Budget

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ECPG(84)5
14 February 1984

COPY NO 10

HER MAJESTY'S TREASURY
EUROPEAN COMMUNITY PROJECTS GROUP

Supplementary Measues Commission Report
to the Council and Parliament

A copy of the report is circulated for information. This is the final report on supplementary measures.

HM TREASURY

JO WILKINSON

SIXTH COMMISSION REPORT TO THE COUNCIL AND PARLIAMENT

on the implementation of Council Regulation (EEC) No 2744/80 of 27 October 1980 establishing supplementary measures in favour of the United Kingdom (1)

INTRODUCTION

1. The previous half-yearly reports on the implementation of the Regulation establishing supplementary measures in favour of the United Kingdom (2) covered the period from the entry into force of that Regulation on 1 November 1980 to 30 June 1983. This sixth report covers the period from 1 July 1983 to 31 December 1983.

VERIFICATION OF THE IMPLEMENTATION OF THE SPECIAL PROGRAMMES

2. In November 1983 Commission staff carried out a further inspection to verify that the special programmes and sub-programmes were being implemented in accordance with the Regulation and the Decisions pursuant thereto. The inspection covered the telecommunications sub-programme; the Commission's staff carried out document checks and on-site inspections in London and more especially in Scotland to ensure that the Community's financial contributions have been used correctly.

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(1) Regulation (EEC) No 2744/80 of 27 November 1980 (OJ L 284, 29.10.1980, p. 4), as amended by Regulation (EEC) No 624/83 of 15 March 1983 (OJ L 73, 19.3.1983, p. 6.

(2) SEC(81)1140 of 15 July 1981, doc. COM(82)137 final of 23 March 1982, doc. COM(82)460 final of 20 July 1982, doc. COM(83)100 final of 1 March 1983 and doc. COM(83)415 final of 7 July 1983.

3. In all, ten inspections have now been carried out covering the United Kingdom's public expenditure in the three financial years from 1980/81 to 1982/83 on all eight special regional programmes and all the investment categories financed. It is clear from these inspections that all the special programmes have been correctly executed.

OFFICIAL STATEMENT THAT THE AMOUNTS PAID HAVE BEEN EXHAUSTED

4. On 26 May 1983 the United Kingdom Government certified that the assistance granted under the Commission Decisions of 23 March 1983 had been exhausted, and this was confirmed in its annual report submitted in October.

ANNUAL REPORT FROM THE UNITED KINGDOM

5. As in previous years, this report on the implementation of the special programmes contains information on the progress of the investment projects planned under sub-programmes in the various regions. It also explains the difference between the expenditure originally estimated and that actually incurred. In the 1982/83 reporting year, there were only slight deviations from the programme estimates, which were exceeded by a total of some 2%.

6. Together with its own inspections, the rapport enabled the Commission to obtain an accurate picture of the implementation of the special programmes and sub-programmes. Any marked differences in individual cases between estimated expenditure and that actually incurred were taken into account when the December 1983 Decision was drawn up (see point 10).

PAYMENT OF THE BALANCE OF 10% IN RESPECT OF THE DECISIONS TAKEN IN MARCH 1983

7. After receipt and scruting of the official statement that payments had been exhausted, 36.1 million ECU of the outstanding balance of 10% (69.2 million ECU) was paid over immediately in July. Payment of the remaining 33.1 million ECU was deferred until the results of checks still to be carried out or other additional information had been received. This amount was subsequently paid in December 1983.

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BUDGET APPROPRIATIONS AVAILABLE IN 1983

8. Following the expiry of Council Regulation (EEC) No 2744/80 at the end of 1982, continuation of the supplementary measures required a new legal basis and the inclusion of the necessary resources in the Community budget (3). The Council provided the new legal basis by extending the original Regulation for one year on 15 March 1983 (4) and the sum of 692 million ECU was entered in the budget. This amount was fully committed by the Commission Decisions adopted in March (5).

9. However, this amount was increased to 887 560 760 ECU in October 1983 by the Community's amending and supplementary budget No 2 (6), making a further 195 560 760 ECU available for the supplementary measures in the 1983 financial year.

DECISION OF 8 DECEMBER 1983

10. The Commission was able to use the available appropriations for the existing multiannual special programmes. As in December of the previous year, account was also taken, in preparing the Decision, of the information which had become available concerning the expenditure actually incurred by the United Kingdom authorities (7). The Commission therefore drew up only a single Decision, which amended and extended the Decisions taken in March and brought the new commitments for seven infrastructure programmes to 195 560 760 ECU.

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(3) See points 4 and 5 of the fifth report (COM)83)415 final, p. 2).

(4) See footnote 1.

(5) See point 8 of the fifth report.

(6) Final adoption of amending and supplementary budget No 2 of the European Communities for the financial year 1983, OJ L 331, 28.11.1983, p. 1.

(7) See point 6.

11. With this Decision, which was adopted on 8 December 1983 and published in the Official Journal of the European Communities (8), the total funds entered in the 1983 Community budget for the supplementary measures for 1982 were exhausted. This brought the total financial assistance granted by the Community between December 1980 and the end of 1983 to 4,129.357 million ECU.

12. Table I attached provides a chronological and regional breakdown of all the amounts committed under the 28 Commission Decisions to date. Table II gives details of the appropriations allocated to the various special programmes and sub-programmes and the rates of assistance applied.

PAYMENTS MADE

13. As the financial assistance granted under the Decision of 8 December 1983 related to expenditure incurred during the United Kingdom's financial year 1982/83 ending in March 1983, the investments financed had already been carried out at that time. The new commitments could therefore be paid immediately in full. At the same time the last remaining 10% balances were paid over, since this latest Decision effected the necessary adjustments for the individual sub-programmes (9).

14. The following recapitulation shows the payments made from 1980 to 1983 in connection with the supplementary measures:

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(8) Decision No 83/654 /EEC, OJ L 375, 31.12.1983, p. 1-9.

(9) See points 7 and 10.

December 1980	:	174.150 MioECU
January 1981	:	110.430 MioECU
March 1981	:	507.978 MioECU
July 1981	:	51.199 MioECU
September 1981	:	30.550 MioECU
December 1981	:	548.276 MioECU
March 1982	:	1,456.059 MioECU
April 1982	:	15.001 MioECU
August 1982	:	130.110 MioECU
November 1982	:	8.325 MioECU
December 1982	:	209.718 MioECU
March 1983	:	622.800 MioECU
July 1983	:	36.101 MioECU
December 1983	:	228.660 MioECU
Total	:	4,129.357 MioECU

This means that the payments made corresponded to the total amount of commitments under the Decisions.

THE AD HOC COMMITTEE

15. The Committee on supplementary measures in favour of the United Kingdom held is seventh meeting on 5 December 1983. The object of this meeting was to discuss the latest annual report on the implementation of the special programmes and to express an opinion on the amending and supplementary Decision prepared by the Commisssion's staff. The Committee gave a favourable opinion on that Decision.

TABLE I

SUPPLEMENTARY MEASURES IN FAVOUR OF THE UNITED KINGDOM

– Financial contributions allocated from December 1980 to December 1983 –

MioECU

	North	North West	South West	Yorkshire & Humberside	Scotland	Wales	Northern Ireland	Special road Investment Programme	Total
Dec. 1980	–	101.400	–	–	–	92.100	–	–	193.500
Jan. 1981	–	64.300	–	–	–	58.400	–	–	122.700
March 1981	106.490	–	28.140	144.580	159.540	–	125.670	–	564.420
Dec. 1981	39.136	77.544	13.173	75.213	73.459	56.698	40.280	181.461	556.964
March 1982	140.662	333.967	40.608	246.876	277.886	182.919	200.502	194.423	1,617.843
Dec. 1982	9.043	21.574	2.024	31.692	46.412	1.093	9.437	65.094	186.369
March 1983	74.793	144.289	27.331	115.573	125.405	95.063	109.546	–	692.000
Dec. 1983	17.759	43.031	278	26.796	38.184	34.392	35.121	–	195.561
Total	387.883	786.105	111.554	640.730	720.886	520.665	520.556	440.978	4,129.357

TABLE II

SUPPLEMENTARY MEASURES IN FAVOUR OF THE UNITED KINGDOM

Breakdown by region and sub-programme

Commitments made in: a) 1980 and 1981
b) 1982
c) 1983

MioECU

Sub-programme		North of England	North West of England	South West of England	Yorkshire & Humberside	Scotland	Wales	% of public expendit.	Northern Ireland	% of public expendit. (N.Irel.)	Special road invest. progr.	Total
Roads	a	30.350	48.692	-	17.199	66.955	73.484	50	46.463	60	-	283.143
	b	17.332	44.834	0.358	17.117	52.712	63.456	40	26.590	50	-	222.399
	c	10.333	28.456	11.061	14.384	43.152	57.276	30	16.149	30	-	180.811
Railways	a	17.658	30.499	6.714	35.961	44.238	12.842	50	2.097	60	-	150.009
	b	13.608	22.202	2.936	24.996	28.004	6.016	40	3.581	50	-	101.343
	c	11.216	11.632	1.039	17.344	19.213	4.050	30	1.592	40	-	66.086
Electricity	a	-	-	-	-	-	-	-	-	-	-	-
	b	38.317	112.892	4.029	90.063	129.454	29.096	25	-	-	-	403.851
	c	-	-	-	-	-	-	-	-	-	-	-
Water and Sewerage	a	36.917	43.876	9..767	41.552	-	16.533	30	19.939	40	-	168.584
	b	25.515	54.360	11.101	46.124	-	22.704	40 1)	22.650	50	-	182.454
	c	20.183	33.061	6.751	24.164	-	12.878	20	9.589	20	-	106.676
Advance factories	a	-	1.569	-	-	13.133	22.294	20	4.672	20	-	41.668
	b	-	-	-	-	-	-	-	-	-	-	-
	c	-	-	-	-	-	-	-	-	-	-	-
Land reclamation	a	-	-	-	-	6.585	-	20	0.441	20	-	7.026
	b	-	-	-	-	4.978	-	20	0.358	20	-	5.336
	c	-	-	-	-	-	-	-	-	-	-	-
Telecommunications	a	60.701	118.608	24.832	125.081	102.088	82.045	50	59.597	60	-	572.952
	b	54.933	121.253	24.208	100.268	109.150	62.740	40	56.849	50	-	529.401
	c	50.820	114.171	8.758	86.477	101.224	55.035	40 2)	40.711	40	-	457.412
Housing	a	-	-	-	-	-	-	-	32.741	20	-	32.741
	b	-	-	-	-	-	-	-	99.911	50	-	99.911
	c	-	-	-	-	-	-	-	76.626	26.06	-	76.626
Special road investment programme	a	-	-	-	-	-	--	59.22	-	-	181.461	181.461
	b	-	-	-	-	-	-	57.5	-	-	259.517	259.517
	c	-	-	-	-	-	-	-	-	-	-	-
Total	a	145.626	243.244	41.313	219.793	232.999	207.198		165.950		181.461	1437.584
	b	149.705	355.541	42.632	278.568	324.298	184.012		209.939		259.517	1804.212
	c	92.552	187.320	27.609	142.369	163.589	129.455		144.667		-	827.561
Total a, b and c		387.883	786.105	111.554	640.730	720.886	520.665		520.556		440.978	4129.357

1) North of England: 30 %

2) South West of England: 20%

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CCNO

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AT 14/2

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From The Secretary of State for Wales

THE RT HON NICHOLAS EDWARDS MP

14 February 1984

Dear Nigel

EC EXPENDITURE PROBLEM AND CONTROL OF UK PUBLIC EXPENDITURE

I have seen a copy of Norman Tebbitt's letter to you of 13 February with which I concur. I believe that there could well be difficulties both of principle and practice for domestic spending priorities in seeking, in effect, to carry the cost of UK Membership of the Community on the budgets of just a few departments, particularly in circumstances where the Community programmes in question may have little to do with the major policy objectives of the departments concerned.

There is also the question of whether this sort of approach would be in the best interests of our objective to maximise United Kingdom receipts from the Community. All this will accordingly warrant very careful consideration at E(A).

Copies to Members of E(A).

Yours ever

Nick

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON SW1P 3AG

Euro Pol Budget Pt 23

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Overtaken and replaced by brief of 20/2

Qz.03581

PRIME MINISTER

Community expenditure programmes and control of United Kingdom public expenditure

(E(A)(84) 12)

Questions at issue

When E(A) had a second reading discussion of this question in December, it instructed officials to pursue the proposals for a "Forward Look" at Community expenditure and to consider ways in which the objective of non-additionality could be achieved for Community expenditure. Following official discussions the paper (E(A)(84) 12) is now submitted by the Chairman of the Steering Committee on European Questions. The paper invites Ministers to take decisions on three issues which will allow a long term and better system for controlling the United Kingdom public expenditure element of Community expenditure. These issues are

- should we establish a co-ordinated "Forward Look" at Community expenditure? There is a unanimous recommendation in favour of this.

- should we continue the existing control arrangements for the United Kingdom public expenditure element of Community expenditure on the structural funds, the agricultural guarantees and on aid. The paper recommends the continuation of these arrangements but two Departments dissent.

- what should be the new control arrangements for the United Kingdom public expenditure element of other Community expenditure, where existing arrangements are unclear or unsatisfactory? Three options are presented for decision by Ministers.

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2. When Ministers have decided on these proposals, the arrangements will be phased in from the beginning of the next United Kingdom Public Expenditure Survey and the Community's draft budget for 1985, which will be presented in the summer of 1984. In the interim the United Kingdom will need to give its view in Brussels before the end of February on the funding of the Community's programme on research and development in information technology (ESPRIT). The paper therefore proposes the line to take on this.

<u>"Forward Look"</u> (paras 3-8 of E(A)(84) 12)

3. The paper indicates unanimous agreement on setting up the "Forward Look" at Community expenditure within the responsibility of a new PESC sub-committee; on the main tasks of the new sub-committee; and on its relationship with existing arrangements for inter-departmental co-ordination of Community matters. Some Departments think that the "Forward Look" should have an even wider role but, if raised, this would best be discussed under point 3 (new arrangements for public expenditure control). Accordingly you may wish to conclude that E(A) endorses officials' recommendations on the establishment of the "Forward Look".

<u>Existing arrangements on the United Kingdom share of Community expenditure</u> (paras 9-11 of E(A)(84) 12)

4. There are already arrangements for ensuring public expenditure control of the United Kingdom share of Community expenditure on the structural funds (such as the Social Fund and the Regional Fund but excluding its non-quota section), agricultural guarantees and overseas aid. The paper recommends in favour of the Treasury's proposal that all these arrangements should continue. There is no disagreement on agriculture. On other items the Department of Trade and Industry dissents because they want their option 2 for the new arrangements to apply to the United Kingdom share of all Community expenditure. This disagreement may be more apparent than real, because the Department of Trade and Industry has been operating without difficulty the existing procedures for the structural funds described in para 10 of the paper and could no doubt continue to do so, whether this is formally described as part of the existing arrangements or part of their

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proposed option 2. The Overseas Development Administration is in disagreement with the Treasury about the continued attribution of Community aid expenditure to the ODA Budget. The Overseas Development Administration argue that they cannot control some increases in Community aid expenditure and that it is wrong that increases in the United Kingdom share of Community aid expenditure should require a corresponding cut in the United Kingdom's bilateral aid. The Treasury argue that the aid budget is a single block of public expenditure: higher expenditure on one action should be matched by savings on others.

5. You may wish to ask the Chancellor of the Exchequer to explain why he sees no need for change in the existing system of public expenditure control of the structural funds and Community aid expenditure. The Secretary of State for Trade and Industry for the structural funds (the Secretaries of State for Northern Ireland, Scotland and Wales and the Secretaries of State for Employment and the Environment also have an interest) and the Foreign and Commonwealth Secretary for the Community aid expenditure will wish to put their objections.

New arrangements on the United Kingdom share of Community expenditure (paras 12-21 of E(A)(84) 12)

6. This is the crux of the problem, although (as para 12 of the paper points out) the economic significance of the expenditure not covered by existing arrangements is very small. The Sub-Committee has three options before it -

(i) option 1 (this is the Treasury option). The broad effect of this option is that the United Kingdom share of all Community expenditure cannot give rise to any increase in United Kingdom public expenditure. The Treasury proposes that, when receipts flow to the public sector, either the existing rules should apply or, in the case of research and development programmes, the departmental budget should be charged with the estimated United Kingdom share of the cost less any receipts accruing to the Department. When receipts flow to the private sector, the Treasury proposes that the departmental budget would have

 /to

to find savings equal to either the United Kingdom's estimated share of the cost or to the receipts of the United Kingdom private sector, together with any triggering payment. No other Department accepts option 1. Their most strongly held objection relates to Community programmes benefitting the private sector. They do not want to automatically cut their departmental budgets, including domestic programmes to which they attach higher priority, just because the Community sets up or increases a programme benefitting United Kingdom industry or research. They consider that in such cases the United Kingdom should try to get the best both for the departmental and the Community programme and, if public expenditure cuts are needed, they should be directed to the lowest priorities which may be in other sectors;

(ii) option 2 (this is the spending Departments' option, in particular that of the Department of Trade and Industry). The DTI proposes that the control should be only at the overall level of public expenditure. Provision would be made for the United Kingdom share of Community expenditure in a revised PESC Programme 2.7. Increases or new expenditure would be financed first from any savings in the Programme and, failing this, from United Kingdom public expenditure generally. The Treasury considers that this does not offer an improvement in public expenditure control;

(iii) option 3 (this option is intended to avoid some of the disadvantages of options 1 and 2. It is certainly a tighter public expenditure control than option 2 but it does not have the complete automatisity of option 1. We believe that Treasury officials are recommending to the Chancellor of the Exchequer that he could accept it, perhaps with modest changes). This option is based on two principles. First, the United Kingdom public expenditure element of each proposed Community programme would be subject to the same basic PESC procedure and rigour as any other United Kingdom public expenditure: if accepted, the public expenditure

/item

item would be included in the block programme within PESC Programme 2.7 in the same way as other United Kingdom public expenditure items are included in other block programmes. The United Kingdom share of a Community programme would not require an automatic offsetting reduction elsewhere but would be considered on its merits. Secondly, there would be strict rules (normally requiring an offsetting reduction) if the United Kingdom public expenditure provision for any item in the block PESC programme within Programme 2.7 were exceeded; these rules are set out in para 20(v) (a)-(d). The spending Departments consider these rules for avoiding a net increase in United Kingdom public expenditure above the original provision in the block programme within Programme 2.7 to be too harsh.

7. You may wish to invite the Chancellor of the Exchequer to introduce option 1. The Secretary of State for Trade and Industry will no doubt wish to speak on option 2; the Secretary of State for Energy, the Secretary of State for the Environment and the Secretary of State for Transport have an interest, as also do the Secretaries of State for Northern Ireland, Scotland and Wales and, because of the possible effects on discussions within the Community, the Foreign and Commonwealth Secretary. If no agreement on options 1 or 2 can be reached, you may wish to see whether option 3 can be accepted. When the decision has been taken, it would be sensible for officials to review progress, if necessary, if and when the revised Community financing arrangements now under discussion in the post-Stuttgart negotiations are in place.

ESPRIT

8. It is important that the United Kingdom should be in a position to give its view at the Council of Ministers (Research) on 28 February on the funding of the Community's proposed five year programme on research and development in information technology (ESPRIT). All other member states are expected to be ready to do so. The pilot programme is completed. A specific decision by E(A), consistent with its decision on the United Kingdom share of Community expenditure generally, is now needed. There is no substantive disagreement between Ministers on the value of the

/programme

programme: both the Secretary of State for Trade and Industry and the Chief Scientist consider that it should have priority within the Community's research and development effort. There is a good chance that United Kingdom industry will obtain a disproportionate share of the contracts, as we did on the pilot programme.

9. There are two main points at issue -

(i) should we cut United Kingdom public expenditure in comparable sectors if we agree to the ESPRIT programme?

(ii) can we gain assurances from the Commission that, if the ESPRIT programme is agreed and is given priority, it will be financed within the own resources and within any ceiling on research and development expenditure in the Community? If so, we should be able to achieve reductions in other programmes of lower priority.

10. On point (i) the Chancellor of the Exchequer has asked for offsetting savings on the DTI budget. The Secretary of State for Trade and Industry has refused, with the support of the Foreign and Commonwealth Secretary. Since recent discussions between these Ministers has still failed to resolve this point, this paper proposes a common sense compromise as follows. First, since the 1984 Community budget has been adopted with provision for ESPRIT (because the programme will start slowly, the United Kingdom share of payments will be only about £6 million, without taking account of receipts by United Kingdom industry), the commitments and payments in the 1984 budget should be accepted without any offsetting savings. Secondly, we should accept a five year programme under which the United Kingdom share of the cost should not exceed an average of £18 million a year without taking account of United Kingdom receipts (a Community programme of 700 million ecu over 5 years) and the decision now being made by E(A) on new arrangements for public expenditure control should apply to ESPRIT from 1985. Thirdly, we would require assurances from the Commission on respecting the ceiling on own resources and any ceiling on research and development expenditure in the Community, thus working towards a better system of priorities.

 /11.

11. You may wish to invite the Secretary of State for Trade and Industry to speak on ESPRIT and thereafter to invite the Chancellor of the Exchequer and the Foreign and Commonwealth Secretary to give their views.

Conclusion

12. You may wish to conclude, if the Sub-Committee agrees -

(i) that the "Forward Look" should be established on the basis set out in paras 3-8 of E(A)(84) 12;

(ii) that the existing arrangements relating to the United Kingdom share of Community expenditure on agricultural guarantees, structural funds and aid should be unchanged (paras 9-11 of E(A)(84) 12);

(iii) that the new arrangements relating to the United Kingdom share of other Community expenditure should be either options 1, 2 or 3; and that this should be reviewed if and when a revised budgetary system is established as a result of the post-Stuttgart negotiations (paras 12-22 of E(A)(84) 12)

(iv) that we should agree to the five year programme on ESPRIT on the conditions set out in paragraph 24 of E(A)(84) 12.

D F Williamson

D F WILLIAMSON

13 February 1984

cc: Sir Robert Armstrong
Dr Nicholson
Mr Gregson

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CONFIDENTIAL

AR 15/2 h-c.

NOTE FOR THE RECORD: BUDGETARY IMBALANCES AND THE COST OF ENLARGEMENT

1. Mr Hannay told me that both M. Noel and M. Legras had mentioned during M. Dumas' visit to London that the French were concerned to ensure that the British and the Germans bore their fair share of the cost of enlargement to existing members of the Community. Apparently, Mr. Davignon spoke to the Secretary of State this morning about this as well, implying that it was a point which had been accepted by the Commission.

2. I therefore spoke to Mr Lever. He said that the point had indeed been mentioned in Commission, but no real discussion of it had taken place. (I had the feeling that Mr Tugendhat had not sparked on the point.) I said that it would be a great mistake to allow the issue to be raised. If it came up again in Commission, I hoped that Mr Tugendhat would point out firmly that if a system of thresholds in accordance with relative prosperity was adopted, the UK and Germany would both automatically move up the line when Spain and Portugal joined and their thresholds would therefore be higher.

3. Mr Lever said that people were thinking of something more than that. He imagined that it would be argued that since special financing arrangements would have to be agreed for Spain and Portugal and since their benefits from the CAP would be limited in the early years of transition, there could be some special arrangements among the existing members of the Community for financing the small sum involved (ie no doubt Britain and Germany would contribute their VAT share). I said that if the sum was going to be small, it would be more than covered by the increase in our threshold. I urged him and Mr Tugendhat to gird themselves to try to dispose of the idea when it next surfaced. He did not commit himself but he did agree that he would keep us closely informed.

MDB

13 February 1984 Michael Butler

cc: Mr Shepherd
Mr Butt
Mr Powell

D H A Hannay Esq CMG, FCO
P Fairweather Esq, ECD(I), FCO
D Williamson Esq, Cabinet Office
G Stapleton Esq, Cabinet Office
D Durie Esq, Cabinet Office
Miss S J Lambert, Cabinet Office
A Walker Esq, DTI
Miss M J Lackey OBE, DTI
J B Unwin Esq, Treasury
→ A J Coles Esq, 10 Downing Street

Qz.03585

MR COLES

COMMUNITY AGRICULTURE: GREEN RATES AND POSITIVE MONETARY COMPENSATORY AMOUNTS

The United Kingdom's position on our own green rate and positive monetary compensatory amounts both in the agricultural price negotiations and in the post-Stuttgart negotiations generally must take proper account of -

(i) the political difficulty of changing the United Kingdom's green rate (thus reducing our positive monetary compensatory amounts and our producers' and consumers' prices) in a package which already amounts to a virtual freeze on farmers' support prices

(ii) the fact that, because our positive monetary compensatory amount is variable, it has not had such an incentive effect on production as, for example, the German green rate and positive monetary compensatory amount which has been giving stable support to German producers at about 10% above Community levels. A separate arrangement is clearly needed for variable monetary compensatory amounts.

2. Nonetheless, since the question of the positive monetary compensatory amounts may again play an important role at the next European Council, you may wish to see - and, if you think it appropriate, to show to the Prime Minister - the attached extract from a speech which the Director General for Agriculture in the Commission made in London on 8 February. It does set out rather precisely how this question is viewed in the Commission and in the seven member states which do not have positive monetary compensatory amounts.

/3.

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

D F Williamson

D F WILLIAMSON

13 February 1984

(EXTRACT FROM SPEECH OF MONSIEUR VILLAIN, DIRECTOR-GENERAL FOR AGRICULTURE, EUROPEAN COMMISSION, LONDON 8 FEBRUARY 1984)

In his essay "The language of Economics" J.K. Galbraith discussed why people use this kind of jargon. He observed that "professional economists, like members of religious congregations, aboriginal tribes, British regiments, fashionable clubs, holders of diplomatic passports, and followers of the more intellectually demanding criminal pursits, have a natural desire to delineate the boundary between those who belong, and those who do not".

I think this may be true also of the language of the common agricultural policy. If we did not conceal some of our actions by a barrier of jargon, they would not long survive.

That is probably the case with monetary compensatory amounts and green rates. If we reflect on the ends and means of those measures, we see that :

- their end is to protect agriculture from the normal effects of changes in currency rates;
- their means is a system of border charges, which protects agriculture in richer countries and disadvantages agriculture in poorer countries.

../..

Put in those terms, how could one possibly defend their continuation ?

Of course, we accept that in the interest of stability, MCAs are proper and even correct as transitional measures, to avoid abrupt changes in price as a result of devaluation or revaluation. But we cannot accept that they are used to make permanent price differences within the common market.

Let me put it this way :

- How can I justify to a cereals farmer in France that, in order to buy a ton of fertilisers, he needs to produce 20 % more cereals than his German counterpart?
- How can I justify to an Italian farmer that his counterpart in Holland enjoys price support 6 % higher, in Britain 8 % higher, and in Germany 10 % higher ?

It is for these reasons that the Commission proposes to phase out existing MCAs in two stages, despite the fact that, with a restrictive price policy in ECU, this will lead to price reductions in national money.

Last week I asked my experts to tell me the rate of exchange of the pound sterling against the ECU. They told me that since June it has been practically stable. That is good news. A country which has a stable rate of exchange enjoys a privilege. That is why the European Monetary System is a good thing.

But let me remind you that with privileges go obligations. The United Kingdom cannot expect to evade the common discipline of dismantling its monetary compensatory amount, on the grounds that the pound is unstable. Although the pound is not fully participating in the EMS, it is rather stable. And the British rate of inflation is now practically the lowest in the Community. Again that is good news : good news for consumers, good news for farmers, good news for the economy as a whole.

Let me make my point in this way. On the Continent we owe much to the language of Shakespeare. The English language is one of your invisible exports. Thus in French we have the expression "le fair-play". So on monetary compensatory amounts, I say: "jouer le jeu avec fair-play". Do not try to keep for ever these positive MCAs which - when they were negative - British farmers denounced with such vigour.

By the way, when it comes to fair play, I insist on it equally on the other side of the Channel.

Ref. A084/464

PRIME MINISTER

Cabinet: Community Affairs

The Minister of Agriculture, Fisheries and Food may refer to a statement he is circulating this evening about the resumption of payments to farmers under the agricultural and horticultural development scheme and the Hill Livestock Compensatory Allowances in the light of the Law Officers' advice that the Community's agricultural structures directives do continue in force after 31 December 1983, that member states are under an obligation to make payments under the schemes and that the obligation for the Community to reimburse expenditure incurred by member states continues.

2. There has been doubt about the legal status of the directives since the period of their extension expired on 31 December 1983. The Agriculture Council has been unable to agree either on a rollover, with or without an amendment, or on their replacement. The Commission has made it clear that it will propose that any rollover arrangements eventually agreed should be applied retroactively from 1 January 1984, and most other member states are believed to be prepared to continue to make payments. The major problem for the United Kingdom arises on the Hill Livestock Compensatory Allowances, the bulk of which are normally paid in the first quarter of the year.

3. The Minister of Agriculture has discussed the position with the Chief Secretary in the light of the very clear advice from the Law Officers and would like to be able to make a statement before he leaves for Australia at the end of the week that the United Kingdom is resuming payments of the capital grants on development plans approved after 31 December 1983 and of claims for the Hill Livestock grants received after that date.

approved by ROBERT ARMSTRONG and signed in his absence.

8 February 1984

Lindsay Wilkinson

Ref. A084/443

PRIME MINISTER

Cabinet: Community Affairs

The Foreign and Commonwealth Secretary will report on his discussions about the post-Stuttgart negotiations with Herr Genscher, the German Foreign Minister, on 6 February. A disturbing feature was an indication that the Germans were wobbling on the need for a lasting solution and were now more willing to share the French view that a time-limited solution on the budget inequity would be acceptable. He will also report on his discussions on 8 February with Monsieur Dumas, the French Minister for European Affairs, whom you will also have seen.

2. The Agriculture Council met on 6-7 February, the Finance Council on 6 February and there was also an informal meeting of Social Affairs Ministers. None of these meetings produced decisions which make a report to Cabinet essential. The Agriculture Council continued its discussion of the 1984 farm price proposals and made a further unsuccessful attempt to roll over the structures directives which authorise the payment of capital grants and Hill Livestock Compensatory Allowances. The Finance Council discussed the international economic situation, the continuation of the European Monetary System interest rate subsidy on which further work was postponed until after the March European Council, and the possible introduction of innovation loans on which the United Kingdom and Germany maintained general reserves.

3. Over the next seven days there will be a Ministerial meeting as part of the negotiations for the third Lome convention on 9-10 February, and an informal meeting of Energy Ministers on 14 February. Mr Davignon, Vice-President of the European Commission, will be in London for talks on 13 February.

RtA

ROBERT ARMSTRONG

8 February 1984

(2)

01-405 7641 Ext. 3229

Communications on this subject should be addressed to
THE LEGAL SECRETARY
ATTORNEY GENERAL'S CHAMBERS

ATTORNEY GENERAL'S CHAMBERS,
LAW OFFICERS' DEPARTMENT,
ROYAL COURTS OF JUSTICE,
LONDON, W.C.2.

Prime Minister.

See the Law Officers' opinion on pages 2 and 3

A.J.C. 8/2

Our Ref: EEC 84/7

8 February, 1984

MS

ROLL OVER OF AGRICULTURE STRUCTURES DIRECTIVES

will request it received

The Attorney General and the Lord Advocate have seen your letter to Henry Steel of 3 February and have advised as follows:-

"In terms of Article 6 of the Regulation 729/70 EEC, it was necessary for the Council to make an estimate of time for execution of the common measures contained in the structural Directives. We are asked to consider in effect whether the expiry of that estimate of time affects the continued operation of the Directives, in respect of the continuation of the schemes, of the duties of Member States, so far as making payments to beneficiaries under the schemes is concerned, or (as the Council Legal Service suggest), in respect of the responsibility of the Community to pay the contribution from the Fund (FEOGA Guidance Section).

In our view the Regulation 729/70 is the fundamental starting point. It makes it clear that the achievement of the Community objectives (under Article 39 EEC) is properly the responsibility of the Community. Of course, it does not work out in that way completely; because the Community does not provide the whole finance. However, that element of sharing in making provision by Member States seems to be foreseen in Article 6(2)(b) which requires the Council to determine the Fund's contribution to the expenditure. The purpose of Article 6 is to determine how the contribution of the Fund to the financing of the common measure is determined The "common measures" contained in the structural Directives must be considered in the light of the requirement of Community financing laid down in Regulation 729/70.

/The

01-405 7641 Ext.

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LAW OFFICERS' DEPARTMENT,
ROYAL COURTS OF JUSTICE,
LONDON, W.C.2.

The object of the structural Directives is to achieve certain Community objectives under Article 39 EEC, and these objectives have not yet been fully attained. There was an obligation to take measures to achieve the objectives, and that obligation still persists. Accordingly, in our view, it would require the clearest indication in the Directives that they were intended to terminate before the Community objectives were attained. There is no such indication, and indeed, although both the Council and the Commission legal services have expressed views hostile to the continuance of the Directives, or of obligations under them, we have seen no substantial argument in favour of those views.

The estimate of time in Article 16 of the Directives is not an estimate of the period during which the Directives are intended to subsist, but an estimate of the period which the Council considers will be required to carry out the common measures. In our view it was clearly envisaged that payments will take place after December 1983, because by approving schemes, it is accepted that the Fund will have responsibility for their execution for a period which clearly was bound to extend beyond the end of 1983. That is to say, it is clear from what has already been done that the period of execution of the common measures (to use the language of the Regulation) was to extend beyond the estimate of time currently given in the Directives and that it was not envisaged that payment would be prevented merely by the expiry of the estimate of time, which is after all, only an estimate. As we understand the assurances which the Commission has given concerning payments arising out of previously approved schemes, they have really accepted this.

It is never the case that one can predict with certainty the decision of the European Court of Justice ,but in our view there is a strong case in favour of the proposition that these Directives continue to be in force, and in favour of the continuation both of the obligations of Member States to make payments, and of the Fund to reimburse them. Subject to similar reservations as to legal certainy, we do not believe that it is likely that we will put Guarantee expenditure on beef and

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ROYAL COURTS OF JUSTICE,
LONDON, W.C.2.

sheep seriously at risk by continuing to make the payments.

Accordingly, we would answer the questions put to Law Officers as follows:-

(i) Yes, we think that the structural Directives do continue in force after 31st December 1983, and that Member States are under an obligation to make payments under the schemes;

(ii) Yes, we consider that the obligation for the Community to reimburse expenditure incurred by Member States continues;

(iii) if the answer to (i) were "no", then any payment which the Minister made would be in the nature of a state aid; it could not be made under the orders made under section 2(2) of the European Communities Act;

(iv) On the view we have taken on (i), the risk of payments by the UK being held to be state aids vulnerable to action under Articles 92 and 93 is no greater than the risk of that view being incorrect."

I am copying this letter to Douglas Duncan in the Lord Advocate's Department, David Bostock (Treasury) and to John Coles. May I leave it to you to circulate the Opinion of the Law Officers more widely as you see fit.

MICHAEL SAUNDERS

G Jenkins Esq
Legal Department
Ministry of Agriculture, Fisberies andFppd
55 Whitehall
London SW1

CONFIDENTIAL

NBPM AT 9/2

CCNO

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215) 5422
GTN 215)
(Switchboard) 215 7877

JH 775

Secretary of State for Trade and Industry

3 February 1984

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1

D Nigel,

EC EXPENDITURE PROBLEM AND CONTROL OF UK PUBLIC EXPENDITURE

I am concerned that officials will not put to us an agreed recommendation following E(A)'s conclusions of 1 December; and meanwhile an urgent decision is sought on Esprit.

2 It is right that we should have an effective mechanism for controlling the level of Community expenditure. But this should not be achieved in a way that jeopardises the proper exploitation of Community programmes. ESPRIT is a case in point. I cannot accept that the cost of any UK contribution to ESPRIT should be met by savings from my Department. While attribution of expenditure to Departmental programmes continues to be proposed, it will remain an effective bar to decisions on EC programmes. This will be damaging to the UK position in the Community and to our prospects for securing an adequate return to the UK from EC expenditure.

3 I therefore view it as necessary to devise a "Euro PESC" by means of which decisions on Community expenditure can be compared with other expenditure priorities. I do not accept that such a PESC would be less able to be controlled than other aspects of the spending programme. Departments will have a collective interest in the overall level of Community spending under such a PESC being contained. Accordingly. I support an arrangement in which the UK's share of expenditure in Community programmes is considered alongside UK public expenditure as a whole rather than individual Departmental programmes. I hope that you and colleagues will be able to agree to this when we meet.

4 I am copying this to the other members of E(A).

Yours
Norman

NORMAN TEBBIT

CONFIDENTIAL

CCNO

Foreign and Commonwealth Office

London SW1A 2AH

Sally

Pse amend our standard brief (typed last week)

1 February 1984

Mr. F...

Dear John,

UK Position in the Negotiations on the Stuttgart Declaration

Thank you for your letter of 30 January letting me know that the Prime Minister had approved the above paper, which was sent under cover of the Foreign and Commonwealth Secretary's minute of 27 January, and that she intends to make use of it herself.

In the paragraph on New Policies, we inadvertently omitted a reference to our proposals for the abolition of road haulage quotas. I enclose a fresh copy of the paper which includes the correct reference.

I am copying this letter and its enclosure to the Private Secretaries to the Chancellor of the Exchequer, the Minister of Agriculture, the Secretary of State for Trade and Industry and Sir Robert Armstrong.

Yours ever

Roger Bone

(R B Bone)
Private Secretary

A J Coles Esq
10 Downing Street

CONFIDENTIAL

UK POSITION IN THE NEGOTIATIONS ON THE STUTTGART DECLARATION

1. The overall objective is to re-launch the Community.

Budgetary Issues

2. On budgetary imbalances we seek a solution designed to 'avoid the constantly recurrent problems between the Member States over the financial consequences of the Community's budget and its financing'. This solution should consist of a corrective mechanism which would:

- be incorporated in the revised own resources decision and last as long as the problem it was designed to correct;

- be based on an objective measurement of the budgetary burden borne by a Member State. The basis of calculation would be the current allocated budget (calculated on the basis used by the Commission in its note XIX/480/80 and its subsequent note of 16 June 1983);

- correct the measured burden by setting a threshold. This would vary in relation to each Member State's relative prosperity. It would be expressed as a percentage of a Member State's gross domestic product;

- provide net relief to that Member State for sums paid in excess of that threshold. The relief would take the form of a deduction on the revenue side of the budget in the year following that for which it was granted;

- operate in respect of 1984 and subsequent budget years.

3. We also seek greater budgetary discipline, to ensure effective control over the rate of growth of agricultural and other expenditure. To this effect we wish to see:

- the management of EC resources based on the same strict rules as those governing the management of public finance in the Member States ie expenditure must be determined by available finance.

- The establishment by the Council, at the beginning of the budgetary procedure, of a frame of reference ie the maximum overall resources available in the following financial year.

- Within this overall control, the setting of a financial guideline for FEOGA Guarantee Section expenditure which would hold its growth markedly below that of the own resources base defined on a three year moving average.

These provisions should be incorporated in the Community's budgetary procedures.

4. On the basis of decisions taken under paras 2 and 3 above, we are ready to decide on the future financial requirements of the Community.

CAP

5. We want to bring about changes in the operation of the CAP which will adapt it 'to the situation facing the Community in the foreseeable future, in order that it can fulfil its aims in a more coherent manner'. To this end we are seeking agreement on:

- commitment to a rigorous price policy, and to a wider applications of guarantee thresholds for all sectors which are, or are likely to be, in surplus; or where such measures prove necessary because of a significant increase in expenditure or where production is increasing more rapidly than consumption.

- Effective measures to control milk production. We would like these measures to include at least a freeze on common prices for the next three years. They could also include a super-levy, as proposed in the Commission's papers of July and September 1983 (COM(93)(500) and COM(83)(508)), subject to agreement on the modalities.

- A decision to narrow progressively the gap between the Community's cereals prices and those in other producer countries over the next five years.

6. If decisions are taken on milk and cereals on the basis set out in the preceding paragraph, we are ready to authorise the opening of negotiations under Article XXVIII of the GATT with the United States and other principal suppliers designed to achieve the stabilisation of the Community's imports of cereals substitutes (corn gluten feed and citrus pellets). The results of the negotiation would be reported to the Council which would then decide whether to unbind the tariff.

7. We are not prepared to agree to the Commission's proposal for an oils and fats tax.

New Policies

8. We attach great importance to early agreement on a substantial list of measures designed to bring about improvements in the internal market and the strengthening of the Community's industrial competitivity. To this end we would like to see agreement reached on:

- adoption of the blocked Article 100 directives designed to lead to harmonisation of industrial standards.

- Adoption of a Single Adminstrative Document for customs clearance.

- Adoption of the proposed Common Commercial Policy Regulation which would enable the Community to respond rapidly to unfair trading practices by third countries.

- Implementation of a genuinely liberal regime for Non-Life Insurance Services.

- A programme for the abolition of road haulage quotas.

- Progress towards liberalisation of air transport services in the Community.

- A date no later than 1990 for the introduction of unleaded petrol.

- A solid fuels policy.

- The ESPRIT programme.

9. We are ready to work constructively on proposals for increasing industrial cooperation, particularly in the areas of high technology.

Structural Funds

10. We are working for early agreement on revised FEOGA Structure and Regional Funds. More work is needed on the Commission's proposals for Integrated Mediterranean Programmes which must be examined in close relation to the Community's structural funds.

Enlargement

11. We want to see the accession negotiations with Spain and Portugal effectively concluded by the end of September 1984, so that these two countries can enter the Community, as they wish to do, on 1 January 1986.

Euro Pol Budget Pt 22

CONFIDENTIAL

KCNO

2

Prime Minister

This means that the White Paper will assume receipt of the £42m before 31 March.

Treasury Chambers, Parliament Street, SWIP 3AG
01-233 3000

MT

DAWB 2/2

FOREIGN SECRETARY

PUBLIC EXPENDITURE WHITE PAPER: NET CONTRIBUTIONS TO COMMUNITY INSTITUTIONS

Thank you for your minute of 30 January in reply to mine of 24 January about the vexed question of the £42 million and the PEWP.

2. I am sorry that you were not entirely happy with my compromise. I myself still think it the right solution, and one which - by dropping the references in the text - took account of your points. But I fear that we can now only agree to differ, for the fact is that it is now too late to change the figures in the White Paper, for there would have to be consequential changes to most of the tables in Part I, and a new computer run.

3. Copies of this minute go to the Prime Minister and Sir Robert Armstrong.

(N.L.)
1 February 1984

CONFIDENTIAL

Euro Pol Budget Pt 22

Ref. A084/365

PRIME MINISTER

Cabinet: Community Affairs

Unless it has already been covered under Foreign Affairs, you may wish to tell the Cabinet about the Community aspects of your talks with the Italian Prime Minister on 26-27 January, when the post-Stuttgart negotiations were among the issues discussed.

2. The Secretary of State for Trade and Industry will report on the Steel Council on 22 January at which he and the Minister of State for Industry (Mr Lamont) represented the United Kingdom. This agreed to the renewal of the mandatory quota arrangements until the end of 1985. The prolonged regime includes the improvements for United Kingdom producers negotiated in July. The Council considered the implications for the carbon steel arrangement between the Community and the United States of the decision by Bethlehem Steel Corporation to file an action under Section 201 of the Trade Act against all United States carbon steel imports and agreed that the Commission should enter into consultations with the United States.

3. The Secretary of State for Trade and Industry may also report on his talks with Commissioners Davignon, Ortoli and Andriessen about the need for a further tranche of aid for the British Steel Corporation (BSC). The Secretary of State has obtained a Commission decision to allow the aid to BSC, even though we have passed the 31 January deadline for submitting a revised Corporation plan. Talks at official level with the Commission also identified means to reduce the fines on Sheerness Steel, which breached the quotas on production, to a level acceptable to the company and to ease the payment arrangements.

3m Ecus.

4. The Minister of Agriculture, Fisheries and Food will report on the Fisheries Council on 31 January. Unexpectedly, and most unusually so early in the year, the Council succeeded in agreeing catches and quotas in Community waters for 1984. The Common Fisheries Policy does now seem to be operating more effectively.

The Council also agreed on a reopening of herring fishing in the North Sea which was suspended a month ago following disagreement on national quotas.

5. The Minister of Agriculture, Fisheries and Food may also refer to three other Community agricultural issues which have received recent publicity. First, the Commission should be deciding today whether to disallow expenditure in the United Kingdom on the milk regime for 1978-79 because the Milk Marketing Board's dual pricing policy is alleged to have breached Community regulations. The Financial Controller's claim is opposed by the Commission's legal and agricultural services. We expect that the Financial Controller's claim will be thrown out and that the expenditure for these years will be accepted. The position for 1980 and subsequent years, however, remains to be resolved. The Minister of Agriculture is taking action with the Milk Marketing Board to secure the ending of the practices, with a view to avoiding the risk of disallowance for 1980 and later years. Secondly, there has been some unrest in the industry about the French Government's action on 29 January in restricting the entry points through which live food animals and fresh pigmeat could be imported into France. This has been announced as a precaution against foot and mouth disease. The practical effect on United Kingdom exports is likely to be small. The French Minister of Agriculture has agreed that United Kingdom and French officials should meet to discuss the matter. Thirdly, Mr Jopling may refer to the European Court's judgment on 31 January that retaining statutory powers to reintroduce severe restrictions on poultry imports was illegal. The Ministry of Agriculture has, however, made it clear that this does not affect the existing licensing system for imports of poultry meat.

6. Over the next seven days there will be an informal meeting of Social Affairs Ministers on 2 February. The Finance Council will meet on 6 February and the Agriculture Council on 6-7 February.

RTA

ROBERT ARMSTRONG

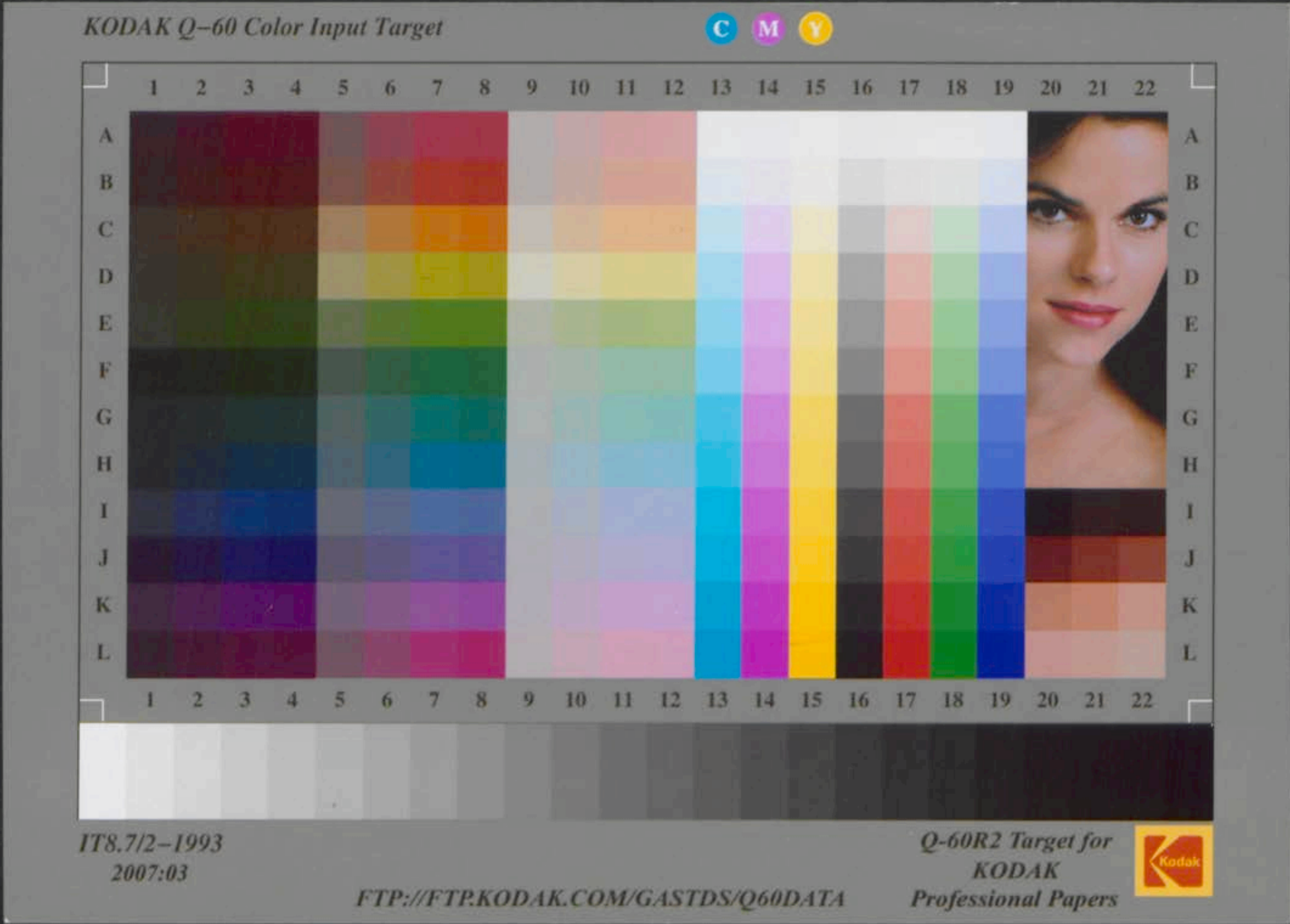
1 February 1984

PART 22 ends:-

FCS to Ch/Ex 30.1.84

PART 23 begins:-

RTA to PM (A084/365) 1.2.84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