

S
809

PREM 19/1230

PART 26

C

MT

SECRET

CONFIDENTIAL FILING

The Community Budget.

EUROPEAN
POLICY.

Developments In The European
Community.

PART 1: MAY 1979
PART 26: JULY 1984.

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
5.7.84							
9.7.84							
10.7.84							
13.7.84							
16.7.84							
20.7.84							
23.7.84							
26.7.84							
30.7.84							
- PART ENDS -							
X							

PREM 19/1230

Material used by
Official Historian
DO NOT DESTROY

PART 26 ends:-

Fin H. Plumb to PM 31-7-84
~~Howard Extract 30/7/84~~

PART 27 begins:-

CDP to FCO 1/8/84

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, 30 July 1984, columns 25 to 31:European Community Budget (Refund)

Signed

J. Gray

Date

18/9/2013

PREM Records Team

Conservative and Unionist Party, GB
Det konservative folkeparti, DK
Ulster Unionist Party, N. Ireland



EUROPEAN DEMOCRATIC GROUP
EUROPEAN PARLIAMENT

Chairman
Sir Henry Plumb, DL, MEP
LONDON

2 Queen Anne's Gate
London, SW1H 9AA
Tel. (01)222 1720
(01)222 1729
Telex 917650 EDGLDN

PRIVATE AND CONFIDENTIAL

31st July, 1984

Rt. Hon. Margaret Thatcher, MP
Prime Minister,
10 Downing Street,
London S.W.1.

Prime Minister
An attempt to pass the
back from the Parliament to
the Member States.

I have commissioned
a draft reply. C.D.P. 31/7

Dear Prime Minister,

I have already written to you about the election of Monsieur Pflimlin to the Presidency of the European Parliament last week. I now wish to inform you about the unhappy conclusion to our last week's work in Strasbourg, when the Parliament blocked again the negotiated British and German refunds for 1983.

Last Wednesday, we learned that following Garrett Fitzgerald's report to the Parliament on the Fontainebleau Summit, the Socialists had put down in the name of Madame Hoff a wind-up motion deploring the small role the European Parliament had played and would continue to play in the budgetary negotiations of the Council of Ministers: this is a familiar theme of the Parliament. More disturbing was an amendment proposed to this wind-up motion by a German Christian Democrat, Gero Pfennig; this amendment sought to make payment of the British and German rebates for 1983 conditional upon a supplementary budget being agreed for 1984.

Most of Thursday was spent by various Members of my Group attempting to persuade Pfennig and his colleagues to withdraw or modify that amendment. We stressed the parliamentary difficulties its adoption would cause to you both in the general presentation of the Fontainebleau settlement and, in particular, in making out the case at Westminster for an increase in own resources. We reminded Pfennig that the Budgets Committee had already decided the matter on 12th July; and we predicted (correctly) that the major beneficiaries of his action would be the British Labour Party.

.../...

On Friday, I myself went to put these points to the Christian Democrats. Although they listened to me politely, I am convinced that the Christian Democrats had already made up their mind to support the Pfennig amendment. I believe, in retrospect, that they were encouraged in this decision by others outside the Parliament - a point to which I shall return.

Shortly after my unsuccessful meeting with the Christian Democrats, Herr Pfennig's amendment was put to the vote. Pfennig informed the plenary (an undertaking later repeated by Klepsch) that the Christian Democrats would vote for the disbursement of the 1983 rebate when a supplementary budget for 1984 was agreed: the Community should not, however, pay out rebates until the "liquidity" of the Community had been assured for the rest of 1984. We, of course, vehemently protested that the amendment was inadmissible, pointing out that the Budgets Committee had already decided the matter of the rebates on 12th July 1984 and that the President should have already written to the Commission releasing the monies. Monsieur Pflimlin overruled us, as no doubt would have his predecessor, claiming that the plenary session of the Parliament retained sovereignty in the matter; he was undoubtedly influenced in his decision by a disingenuous letter to him of Erwin Lange, former President of the Budgets Committee, who mischievously represented the Budgets Committee's decision of 12th July to release the rebates as conditional upon Parliament's judgement of the acceptability or otherwise of the Fontainebleau settlement.

When Pfennig's amendment was finally put, it was almost exclusively British Conservative and Labour MEPs who voted against it. Interestingly, Rudi Arndt, the new leader of the Socialist Group, voted with us and against his colleagues; Arndt has not always been a friend of ours, but he has always been a critic of the Common Agricultural Policy's excesses, and he made a point of coming to me afterwards and asking whether I had noticed that he had voted with us.

You will be aware from the press how quickly and unequivocally my Group and I condemned the decision of the European Parliament to suspend again the British and German rebates for 1983. The Parliament is unwilling to give up the one small ability it has to influence, however marginally, the negotiations of the Budget Council; equally, there is in the Parliament genuine concern about the financing of the Community for the rest of the year.

.../...

These concerns are not new and would not, I think, of themselves have sufficed to bring about last Friday's vote. More worrying is the apparent willingness of some national governments to turn at least a blind eye to the vote of their colleagues in the Parliament. It was quite clear to me that the Germans in particular had been intensively briefed and possibly encouraged in their attitude by German government officials. Pfennig and his colleagues repeatedly criticised, in private conversation, the "unhelpful" attitude of the British Government at Budgetary and Foreign Affairs Councils since the Fontainebleau Meeting. They insisted that there was possibly a legal and certainly a political obligation upon the British Government to agree upon a supplementary budget of the Community for 1984. Nothing we said could convince them otherwise. This view of events can only have derived from Bonn. Certainly, in its present mood, the European Parliament is most unlikely to agree to release the British and German rebates for 1983 unless a supplementary budget for 1984 is agreed beforehand. It would require a massive effort of persuasion by your fellow heads of government, directed at their colleagues in the European Parliament, to change this position.

My colleagues and I will, of course, do everything possible to persuade our friends in the Parliament to see reason. I should be failing in my duty, however, if I did not warn you that the problem may lie as much with other Community Governments as in the European Parliament.

Yours ever,
Henry.

HENRY PLUMB

c.c. Rt. Hon. Sir Geoffrey Howe, QC, MP

RESTRICTED

GRS 490

RESTRICTED

FRAME ECONOMIC

FM BONN 311645Z JUL 84

TO PRIORITY FCO

TELEGRAM NUMBER 742 OF 31 JULY

INFO ROUTINE UKREP BRUSSELS

INFO SAVING ATHENS EMBASSY BRUSSELS COPENHAGEN DUBLIN LUXEMBOURG

PARIS ROME THE HAGUE

1983 REFUNDS: GERMAN PRESS REACTIONS

SUMMARY

1. GERMAN PRESS CRITICAL OF OUR REFUSAL TO MAKE MORE FUNDS AVAILABLE IN 1984 TO FINANCE THE EC BUDGET OVERRUN, BUT REGARDS THE PARLIAMENT'S ACTION IN BLOCKING OUR REFUNDS AS REGRETTABLY PROVOCATIVE. KLEPSCH(CDU MEP) SAYS IN BONN THAT THE ACTION WAS INTENDED TO PUT PRESSURE ON THE COUNCIL AS A WHOLE TO REACH EARLY AGREEMENT ON THE 1984 BUDGET. FEDERAL CHANCELLERY ALSO INTERPRET THE RESOLUTION IN THIS LIGHT, RATHER THAN AS AN ANTI-BRITISH MOVE.

DETAIL

2. GERMAN PRESS COVERAGE YESTERDAY AND OVER THE WEEKEND OF THE EUROPEAN PARLIAMENT'S ACTION IN BLOCKING OUR 1983 REFUND CONSISTED MOSTLY OF LONDON-BASED REPORTS OF THE SHARP BRITISH REACTION TO THE NEWS. THE PRESS NOTED HOWEVER THAT HMG EXPECTED THE PROBLEM OF THE 1984/5 BUDGET OVERRUNS TO BE SOLVED IN THE AUTUMN, AND DID NOT INTEND TO RETALIATE IMMEDIATELY BY WITHHOLDING. MOST PAPERS CLAIMED THAT THE PARLIAMENT HAD BEEN PROVOKED BY BRITAIN'S REFUSAL TO RESPECT THE FONTAINEBLEAU AGREEMENT THAT RESOURCES WOULD BE MADE AVAILABLE TO COVER THE 1984 OVERRUN. OUR APPROACH WAS WIDELY HELD TO BE A FLY ATTEMPT TO DEFER THE FINANCING OF THE GAP UNTIL 1985, WHEN WE WOULD BE ELIGIBLE FOR A TWO-THIRDS REBATE ON IT. A DETAILED ARTICLE IN THE GENERAL ANZEIGER (BY ITS LONDON CORRESPONDENT BONHORST) WAS ALONE IN POINTING OUT THAT BRITAIN INTERPRETED THE WORDS "STEPS... TO COVER THE NEEDS OF THE 1984 BUDGET" TO MEAN STEPS IN THE DIRECTION OF SAVINGS.

3. EDITORIAL COMMENT TODAY AND YESTERDAY, WHILE SHOWING SYMPATHY FOR THE MOOD OF PARLIAMENT, MOSTLY REGARDS THE PARLIAMENT'S ACTION AS AN UNHELPEFULLY PROVOCATIVE COMPLICATION OF THE OVERRUN PROBLEM, WHICH HAS DONE NO SERVICE TO THE CAUSE OF EUROPEAN UNITY. SOME EDITORS REGRET THAT THE RESOLUTION SHOULD HAVE BEEN PASSED SO SOON AFTER THE EDG HAD, WITH THE PRIME MINISTER'S ENCOURAGEMENT, HELPED TO ELECT PFLIMLIN AND PROMISED CLOSER COOPERATION WITH THE CHRISTIAN DEMOCRATS.

RESTRICTED

4

RESTRICTED

4. KLEPSCH (LEADER OF CHRISTIAN DEMOCRATS) IS REPORTED AS SAYING IN A PRESS BRIEFING IN BONN YESTERDAY THAT THE PARLIAMENT'S ACTION WAS INTENDED AS PRESSURE ON THE COUNCIL TO SOLVE THE 1984 BUDGET PROBLEM. QUOTE OUR INTERPRETATION OF THE FONTAINEBLEAU CONCLUSIONS WAS THAT THE REFUNDS WERE LINKED TO A SOLUTION OF THE PROBLEM OF THE BUDGET DEFICIT. IF THE COUNCIL REACHES AGREEMENT ON THE BUDGET IN NOVEMBER SIC, THE PARLIAMENT WILL NOT REFUSE THE BRITISH THE MONEY OWING TO THEM UNQUOTE. HE IS ALSO REPORTED TO HAVE SAID WHEN ASKED ABOUT COOPERATION WITH THE EDG THAT THE RESOLUTION WAS NOT INTENDED TO BE ANTI-BRITISH.

5. THE FEDERAL GOVERNMENT HAS NOT MADE ANY STATEMENT ON THE BLOCKING OF THE REFUND. HOWEVER, STABREIT (FEDERAL CHANCELLERY) TOLD THE MINISTER, CLEARLY IN THE HOPE THAT WE WOULD REPORT HIS REMARKS, THAT THE PARLIAMENT WAS EXTREMELY ANGRY WITH THE COUNCIL FOR NOT AGREEING THE BUDGET. THE ONLY LEVER AVAILABLE TO THEM FOR FORCING AGREEMENT WAS TO BLOCK THE 1983 REFUNDS. THIS, RATHER THAN A SPECIFICALLY ANTI-BRITISH MOVE, WAS WHAT WE HAD EXPERIENCED. THE FEDERAL CHANCELLERY HAD ADVISED LEADING CDU MEPS AGAINST SUPPORTING THE MOTION ON THE GROUNDS THAT THE REFUNDS HAD BEEN PROMISED TO BRITAIN AND THAT OUR READINESS TO COMPROMISE ON THE SHORTFALL IN FINANCES IN 1984 AND 1985 WOULD ONLY BE REDUCED BY THE PROPOSED MOVE.

FCO PLEASE PASS TO SAVING ADDRESSEES

(REPEATED AS REQUESTED)

TAYLOR

FRAME ECONOMIC

ECD (1)

²
RESTRICTED

Prime Minister

There is not much chance that the 5/6 September Budget Council will settle the problem, and it will have to go to the September Foreign Affairs Council. Tactically it would be better to see the Taoiseach between the two. But it's hard to refuse an earlier meeting if he presses hard. You could do 31 August or 3 September. Agree to offer this? C.J.P. 31/7.

Ref. A084/2203

MR POWELL

When I was talking to Mr Nally yesterday on other business, he reverted to the Taoiseach's wish for a meeting with the Prime Minister in late August or early September.

2. The proposition had been that the Taoiseach might come and the Prime Minister for an informal talk on his way back to Ireland from a holiday in France, in the last week of August. It was suggested that European Community business might provide the cover for such a visit, though in practice the Taoiseach would want to talk mainly about Anglo-Irish affairs.

3. I said to Mr Nally that I doubted whether a meeting between the Prime Minister and the Taoiseach on Anglo-Irish affairs would be useful as soon as that. I also indicated that the Prime Minister would have many other preoccupations at the end of August and in early September, before she left for her overseas trip.

4. Mr Nally was clearly inclined to agree that the time had not yet come for a meeting between the Prime Minister and the Taoiseach on Anglo-Irish business; but he said that, in view of recent developments in the Council of Ministers on the budget issues, the Taoiseach now believed it essential that he should have a meeting with the Prime Minister to discuss European Community business before the meeting of the Budget Council on 6 and 7 September. The Taoiseach is keen to do everything possible to see that the problems are resolved at that meeting and do not fester through the autumn, and intends to have a series of meetings with Community Heads of Government in the days immediately before the meeting in the hope of making that possible. He would be prepared to come either on this way back from France or as part of a whistle stop tour of Community capitals or on a special trip



from Dublin. If he came, he would no doubt also want to talk about Anglo-Irish affairs.

5. I was asked to tell the Prime Minister of the Taoiseach's thoughts on this, and to convey a indication of the Prime Minister's response to Dublin before the Taoiseach leaves for his holiday on Thursday 2 August.

R

Approved by
ROBERT ARMSTRONG
and signed in his absence.

CONQUEROR

31 July 1984



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

pt 20

NBPM
(letter with to
be done by
officials).
CJD 2/8.

FOREIGN AND COMMONWEALTH SECRETARY

COMMUNITY EXPENDITURE ON R AND D AND EURO-PES ARRANGEMENTS

Thank you for your minute of 18 July about Community expenditure on R and D and the Euro-Pes and PESC(EC) arrangements for controlling Community expenditure.

2. I am grateful for your recognition of the importance of the PESC(EC) arrangements. In my view this will be even greater after the Fontainebleau settlement than it was before. Our supporters in the House attach the highest priority to our securing effective control of Community expenditure following the agreement to raise the VAT ceiling to 1.4 per cent. Without such control we shall have the greatest difficulty in ensuring that our net contribution remains within reasonable bounds, even with the 66 per cent abatement. The effective implementation of the budget discipline principles agreed at Fontainebleau will, of course, be one of our objectives in the next few months. But the Euro-Pes procedures represent the other blade of the scissors. There can be no question of blunting it in current circumstances.

3. I was therefore concerned to read your proposals for amending the arrangements barely 6 months after we agreed on them last February in E(A). I cannot accept your suggestion that the baseline was set at too low a level. I agreed to provide, if necessary as an addition to the baseline, for the full cost of Esprit as well as for energy demonstration projects. I also agreed that we should put in a figure of 600 mecu for the 1984 baseline into Chapter 73.

4. Moreover I do not agree that the permissible rate of increase in the baseline is too low. The whole point of the Euro-Pes arrangements is that departments should have to consider additions to Community expenditure for R and D on the same footing as equivalent domestic expenditure. The provision that the Euro-Pes baseline should increase in line with domestic public expenditure as a whole is therefore entirely appropriate.



5. Nor can I accept any of your suggestions for changing the Euro-Pes framework. We are, of course, committed to look at the details of the Euro-Pes arrangements in the light of the Fontainebleau agreement and my officials will be putting a paper on this to PESC(EC) in the autumn. But I must tell you now that I see no reason why the Fontainebleau agreement should lead to any fundamental changes in the system. The only major question for consideration is whether the Fontainebleau 66 per cent abatement formula affects the detailed calculation to be made in evaluating our gross and net contributions to and benefits from individual Community programmes.

6. More generally I am very concerned about where we are going on R and D. We have, as you say, committed ourselves to accept a Community framework programme. We have also agreed that the share of Community budget devoted to R and D expenditure should be increased, though that in itself can and should be mainly achieved by bearing down on expenditure on agriculture in the budget, and certainly does not entail net additions to expenditure. But the Commission's proposal of a 5-year figure of 3750 mecus at 1982 prices for the framework programme is absurdly high and we have never accepted it. Moreover, the rates of increase of R and D expenditure implied by it are quite incompatible with the Fontainebleau agreement on not exceeding the maximum rate in the budgetary procedure, not least bearing in mind other expenditure commitments which we have regrettably felt ourselves obliged to accept, such as "significant increases in real terms" in the structural funds.

7. I believe that the time has come to make it clear to the Commission that their figure for the framework programme is simply unacceptable and to force the Research Council to consider its priorities within a much lower ceiling. Indeed in the context of the budget discipline arrangements I believe we may have to go further and establish that any multi-annual programme figures agreed by specialist Councils can only be of an indicative nature and may have to be cut back within the budgetary procedure. My officials will be taking this point up in the High Level Group on budgetary discipline.

8. As a first step we need to discuss amongst ourselves what would be an acceptable figure for the R and D framework programme. I propose that officials should establish what size of programme and over what period is likely to be compatible with the development of the Euro-Pes baseline. If Norman Tebbit and other colleagues with interests in the framework programme consider that a higher



figure than this is needed, then it is open to them to put forward additional bids, together with their proposals for offsetting savings either in the Euro-Pes baseline or in domestic programmes. That is the correct procedure which we agreed on in February in E(A). We should then decide on our objective for the size of the programme and on our priorities within it well in advance of the next Research Council, and try to see if we can reach a common line with like-minded member States.

9. I am sending copies of this minute to our OD(E) colleagues and, in view of the previous E(A) discussions, to the Prime Minister, and to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be "N.L." with a flourish.

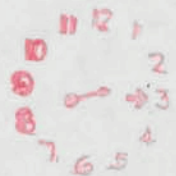
N.L.

30 July 1984

- AUG 1984



E 2 AUG 1984



W12795 4 XXX 229

EEC REBATE DECISION 'CHURLISH' - RIFKIND
MINISTER OF STATE FOR THE FOREIGN OFFICE, MALCOLM RIFKIND HAS
DENOUNCED THE ACTION OF THE EUROPEAN PARLIAMENT TO BLOCK BRITAIN'S
EEC REBATE AS 'CHURLISH'.

HE SAID ON ITN'S NEWS AT ONE: 'THE WAY THE EUROPEAN PARLIAMENT
HAS BEHAVED IS FRANKLY CONTEMPTIBLE AND IT BRINGS THE WHOLE EUROPEAN
PARLIAMENT INTO DISREPUTE.

'OVER THE LAST FEW MONTHS THE PARLIAMENT HAS LAID DOWN VARIOUS
CONDITIONS FOR THE PAYMENT OF THE BRITISH REFUND. EACH TIME THE
CONDITIONS HAVE BEEN MET, THE PARLIAMENT HAS CHANGED THE CONDITIONS -
THAT FRANKLY IS AN INTOLERABLE WAY TO BEHAVE.'

MR RIFKIND ACCUSED THE PARLIAMENT OF ACTING CONTRARY TO ITS OWN
RULES AND TWISTING ITS PROCEDURES TO BRING ABOUT THIS OUTCOME.

BUT HE STRESSED: 'THIS IS NOT A DISAGREEMENT WITH OTHER EUROPEAN
GOVERNMENTS. THE FONTAINEBLEAU SUMMIT REACHED UNANIMITY - THAT WAS A
SUMMIT OF HEADS OF GOVERNMENT AND PRIME-MINISTERS.

'THEY ARE ALL HONOURING THEIR OBLIGATIONS UNDER THAT SUMMIT.
THIS IS A DISPUTE WITH ONE INSTITUTION OF THE COMMUNITY, THE EUROPEAN
PARLIAMENT, WHICH IS NOT ANSWERABLE TO A GOVERNMENT AND WHICH,
THEREFORE, DOES BEHAVE OCCASIONALLY IN A GROSSLY IRRESPONSIBLE
FASHION. THIS IS ONE OF THOSE OCCASIONS.'

HE SAID TODAY'S EVENTS SUGGESTED THE RELATIONSHIP BETWEEN THE
PARLIAMENT AND THE COUNCIL OF MINISTERS NEEDED REFORM.

--
271451 JUL 84

30 July 1984

TO BE CHECKED
AGAINST DELIVERY

BY PRIVATE NOTICE

*La Mr George Foulkes (Carrick, Cumnock and Doon Valley): To ask the Secretary of State for Foreign and Commonwealth Affairs, if he will make a statement on the vote by the European Parliament on Friday 27 July to reject the rebate for Britain.

MR MALCOLM RIFKIND

Our 1983 refunds, totalling £440 million, were agreed by Heads of Government at the European Council in Stuttgart over a year ago. Two principal steps were needed before the refunds could be paid: approval by Member States of the necessary implementing regulations and agreement by the European Parliament to transfer the sums concerned from the reserve chapter of the budget.

Two Member States, France and Italy, made clear after the Stuttgart meeting, that they would only approve the regulations in the context of overall agreement in the negotiations on budgetary imbalances.

Following the agreement reached at Fontainebleau in June France and Italy gave their agreement to payment of the refunds. The only remaining substantial step was for the European Parliament to approve the necessary transfer. This was done by the Budgets Committee of the Parliament on 12 July by a vote of 25 votes to 0 with two abstentions. Following that vote, on 26 July, the Advisory Committees of Member States approved the necessary decisions actually implementing payment of the refunds on projects in the United

Kingdom. All the procedures to enable the refunds to be paid had thus been completed.

As hon Members know, the new Parliament held its first session last week. It decided to overturn the decision taken by the Budgets Committee and to hold up payment of the 1983 refunds.

Mr Speaker, there is no possible justification for the Parliament's petty and churlish action. Agreement on our refunds was reached at Stuttgart by all Heads of Government and was specifically endorsed by them at Fontainebleau. The Fontainebleau settlement itself met the Parliament's earlier conditions. There was no ground for new conditions being set. There was no ground for linking payment with the issue of the 1984 overrun on which the Government have made positive proposals in conformity with the Treaty and consistent with the own resources system.

The Parliament's inept behaviour will not affect the Government's attitude to discussions of the 1984 budget overrun which will be resumed at the Budget Council on 6 September. It will, however, make the search for an agreement more, not less, difficult.

Mr Speaker, one of the most welcome conclusions of the Fontainebleau Summit is that, in future, our refunds will be paid automatically on the revenue side of the budget. This would prevent similar difficulties arising in the future. It may be for this reason that the Parliament has been making difficulty over our 1983 refund, the last refunds in which it will be involved.

The Fontainebleau agreement set the Community's finances on a new and sounder basis. We have no quarrel with other Member States who are working with us to implement the Fontainebleau agreement. Hon Members will have noted the

(2023)

statement of the French Government criticising the Parliament's action. When the Parliament next meets in September, we trust that it will rethink its hasty, intemperate and damaging action. The President of the Parliament has said that the eventual repayment of the refunds is not in doubt. That promise will have to be honoured.

HMG IS OBSTRUCTING SOLUTION OF 1984 OVERRUN?

No so. We have put forward constructive proposals for dealing with the problem in accordance with the provisions of the Treaty and in a way which is consistent with the own resources system. We have taken the orthodox, Community minded approach.

LINK WITH BUDGET DISCIPLINE

The overrun question cannot be considered in isolation from budget discipline, the need for which has been reinforced by the Commission's use, last week, of the management procedures to incur spending for which funds are not available. We must therefore achieve satisfactory texts to embody budget discipline in the Community's budgetary procedures.

FONTAINEBLEAU AGREEMENT SHOWN TO BE WORTHLESS

Not at all. The heads of government came to a unanimous decision which all are honouring. There is no dispute with other governments. The action taken by the Parliament in no way reflects on Fontainebleau.

IS THE PARLIAMENT'S ACTION ILLEGAL?

That is a question that Community lawyers could argue over for years. We do not want that. We want to get the refunds paid. And we shall do so, because ultimately we do not believe the Parliament will stand against the rest of the Community and an agreement reached under Chancellor Kohl's Presidency of the Community and endorsed under President Mitterrand's Presidency.

UK SHOULD NOW WITHHOLD?

Has not come to that. It is only the Parliament that is standing in the way of payment. They have delayed payment of our refunds, but the money is still in the budget and we still expect this obstacle to be overcome. All the other Member States agree that the refunds must be paid. The Parliament has behaved irresponsibly but that is no reason for us to do so too.

DO YOU RULE OUT SUPPLEMENTARY FINANCING IN 1984?

We shall continue to insist that the problem must be dealt with in accordance with the provisions in the Treaty and in a way that is consistent with the own resources system. At first the Community were asking for double what they are now seeking. We believe there is still scope for further substantial economies.

UK ISOLATED 9 TO 1

Not so. There are several other Member States who also believe that more work is needed on the size of the overrun and that the immediate priority is to find savings. The Budget Council will be meeting again in early September to consider this problem further.

WILL YOU INSIST THAT ANY DEFERRALS SHOULD COUNT TOWARDS
OUR RELIEFS

We made clear that we had taken the Community's financial difficulties in 1984 fully into account when we accepted a flat rate refund of 1000 mecu in respect of 1984.

HAS THE UK FAILED TO HONOUR PART OF THE FONTAINEBLEAU
CONCLUSIONS?

No. The passage in the Fontainebleau Conclusions dealing with this issue was not cleared textually with Member States but was issued on the responsibility of the French Presidency. An earlier version, which was shown to delegations at Fontainebleau referred, correctly in our view, to the need for the budget to be brought into balance.

WHY DID UK NOT PROTEST AT FONTAINEBLEAU CONCLUSIONS?

The United Kingdom Permanent Representative made clear our reservations immediately after the Conclusions were published. He subsequently, on instructions, sent a letter to the Council Secretariat for circulation to other Member States. This letter recorded our view that Section 3 of the Conclusions, on the financing of the 1984 budget, did not accurately reflect the understanding reached in the European Council, namely that it was for the Budget Council to decide what should be done.

UK PROPOSAL TO DEFER SOME 1984 EXPENDITURE INTO 1985 NO
REAL ANSWER

Deferral of expenditure into 1985, combined with the real savings that we and other Member States have proposed, would keep the budget within the 1% ceiling. Deferral implies the need for continued budget discipline in 1985. Last week's Budget Council agreed on savings in the 1985 Preliminary Draft Budget to bring that budget within the 1% ceiling.

UK SELLING THE PASS BY AGREEING THAT OWN RESOURCES
SHOULD COME INTO EFFECT IN 1985

It has always been envisaged that our 1984 refunds would be paid in 1985 on the revenue side of the budget ie as part of the revised own resources decision. It follows that the revised own resources should come into effect by October 1985. If this happens, there is of course no question of the increased rate applying retrospectively to the whole of the year. Budget discipline will therefore be maintained.

WHAT ARE THE EFFECTS ON PUBLIC SECTOR PROJECTS OF THIS
FURTHER DELAY IN THE PAYMENT OF THE REFUNDS?

Regulations adopted on 26 June 1984, provide for Community support for projects, measures and schemes in the employment, transport infrastructure and energy strategy fields.

The projects will continue to be funded from the relevant public expenditure programmes. None have, so far, had to be delayed because of the late payment of the refunds.

CAN PARLIAMENT BLOCK REFUNDS IN FUTURE?

Under the agreement reached at Fontainebleau, our refunds will in future be paid automatically on the revenue side of the budget. Our 1983 refunds are the last refunds to be paid on the expenditure side of the budget and therefore the last opportunity for the Parliament to block them.

LINK WITH 1984 OVERRUN

No justification for the Parliament's action. We have not refused to deal with the 1984 budget problem. We have said that it must be dealt with in accordance with the Treaties. We have taken the orthodox, Community minded approach. The Budget Council will be meeting in early September to consider the overrun problem.

Further detailed work is needed to identify savings and deferrals. A solution to the overrun problem needs to be compatible with the Treaties and the own resources system. The overrun question cannot be considered in isolation from budget discipline, the need for which has been reinforced by the Commission's use, this week, of the management procedures to incur spending for which funds are not available. We must therefore achieve satisfactory texts to embody budget discipline in the Community's budgetary procedures.

UK SHOULD NOW WITHHOLD?

It is only the Parliament that is standing in the way of payment. They have delayed the payment of our refunds, but they will be paid. All the other Member States agree that they must be paid. The Parliament has been irresponsible but there are always obstacles of one kind or another in the Community and we are confident that this one can be overcome.

FONTAINEBLEAU AGREEMENT SHOWN TO BE WORTHLESS

Not at all. One of the great advantages of that agreement is that it provides for UK reliefs on the revenue side of the budget, which means that in future they will be deducted automatically from the payments we make to the Community. This will avoid the annual haggles with the Parliament of which the 1983 refunds is the latest example. We are working with other Member States on the detailed implementation of the Fontainebleau agreement, in particular of the agreements on budget imbalances and budget discipline. We have made clear that our Parliament will not be asked to approve an increase in own resources until measures guaranteeing budget discipline have been adopted.

IS THE PARLIAMENT'S ACTION ILLEGAL?

That is a question that Community lawyers could argue over for years. We want to get the refunds paid. And we shall do so, because ultimately I do not believe the Parliament will stand against the rest of the Community and an agreement reached under Chancellor Kohl's Presidency of the Community and endorsed under President Mitterrand's. We shall most certainly not agree to an increase in own resources until the matter,

together with the question of future budgetary
discipline, is resolved.

WHAT ABOUT THE COMMISSION'S SALE OF CHEAP BUTTER?

We, the Italians and the Dutch voted against the Commission's proposal. We voted against because;

a) the Commission was spending money that the Community did not have at a time when they needed to be looking for savings;

b) because it was wrong to treat such a politically sensitive issue simply as a matter of technical market management;

c) because the people of this country would not understand why the Community should be making cut-price sales to the Soviet Union.

NI2750 4 XXX 222

THATCHER 'FURIOUS' OVER BUDGET DECISION
EURO MPS IN STRASBOURG TODAY DECIDED ONCE AGAIN TO BLOCK
BRITAIN'S £457 MILLION COMMON MARKET BUDGET REBATE -- AND MRS
THATCHER WAS FURIOUS ABOUT WHAT WHITEHALL REGARDS AS AN "INTOLERABLE
DECISION," WRITES THE PRESS ASSOCIATION CHIEF POLITICAL
CORRESPONDENT.

THE PRIME MINISTER FEELS THE DECISION IS UNJUSTIFIED AND IS A
FURTHER EXAMPLE OF THE NIGGLING ATTEMPTS BY SOME FACTIONS IN EUROPE
TO ALIENATE BRITISH PUBLIC OPINION FROM THE INSTITUTIONS OF THE
COMMUNITY.

HOWEVER, DESPITE THIS MORNING'S EVENTS IN STRASBOURG, THE
GOVERNMENT IS CONFIDENT THAT IT WILL GET ITS MONEY.
WHITEHALL SOURCES BELIEVE THERE MAY EVEN BE ELEMENTS OF
VINDICTIVENESS AGAINST BRITAIN IN THE DECISION, WHICH CAN DELAY BUT
NOT STOP THE REPAYMENT.

AND THEY PREDICT ANOTHER ROW, PROBABLY IN SEPTEMBER, IN WHICH
BRITAIN WILL MAKE CRYSTAL CLEAR HOW INTOLERABLE AND UNJUSTIFIED THEY
BELIEVE THIS DECISION TO BE.
MRS THATCHER WILL NOW EXPECT BRITISH EURO-MPS TO ADD THEIR VOICES
TO THE CHORUS OF BRITISH PROTESTS. SHE HAS NOT, HOWEVER, SO FAR BEEN
IN TOUCH WITH SIR HENRY PLUMB, LEADER OF THE BRITISH CONSERVATIVES IN
EUROPE.

THE BRITISH GOVERNMENT'S VIEW IS THAT IT IS ABOUT TIME THE
COMMUNITY LEARNED SOME SENSE OVER THESE ISSUES AND THAT THIS LATEST
MOVE IS LITTLE SHORT OF STUPID.

271235 JUL 84

The European Parliament,

- having regard to the decision of the Committee on Budgets of 12 July 1984 to approve transfer of appropriations (number 1/84 (COM)(84)148 Final) thereby releasing the 1202 million ecu to finance compensatory measures in favour of the United Kingdom for the 1983 financial year and measures in favour of the Federal Republic of Germany in the same context:

(1) expresses strong reservations as to the new mechanism for budgetary compensation established in Fontainebleau by the Heads of State or Government;

(2) notes, in particular, that the decisions in Fontainebleau were taken without Parliament participation and in disregard of its powers and responsibilities in the budgetary and financial fields. These decisions do not, furthermore, provide the lasting solutions brought by Parliament;

(3) considers that any mechanism which involves equalisation of revenue on the basis of a "fair return" is contrary to the spirit and the letter of the Treaties;

(4) believes that, on the contrary, it would be possible to correct any budgetary imbalance by Community financing of special projects in the fields of employment, energy, transport or any other appropriate measures in the Member

/States

States concerned, on the basis of an agreement concluded in March 1984 between Parliament, the Council and the Commission;

(5) will use this principle as a starting point for its consideration of Commission proposals concerning the new compensation mechanism and of the draft budget for 1985;

(6) states that it will ^(not) allow budgetary decisions to be taken without its assent;

(6a) amendment tabled by Pfenig rejects the transfer of appropriations at this time and will re-examine it on the occasion of the submission of the supplementary budget;

(7) instructs its President to forward this resolution to the Council and the Commission;

(7a) vote for the resolution as a whole was:

212 in favour

70 against

3 abstentions

cc. Mr Williamson } Cabinet Office
Miss Lambert }

Mr Varin }
Mr Hopkinson } HM Treasury
Mr Peet }

PS

PS/Mr Ripford

Sir C. Tickell

Mr Renwick

Mr Wall

R. Yarde 27/7

Charles Powell

Pl. Kelly

EC Budget File.

Transcript by
JAMES LEE of:

INTERVIEW WITH THE PRIME MINISTER, MRS. THATCHER,
ON BBC 2 PROGRAMME "NEWSNIGHT" ON FRIDAY,
27 JULY 1984 - INTERVIEWER JOHN TUSA

=====

JOHN TUSA

Prime Minister, can we start with the decision today by the European Parliament? What is your feeling about their refusal to pay Britain's rebate?

PRIME MINISTER

I thought it was absolutely despicable. We have no quarrel, of course, with the Heads of Government, because all Heads of Government agreed that it should be paid and put their name to a communique which said that. But then it was very churlish and petty of the Parliament to disagree with it; the more so because the previous Parliament had agreed, and it is very irritating indeed. So often they ask us why are we not more communitaire? No country does more for Europe than Britain does and then they do this to us. It just adds one more difficulty to the many we have had to surmount.

JOHN TUSA

What are you going to do about it, though, and in the end are you going to have to pay? Is it going to be worthwhile paying a little bit more to this year's European budget, which the row is about?

PRIME MINISTER

I do not think so. First, expenditure has gone up far more than it should have done and therefore they want to put up income. I think it was Errol Flynn who said that his nett income was not enough for his gross habits. Well, you know, when that happens you really ought to cut your expenditure.

The Treaty is very firm about this. The Treaty says that the budget has got to be in balance. You cannot borrow. The Treaty also says that you have to live within the own resources.

Now, if you got to have a balanced budget and if you have to live within certain resources unless you alter the Treaty, then you in fact must cut your expenditure, not just ask for more income. And I thought some of the people I saw on television were right if they said one should challenge in the Courts if there is any suggestion of putting up the expenditure within the year.

JOHN TUSA

What about withholding Britain's payments which one Labour MP suggested?

PRIME MINISTER

I do not think it has come to that yet. We have often been told we should withhold and I have not withheld because I do not believe we should default on our undertakings even though other people default on theirs, until the end of the year has come.

There are other opportunities. The Parliament will have it back in September, and it is still in the reserve budget and should come to us by December. Let us see if it does. Just because they behave that way is no reason for us to do so too.

JOHN TUSA

does

But this not now cast a very substantial shadow over one of the main foreign affairs achievements? You have declared it was one of the main foreign affairs achievements - the whole package of the Fontainbleau Summit?

PRIME MINISTER

A small shadow; not a big one. All Heads of Government were united, every single one; no difference between us, on setting up the system which we have longed to have for a very long time. That system will not enable the Parliament to do what it has done today. That is why they have reacted. They are a little bit waspish about it.

JOHN TUSA

But is there any practical way that you think you are going to get that rebate without making concessions on the budget?

PRIME MINISTER

We are going to have a very difficult time this year, because they have overspent, but you know, we are the tough one, and they need someone to be disciplined. No organization will command respect and be able to carry on for long unless it has a good budget and a disciplined budget, and we are the one who exerts the discipline.

You know, next time, we are going to have M. Delors who is going to be President of the Commission. He has been very strict with the French budget. It was he who suggested strict guidelines for the European budget. Now he is going to be in the Presidency of the Commission and it will be very interesting to see if the Commission is run better as far as its financial budget is concerned than it has been in the past.

JOHN TUSA

Can we move on to the main issue, really, of this year, which is the miners dispute. You said a few weeks ago that you thought it would run a little while yet. How long do you think it is going to run now?



10 DOWNING STREET

From the Private Secretary

30 July, 1984

1983 Refunds

Thank you for your letter of 27 July about the legal aspects of the European Parliament's action in blocking the transfer of our 1983 refunds.

The Prime Minister has noted the conclusion that if we were to bring a case, it could drag on for a very long time and would mean that our refunds would not, meanwhile, be paid.

I am copying this letter to David Peretz (H.M. Treasury), Richard Stoate (Lord Chancellor's Office), Henry Steel (Law Officers' Department) and Richard Hatfield (Cabinet Office).

C. D. POWELL

Colin Budd, Esq.,
Foreign and Commonwealth Office

A handwritten signature, possibly 'C. D. Powell', written in dark ink.



Foreign and Commonwealth Office

London SW1A 2AH

27 July 1984

Prime Minister

Poor chance of getting
anywhere through the European
Courts.

CDD 27/7

Dear Charles,

1983 Refunds

I enclose some points to make on which the Prime Minister might wish to draw in her interview on Newsnight tonight. I also enclose transcripts of interviews given by Mr Rifkind earlier today.

The Prime Minister asked two questions about the legal aspects of the Parliament's action:

- (i) whether the blocking of the transfer is contrary to Community law; and
- (ii) whether Mr Dankert had acted illegally in not sending a letter to the President of the Community, saying that the transfer had been approved, immediately after the Budget Committee voted to that effect on 12 July.

We have consulted Treasury Solicitors and the Law Officer's Department and the following represents the advice of Whitehall advisers at official level. On the first question, Parliament is not mentioned in the Treaty of Rome as one of the institutions whose acts can be reviewed by the European Court of Justice. It might be that, if the merits of the case were strong, the Court would find some way of overcoming this procedural barrier but we could not be at all confident of such an outcome. On the merits of the case, in order to succeed in a claim that the resolution blocking our refunds constituted an illegal act, we should want to show that Parliament had a legal duty to approve the transfer of appropriations. Although the Regulations concerned provide for the appropriations to be entered in the general budget of the Communities, the Court would not necessarily hold that this constituted a specific obligation on the Parliament, as part of the budgetary authority, to make available money for our refunds.

/On

CONFIDENTIAL



On the second question, we would probably run up against the same procedural difficulties as described above. We have considered whether, instead of bringing proceedings against the Parliament, action could be brought against the Commission for their failure to act to implement the decision of the Committee. But we are advised that the scope for bringing a case would be very limited. The Commission would argue that they had taken all the measures open to them including holding a meeting of the Advisory Committees only yesterday. They would equally argue that they were blocked from making the final payment by the Parliament's vote against the transfer proposal. Whether the plenary of the Parliament had the power to block the transfer when it had already been approved by the Budgets Committee under delegated authority would be in dispute. But the Commission would argue that it was not within their power to challenge the Parliament's own interpretation of its own actions.

There is no simple answer to the question of liability under Community law. The above represents the legal advisers' preliminary view and the Law Officer would of course need to be consulted before we could draw any conclusions. What is certain is that, if we were to try to bring a case, it could drag on for a very long time and would certainly mean that our refunds were not paid in the meantime. We have included in the notes for supplementaries an answer covering this point.

I am copying this letter to the Private Secretaries to the Chancellor of the Exchequer, the Lord Chancellor, the Attorney General and Sir Robert Armstrong.

Yours ever,

Colin Budd

(C R Budd)
Private Secretary

C D Powell Esq
10 Downing Street

CONFIDENTIAL

PRIME MINISTER

Spoken to
Chancellor's office

Fr. [Signature] 28/7

1983 Refunds

You will recall that the Chancellor expected the Commission to ask Member States for an advance of own resources (against reimbursement) to allow them to pay our 1983 refunds. He proposed to announce that we would contribute to this in a Written Answer before the Recess.

The Chancellor considers that in the new climate created by the Parliament's decision to block our 1983 refunds:

- a) it would be a mistake to announce our intention; and anyway
- b) the Commission are now unlikely to ask for an advance until October at least.

He will not, therefore, make any statement before the Recess. I am sure that this is right.

Agree?

Yes not

C.D.P.

C. D. POWELL

27 July, 1984

PRIME MINISTER

EC BUDGET: THE EUROPEAN PARLIAMENT

Jurgen Ruhfus telephoned me again this morning to say that Chancellor Kohl's staff had again been in touch earlier this morning with the German Christian Democrats in the European Parliament to try to dissuade them from pressing their amendment. He did not know what the result would be. I said that the vote had already been taken and gone against us. This was a matter of great concern to you. Herr Ruhfus said he was sorry to hear of the outcome which was not wished by the German Government.

I should also record that I spoke again to Sir Henry Plumb early this morning. He was most grateful for your help in sending a message to Chancellor Kohl.

C.D.P.

27 July 1984

E C BUDGET . ADVANCE COPIES 10/5

HD/ECD(I) (2)

~~SIR J DILLARD~~

SIR C TICKELL

MR ~~RENEWICK~~

RESIDENT CLERK

Ps/Mr Eifield
Mr Wall

Ps/Mr Stewart } H M T S X
Mr S. Peet }

MISS J COURT } H M TREASURY
MR LENNON }

MR PEARSON CABINET OFFICE

Mr Williams - - -

Mr Lambert - - -

No 10. D. St.

GRS 450

RESTRICTED

DESKBY 271200Z JUL 84

FM UKDEL STRASBOURG 271115Z JUL 84

TO DESKBY 271200Z FCO

TELEGRAM NUMBER 101 OF 27 JULY

INFO IMMEDIATE UKREP BRUSSELS

INFO PRIORITY DUBLIN, PARIS, BONN

INFO ROUTINE OTHER EC POSTS

FROM UKREP BRUSSELS

1983 REFUNDS

UKDEL STRASBOURG TELNO 99

SUMMARY

1. THE EUROPEAN PARLIAMENT BLOCKED THE TRANSFER OF 1983 REFUNDS ONCE AGAIN AS A REACTION TO REPORTS ON THE UK ATTITUDE TO 1984/85 FINANCING. THE OPERATIVE TEXT READS THAT THE EUROPEAN PARLIAMENT " REJECTS THE TRANSFER OF APPROPRIATIONS AT THIS TIME AND WILL RE-EXAMINE IT ON THE OCCASION OF THE SUBMISSION OF THE SUPPLEMENTARY BUDGET ".

DETAIL

2. THE EUROPEAN PARLIAMENT ON 27 JULY ADOPTED THE HOFF (GERMAN SOCIALIST) RESOLUTION WITH AN AMENDMENT (PARAGRAPH 6A.) BY PFENNIG (GERMAN CHRISTIAN DEMOCRAT) REJECTING THE TRANSFER OF THE REFUNDS. FULL TEXT AS ADOPTED IN MIFT.

3. THE EDG, THE BRITISH WITH A MINORITY OF OTHER MEMBERS OF THE SOCIALIST GROUP, AND A FEW INDIVIDUALS FROM OTHER GROUPS VOTED AGAINST THE RESOLUTION WHICH WAS ADOPTED BY 212 FOR, 70 AGAINST WITH 3 ABSTENTIONS.

4. THE EDG (DOURO, LADY ELLES AND PROUT) ARGUED BEFORE THE VOTE THAT THE PFENNIG AMENDMENT WAS INADMISSABLE BECAUSE IT CONTRADICTED A DECISION PROPERLY TAKEN BY THE BUDGET COMMITTEE WHICH HAD DELEGATED AUTHORITY. PFLIMLIN TWICE RULED THAT THE PARLIAMENT AS

A DECISION PROPERLY TAKEN BY THE BUDGET COMMITTEE WHICH HAD DELEGATED AUTHORITY. PFLIMLIN TWICE RULED THAT THE PARLIAMENT AS A WHOLE WAS SOVEREIGN AND THIS WAS THE OVERRIDING PRINCIPLE.

5. PFENNIG, INTRODUCING HIS AMENDMENT, SAID THAT IT WAS NECESSARY BECAUSE THE PARLIAMENT COULD NOT ALLOW THE COMMUNITY TO RUN OUT OF FUNDS BECAUSE TWO MEMBER STATES WOULD GET REFUNDS WHILE THE COUNCIL HAD FAILED TO PROVIDE FOR THE NORMAL FUNCTIONING OF THE COMMUNITY. HE ADDED THAT THE TRANSFER SHOULD BE APPROVED ONCE THE FONTAINEBLEAU PROVISIONS ON 1984 FINANCING HAD BEEN MET BY THE COUNCIL. (NOTE: THE VERBATIM TEXT OF HIS EXACT WORDS ON THIS POINT WILL NEED TO BE EXAMINED).

6. MRS CASTLE SPOKE STRONGLY TO THE EFFECT THAT THE MONEY WAS CLEARLY DUE TO BRITAIN UNDER THE TERMS LINKING THE REFUND TO STUTTGART. THE NEW LINK THE PARLIAMENT WAS MAKING WAS UNACCEPTABLE BOTH ON THE GROUNDS OF PRINCIPLE AND BECAUSE THE SUPPLEMENTARY BUDGET WOULD NOT BE FOR NEW POLICIES BUT TO CONTINUE TO FINANCE AGRICULTURAL EXCESSES. THE PARLIAMENT'S ACTION SHOWED THE WEAKNESS OF THE FONTAINEBLEAU AGREEMENT. MRS THATCHER SHOULD NOT HAVE AGREED TO INCREASE OWN RESOURCES ON SUCH A FLIMSY BASIS.

7. LORD DOURO DESCRIBED THE DECISION AS DISGRACEFUL, MAKING THE POINTS THAT THE PARLIAMENT'S LINK WAS WITH THE STUTTGART PACKAGE WHICH HAD BEEN SETTLED, AND THAT THE BUDGET COMMITTEE HAD ALREADY TAKEN A FAVOURABLE DECISION ON THAT BASIS. HE THOUGHT THE EUROPEAN PARLIAMENT'S ACTION WOULD MAKE IT ALL BUT IMPOSSIBLE FOR THE UK PARLIAMENT TO RATIFY THE INCREASE IN OWN RESOURCES.

COMMENT

8. THE HIGH LEVEL OF ATTENDANCE FOR THE VOTE AND THE LARGE MAJORITY FOR THE PFENNIG AMENDMENT REFLECT THE STRONG, AND ESSENTIALLY IRRATIONAL, ATTITUDES OF MEPS ACROSS THE POLITICAL SPECTRUM. THEY ARE PERHAPS SUMMED UP BY THE COMMENTS OF VON WOGAU (A GERMAN CD MEMBER WHO NORMALLY HAS FRIENDLY LINKS WITH THE CONSERVATIVES) AFTER A DISCUSSION WITH EDG MEMBERS YESTERDAY, " I KNOW IT IS IRRATIONAL. WE DO NOT WANT TO GO ON TALKING ABOUT THE REFUNDS ANY MORE THAN YOU DO. BUT WE ARE FED UP WITH THE BRITISH ATTITUDE ON BUDGET QUESTIONS AND THIS IS FRANKLY TIT-FOR-TAT."

9. IT SEEMS LIKELY THAT THE NEXT STEP AS AFR AS THE PARLIAMENT'S PLENARY IS CONCERNED WILL BE A FURTHER DEBATE AND VOTE EARLY IN THE SEPTEMBER SESSION. AN UNOFFICIAL PAPER FROM THE PARLIAMENT'S NEW BUREAU WHICH WE HAVE OBTAINED PROVIDES FOR THIS BETWEEN 5 AND 8 PM ON TUESDAY 11 SEPTEMBER.

FCO ADVANCE TO :
FCO: PS/SOS, PS/MR RIFKIND, RENWICK, WALL
CAB: WILLIAMSON, LAMBERT
TSY: PS/MR STEWART, PEET

FCO PLS PASS ALL

STODDART

RESTRICTED

RESTRICTED

FRAME ECONOMIC

FM UKREP BRUSSELS 261505Z JUL 84

TO IMMEDIATE F C O

TELEGRAM NUMBER 2579 OF 26 JULY,

INFO BRUSSELS COPENHAGEN THE HAGUE ROME DUBLIN PARIS

BONN LUXEMBOURG ATHENS.

1983 REFUNDS

SUMMARY

1. ADVISORY COMMITTEES GAVE POSITIVE OPINIONS.

DETAIL

2. THE ADVISORY COMMITTEES SET UP UNDER THE 1983 REFUND REGULATIONS MET TODAY AND DELIVERED FAVOURABLE OPINIONS ON THE COMMISSION'S DRAFT DECISIONS ALLOCATING THE APPROPRIATE AMOUNTS OF COMMUNITY ASSISTANCE TO EMPLOYMENT, TRANSPORT AND ENERGY PROJECTS IN THE U.K. FAVOURABLE OPINIONS WERE ALSO ADOPTED ON CORRESPONDING DECISIONS RELATING TO GERMANY.
3. ALL THE OPINIONS RELATING TO THE U.K WERE ADOPTED UNANIMOUSLY. THE FRENCH HAD MADE CLEAR IN ADVANCE THAT THEY WOULD NOT VOTE AGAINST, BUT THEY RAISED A NUMBER OF POINTS OF DETAIL, IN PARTICULAR ON THE EMPLOYMENT DECISION AT TEDIOUS LENGTH.
4. THE COMMISSION REPRESENTATIVES AT ALL THREE MEETINGS MADE IT CLEAR THAT THE DECISIONS COULD NOT BE IMPLEMENTED UNTIL ALL THE PARLIAMENTARY PROCEDURES RELATING TO THE TRANSFERS FROM CHAPTER 100 COULD BE REGARDED AS COMPLETE. SOME COMMISSION REPRESENTATIVES HAVE TOLD US PRIVATELY THAT IN THEIR VIEW, UNLESS THE PARLIAMENT TAKES A NEGATIVE POSITION TOMORROW, THE TRANSFERS WILL BE APPROVED, EVEN IN THE ABSENCE OF A FORMAL LETTER TO THAT EFFECT FROM THE PRESIDENT OF THE PARLIAMENT, ONCE THE SIX WEEK TIME LIMIT HAS ELAPSED ON 8 AUGUST. BUT OTHERS WOULD NO DOUBT ARGUE THAT THE SIX WEEKS WILL NOT CONTINUE TO ELAPSE DURING THE DEAD MONTH OF AUGUST.

FCO ADVANCE TO:-

FCO - RENWICK, WALL, MARSDEN.

CAB - WILLIAMSON, LAMBERT.

TSY - UNWIN, MORTIMER, PEET, WILKINSON.

ELLIOTT

FRAME ECONOMIC

ECD (I)

(ADVANCED AS REQUESTED)

RESTRICTED

CONFIDENTIAL



File 6

10 DOWNING STREET

From the Private Secretary

26 July 1984

Dear Galin,

EUROPEAN PARLIAMENT: 1983 REFUNDS

Sir Henry Plumb telephoned me this evening from Strasbourg about the point reached in discussions in the European Parliament of the Christian Democrat Group's resolution which would have the effect of blocking our 1983 refunds. Sir Henry Plumb's view was that the only chance of preventing the resolution from being accepted was for the Prime Minister to get Chancellor Kohl to intervene with the Christian Democrat Group.

The Prime Minister decided that it would not be advisable for her to try to speak to Chancellor Kohl direct. Instead she instructed me to speak to Herr Ruhfus and ask him to convey a message to Chancellor Kohl on her behalf.

I subsequently spoke to Herr Ruhfus. I said that the Prime Minister was very disturbed by reports from the European Parliament in Strasbourg that a move was afoot to block payment of the United Kingdom's 1983 refunds, and that the move appeared to be led by the German Christian Democrats. She wanted Chancellor Kohl to know personally that she would regard this as a breach of the agreement reached at Fontainebleau. The argument appeared to be that

CONFIDENTIAL

CONFIDENTIAL

-2-

because the UK was blocking a solution to the 1984 overrun, payment of the 1983 refund should be held up. There could be no justification at all for any such link. The agreement on our refund at Fontainebleau had been clear. There had been no agreed conclusion on the 1984 budget, only an understanding that a solution would be sought within the Treaty. Discussions were going on and there would be a further Budget Council in early September. Meanwhile the Budget Committee of the European Parliament already approved our 1983 refunds and it seemed inconceivable that the new Parliament could act gratuitously to block them. It was particularly unfortunate that the German CDU members of the European Parliament appeared to be taking a lead in this. This came very badly when the Prime Minister had only recently written to Chancellor Kohl to make arrangements for closer co-operation between British Conservatives and German Christian Democrats. The Prime Minister wanted her views conveyed urgently to the Chancellor. She hoped that he would intervene to persuade the Christian Democrats to withdraw their resolution. At the very least it should be modified so as to avoid the actual blockage of refunds.

Ruhfus undertook to pass all this on to the Chancellor as soon as possible. He said that the German Government was aware of the discontent in the European Parliament over our attitude to the 1984 budget overrun but had not realised that it had reached the point where a resolution had been tabled to block our 1983 refunds. He questioned whether the German Christian Democrats were taking a lead: his information was that all parties were unhappy about the UK's obstruction over the 1984 overrun. This was a genuine problem. I repeated very firmly that there was absolutely no link between the two and that it would not be understood if payment of our refunds was now held up. Ruhfus said that personally he regretted any attempt to establish a link with the 1983 refunds.

CONFIDENTIAL

CONFIDENTIAL

-3-

Ruhfus subsequently rang me back to say that he had tried to contact Chancellor Kohl but discovered that he was already on his way to his holiday home. He would do his best to get a message to him. I said that it was very urgent: a vote would be taken early tomorrow. He repeated that he would do his best and telephone me in the morning.

Some time later, Ruhfus telephoned once more to say that Chancellor Kohl's Parliamentary State Secretary was in touch with Herr Klepsch, the Leader of the Christian Democrats in the European Parliament, to see what can be done. He would try to let me know the outcome in the morning.

I shall try to pass the gist of the above to Sir Henry Plumb if I am able to reach him again this evening.

I am sending copies of this letter to David Peretz (HM Treasury) and David Williamson (Cabinet Office).

Yours sincerely,
Charles Powell

Colin Budd Esq
Foreign and Commonwealth Office.

CONFIDENTIAL

CONFIDENTIAL

Ps.
CDP 27/7.

PRIME MINISTER

EUROPEAN PARLIAMENT: 1983 REFUNDS

I spoke this evening to Jurgen Ruhfus as we agreed. I said that you were very disturbed by reports from the European Parliament in Strasbourg that a move was afoot to block payment of the United Kingdom's 1983 refunds, and that the move appeared to be led by the German Christian Democrats. You wanted Chancellor Kohl to know personally that you would regard this as a breach of the agreement reached at Fontainebleau. The argument appeared to be that because the UK was blocking a solution to the 1984 overrun, payment of the 1983 refund should be held up. There could be no justification at all for any such link. The agreement on our refund at Fontainebleau had been clear. There had been no agreed conclusion on the 1984 budget, only an understanding that a solution would be sought within the Treaty. Discussions were going on and there would be a further Budget Council in early September. Meanwhile the Budget Committee of the European Parliament already approved our 1983 refunds and it seemed inconceivable that the new Parliament could act gratuitously to block them. It was particularly unfortunate that the German CDU members of the European Parliament appeared to be taking a lead in this. This came very badly when you had only recently written to Chancellor Kohl to make arrangements for closer co-operation between British Conservatives and German Christian Democrats. You wanted your views conveyed urgently to the Chancellor. You hoped that he would intervene to persuade the Christian Democrats to withdraw their resolution. At the very least it should be modified so as to avoid the actual blockage of refunds.

Ruhfus undertook to pass all this on to the Chancellor as soon as possible. He said that the German Government was

CONFIDENTIAL

CONFIDENTIAL

-2-

aware of the discontent in the European Parliament over our attitude to the 1984 budget overrun but had not realised that it had reached the point where a resolution had been tabled to block our 1983 refunds. He questioned whether the German Christian Democrats were taking a lead: his information was that all parties were unhappy over the UK's obstruction over the 1984 overrun. This was a genuine problem. I repeated very firmly that there was absolutely no link between the two and that it would not be understood if payment of our refunds was now held up. Ruhfus said that personally he regretted any attempt to establish a link with the 1983 refunds.

Ruhfus subsequently rang me back to say that he had tried to contact Chancellor Kohl but discovered that he was already on his way to his holiday home. He would do his best to get a message to him. I said that it was very urgent: a vote would be taken early tomorrow. He repeated that he would do his best and telephone me in the morning.

Since dictating the above, Ruhfus has telephoned once more to say that Chancellor Kohl's Parliamentary State Secretary is now in touch with Herr Klepsch, the Leader of the Christian Democrats in the European Parliament, to see what can be done. Ruhfus said that he was keeping his fingers crossed.

Ruhfus asked me to pass to you his warmest regards.

C.D.P

26 July, 1984

CONFIDENTIAL

PP LUXEMBOURG

PP ATHENS

GRS 200

RESTRICTED

DESK BY 261000Z JUL 84
FM UKDEL STRASBOURG

TO DESKBY 261000Z FCO

TELEGRAM NUMBER 99 OF 26 JULY

INFO DESKBY 261000Z UKREP BRUSSELS AND BONN
PRIORITY OTHER EC POSTS

FROM UKREP BRUSSELS

1983 REFUNDS

1SUMMARY

1. THE CHRISTIAN DEMOCRATIC GROUP HAVE TABLED AN AMENDMENT
BLOCKING THE 1983 UK REFUNDS AGAIN.

DETAIL

2. THE EUROPEAN PARLIAMENT, PREOCCUPIED EARLIER THIS WEEK WITH ITS OWN COMMITTEE AND OTHER APPOINTMENTS, IS NOW FOCUSING ON THE UK'S 1983 REFUNDS AND POST-FONTAINEBLEAU GENERALLY. THE IMPRESSION MEPS HAVE FROM THE PRESS AND REPORTS FROM THEIR GOVERNMENTS AND THE COMMISSION IS THAT THE UK IS BLOCKING ANY SOLUTION TO THE 1984 OVERRUN PROBLEM. A MAJORITY OF MEPS NOW SEEM INCLINED TO LINK THE PARLIAMENT'S FINAL APPROVAL OF THE TRANSFER OF THE REFUNDS TO A SATISFACTORY OUTCOME ON THE 1984 BUDGET, WHICH THEY SEE AS AN INTEGRAL PART OF THE FONTAINEBLEAU PACKAGE. THIS POINTS TO A DECISION IN THE SEPTEMBER SESSION IF THERE IS AGREEMENT IN PRINCIPLE BEFOREHAND IN THE COUNCIL ON THE 1984 BUDGET.

3. THE CHRISTIAN DEMOCRATS TABLED TODAY AN AMENDMENT (THE PFENNIG AMENDMENT) TO THE HOFF RESOLUTION ON THIS SUBJECT WHICH WILL BE VOTED ON AT 9.00 AM TOMORROW 27 JULY. THE CD AMENDMENT READS:

6. A. REJECTS THE TRANSFER OF APPROPRIATIONS AT THIS TIME AND WILL RE-EXAMINE IT ON THE OCCASION OF THE SUBMISSION OF THE SUPPLEMENTARY BUDGET.

4. THERE IS A SERIOUS RISK OF THIS AMENDMENT BEING ADOPTED. APART FROM THE CDS, THE ITALIAN COMMUNISTS, GAULLISTS AND FRENCH SOCIALISTS HAVE SAID THEY WILL SUPPORT IT AND IT SEEMS LIKELY TO COLLECT VOTES ELSEWHERE.

5. PFLIMLIN TOLD MARSDEN YESTERDAY EVENING THAT HE ACCEPTED THE WIDESPREAD VIEW OF MEPS THAT HIS FINAL AUTHORITY FOR THE TRANSFER SHOULD AWAIT THE OUTCOME OF THE NEXT COUNCIL DISCUSSION ON THE 1984 BUDGET. HE SEEMS UNLIKELY THEREFORE TO SIGN THE TRANSFER LETTER UNLESS THERE IS A POSITIVE VOTE IN PLENARY CLEARLY AUTHORISING THIS ACTION.

6. THE EDG AND WE ARE LOBBYING HARD. THE EDG HAVE ARRANGED FOR THE OFFICIAL CIRCULATION BY THE PARLIAMENT OF THE INTERIM BUDGET



PS

PS/Mr. RIFORD.

Mr. C. RICHIE

Mr. NEWICK.

Mr. WALL

HD ED(I).

Mr. WILLIAMSON } CAB OFF
Mr. LAMBERT }

PS/Mr. STEWART

Mr. S. PEET } H.M.TSY.

NO 10. X9

6. THE EDG AND WE ARE LOBBYING HARD. THE EDG HAVE ARRANGED FOR THE OFFICIAL CIRCULATION BY THE PARLIAMENT OF THE INTERIM BUDGET COMMITTEE'S LETTER SAYING THAT THEY HAVE ALREADY TAKEN A DECISION BUT THE KEY NOW SEEMS TO LIE WITH THE CHRISTIAN DEMOCRAT GROUP. WE RECOMMEND THAT MINISTERS CONSIDER WITH SIR HENRY PLUMB URGENTLY WHETHER ANY INFLUENCE CAN USEFULLY BE BOUGHT TO BEAR TO PERSUADE THE CDS TO CHANGE COURSE. KLEPSCH IS THE NEWLY REAPPOINTED LEADER OF THE CD GROUP IN THE PARLIAMENT.

FCO ADVANCE TO :

FCO : PS/SOS, PS/MR RIFKIND, TICKELL, RENWICK, WALL

CAB: WILLIAMSON, LAMBERT

TSY : PS/MR STEWART, PEET

FCO PSE PASS ALL

STODDART

NNNN

CORRECTIO TO LAST LINE OF TEXT REAPPOINTED SHOULD READ APPOINTED

SENT/RECD AT 1034Z CWC/RHS KKK

STRAFO 003/26

DD.

DD FCO (261000Z)

DD UKREP BRUSSELS (261000Z)

DD BONN (261000Z)

PP BRUSSELS

PP COPENHAGEN

PP THE HAGUE

PP ROME

PPDUBLIN

PP PARIS

ADVANCE COPY

089

File



10 DOWNING STREET

From the Private Secretary

26 July 1984

EUROPEAN COMMUNITY: 1984/85 BUDGET OVERRUN

The Prime Minister has noted the Foreign Secretary's minute of 24 July. Paragraph 9 promises some further thoughts on the handling of the problem of the 1984 overrun. Given that the next Budget Council will be in early September, it would be helpful if the Prime Minister could see these before she goes on holiday (probably 8 August), even if discussion is delayed until the end of the month.

BF

I am sending copies of this letter to David Peretz (HM Treasury) Ivor Llewelyn (Ministry of Agriculture, Fisheries and Food) and Richard Hatfield (Cabinet Office).

Charles Powell

Colin Budd, Esq.,
Foreign and Commonwealth Office.

GRS 500
RESTRICTED

RESTRICTED

FRAME GENERAL

FM UKDEL STRASBOURG 251530Z JUL 84

TO IMMEDIATE FCO

TELEGRAM NUMBER 97 OF 25 JULY

INFO IMMEDIATE UKREP BRUSSELS

INFO ROUTINE DUBLIN, PARIS, BONN

SAVING OTHER EC POSTS , LISBON AND MADRID

FROM UKREP BRUSSELS

DR FITZGERALD'S SPEECH TO THE EUROPEAN PARLIAMENT, 25 JULY

SUMMARY

1. DR FITZGERALD'S SPEECH AT THE INAUGURATIONAL SESSION OF THE NEW EUROPEAN PARLIAMENT, INCORPORATING HIS REPORT ON THE FONTAINEBLEAU EUROPEAN COUNCIL, EMPHASISED THE NEED FOR AGREEMENT IN THE COUNCIL ON THE 1984 BUDGET, GREATER ECONOMIC COOPERATION BETWEEN EC GOVERNMENTS, COMPLETION OF THE INTERNAL MARKET, AND PROGRESS WITH THE WORK OF THE INSTITUTIONAL AND CITIZENS' EUROPE COMMITTEES.

DETAIL

BUDGET

2. DR FITZGERALD STRESSED AT VARIOUS POINTS IN HIS SPEECH THE NEED FOR THE GOVERNMENTS TO STOP WRANGLING ABOUT WHAT HE DESCRIBED AS "WHO WILL PAY WHAT SHARE OF THE - LET US FACE IT - MISERABLE 1% OF COMMUNITY OUTPUT THAT WE ALLOCATE TO THE FINANCING OF THIS COMMUNITY OF EUROPE". HE SAID THAT THE DISPUTES ABOUT MONEY AND MILK THROUGH WHICH THE COUNCIL HAD BEEN DRAGGING ITSELF PAINFULLY WERE "IRRELEVANT" IN THESE YEARS OF WORLD ECONOMIC CRISIS. THE IRISH PRESIDENCY ATTACHED VERY GREAT IMPORTANCE TO THE SECTION OF THE PRESIDENCY CONCLUSIONS FROM FONTAINEBLEAU THAT DEALS WITH THE FINANCING OF THE 1984 BUDGET. IT WAS AT HIS OWN INSTIGATION THAT THERE WAS A POLITICAL AGREEMENT IN PRINCIPLE THAT THE NECESSARY STEPS SHOULD BE TAKEN AT THE NEXT BUDGET COUNCIL MEETING TO PROVIDE FOR THE INTERIM FINANCING NEEDS OF THE COMMUNITY. REGRETABLELY THE BUDGET COUNCIL AND THE SUBSEQUENT FOREIGN AFFAIRS COUNCIL HAD FAILED TO AGREE, ALTHOUGH NINE MEMBER STATES ADOPTED A COMMON POSITION ON THE NEED FOR ADDITIONAL FINANCING, AND CAME NEAR TO AGREEMENT ON THE METHOD TO BE ADOPTED. ON THE 1983 REFUNDS, DR FITZGERALD'S SPEECH DID HOWEVER REFER TO THE FACT THAT THE PARLIAMENT'S BUDGET COMMITTEE HAD MADE "A DECISION TO RELEASE THE SUM SET ASIDE FOR THE REBATE OF THE UNITED KINGDOM IN 1983".

RESTRICTED

/ECONOMIC

RESTRICTED

ECONOMIC COOPERATION AND THE INTERNAL MARKET

3. THE TAOISEACH SAID THAT THE MEMBER STATES SHOULD TACKLE JOINTLY THE IMMENSE SOCIAL PROBLEM OF UNEMPLOYMENT BY UTILISING MORE FULLY THE CAPACITY AND PURCHASING POWER OF A COMMUNITY OF 270 MILLION PEOPLE. CONCERTED ECONOMIC ACTION BY THE EC COULD PROVIDE A BASIS FOR A RETURN TO LEVELS OF ECONOMIC GROWTH FAR HIGHER THAN COULD BE ACHIEVED BY INDIVIDUAL STATES FOLLOWING ECONOMIC POLICIES OF THEIR OWN. WHILE THE UNITED STATES WITH ITS LARGE CONTINENTAL MARKET HAD PROVIDED 15 MILLION MORE JOBS FROM 1973-83, EMPLOYMENT IN THE COMMUNITY HAD DECLINED. HE REFERRED TO THE BUREAUCRATIC AND SUPERFLUOUS CONTROLS IMPEDING THE FREE MOVEMENT OF PEOPLE AND GOODS, THE LONG QUEUES OF LORRIES AT FRONTIER POSTS AWAITING CLEARANCE OF COMPLEX DOCUMENTATION, AND OBSTACLES TO THE RIGHT TO PROVIDE SERVICES.

INSTITUTIONS

4. FITZGERALD WAS FAIRLY FULLSOME IN HIS PRAISE OF THE SPINELLI INITIATIVE. IT WAS INEVITABLE THAT THERE WOULD BE RETICENCES ON THE PART OF GOVERNMENTS WITH RESPECT TO CERTAIN ASPECTS OF THE DRAFT TREATY. BUT THE DRAFT TREATY POINTED THE WAY AHEAD AND THE ONUS WAS ON SEEKING A REAL CONSENSUS FOR ACTION THAT COULD BE TAKEN NOW TO ADVANCE THE PROCESS ENVISAGED BY THE DRAFT. THE AD HOC COMMITTEE ON INSTITUTIONAL AFFAIRS WOULD MAKE SUGGESTIONS FOR THE IMPROVEMENT OF EUROPEAN COOPERATION. DR FITZGERALD WOULD BE PROPOSING TO IT THAT IN PARTICULAR IT SHOULD EXAMINE "THE FUNCTION AND DECISION-MAKING ARRANGEMENTS OF THE INSTITUTIONS AND THE INTER-RELATIONSHIPS BETWEEN THEM, THE EFFECTIVENESS OF THE COMMUNITY IN THE SOCIAL/ECONOMIC SPHERE (INCLUDING THE EUROPEAN MONETARY SYSTEM) AND IN THAT OF TECHNOLOGY, THE POSSIBILITY OF STRENGTHENING EUROPEAN COOPERATION AND COMMON ACTION IN -FOR EXAMPLE- THE FIELDS OF EDUCATION, HEALTH, JUSTICE AND THE FIGHT AGAINST TERRORISM, AND FINALLY, PROGRESS TOWARDS EUROPEAN UNION".

5. FITZGERALD ALSO SPOKE IN SOME DETAIL ABOUT PARLIAMENT INVOLVEMENT WITH THE APPOINTMENT OF MEMBERS OF THE COMMISSION. HE SAID THAT AN IRISH PROPOSAL, WHICH HAD NO OTHER STATUS, WAS THAT PARLIAMENT WOULD BE INVITED TO APPROVE THE PROPOSED MEMBERSHIP OF THE COMMISSION, AND THAT MEMBER GOVERNMENTS WOULD CONSIDER THE PROPOSED MEMBERSHIP WITH A VIEW TO REACHING COMMON ACCORD ON THE APPOINTMENT OF THOSE CONCERNED, ONLY AFTER THE PARLIAMENT HAD GIVEN ITS APPROVAL.

-2-
RESTRICTED

/COMMENT

RESTRICTED

COMMENT

6. FITZGERALD'S REMARKS ON THE 1984 BUDGET HAVE CONTRIBUTED TO A GROWING SENSE AMONG MEPS THAT THE UK IS AGAIN ON ITS OWN AGAINST THE NINE AND THIS WILL NOT HELP US TO ESTABLISH A CONSTRUCTIVE ATMOSPHERE IN THE DEBATE AND VOTE WHICH IS TO FOLLOW, ON POST-FONTAINEBLEAU AND THE REFUNDS. ARNDT(GER. SOC.) REPLIED IMMEDIATELY TO FITZGERALD'S SPEECH, AS THE LEADER OF THE LARGEST GROUP. HE WAS REPEATEDLY DISOBLIGING ABOUT THE UK. HE SAID THAT THE ATMOSPHERE AFTER FONTAINEBLEAU WAS ALREADY GETTING COLDER AND COLDER. MRS THATCHER WOULD NOT OBTAIN WHAT SHE WANTED BY ALWAYS SAYING NO. THE REFUNDS MONEY WAS INTENDED TO BENEFIT THE BRITISH PEOPLE IN PARTICULAR FIELDS OF EC POLICY. THE PARLIAMENT WOULD NOT ALLOW BRITAIN TO HAVE THE MONEY FOR SPENDING ONLY ACCORDING TO THE WILL OF MRS THATCHER.

FCO ADVANCE TO:

FCO:PS/S OF S, PS/MR RIFKIND, WALL

CAB:WILLIAMSON, LAMBERT

SY:PS/MR STEWART, PEET

FCO PLS PASS ALL

(REPEATED AS REQUESTED)

STODDART

(ADVANCED AS REQUESTED)

FRAME GENERAL

ECD(1)

COPIES TO:-

ADVANCE ADDRESSEES

-3-
RESTRICTED

CONFIDENTIAL

34690 - 1

DD 260500Z HONG KONG
GRS 668
CONFIDENTIAL
DESKBY 260500Z

FM FCO 251735Z JUL 84
TO IMMEDIATE DUBLIN
TELEGRAM NUMBER 137 OF 25 JUL 84
INFO IMMEDIATE UKREP BRUSSELS AND OTHER EC POSTS (FOR SECRETARY
OF STATES PARTY)

COMMUNITY BUDGET: 1984/85 OVERRUNS

1. UNLESS YOU SEE OBJECTION, PLEASE SPEAK TO THE IRISH AT A SUITABLY SENIOR LEVEL AND TELL THEM THAT WE ARE CONCERNED AT THE WAY IN WHICH THE IRISH GOVERNMENT IS APPROACHING THE PROBLEM OF COMMUNITY FINANCING IN 1984 AND 1985. INSTEAD OF TRYING TO FIND A WAY THROUGH THESE PROBLEMS WHICH MIGHT BE ACCEPTABLE TO ALL MEMBER STATES, THE PRESIDENCY APPEARS TO BELIEVE THAT IT WILL SUFFICE TO PUT PUBLIC PRESSURE ON US TO CHANGE OUR POSITION AND AGREE THAT THE 1984 OVERRUN SHOULD BE FINANCED OUTSIDE THE OWN RESOURCES SYSTEM AND, INDEED, OUTSIDE THE TREATIES. THIS WAS THE LINE TAKEN BY DR FITZGERALD IN HIS SPEECH TO THE EUROPEAN PARLIAMENT TODAY.
2. YOU SHOULD POINT OUT THAT THE PROPOSAL BEFORE THE GENERAL AFFAIRS COUNCIL AMOUNTED TO SUGGESTING, IN EFFECT, THAT WE SHOULD WRITE OUT A CHEQUE, OUTSIDE THE TREATY ARRANGEMENTS, TO FINANCE OTHER PEOPLE'S AGRICULTURAL OVERSPENDING. WE SHOULD LEAVE THE IRISH IN NO DOUBT THAT THERE IS NO PROSPECT OF THE BRITISH GOVERNMENT AGREEING TO THIS OR, IF IT DID, OF PARLIAMENT APPROVING SUCH AN ARRANGEMENT.
3. IF, AS WE HOPE, THE IRISH PRESIDENCY WISHES TO FIND A WAY FORWARD, AN ESSENTIAL STEP IS TO DETERMINE WHETHER NEW OWN RESOURCES CAN BE BROUGHT FORWARD INTO 1985 (THOUGH THE APPLICATION OF THE 1.4 PERCENT VAT RATE COULD NOT BE READ BACK ACROSS THE WHOLE OF THAT YEAR). IF ALL MEMBER STATES COULD AGREE TO THIS, THEN IT WOULD BECOME POSSIBLE TO SEE A WAY FORWARD. THE GERMAN GOVERNMENT AT PRESENT IS OPPOSED, BUT IT IS NOT POSSIBLE OTHERWISE

CONFIDENTIAL

TO HONOUR THE FONTAINEBLEAU AGREEMENT ON BUDGET IMBALANCES (WHICH PROVIDES THAT OUR REFUNDS SHALL BE OEDUCTED FROM OUR VAT SHARE IN 1985) AND THE FRENCH AND SOME OTHERS DO NOT BELIEVE THAT THE GERMANS WILL BE ABLE TO SUSTAIN THEIR PRESENT POSITION. THE DUTCH

HAVE EXPRESSED RESERVATIONS ABOUT BRINGING NEW OWN RESOURCES FORWARD IN RELATION TO THE TIME REQUIRED FOR THEIR RATIFICATION PROCEDURES, BUT SEEM LIKELY TO AGREE TO THIS IF OTHERS DO. OTHER MEMBER STATES HAVE ALREADY INDICATED THAT THEY CAN AGREE.

4. IF A FURTHER DEADLOCK IS TO BE AVOIDED IN THE BUDGET COUNCIL IN SEPTEMBER, FURTHER WORK WILL ALSO NEED TO BE DONE ON THE FIGURES. THE PRESIDENCY FIGURE OF 1350 MECUS IS A PURELY POLITICAL FIGURE AND IT IS NOT CLEAR TO WHAT EXTENT THE REDUCTION FROM THE 2 BILLION ECUS EARLIER ESTIMATED WOULD CONSTITUTE SAVINGS OR DEFERRALS.

5. WE SHALL BE READY TO HOLD FURTHER BILATERAL TALKS WITH THE PRESIDENCY BEFORE THE BUDGET COUNCIL IF THEY THINK THIS WOULD BE USEFUL.

6. IF THE IRISH STATE THAT IT WAS AGREED AT FONTAINEBLEAU THAT STEPS WOULD BE TAKEN AT THE NEXT BUDGET COUNCIL MEETING TO COVER THE NEEDS OF THE 1984 BUDGET, YOU SHOULD STATE THAT - AS SIR MICHAEL BUTLER MADE CLEAR IN COREPER ON 27 JUNE - THIS PASSAGE OF THE FONTAINEBLEAU CONCLUSIONS WAS ISSUED BY THE FRENCH PRESIDENCY ON ITS OWN AUTHORITY. IT WAS AGREED AT FONTAINEBLEAU THAT THE PROBLEM OF THE 1984 BUDGET MUST BE DEALT WITH AND WE HAVE BEEN PROPOSING A MEANS OF DEALING WITH IT IN CONFORMITY WITH THE TREATIES AND THE OWN RESOURCES SYSTEM.

7. FOR YOUR OWN INFORMATION, THE CHANCES OF MAKING PROGRESS ON THE BUDGET ISSUES WILL DEPEND ON THE PRESIDENCY ADOPTING A DIFFERENT APPROACH. THEY HAVE TAKEN LITTLE ACCOUNT SO FAR OF OUR POSITION AS REPRESENTED TO THEM IN BILATERAL TALKS, INCLUDING MY MEETINGS WITH MR BARRY IN BRUSSELS. SUPPLEMENTARY FINANCING CANNOT BE AGREED SIMPLY BECAUSE A MAJORITY OF MEMBER STATES WOULD LIKE IT TO BE. IT WOULD BE A SERIOUS MISTAKE FOR THE IRISH TO IMAGINE THAT WE CAN BE PRESSED INTO FINANCING OUTSIDE THE SCOPE OF THE TREATIES. IF THEY ARE PREPARED TO WORK FOR (A) FURTHER SERIOUS EXAMINATION OF THE FIGURES AND (B) THE BRINGING FORWARD OF NEW OWN RESOURCES, THERE IS A POSSIBILITY THAT THE PROBLEM COULD BE REDUCED TO MANAGEABLE PROPORTIONS, PERMITTING THE CONTINUANCE OF COMMUNITY POLICIES CONSISTENT WITH THE OWN RESOURCES SYSTEM.

HOWE
NNNN

DISTRIBUTION
FRAME ECONOMIC
ECD



Ref. A084/2141

PRIME MINISTER

Cabinet: Community Affairs

The Chancellor of the Exchequer will report on the discussion of the proposed Community 1984 supplementary budget and the 1985 preliminary draft budget at the Council of Ministers (Budget) on 19-20 July when the Economic Secretary represented the United Kingdom. The United Kingdom said that both the 1984 and 1985 budgets had to be financed within the existing own resources ceiling and put forward a balanced package of saving and deferrals, particularly of agricultural expenditure, into 1985. We recognised that later in 1985 the revised Own Resources Decision might be available to make some more finance available. On the 1985 preliminary draft budget progress was made in our direction. The Council agreed, provisionally, to reduce the initial draft budget within the 1 per cent VAT ceiling, with the bulk of the reductions falling on agricultural guarantee expenditure. The agreement was provisional because other member states linked the operation either with financing the 1984 overrun or with a commitment to some supplementary finance later in 1985. The United Kingdom made it clear that we were not prepared to provide supplementary finance outside the own resources system but said that it might be acceptable for the revised Own Resources Decision to come into force in 1985, thus legitimately providing a specified and limited amount of new resources in 1985. The Germans, however, were unwilling to agree. Subsequent discussion in the Council of Ministers (General Affairs) showed that only Germany was opposing the likely solution for 1985, ie a budget now within the 1 per cent ceiling and entry into force of the new own resources later in the year. On the 1984 supplementary budget the position was difficult. The nine other member states were willing to have a supplementary budget (the Presidency suggested 1350 million ecu, which is about 1000 million ecu less than the Commission proposed) for which the finance would be

provided by a regulation under Article 235 or, more probably, an intergovernmental agreement outside the Treaty. The United Kingdom did not agree. Subsequently in the Council of Ministers (General Affairs) when it would have been wise to leave the question until the next Council of Ministers (Budget) in September, Herr Genscher stirred up the issue and attacked the United Kingdom's position, using the familiar "nine to one" arguments. Despite this, the draft budgets will in fact be next considered in the Budget Council on 6-7 September.

2. The Minister of State, Foreign and Commonwealth Office (Lady Young), in the Foreign and Commonwealth Secretary's absence in the Far East, will report on the Council of Ministers (General Affairs) on 23-24 July at which the Foreign and Commonwealth Secretary and the Minister of Trade represented the United Kingdom. Much time was spent on the Community's position in the negotiations on the enlargement of the Community and in meetings with Spain and Portugal. The Council agreed that in the enlarged Community the qualified majority should be 54 votes - a position acceptable to the United Kingdom - but Belgium and Luxembourg asked for time for further reflection. It also agreed on a 13th Judge and 6th Advocate-General for the European Court, although the United Kingdom made clear its reservations on the former. The Spanish took a hard line on industrial tariffs, which was not unexpected at this stage of the negotiation, and this will be an important element in the negotiations in September. No conclusion was reached on the follow-up to the Budget Council. There was a general attack on the United Kingdom, which the Foreign and Commonwealth Secretary refuted.

3. The Minister of Agriculture, Fisheries and Food may refer to the subsequent decision by the Commission to introduce further disposals of surplus products by export and other measures of support for beef and the distillation of wine, even though the funds required for this are in the 1984 supplementary budget which has not been approved by the Council and might be



affected by its decisions on savings. The United Kingdom Permanent Representative is being instructed to protest against this.

4. The Minister of State, Foreign and Commonwealth Office, may also refer to this week's opening session of the new European Parliament, at which Monsieur Pflimlin, the former French Prime Minister, has been elected to the Presidency. The Commission are still awaiting a letter from the President of the new European Parliament reporting approval of the proposal (which had been approved earlier by the authorised Budget Committee of the European Parliament) to transfer our 1983 refunds from the reserve chapter of the 1984 budget before they will actually pay the refunds.

5. The next Community meetings are the General Affairs Council on 3 September and the Budget Council on 6-7 September.

RIA

ROBERT ARMSTRONG

Handwritten scribbles and initials

*Pflimlin
Dubois
Ovzi
1m12
Pres.
Commission*

Critical.

25 July 1984

CONFIDENTIAL

cc PC



Foreign and Commonwealth Office

London SW1A 2AH

25 July 1984

NBM

CD 26/7

Dear Charles,

Irish Presidency and the Community Budget

You enquired about Dr FitzGerald's speech at the European Parliament in Strasbourg today.

We do not yet have a full text of Dr FitzGerald's remarks. He is reported however to have said that there was a political agreement at Fontainebleau that the necessary steps should be taken at the next Budget Council to provide for the interim financing needs of the Community. The Council, he went on, failed to agree although nine member states adopted a common position on the need for additional financing and had come near agreement on the method to be adopted. All possible savings must be made, but the remaining shortfall must be provided for.

I attach a copy of a telegram which has been sent today to HM Ambassador in Dublin asking him to take up with the Irish Presidency the manner in which they are trying to tackle this problem and to make clear to them that the next Budget Council will require serious preparation and that public pressure on us to agree to extraordinary financing arrangements outside the scope of the Treaties will not promote a solution.

Yours ever,

Colin Budd

(C R Budd)
Private Secretary

C D Powell Esq
10 Downing Street

CONFIDENTIAL

OUT TELEGRAM

		Classification and Caveats	Precedence/Deskby
	↓	CONFIDENTIAL	IMMEDIATE

ZCZC
GRS
CLASS
CAVEATS
DESKBY
FM FCO
PRE/ADD
TEL NO

1 ZCZC
2 GRS
3 CONFIDENTIAL
4
5 260500Z (HONG KONG)
6 FM FCO 251735Z JUL 84
7 TO IMMEDIATE DUBLIN
8 TELEGRAM NUMBER

*(Deskby 260500Z
HONG KONG
SECRETARY OF STATE'S
PART 7)*

9 INFO IMMEDIATE UKREP BRUSSELS AND OTHER EC POSTS,
10 Community Budget: 1984/85 Overruns
11 1. Unless you see objection, please speak to the Irish at a
12 suitably senior level and tell them that we are concerned at the
13 way in which the Irish Government is approaching the problem of
14 Community financing in 1984 and 1985. Instead of trying to
15 find a way through these problems which might be acceptable to
16 all member states, the Presidency appears to believe that it will
17 suffice to put public pressure on us to change our position and
18 agree that the 1984 overrun should be financed outside the
19 own resources system and, indeed, outside the Treaties. This
20 was the line taken by Dr FitzGerald in his speech to the
21 European Parliament today.
22 2. You should point out that the proposal before the General
23 Affairs Council amounted to suggesting, in effect, that we should
24 write out a cheque, outside the Treaty arrangements, to finance
25 other people's agricultural overspending. We should leave the

///
//
/

NNNN ends telegram	BLANK	Catchword Irish
File number	Dept ECD	Distribution Frame Economic
Drafted by (Block capitals) R W RENWICK		
Telephone number 233 3326		
Authorised for despatch <i>CW 25/vii</i>		
Comcen reference	Time of despatch	

OUT TELEGRAM (CONT)

Classification and Caveats

CONFIDENTIAL

Page

2

<<<<

1 <<<<
 2 Irish in no doubt that there is no prospect of the British
 3 Government agreeing to this or, if it did, of Parliament approving
 4 such an arrangement.
 5 3. If, as we hope, the Irish Presidency wishes to find a way
 6 forward, an essential step is to determine whether new own
 7 resources can be brought forward into 1985 (though the application
 8 of the 1.4 percent VAT rate could not be read back across the
 9 whole of that year). If all member states could agree to this,
 10 then it would become possible to see a way forward. The German
 11 Government at present is opposed, but it is not possible otherwise
 12 to honour the Fontainebleau agreement on budget imbalances (which
 13 provides that our refunds shall be deducted from our VAT share in
 14 1985); ~~semi-colon~~ and the French and some others do not believe
 15 that the Germans will be able to sustain ^{THEIR PRESENT} ~~this~~ position. The Dutch
 16 have expressed reservations about bringing new own resources
 17 forward in relation to the time required for their ratification
 18 procedures, but seem likely to agree to this if others do. Other
 19 member states have already indicated that they can agree.
 20 4. If a further deadlock is to be avoided in the Budget Council
 21 in September, further work will also need to be done on the
 22 figures. The Presidency figure of 1350 mecus is a purely
 23 political figure and it is not clear to what extent the reduction
 24 from the 2 billion ecus earlier estimated would constitute savings
 25 or deferrals.
 26 5. We shall be ready to hold further bilateral talks with the
 27 Presidency before the Budget Council if they think ^{THIS} would be
 28 useful.
 29 6. If the Irish state that it was agreed at Fontainebleau that
 30 steps would be taken at the next Budget Council meeting to cover
 31 the needs of the 1984 budget, you should state that - as
 32 Sir Michael Butler made clear in COREPER on 27 June -
 33 this passage of the Fontainebleau conclusions was issued by the
 34 French Presidency on its own authority. It was agreed at

///
 //
 /

NNNN ends telegram	BLANK	Catchword FONTAINEBLEAU
--------------------	-------	----------------------------

OUT TELEGRAM (CONT)

Classification and Caveats
CONFIDENTIAL

Page
3

<<<<

1 <<<<
 2 Fontainebleau that the problem of the 1984 budget must be dealt
 3 with and we have been proposing a means of dealing with it in
 4 conformity with the Treaties and the own resources system.
 5 7. For your own information, the chances of making progress on
 6 the budget issues will depend on the Presidency adopting a
 7 different approach. They have taken little account so far of our
 8 position as represented to them in bilateral talks, including
 9 my meetings with Mr Barry in Brussels. Supplementary financing
 10 cannot be agreed simply because a majority of member states would
 11 like it to be. It would be a serious mistake for the Irish to
 12 imagine that we can be pressured into financing outside the scope
 13 of the Treaties. If they are prepared to work for (a) further
 14 serious examination of the figures and (b) the bringing forward
 15 of new own resources, there is a possibility that the problem
 16 could be reduced to manageable proportions, permitting the
 17 continuance of Community policies consistent with the own
 18 resources system.

19
 20 HOWE
 21
 22 NNNN

/// 31
 // 32
 / 33
 34

NNNN ends telegram	BLANK	Catchword
--------------------	-------	-----------



PM/84/129

PRIME MINISTEREuropean Community: 1984/85 Overrun

1. Ian Stewart minuted to you on 20 July about the deadlock in the Budget Council. The discussion resumed in the General Affairs Council, which I attended, yesterday and today.

2. On the 1984 budget, the Irish President of the Budget Council said that nine delegations were convinced that supplementary financing was needed in 1984 and the Presidency had proposed a sum of 1350 mecu for this. The United Kingdom had not been prepared to agree to supplementary financing. The Commission argued that there was a need for supplementary appropriations in 1984 to meet the Community's obligations, arising from the agriculture price-fixing. Transferring expenditure into next year was not an economy; the Community should meet its obligations in the year they fell due.

3. I said that a solution must be found in line with the principles to which we all subscribed - respect for the Treaty, the own resources system, budgetary discipline, and the need for expenditure to match available resources. The Commission's earlier forecasts of the 1984 overrun had been substantially reduced. The Presidency's 1350 mecu figure could be further reduced. Given the limited resources available, deferring expenditure was a necessary way of tailoring means to ends. Since deferrals would put additional pressure on the 1985 budget, we would be prepared to see new own resources brought forward into 1985, though this could not be retroactive for the whole year.

cc AC
NO (2)

Prime Minister

CDP
24/7.

MS

with CP?



4. The Presidency attempted to bring the discussion to a conclusion, urging us to reflect further on our position before the next meeting of the Budget Council on 6 and 7 September. But Genscher argued that the Fontainebleau agreement was not being honoured. The European Council had instructed the Budget Council to settle the 1984 budget problem. New own resources could not be brought forward into 1985. Other delegations all pressed us to agree to supplementary financing in 1984. The Netherlands joined the Germans in opposing bringing new own resources into 1985, largely because they might not be able to complete their ratification procedures in time; but they were more equivocal in subsequent discussion. The other delegations could agree to bring new own resources forward.

5. I said that Fontainebleau had reached no conclusion on how to deal with 1984. The idea of an inter-governmental agreement was an extraordinary way of seeking to deal with the deficit outside the own resources system and the Treaties themselves. We could not accept this.

6. I had a further word with the Irish Presidench before the discussion resumed, on similar lines, this morning. It concluded with the Presidency saying that one Member State could not agree to any supplementary financing in 1984 and one Member State (FRG) could not agree to new own resources in 1985.

7. I am in no doubt that we should continue to exert pressure on the 1350 mecu figure now advanced by the Irish Presidency, though the reduction from the earlier 2 billion ecu estimate so far has been achieved mainly by deferrals. The opposition of the others to our proposed method of dealing

/with



with the deficit rests on two points. In the first place they do not want any contribution we make to its financing to be covered by the budget imbalances system. This point was made explicitly by the French in the Council discussion. More fundamentally, however, they will continue to resist the idea that agricultural payments in the last weeks of the year should be funded by national intervention agencies against subsequent reimbursement by the Community. I am not optimistic that other Member States can be brought explicitly to agree to deferral of the whole deficit into 1985.

8. I pointed out that the German resistance to bringing new own resources into 1985 would mean that the Fontainebleau agreement that our 1984 refunds should be deducted on the revenue side from our VAT share in that year could not be implemented; and that their position also meant that there would not be one but two years of extraordinary financing outside the Treaties. The other clearly are worried about this, and the Germans will come under increasing pressure over 1985.

9. On the 1984 overrun our position would of course mean that, with or without the agreement of other Member States, they would have to take over the financing of their own agricultural expenditure, against subsequent reimbursement by the Community, in the last weeks of this year. But we shall have to consider our handling of this problem in relation to our other objectives and in particular the need to secure agreement to the new own resources decision in terms acceptable to us and satisfactory texts on budget discipline. I shall be letting you have some further thoughts on this.

CONFIDENTIAL



10. I am sending copies of this minute to the Chancellor of the Exchequer, the Minister of Agriculture and Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'G. Howe', written in a cursive style.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
24 July 1984

CONFIDENTIAL

Evito por budget

24 JUL 1994



GRS 400

RESTRICTED

RESTRICTED [FRANK ECONOMIC]

FM UKDEL STRASBOURG 241700Z JUL 84

TO IMMEDIATE FCO

TELEGRAM NUMBER 94 OF 24 JULY

INFO IMMEDIATE UKREP BRUSSELS

INFO ROUTINE DUBLIN PARIS BONN

SAVING OTHER EC POSTS

FROM UKREP BRUSSELS

FCO TELEGRAM NUMBER 38 TO UKDEL STTRASBOURG

1984 BUDGET AND 1983 REFUNDS

SUMMARY

1. EUROPEAN PARLIAMENT'S INTERIM BUDGET COMMITTEE MET ON 24 JULY TO CONSIDER EUROPEAN PARLIAMENT REACTION TO COMMISSION PROPOSAL ON FINANCING THE 1984 SHORTFALL AND ON TRANSFER FOR UK'S 1983 REFUNDS VOTE IN PLENARY TOMORROW ON COMMISSION REQUEST FOR URGENCY ON 1984 SHORTFALL PROPOSAL. INTERIM BUDGET COMMITTEE HAS RECOMMENDED TO THE PRESIDENT OF THE PARLIAMENT THAT THE PLENARY SHOULD TAKE NOTE OF THE COMMITTEE'S AGREEMENT ON THE TRANSFER FOR THE REFUNDS.

DETAIL

2. THE AD HOC INTERIM BUDGET COMMITTEE OF THE PARLIAMENT MET TWICE ON 24 JULY UNDER THE CHAIRMANSHIP OF FICH (DANISH SOCIALIST). DOURO AND NEWTON DUNN REPRESENTED THE EDG. THE COMMITTEE CONCENTRATED ON,

- (A) COMMISSION PROPOSAL OF 9 JULY FOR A COUNCIL REGULATION IN RESPECT OF 1984 OVERRUN;
- (B) THE EUROPEAN PARLIAMENT'S HANDLING OF THE TRANSFER FOR THE UK'S 1983 REFUNDS.

DEBATE ON (A) CENTRED ON WHETHER URGENCY WAS JUSTIFIED. THE EDG, THE SOCIALISTS (APART FROM THE FRENCH SOCIALISTS), THE LIBERALS AND THE ITALIAN COMMUNISTS ARGUED AGAINST URGENCY, WHICH WOULD ENTAIL A VOTE BY THE PARLIAMENT THIS WEEK. THE CDS AND THE FRENCH SOCIALISTS ARGUED FOR URGENCY. THE COMMITTEE DECIDED THAT IT WAS NOT EMPOWERED TO TAKE A DECISION AND IT IS LIKELY THAT THERE WILL BE A VOTE ON THE QUESTION IN PLENARY TOMORROW, 25 JULY. THIS COULD BE A CLOSE-RUN THING.

3. DOURO ALSO SPOKE ON THE LINES OF YOUR PRESS BRIEFING IN BRUSSELS ON 23 JULY AND WAS ARMED WITH THE MATERIAL IN YOUR TUR. THERE WAS NO REACTION TO HIS STATEMENT BUT HIS EMPHASIS ON ADVANCING THE OWN RESOURCES DECISION AND FOLLOWING THE PROCEDURES IN THE TREATIES, IN WHICH THE PARLIAMENT IS PROPERLY INVOLVED, SEEM TO HAVE USEFUL COUNTER ARGUMENTS TO THE NEGATIVE VIEW OF THE UK POSITION WHICH MEPS HAVE FROM TODAY'S PRESS.

RESTRICTED

/7.

RESTRICTED

4. ON THE UK 83 REFUNDS NO MEMBER OF THE COMMITTEE QUESTIONED THE EARLIER DECISION IN FAVOUR OF THE TRANSFER. THE CHAIRMAN CIRCULATED A COPY OF A LETTER SIGNED BY LANGE AND SCRIVENER TO DANKERT ON 18 JUNE WHICH CONCLUDES AS FOLLOWS:

" VU LE CARACTERE PARTICULIEREMENT IMPORTANT DE CE VIREMENT, LA COMMISSION DES BUDGETS A D'AUTRE PART ESTIME SOUHAITABLE QUE LE PARLEMENT PRENNE ACTE DE L'ACCORD SUR LA PROPOSITION DE VIREMENT ET SE PRONONCE EVENTUELLEMENT SUR LES PROBLEMES QUE SOULEVE L'ACCORD DE FONTAINEBLEAU DANS SA PARTIE RELATIVE AUX COMPENSATIONS BUDGETAIRES, ETANT DONNE QUE LE PARLEMENT EUROPEEN NE POURRA EN AUCUN CAS ADMETTRE QUE DES DECISIONS DANS LE DOMAINE BUDGETAIRE SOIENT PRISES SANS SON ACCORD".

5. A RESOLUTION ON THE FONTAINEBLEAU OUTCOME IS TO BE DRAFTED THIS EVENING BY REPRESENTATIVES OF POLITICAL GROUPS AND WILL BE DEBATED TOMORROW. THE INTERIM BUDGET COMMITTEE WILL PROBABLY MEET AGAIN TOMORROW AT 6.00 PM TO FINALISE THE TEXT OF A RESOLUTION, TAKING ACCOUNT OF ANY AMENDMENTS TABLED TOMORROW. THE VOTE WILL PROBABLY BE ON THURSDAY.

FCO PLS PASS ALL

(REPEATED AS REQUESTED)

FCO ADVANCE TO:

FCO: PS/S OF S, PS/MR RIFKIND, RENWICK, WALL

CAB: WILLIAMSON, LAMBERT

TSY: PS/ MR STEWART, PEET

(ADVANCED AS REQUESTED)

STODDART

FRAME ECONOMIC
EED(1)

COPIES TO:-
ADVANCE ADDRESSEES

- 2 -
RESTRICTED



FCS/84/216

CHANCELLOR OF THE EXCHEQUER

P.M.
✓ PC
NO.
Prime Minister

You should be aware of Mr. Dankert's intolerable behaviour. No doubt intended to

Community Cash Position 1984: 1983 Refunds

1. Thank you for sending me a copy of your minute to the Prime Minister of 19 July. *Attached*
2. I agree with the course of action you propose. It will, as you say, need careful presentation in Parliament but I see no alternative if we wish our refunds to be paid. *put pressure on us over the 1984 Budget. CDP 23/7*
3. As you know, even with the payment of advances, we cannot be certain of actually getting our refunds before September. We have been pressing the Commission to call a meeting of the Advisory Committees of Representatives of Member States to consider the Commission's draft decisions implementing the projects in the United Kingdom on which the refunds will be spent. These committees were due to meet next week. In the last day or so however, the President of the European Parliament has said that the Parliament's approval of the transfer proposal, agreed by the Budgets Committee of the Parliament last week, will not take effect until he has written to the President of the Commission. He will not do so until the plenary of the new Parliament has met next week. In the absence of this letter from Dankert the Commission are proving reluctant to call a meeting of the Advisory Committees. If those committees do not meet next week then they are unlikely to do so before September. *mt*
4. We have been pressing the Commission hard on this issue and will continue to do. There is no reason whatsoever for the Commission to wait for Mr Dankert's letter. But we must recognise that, while payment of our refunds is not in doubt, there is still scope for the Parliament, the Commission and Member States to drag their feet.



5. I am copying this minute to the Prime Minister, the Lord President, the Lord Privy Seal, the Chief Whip and the Secretary of the Cabinet.

A handwritten signature in dark ink, appearing to be 'G. Howe', written in a cursive style.

GEOFFREY HOWE

Foreign and Commonwealth Office

23 July, 1984

Euro Pt: Budget. Pt 26.

1987
MAY 15
10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31

1987

CONFIDENTIAL



FUE

RM

cc: PC

10 DOWNING STREET

From the Private Secretary

23 July, 1984

BUDGET COUNCIL, 18,19 and 20 JULY

The Prime Minister was grateful for Mr. Stewart's account of the proceedings of the Budget Council on 18, 19 and 20 July.

I am sending a copy of this letter to Colin Budd (Foreign and Commonwealth Office), Ivor Llewelyn (Ministry of Agriculture, Fisheries and Food) and to Richard Hatfield (Cabinet Office).

(C.D. Powell)

A. Ellis, Esq.,
HM Treasury.

CONFIDENTIAL



cc PC ②
m

Treasury Chambers, Parliament Street, SW1P 3AG

Prime Minister

Deadlock at the Budget Council both on 1984 & 1985. Further discussion at Foreign Affairs Council on Monday

The Rt Hon Sir Geoffrey Howe QC MP
Foreign and Commonwealth Secretary
Foreign and Commonwealth Office
Downing Street
LONDON
SW1

20 July 1984
Tuesday. Probably another Budget Council in early September.

CJP 20/7

Dear Secretary of State

BUDGET COUNCIL, 18, 19 & 20 JULY

As you know, the Foreign Affairs Council will be discussing the 1984 Supplementary Budget and the 1985 Preliminary Draft Budget (PDB) on Monday following the deadlock today in the Budget Council. You may like a quick report on how the Budget Council went.

Before the formal Council meetings began I had a bilateral with State Secretary Tietmeyer (telegram No.2463 attached). It emerged from this that Chancellor Kohl has made a clear link in the Bundestag between the date of implementation of the 1.4% own resources ceiling and that of enlargement. The Germans are accordingly - at least at present - not prepared to bring in new own resources before 1 January 1986. On the other hand neither were they prepared to agree to the Commission's proposals for Article 235 regulations to cover supplementary financing. Their stated preference was for an inter-governmental agreement to provide additional finance. They withdrew their earlier support for temporary pre-financing by intervention agencies. This German position and our own conditioned a good deal of what followed in the Council itself.

After its usual meeting with a delegation from the European Parliament on Wednesday (see reporting telegrams no 2462, 2485), the Council met formally at 9.30am on Thursday 19 July and ended around 24 hours later. Much of the meeting was restricted to Ministers only.

As regards the 1984 Supplementary and Amending Budget (SAB) I argued that the Community's own resources ceiling had to

... be respected and the budgets for both 1984 and 1985 accordingly financed within that framework. Supplementary finance whether provided through an Article 235 regulation or an inter-governmental agreement was not acceptable. I therefore deployed a balanced package of savings to be made in 1984 (list attached). These are largely agricultural but included a number of non-agricultural items likely to attract the support of the Germans and the French. In the early stages of the discussion we got little support for these savings from anyone except the Dutch. There was in particular a good deal of reluctance to accept our proposals for deferring agricultural expenditure from 1984 into 1985. Two or three member states made veiled references to the effect of such deferment on the level of our 1985 refunds, but without developing the point in a way which required me to reply. In presenting the savings I explained that we were prepared to treat 1984 and 1985 as a package and consider a specified and limited bringing forward of new own resources to October 1985.

The Irish Presidency tended to discourage any real debate on possible savings until close to the end of the meeting and sought to isolate the UK as the only member state not prepared to agree to supplementary revenue to fund the 1984 agricultural overrun. The German delegation explained that, though opposed to an Article 235 regulation, they were prepared to provide advances under an inter-governmental agreement. This idea was initially opposed by several other member states, but by the end of the 24 hours most of them were willing to consider favourably a Presidency compromise consisting of an inter-governmental agreement to provide advances, which would be reimbursed under an Article 235 regulation up to an amount of 1350 MECU. There was no final agreement at this stage, but other delegations said they were willing to take home this proposal and consider it. I made it clear that this was unacceptable, because inconsistent with the principle that the Community's expenditure should be financed within the orthodox own resources framework.

There will almost certainly now be an attempt to portray us as isolated on the 1984 SAB and put pressure on us. There are still in theory elements of difference between other member states which we might be able to exploit. First, there is disagreement between them over the size of the 1984 overrun. Germany and the Netherlands still regard 1350 MECUs as too high. Second, there is no agreement on the composition of the 650 MECUs savings required to come down to 1350 MECUs. The Germans, French and Dutch would prefer savings on DNO; the others would not. Third, there are doubts about the effectiveness of the inter-governmental agreement proposed. There is no certainty that the Italians, Greeks and others would pass the required national legislation in sufficient time. In practice, however there is a tendency to sink differences when contending our position and I would not wish to under-estimate the difficulties.

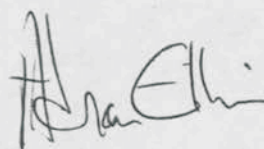
As regards the 1985 PDB the Council agreed, on a provisional basis, to reduce the initial draft budget within the 1 per cent VAT ceiling, with a preponderant amount of the reductions falling on the FEOGA guarantee. The agreement was provisional, because several member states, France in particular, were only prepared to accept reductions, if a commitment could be agreed to finance any unavoidable agricultural overrun in 1985. I made it clear, as I had in discussion of the 1984 SAB, that we were not prepared to provide supplementary finance outside the own resources system, but confirmed that it might be acceptable to bring forward the implementation of the own resources decision within a specified and limited amount. The German position was the opposite. The Presidency produced a number of texts embodying the proposed declaration and for some time the Germans were under pressure because of their unwillingness to agree to bring forward own resources into 1985. The final Presidency draft text, however, dropped the reference to bringing forward own resources and implied a commitment to provide finance, without a specified method, which would be both open-ended and potentially outside the own resources system. I said that this was unacceptable to us, while not ruling out altogether some form of public commitment which met our requirements. Although I indicated other necessary ingredients in any such statement of commitment which the Council might ultimately produce (including reference to our 1000 mecu refund) I decided, tactically, that it would be better to avoid entering into a detailed and probably fruitless attempt to amend the text itself. Like other delegations, I pointed out that the form of such a declaration could not usefully be discussed until there had been agreement in substance about the overrun problem in both 1984 and 1985. Some form of draft declaration may surface again at the Foreign Affairs Council. My own view is that it might be better to refuse to discuss any compromise formula, until there is a clear agreement to what extent and how any supplementary finance needed in 1985 might be provided.

Although the discussion on the 1985 Budget was difficult, we were not isolated as we were in the case of the 1984 SAB, since I was able to point to our readiness to consider an increase in the own resources ceiling during 1985, in contrast to the Germans.

By the close of the Council several delegations were concerned at the deadlock which had been reached and there was a suggestion that the Council should meet again urgently to continue to try to find a compromise. It is possible therefore that at the Foreign Affairs Council on Monday the Presidency will ask the Council to invite the Budget Council to meet again very rapidly. It is more likely that there will be a proposal by the Irish Presidency to fix a further Budget Council for 6-7 September. Another deadlocked Budget Council should of course be avoided if possible and any further Budget Council needs to be well prepared and preferably preceded by bilateral discussion between the main protagonists.

As a general approach to the next phase of discussion, I think we need to continue to produce a more substantial package of savings for 1984 which might have some chance of getting support and allow us to defer the financing problem in 1985. At the same time, I think we must continue to try to deflect the pressure of our partners on to the Germans for their reluctance to consider bringing forward even a limited amount of new own resources into 1985, but it has to be admitted that the mood of the Council in its concluding stages was not encouraging. The discussion became increasingly political and difficult, with other delegations emphasising that they were really dealing with the unfinished business of Fontainebleau. I have to say, on the evidence of the concluding stages of the Budget Council, that I am not optimistic about the prospect of shifting the other states through argument or negotiation in the near future. It may be that, in the prospect of the Community running out of funds in the Autumn approaches, they may become more inclined to consider a solution closer to our position. But our first task may be to reverse their movement towards the Presidency compromise.

I am sending copies of this letter to the Prime Minister, the Minister of Agriculture and Sir Robert Armstrong.



PP IAN STEWART

Approved by the European
Secretary and signed
in absence

CONFIDENTIAL
FRAME ECONOMIC
DESKBY 190700Z
FM UKREP BRUSSELS 181925Z JUL 84
TO IMMEDIATE FCO
TELEGRAM NUMBER 2463 OF 18 JULY
INFO IMMEDIATE BONN
PRIORITY THE HAGUE DUBLIN PARIS
ROUTINE BRUSSELS COPENHAGEN ROME LUXEMBOURG ATHENS

BUDGET COUNCIL : BILATERAL WITH THE GERMANS

1. MR STEWART HAD A BILATERAL MEETING WITH TIETMEYER AFTER THE COUNCIL'S MEETING WITH THE PARLIAMENT REPORTED IN MIPT.
2. IN THE COURSE OF A LONG DISCUSSION TIETMEYER MADE THE FOLLOWING STATEMENTS ABOUT THE GERMAN POSITION:
 - (A) THE GERMAN CABINET HAD CONFIRMED THIS MORNING THAT THEY COULD NOT AGREE TO THE INTRODUCTION OF NEW OWN RESOURCES BEFORE 1 JANUARY 1986. AFTER FONTAINEBLEAU KOHL HAD TOLD THE BUNDESTAG THAT THIS DECISION WAS LINKED TO ENLARGEMENT AND THE GERMAN GOVERNMENT COULD NOT NOW GO BACK ON THIS LINK:
 - (B) THE GERMAN CABINET HAD ALSO CONFIRMED THAT THEY COULD NOT ACCEPT SUPPLEMENTARY FINANCE ON THE BASIS OF ARTICLE 235 OR ANY OTHER TREATY-BASED SOLUTION:
 - (C) THEY FAVOURED SUBSTANTIAL SAVINGS IN NON-AGRICULTURAL EXPENDITURE TO REDUCE THE 1984 BUDGET OVERRUN. THEY WOULD AGREE TO ONLY SMALL SAVINGS IN AGRICULTURAL EXPENDITURE:
 - (D) FOR THE REMAINING OVERRUN THEY COULD ACCEPT SUPPLEMENTARY FINANCING BY WAY OF INTER-GOVERNMENTAL AGREEMENT FOR BOTH 1984 AND 1985:
 - (E) THE SUPPLEMENTARY FINANCE FOR 1985 SHOULD COVER UK AND GERMAN REFUNDS:
 - (F) THEY REMAINED READY TO CONSIDER NATIONAL PRE-FINANCING OF THE RESIDUAL OVERRUN BUT
 - (I) DID NOT BELIEVE THAT OTHER MEMBER STATES WOULD WEAR THIS AND
 - (II) FEARED IT WOULD CAUSE TRADE DIVERSION TO THEIR DISADVANTAGE:
3. MR STEWART PUT TO TIETMEYER OUR STRONG OBJECTIONS TO SUPPLEMENTARY FINANCING BY ANY ROUTE: TO FINANCING AN AGRICULTURAL OVERRUN BY CUTTING OTHER TYPES OF EXPENDITURE: AND THE DIFFICULTIES OF IMPLEMENTING 1984 REFUNDS BY SUCH MEANS TIETMEYER DID NOT BUDGE AND OUR IMPRESSION WAS THAT HE HAS NO FLEXIBILITY ON (A) AND (B).

FCO ADVANCE TO:
FCO - PS/SOS, RENWICK, FAIRWEATHER, WALL
CAB - WILLIAMSON, STAPLETON
MAFF - ANDREWS
TSY - PS/CHANCELLOR, UNWIN, MORTIMER

(ADVANCED AS REQUESTED)

BUTLER
FRAME ECONOMIC
ECD(D)

COPIESTO:
AS ADVANCE ADDRESSES

RESTRICTED

RESTRICTED

FRAME ECONOMIC

DESKBY 190700Z

FM UKREP BRUSSELS 181920Z JUL 84

TO IMMEDIATE F C O

TELEGRAM NUMBER 2462 OF 18 JULY

INFO IMMEDIATE BONN, PRIORITY THE HAGUE, DUBLIN, PARIS, ROUTINE
BRUSSELS, COPENHAGEN, ROME, LUXEMBOURG, ATHENS.

BUDGET COUNCIL.

MEETING WITH DELEGATION FROM EUROPEAN PARLIAMENT.

SUMMARY

1. PARLIAMENTARY DELEGATION STATED ITS OPPOSITION TO CUTS IN NON-OBLIGATORY EXPENDITURE TO FINANCE AGRICULTURAL SPENDING IN THE 1984 AND 1985 BUDGETS. HOWEVER THEY SUPPORTED SUPPLEMENTARY FINANCING, WITHIN A TREATY FRAMEWORK, AND ARGUED FOR A SAY IN FIXING THE AMOUNT.

DETAIL

2. BUDGET COUNCIL DISCUSSED THE 1984 THE 1985 PRELIMINARY DRAFT BUDGETS WITH A DELEGATION FROM THE EUROPEAN PARLIAMENT. MR IAN STEWART, MP, ECONOMIC SECRETARY TO THE TREASURY, REPRESENTED THE UK.

3. DANKERT (RETIRING PRESIDENT OF EUROPEAN PARLIAMENT) SAID THAT THE DRAFT BUDGETS SHOULD RESPECT THE RIGHTS OF THE PARLIAMENT IN THE BUDGETARY PROCEDURE. THERE SHOULD BE NO REDUCTIONS IN APPROPRIATIONS FOR THE STRUCTURAL FUNDS TO FINANCE AGRICULTURAL GUARANTEE. IF THE COUNCIL WAS GOING TO AGREE TO FINANCE EXTRA AGRICULTURAL EXPENDITURE IT SHOULD PROVIDE A DETAILED JUSTIFICATION FOR THE EXTRA AMOUNTS. PARLIAMENT WOULD NOT ACCEPT INCLUDING A PROVISIONAL SOLDE FOR 1984 IN THE PDSAB. SUPPLEMENTARY FINANCING FOR BOTH YEARS SHOULD BE PROVIDED THROUGH COMMUNITY INSTRUMENTS WHICH MUST BE AGREED BETWEEN BOTH ARMS OF THE BUDGETARY AUTHORITY. THESE SHOULD NOT INCLUDE SPECIFIC FIGURES WHICH SHOULD BE SETTLED IN THE BUDGET PROCEDURE. THE ESTIMATES FOR AGRICULTURAL EXPENDITURE IN 1985 MUST BE REALISTIC. THERE SHOULD BE A TRILOGUE DISCUSSION TO SETTLE, IN PARTICULAR, PROBLEMS OF CLASSIFICATION.

4. TIETMEYER (GERMANY) SAID THAT THE COURT OF AUDITORS HAD DRAWN ATTENTION TO UNUSED APPROPRIATIONS WHICH WERE CARRIED OVER YEAR AFTER YEAR. THIS SLACK SHOULD BE TAKEN UP AND THE PAYMENT APPROPRIATIONS USED TO HELP FINANCE THE 1984 OVERRUN. THIS WOULD RESPECT THE PRINCIPLE OF ANNUALITY. COMMITMENT APPROPRIATIONS, WHICH ESTABLISHED PRIORITIES, SHOULD BE LEFT UNTOUCHED. THERE WOULD NONETHELESS BE AN OVERRUN IN 1984. THIS SHOULD BE COVERED BY ADVANCE PAYMENTS AGREED OUTSIDE THE TREATY ON THE BASIS

OF AN AGREEMENT BETWEEN MEMBER STATES. ANY REQUIREMENT FOR FINANCING FOR 1985 OVER THE 1 PER CENT CEILING SHOULD BE COVERED BY A SIMILAR MEASURE. DANKERT SAID THAT TRANSFERRING POTENTIAL CARRYOVERS WOULD DIMINISH THE PARLIAMENT'S MARGIN AND WOULD THEREFORE BE UNWELCOME. TIETMEYER SUGGESTED THAT THIS OBJECTION COULD BE MET BY A GENTLEMAN'S AGREEMENT BETWEEN THE PARLIAMENT AND COUNCIL UNDER WHICH COUNCIL WOULD AGREE TO ALLOW THE PARLIAMENT ITS MARGIN IN 1985 AS IF NON-OBLIGATORY APPROPRIATIONS HAD NOT BEEN TRANSFERRED.

5. MR STEWART SAID THAT 1984 AND 1985 WOULD NEED TO BE EXAMINED TOGETHER. UNTIL NEW OWN RESOURCES WERE RATIFIED THE BUDGETS MUST BE CONSTRAINED WITHIN EXISTING LIMITS OTHERWISE THE NATIONAL RATIFICATION PROCEDURE WOULD BE MEANINGLESS. THE CURRENT RULES COULD NOT BE CIRCUMVENTED BY RECOURSE TO E.G. ARTICLE 235. THE UNDERLYING PROBLEMS WERE CAUSED BY THE OVERRUN OF AGRICULTURAL EXPENDITURE AND WE SHARED THE VIEW OF THE PARLIAMENT THAT THE PROPORTION OF AGRICULTURAL EXPENDITURE IN THE BUDGET SHOULD BE REDUCED. UNTIL THIS WAS DONE OTHER POLICIES COULD NOT BE DEVELOPED. COUNCIL WOULD NEED TO CONSIDER A WHOLE RANGE OF IDEAS TO MEET THE IMMEDIATE DIFFICULTIES AND SHOULD NOT ALLOW SHORT TERM NEEDS TO UNDERMINE LONGER TERM OBJECTIVES.

6. IN OTHER INTERVENTIONS, THE ITALIAN, DUTCH, BELGIAN, LUXEMBOURG AND GREEK DELEGATIONS RESTATED FAMILIAR POSITIONS. SEVERAL OF THESE DELEGATIONS AND THE IRISH PRESIDENCY REFERRED TO WHAT THEY CONSIDERED TO BE THE AGREED DECISIONS OF THE FONTAINEBLEAU SUMMIT ON THE COUNCIL'S RESPONSIBILITY FOR DEALING WITH THE 1984 OVERRUN. MR STEWART SAID THAT THE CONCLUSIONS ON THIS ITEM HAD NOT BEEN EXPLICITLY AGREED BY HEADS OF GOVERNMENT, AND RESTATED OUR OBJECTION TO THE FRENCH PRESIDENCY'S TEXT.

FCO ADVANCE TO:

FCO - PS/SOS, RENWICK, FAIRWEATHER, WALL.

CAB - WILLIAMSON, STAPLETON.

MAFF - ANDREWS.

TSY - PS/CHANCELLOR, UNWIN, MORTIMER.

BUTLER

FRAME ECONOMIC
ECD(1)

COPIES TO:
AS ADVANCE ADDRESSEES

RESTRICTED

FCO Ps

ES/REFKIND

SIR G TIBBELL

MR RENWICK

PRESIDENT CLERK

ED/DOD(I) (3)

ED/NEWS D

ED/ARD

ED/

ED/

PLUS FCO

MR CARL WERTH

MR WIL

ADVANCE COPY

20 JUL 1984

SECRET OFFICE

MR D WILLIAMS

MR G STEPHENSON

MR D C DUNN

MR T J BARR

PS/SECRET

MR J B LINDEN

MR J C TIBBELL

MR J C TIBBELL

MR J C TIBBELL

MR J C TIBBELL

MR J C TIBBELL

MR J C TIBBELL

MR J C TIBBELL

MR J C TIBBELL

MR J C TIBBELL

MR J C TIBBELL

MR J C TIBBELL

MR J C TIBBELL

MR J C TIBBELL

MR J C TIBBELL

MR J C TIBBELL

MR J C TIBBELL

MR J C TIBBELL

MR J C TIBBELL

MR J C TIBBELL

MR J C TIBBELL

MR J C TIBBELL

MR J C TIBBELL

MR J C TIBBELL

MR J C TIBBELL

MR J C TIBBELL

MR J C TIBBELL

MR J C TIBBELL

MR J C TIBBELL

MR J C TIBBELL

MR J C TIBBELL

MR J C TIBBELL

MR J C TIBBELL

MR J C TIBBELL

MR J C TIBBELL

MR J C TIBBELL

MR J C TIBBELL

MR J C TIBBELL

MR J C TIBBELL

MR J C TIBBELL

MR J C TIBBELL

MR J C TIBBELL

MR J C TIBBELL

MR J C TIBBELL

MR J C TIBBELL

MR J C TIBBELL

MR J C TIBBELL

MR J C TIBBELL

MR J C TIBBELL

MR J C TIBBELL

MR J C TIBBELL

MR J C TIBBELL

MR J C TIBBELL

MR J C TIBBELL

MR J C TIBBELL

MR J C TIBBELL

DOT

PLUS OF

MR P

MR M

MR C

MR D

MAFF

PERMANENT SECRETARY

MR Amis

MR J E MORTIMER
MR G W HOPKINSON
MR FITCHAM
MR POSTOCK

RESTRICTED

FRAME ECONOMIC

DESKBY 201000Z

FROM UKREP BRUSSELS 200845Z JUL 84

TO IMMEDIATE FCO

TELEGRAM NUMBER 2485 OF 20 JULY

INFO PRIORITY DUBLIN PARIS BONN

INFO ROUTINE BRUSSELS COPENHAGEN THE HAGUE ROME LUXEMBOURG ATHENS

BUDGET COUNCIL 18-19 JULY 1984

1984 SUPPLEMENTARY AND AMENDING BUDGET: FINAL SESSION

SUMMARY

1. FINAL PRESIDENCY COMPROMISE INVITED MEMBER STATES TO CONTRIBUTE 1350 MECU SUPPLEMENTARY FINANCING BASED ON AGREEMENT BETWEEN MEMBER STATES MEETING IN COUNCIL, WITH REIMBURSEMENT FROM COMMUNITY BUDGET UNDER ARTICLE 235. NINE MEMBER STATES PREPARED TO CONSIDER FAVOURABLY, THOUGH WITH DIFFERENT VIEWS ON THE FIGURE. UK REPEATED ITS OPPOSITION TO SUPPLEMENTARY FINANCING OUTSIDE OWN RESOURCES SYSTEM.

2. FOREIGN AFFAIRS COUNCIL TO DISCUSS NEXT WEEK. BUDGET COUNCIL TO MEET AGAIN EITHER THURSDAY NEXT WEEK OR MORE PROBABLY 6-7 SEPTEMBER. PRESIDENCY COMPROMISE TO REMAIN ON TABLE.

DETAIL

3. FINAL SESSION OF 1984 SAB BEGAN WITH QUESTIONS FROM FRANCE AND OTHER DELEGATIONS ON SCOPE FOR ADDITIONAL SAVINGS.

4. FRANCE, GERMANY AND BELGIUM SUGGESTED INCREASING COMMISSION'S 350 MECU FIGURE FOR EXPECTED POSITIVE 1984 NET SOLDE TO BETWEEN 500 AND 1,000 MECU. COMMISSION WITH ITALIAN SUPPORT NOT PREPARED TO GO BEYOND 350 MECU.

5. SAME DELEGATIONS PROPOSED MAKING NO CHANGES IN REVENUE FIGURES FOR 1984, THUS RELEASING 500 MECU.

6. TIETMEYER (GERMANY) SUGGESTED VARIETY OF AGRICULTURAL SAVINGS:
- LOWER DISPOSALS OF SUGAR - 100 MECU
- 1 PER CENT CUT IN INTEREST COSTS ON STORAGE - 70 MECU

COMMISSION SAID THESE TECHNICALLY POSSIBLE, BUT UNDESIRABLE. BELGIUM COULD ACCEPT CUT IN STORAGE COSTS, BUT NOT SUGAR EXPORT REFUNDS.

7. O'KEEFE (PRESIDENCY) CONCLUDED THAT DISCUSSION COULD BE TAKEN NO FURTHER. HE THEN CIRCULATED THE TEXT IN MIFT CONTAINING FINAL PRESIDENCY COMPROMISE FOR FINANCING 1984 OVERRUN, WHICH HE PUT [WITHOUT ANY EXPLANATION] AT 1,350 MECU.

8. UNDER THE COMPROMISE COUNCIL WOULD ADOPT A RESOLUTION INVITING MEMBER STATES TO PAY ADVANCES ON FUTURE OWN RESOURCES ON VAT KEY. THIS WOULD BE FOLLOWED BY AN AGREEMENT BY MEMBER STATES MEETING IN COUNCIL TO MAKE THE ADVANCES, WHICH WOULD SUBSEQUENTLY BE REIMBURSED UNDER AN ARTICLE 235 REGULATION. (TEXTS OF DRAFT RESOLUTION, DECISION AND REGULATION BY HAND OF LENNON (TREASURY).

9. IN DISCUSSION NINE MEMBER STATES PREPARED TO TAKE THIS SOLUTION BACK TO CAPITALS FOR FURTHER CONSIDERATION. MOST SUGGESTED, WITH VARYING DEGREES OF ENTHUSIASM, IT COULD BE BASIS FOR COMPROMISE. GERMANY AND NETHERLANDS SAID FIGURE TOO HIGH, DENMARK TOO LOW. GERMANY ALSO STRESSED NEED FOR URGENT DECISION BECAUSE OF NEED TO IMPLEMENT TRANSITIONAL MEASURES TO ACCOMPANY DISMANTLING MCAS.

10. MR STEWARD (UK) EXPRESSED DISAPPOINTMENT THAT SEARCH FOR SAVINGS COULD NOT BE CONTINUED FURTHER. UK COULD SUPPORT MANY OF THE SAVINGS PROPOSED BY FRANCE AND GERMANY. BUT FURTHER AGRICULTURAL SAVINGS SHOULD ALSO BE MADE TO REDUCE THE OVERRUN AND PROVIDE BALANCED PACKAGE. FOR REASONS GIVEN IN EARLIER DISCUSSION, HE REMAINED WHOLLY OPPOSED TO SUPPLEMENTARY FINANCING OUTSIDE FRAMEWORK OF OWN RESOURCES DECISION. SOLUTION MUST BE FOUND BY PACKAGE COVERING BOTH 1984 AND 1985 BUDGETS, WITH POSSIBILITY OF NEW OWN RESOURCES IN 1985 TO FINANCE EXPENDITURE DEFERRED FROM 1984.

11. TUGENDHAT (COMMISSION), SUGGESTED FURTHER BUDGET COUNCIL NEXT WEEK AFTER FOREIGN AFFAIRS COUNCIL.

12. O'KEEFE SAID COMPROMISE WOULD REMAIN ON TABLE. PREMATURE TO FIX FURTHER MEETING UNTIL FOREIGN AFFAIRS COUNCIL, BUT HIS PRESENCE WAS FOR 6-7 SEPTEMBER.

13. NO ATTEMPT TO REVERT TO DRAFT DECLARATION ON 1985 BUDGET. MEETING ENDED ABOUT 0930 HOURS.

FCO ADVANCE TO:

FCO - PS/SOS RENWICK FAIRWEATHER WALL

CAB - WILLIAMSON STAPLETON

MAFF - ANDREWS

TSY - PS/EST PS/CHANCELLOR UNWIN FITCHEW HOPKINSON BOSTOCK

BUTLER

NNNN

UK PROPOSALS FOR SAVINGS

MECU

(i) NO SPECIAL DESTOCKING MEASURES

This is a new proposal. Not envisaged when 1984 budget drawn up or part of price-fixing package. Not necessary to start this in 1984. Does not hit producers. (Overall limit of cold storage capacity has not yet been reached.)

150

(ii) SLOWING DOWN DISPOSAL OF SUGAR AND OTHER COMMODITIES

(There is a large amount for destocking in that part of Commission's request for extra agricultural appropriations arising from changes in market conditions (970 mecu)).

In exceptional circumstances of 1984 cannot afford destocking on scale proposed by Commission. Particularly true in case of sugar where stocks are lower than in recent past and market conditions are unfavourable for early disposal. These savings do not affect producers.

(Overall limit of cold storage capacity has not yet been reached. No storage problem at all for sugar).

175

/(iii)

(iii) TEMPORARY ABOLITION OF INTEREST RATE AND
OTHER STORAGE COSTS

No effect on producers or any agricultural regimes. Commission itself recently suggested changes in structure of interest rate payments which would have yielded savings.

250 - 350

(iv) TEMPORARY SUSPENSION OF ADVANCE PAYMENTS
TO TRADERS

Temporary suspension was undertaken at the end of last year, and similar steps could be undertaken this year in order to reduce the demands on the 1984 budget. There would be (little) impact on producers.

675

(v) (a) ACCEPT COMMISSION'S DNO SAVINGS AND
TECHNICAL REVENUE ADJUSTMENTS FOR
EARLIER YEARS

Commission has said their proposals would involve cancellation of some appropriations and stricter management and would not harm policies in question. (Note that a significant part of proposals fall on structural funds. They should not be asked to contribute any more.)

(b) LEAVE REVENUE UNALTERED

Proposed by France and Germany Article 16(1) of Regulation 2891/77 provides that variations of revenue shall be taken into account in budget of following year.

(Not a breach of 1% ceiling. What is at

issue is whether there will be a shortfall of levies and duties. Financial Regulations allow for any negative balance to be carried forward into following year.

NET EFFECT 500

(vi)

CANCELLATION OF EXTRA DNO CREDITS

Commission has already proposed savings in regional and structural funds. Given Council's commitments in these areas and views of Parliament, any further savings should be modest and concentrated on aid, energy etc, fisheries and agricultural structures. Cancellation of credits here should not be harmful. Large carryforwards in recent years.

(300)

	1981	1982	1983
Agricultural Structures	93.3	277.2	136.0
Fisheries	4.1	30.4	13.0
Energy, Research etc	96.5	112.9	167.0
Aid	258.5	345.3	463.0

BR 1121
3 2 1
7 6 5 4 3 2 1

20 JUL 1984

file

BM

bc PC

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

20 July 1984

European Community:
Ad Hoc Committees on Institutional
Questions and on "A People's Europe"

Thank you for your letter of 18 July enclosing a revised draft reply to Dr. FitzGerald's message on the composition and terms of reference of these two Committees.

DF The Prime Minister is content with the reply. I should be grateful if you will arrange for its early despatch.

I am copying this letter to Richard Hatfield (Cabinet Office).

(C.D. POWELL)

Colin Budd, Esq.,
Foreign and Commonwealth Office

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

20 July 1984

COMMUNITY CASH POSITION 1984: 1983 REFUNDS

The Prime Minister has considered the Chancellor's minute of 19 July on this subject. She agrees, reluctantly, that there is no alternative but to give the Commission an advance of one month's non-VAT own resources and to announce this to the House before it rises. She is also ready to agree, if absolutely necessary to secure payment of our refunds, to an overdraft facility for the Commission. The Prime Minister notes that the supplementary estimate which will be required in consequence will not add to public expenditure.

I am sending copies of this letter to Colin Budd (Foreign and Commonwealth Office), Janet Lewis-Jones (Lord President's Office), David Morris (Lord Privy Seal's Office), Murdo Maclean (Chief Whip's Office) and Richard Hatfield (Cabinet Office).

(C.D. POWELL)

David Peretz, Esq.,
HM Treasury

da

AMBASÁID NA hÉIREANN, LONDAIN.



IRISH EMBASSY, LONDON.

17 Grosvenor Place

SW1X 7HR

C. FCG

NBP17
Copied to FCO
P.P.
CDP
25/7.

20th July 1984

Dear Private Secretary

I enclose herewith the text of a message addressed to Prime Ministers of EEC from the Taoiseach, Dr Garret FitzGerald TD. I should be grateful if you would convey the message to the Prime Minister, the Rt Hon Mrs Margaret Thatcher MP.

Yours sincerely

A handwritten signature in cursive script, appearing to read 'Noel Dorr'.

Noel Dorr
Ambassador

Mr Charles Powell
Private Secretary
Office of the Prime Minister
10 Downing Street
London SW1

Encl.

Dublin

20th July 1984

To Prime Ministers of EEC
From Taoiseach, Dr Garret FitzGerald TD

*Is this a
T
It's not a
personal
message.*

Because of the importance of implementing the decision of the Council at Fontainebleau to set up two Committees dealing with a Peoples Europe and Institutional Affairs, as soon as possible, I am asking the Minister for Foreign Affairs to have discussions with his colleagues over lunch in Brussels next Monday with a view to clarifying any outstanding points.

Reference 17

CONFIDENTIAL

33569 - 1

RR BONN
GRS 493
CONFIDENTIAL
FRAME INSTITUTIONAL
FM FCO 201206Z JUL 84
IMMEDIATE DUBLIN
TELEGRAM NUMBER 135 OF 20 JULY
INFO UKREP BRUSSELS
AND EC POSTS

EUROPEAN COMMUNITY: AD HOC COMMITTEES ON INSTITUTIONAL QUESTIONS
AND ON A PEOPLE'S EUROPE

1. PLEASE PASS THE FOLLOWING MESSAGE FROM THE PRIME MINISTER
TO DR FITZGERALD, IN REPLY TO HIS LETTER TO THE PRIME MINISTER OF
11 JULY (COPY TO YOU BY BAG).

BEGINS QUOTE:

THANK YOU FOR YOUR LETTER OF 11 JULY ABOUT THE
COMPOSITION AND TERMS OF REFERENCE OF THE TWO COMMITTEES WHICH
ARE TO BE SET UP AS A RESULT OF THE FONTAINEBLEAU EUROPEAN
COUNCIL.

AS I MENTIONED WHEN WE SPOKE ON THE TELEPHONE, I WELCOME
YOUR SUGGESTION THAT SENATOR DOOGUE SHOULD CHAIR THE AD HOC
COMMITTEE ON INSTITUTIONAL AFFAIRS. OUR REPRESENTATIVE WILL BE
MR MALCOLM RIFKIND MP, MINISTER OF STATE AT THE FOREIGN AND
COMMONWEALTH OFFICE.

AS TO THE TERMS OF REFERENCE OF THE COMMITTEE, I SEE ITS
TASK AS BEING, FIRST OF ALL, TO MAKE RECOMMENDATIONS ABOUT THINGS
WHICH WE OUGHT TO DO TOGETHER. SOME OF THESE THINGS ARE
IDENTIFIED IN YOUR LETTER: SOME OF THEM ARE SUBJECTS WHICH WERE
MENTIONED IN THE BRITISH GOVERNMENT'S PAPER 'EUROPE - THE
FUTURE', WHICH I SENT TO YOU AND OTHER COLLEAGUES BEFORE
FONTAINEBLEAU AND WHICH WE SHALL WANT TO FOLLOW UP IN THE AD HOC
COMMITTEES AND IN SPECIALIST COUNCILS WHERE APPROPRIATE. ONCE
THE COMMITTEE HAS REACHED AGREEMENT ON SUBJECTS WHERE ACTION IN
COMMON IS THOUGHT TO BE DESIRABLE, IT CAN GO ON TO CONSIDER
WHETHER THEY SHOULD BE DONE UNDER THE EXISTING TREATIES, OR
WHETHER ACTION SHOULD BE UNDERTAKEN OUTSIDE THE TREATIES. I AM

1

CONFIDENTIAL

CONFIDENTIAL

33569 - 1

CONVINCED THAT THIS WOULD BE A BETTER WAY FOR THE COMMITTEE TO PROCEED THAN FOR IT TO START BY CONSIDERING POSSIBLE EXTENSIONS OF COMMUNITY COMPETENCE. I THINK THE TERMS OF REFERENCE SHOULD REFLECT THIS APPROACH, BY INVITING THE COMMITTEE TO EXAMINE WHETHER, 'COMMON ACTION WOULD BE DESIRABLE IN, FOR EXAMPLE, THE FIELDS OF EDUCATION, CULTURE, HEALTH, JUSTICE AND THE FIGHT AGAINST TERRORISM'. THE REMAINING ITEMS ON YOUR PROPOSED AGENDA WOULD ALSO REMAIN WITHIN THE GROUP'S REMIT.

FOR THE COMMITTEE ON 'A PEOPLE'S EUROPE' OUR REPRESENTATIVE WILL BE MR DAVID WILLIAMSON, DEPUTY SECRETARY AND HEAD OF THE EUROPEAN SECRETARIAT IN THE CABINET OFFICE. I AGREE WITH YOUR SUGGESTION FOR THE TERMS OF REFERENCE OF THIS SECOND COMMITTEE.

YOU SUGGEST THAT THE CHAIRMAN OF THE SECOND COMMITTEE SHOULD BE A PERSON OF EUROPEAN STANDING WHO COULD KEEP IN DIRECT CONTACT WITH THE PRESIDENCY IN OFFICE. SINCE YOU ENVISAGE THAT THE COMMITTEE WILL REPORT TO THE EUROPEAN COUNCIL IN DECEMBER, I THINK IT WOULD BE VERY APPROPRIATE IF YOUR GOVERNMENT WERE TO TAKE ON THE CHAIRMANSHIP OF THIS COMMITTEE, AS WELL AS THAT OF THE COMMITTEE ON INSTITUTIONAL AFFAIRS. THIS WOULD MEAN THAT BOTH COMMITTEES COULD GET DOWN TO WORK WITH THE MINIMUM DELAY.

I LOOK FORWARD TO HEARING FROM YOU AGAIN WHEN YOU HAVE COMPLETED YOUR CONSULTATION WITH OTHER MEMBER STATES. UNQUOTE.
ENDS.

2. SIGNED ORIGINAL WILL FOLLOW BY BAG.

HOWE

DISTRIBUTION
FRAME INSTITUTIONAL
ECD(I)

Tord Fco



NR 2077

10 DOWNING STREET

~~Charles.~~

Fco have asked
if the PM is
going to sign
a letter to Dr
Fitzgerald - the
telegram agreed
says one is to
follow by bag?

No. I really don't think
it's necessary in this
case. Pl. tell the
Nicky Embassy in
2077 Admin
on..



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

PRIME MINISTER

COMMUNITY CASH POSITION 1984: 1983 REFUNDS

As you know, following the Fontainebleau European Council the Foreign Affairs Council agreed to the regulations governing the payment of our refunds in respect of 1983. ECOFIN on 9 July approved the transfer of the refunds from the reserve chapter 100 to the relevant lines of the Budget and the European Parliament's Budgets Committee also gave its approval to the transfer on 12 July. The Commission are now therefore in a position to authorise the initial payment to the UK (approximately £530 million) and to the Germans (approximately £110 million). They have stated their intention to pay us by the end of July.

2. The Budget Committee of the Council, however, was told last week that the Commission will not have sufficient cash available to pay the refunds without recourse to some supplementary financing. I understand that the Commission's intention is to make a request under Article 10(2) of Regulation 2891/77 from all member States for an advance of one month's non-VAT own resources, though there is at present still some doubt about the timing of this. You will recall that we paid similar advances to the Community from June to October last year.

3. Our legal advice is that this request for an advance would not constitute an obligation in terms of Section 2(3) of the European Community Act 1972 and could not therefore be paid direct from the Consolidated Fund. I therefore

Prime Minister
and other member states
We have to advance

the Community money
so that they can

pay our 1983 refund:
but it does not add

to public expenditure and
we get it back.

Agree to act
Yes not as Chancellor proposes?

CDP 19/7



propose, as last year, to make the payment by means of an advance from the Contingencies Fund, repayable in due course from monies approved by Parliament through the winter supplementary estimate. It is normal practice to announce this to the House before payment is actually made. It is becoming likely that the Commission's request will not arrive before the Recess; to make it possible to act during the Recess, I would propose to answer a PQ before the House rises making our intentions clear.

4. The amount due from the UK would be about £110 million. Although it would, of course, be infinitely preferable not to have to make the advance, I am assured that it is a necessary step towards securing payment of our refunds. In return for the £110 million, we should receive £530 million - a net gain now of £420 million - while the £110 million itself will be "repaid" when the Commission stop "recycling" the advance.

5. There is, however, a further complication of which you should be aware. The advance of own resources may still not provide sufficient cash to pay the refunds and the Commission have said that in that case they will also require an overdraft facility under Article 12(2) of Regulation 2891/77. This, which is regarded as an obligation, could be provided direct from the Consolidated Fund. Provided that they demonstrate that such a facility is necessary to ensure payment of our refunds as soon as possible, I would think that we can agree to one sufficient to guarantee payment of our refunds. There would, of course, be no question of agreeing anything that went beyond the present availability of own resources in 1984.

6. The Commission will probably need to "recycle" the advance for the rest of the year. The total amount of the supplementary estimate to cover these advances might therefore be of the order of £450 million, but neither this nor any overdraft will add to public expenditure since they will be matched by lower payments out of the Consolidated Fund.



7. All this will require very careful presentation. However, I believe that it is the right course, and that we should do all that we can to ensure that we receive the refunds by the earliest possible date. We did, of course, incur some criticism over last year's advances when the Supplementary Estimate came before the House. There were two main reasons for this; first, that Parliament had not been informed in advance that the payments would continue to be made during the Recess and second, that we were making the payments at the same time as the Community was failing to make provision for reducing our budgetary burden. On both counts, the situation now is quite different. I hope, therefore, that you can agree that I should authorise officials to act as soon as we have the Commission's formal request.

8. I am copying this minute to the Foreign Secretary, the Lord President, the Lord Privy Seal, the Chief Whip and to Sir Robert Armstrong.

N.L.

19 July 1984

CONFIDENTIAL
 FRAME ECONOMIC
 DESKBY 190700Z
 FM UKREP BRUSSELS 181925Z JUL 84
 TO IMMEDIATE FCO
 TELEGRAM NUMBER 2463 OF 18 JULY
 INFO IMMEDIATE BONN
 PRIORITY THE HAGUE DUBLIN PARIS
 ROUTINE BRUSSELS COPENHAGEN ROME LUXEMBOURG ATHENS

*File on
IB/np*

mt

BUDGET COUNCIL : BILATERAL WITH THE GERMANS

1. MR STEWART HAD A BILATERAL MEETING WITH TIETMEYER AFTER THE COUNCIL'S MEETING WITH THE PARLIAMENT REPORTED IN MIPT.
2. IN THE COURSE OF A LONG DISCUSSION TIETMEYER MADE THE FOLLOWING STATEMENTS ABOUT THE GERMAN POSITION:
 - (A) THE GERMAN CABINET HAD CONFIRMED THIS MORNING THAT THEY COULD NOT AGREE TO THE INTRODUCTION OF NEW OWN RESOURCES BEFORE 1 JANUARY 1986. AFTER FONTAINEBLEAU KOHL HAD TOLD THE BUNDESTAG THAT THIS DECISION WAS LINKED TO ENLARGEMENT AND THE GERMAN GOVERNMENT COULD NOT NOW GO BACK ON THIS LINK:
 - (B) THE GERMAN CABINET HAD ALSO CONFIRMED THAT THEY COULD NOT ACCEPT SUPPLEMENTARY FINANCE ON THE BASIS OF ARTICLE 235 OR ANY OTHER TREATY-BASED SOLUTION:
 - (C) THEY FAVOURED SUBSTANTIAL SAVINGS IN NON-AGRICULTURAL EXPENDITURE TO REDUCE THE 1984 BUDGET OVERRUN. THEY WOULD AGREE TO ONLY SMALL SAVINGS IN AGRICULTURAL EXPENDITURE:
 - (D) FOR THE REMAINING OVERRUN THEY COULD ACCEPT SUPPLEMENTARY FINANCING BY WAY OF INTER-GOVERNMENTAL AGREEMENT FOR BOTH 1984 AND 1985:
 - (E) THE SUPPLEMENTARY FINANCE FOR 1985 SHOULD COVER UK AND GERMAN REFUNDS:
 - (F) THEY REMAINED READY TO CONSIDER NATIONAL PRE-FINANCING OF THE RESIDUAL OVERRUN BUT
 - (I) DID NOT BELIEVE THAT OTHER MEMBER STATES WOULD WEAR THIS AND
 - (II) FEARED IT WOULD CAUSE TRADE DIVERSION TO THEIR DISADVANTAGE:
3. MR STEWART PUT TO TIETMEYER OUR STRONG OBJECTIONS TO SUPPLEMENTARY FINANCING BY ANY ROUTE: TO FINANCING AN AGRICULTURAL OVERRUN BY CUTTING OTHER TYPES OF EXPENDITURE: AND THE DIFFICULTIES OF IMPLEMENTING 1984 REFUNDS BY SUCH MEANS TIETMEYER DID NOT BUDGE AND OUR IMPRESSION WAS THAT HE HAS NO FLEXIBILITY ON (A) AND (B).

FCO ADVANCE TO:
 FCO - PS/SOS, RENWICK, FAIRWEATHER, WALL
 CAB - WILLIAMSON, STAPLETON
 MAFF - ANDREWS
 TSY - PS/CHANCELLOR, UNWIN, MORTIMER

(ADVANCED AS REQUESTED)

BUTLER
 FRAME ECONOMIC
 ECD(D)

COPIESTO:
 AS ADVANCE ADDRESSES

Gaman
Relats.

CONFIDENTIAL

REF



Foreign and Commonwealth Office

London SW1A 2AH

[Handwritten signature]

Prime Minister

Agree draft reply to

18 July 1984

Dr. Fitzgerald (which I have had strengthened to make clear that we do not want to discuss extending Community competence)?

Dear Charles,

European Community: Ad Hoc Committees on Institutional Questions and on a "People's Europe"

Thank you for your letter of 17 July. I enclose a revised draft reply to Dr FitzGerald incorporating a change to the section on Community competence.

COP
18/7.

I am copying this letter and enclosure to Richard Hatfield in the Cabinet Office.

✓

Yours ever,

Colin Budd

(C R Budd)
Private Secretary

C D Powell Esq
10 Downing Street

CONFIDENTIAL

OUT TELEGRAM

	Classification and Caveats CONFIDENTIAL	Precedence/Deskby IMMEDIATE
--	---	---------------------------------------

ZCZC	1	ZCZC
GRS	2	GRS
CLASS	3	CONFIDENTIAL
CAVEATS	4	FRAME INSTITUTIONAL
DESKBY	5	
FM FCO	6	FM FCO 19 Z JUL 84
PRE/ADD	7	IMMEDIATE DUBLIN
TEL NO	8	TELEGRAM NUMBER
	9	REPEATED FOR INFO TO UKREP BRUSSELS
	10	AND TO OTHER EC POSTS
	11	EUROPEAN COMMUNITY: AD HOC COMMITTEES ON INSTITUTIONAL QUESTIONS
	12	AND ON A PEOPLE'S EUROPE
	13	1. Please pass the following message from the Prime Minister
	14	to Dr Fitzgerald, in reply to his letter to the Prime Minister of
	15	11 July (copy to you by bag).
	16	BEGINS QUOTE:
	17	Thank you for your letter of 11 July about the
	18	composition and terms of reference of the two committees which
	19	are to be set up as a result of the Fontainebleau European
	20	Council.
	21	As I mentioned when we spoke on the telephone, I welcome
///	22	your suggestion that Senator Dooge should chair the Ad Hoc
//	23	Committee on Institutional Affairs. Our representative will be
/	24	Mr Malcolm Rifkind MP, Minister of State at the Foreign and
	25	Commonwealth Office.

NNNN ends telegram	BLANK	Catchword As
File number	Dept ECD(I)	Distribution FRAME INSTITUTIONAL
Drafted by (Block capitals) J S WALL		
Telephone number 233 5629		
Authorised for despatch		
Comcen reference	Time of despatch	

OUT TELEGRAM (CONT)

Classification and Caveats

CONFIDENTIAL

IMMEDIATE

Page

2

1

<<<<

2

As to the terms of reference of the Committee, I see its task as being, first of all, to make recommendations about things which we ought to do together. Some of these things are identified in your letter; some of them are subjects which were mentioned in the British Government's paper 'Europe - The Future', which I sent to you and other colleagues before Fontainebleau and which we shall want to follow up in the ad hoc committees and in Specialist Councils where appropriate. Once the Committee has reached agreement on subjects where action in common is thought to be desirable, it can go on to consider whether they should be done under the existing Treaties, or whether action should be undertaken outside the Treaties. I am convinced that this would be a better way for the committee to proceed than for it to start by considering possible extensions of Community competence. I think the terms of reference should reflect this approach, by inviting the committee to examine whether, "common action would be desirable in, for example, the fields of education, culture, health, justice and the fight against terrorism". The remaining items on your proposed agenda would also remain within the group's remit.

22

For the Committee on 'A People's Europe' our representative will be Mr David Williamson, Deputy Secretary and Head of the European Secretariat in the Cabinet Office. I agree with your suggestion for the terms of reference of this second committee.

27

You suggest that the chairman of the second Committee should be a person of European standing who could keep in direct contact with the Presidency in office. Since you envisage that the Committee will report to the European Council in December, I think it would be very appropriate if your government were to take on the chairmanship of this Committee, as well as that of the Committee on Institutional Affairs. This would mean that both committees could get down to work with the minimum delay.

NNNN ends
telegram

BLANK

Catchword
/I

OUT TELEGRAM (CONT)

Classification and Caveats
CONFIDENTIAL

IMMEDIATE

Page
3

<<<<

1 <<<<

2 I look forward to hearing from you again when you have
3 completed your consultation with other Member States. Unquote.
4 Ends.

5 2. Signed original will follow by bag.

6

7

8 HOWE

9 NNNN

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

26

27

28

29

30

/// 31

// 32

/ 33

34

NNNN ends
telegram

BLANK

Catchword

Evo-R1: Budget 426.

18 JUL 1984



NBPM



FCS/84/208

CHANCELLOR OF THE EXCHEQUER

Community Expenditure on R and D

1. In the aftermath of Fontainebleau we need to ensure that we are seen to be following up the ideas we have put forward for the development of the Community in areas of real interest to us. As a result of the tensions of recent months, there is a tendency for the French and Germans to intensify their collaboration within the Community, in part because they profess to believe that we are not prepared to move ahead at the same rate. This is absurd in view of the proposals we have put forward for the development of the internal market and in other areas. But we do need to take steps to correct a development which is potentially damaging for the UK. We shall not achieve this if we are seen to be going back on commitments taken.
2. In the new policies section of the Brussels European Council's conclusions, which were endorsed at Fontainebleau, it was agreed that the proportion of Community resources devoted to financing priority Community R & D should be increased. This followed commitments on R & D made at the February 1983 Research Council when we agreed that the Joint Research Council should continue to play a central role; and at the June 1983 Research Council when we agreed on the need to increase Community spending on R & D.
3. It is important that our attitude to Community expenditure on R & D should be consistent with these commitments, which were entered into because they suited the UK. Compared with other fields of non-obligatory expenditure, let alone the CAP, expenditure on R & D must have a relatively high priority for the UK. An increase in R & D expenditure should indeed be to our advantage:



- (a) recent developments in Community research (the location of JET at Culham, the cancellation of the Super Sara project and the adoption of the Research Framework Programme) have moved the whole Community effort in this sector in a direction favourable to the UK;
- (b) the Community's research effort is pre-competitive; an expanded programme could help fill the gap between pure academic research and product related research at less expense than expansion of our national programmes;
- (c) the UK enjoys a comparative advantage over our partners because of the excellence of our research "industry". The financial return for the UK is now I believe comparable to that we currently receive from the ERDF and is likely to prove more enduring and the extra research activity strengthens our capability still further.

These benefits will be all the greater if we succeed in improving the cost effectiveness of Commission proposals and their relevance to UK interests, reducing their bids where necessary. A greater readiness to inject UK research priorities at the stage of formulation is particularly desirable.

4. The arrangements we agreed last February to control Community expenditure and to set up PESC (EC) are of great importance. We must ensure that UK public expenditure is not increased by the proliferation of new Community spending programmes and that we are able to assess the priority of new Community expenditure proposals in comparison with one another and with domestic public expenditure programmes. But these arrangements need to be applied in a manner compatible with our post-Fontainebleau objectives. At the moment there are problems:



- (a) We chose as a baseline for financial control, the payments in the 1984 budget. These did not take into account the new and useful research activities contained in the Framework Programme (1984-87) to which we subscribed in July 1983. With the benefit of hindsight we should, I think, have taken a view on these before establishing the baseline which is not adequate for the fulfilment of our commitments after 1985.
- (b) The permissible annual increase to the baseline (equivalent to the projected increase in UK public expenditure) is significantly lower than the natural buoyancy of own resources let alone the maximum rate of increase of non-obligatory expenditure.
- (c) The combination of a low baseline and a low growth rate removes, in practice, the scope for flexibility which we agreed. Community R & D expenditure can only rise if departments find offsetting savings within their own budgets. Faced with the need to choose, departments will naturally opt for national programmes, rather than give any funding up to accommodate Community expenditure. As both have intrinsic value to the UK, we should make adequate provision for them to co-exist without the presumption that one shall always be at the expense of the other.
- (d) Departments naturally are particularly unwilling to find savings which would enable programmes of interest to other Member States to go forward. But we shall not secure our own priorities unless we sometimes concede those of others, having sought to limit them through negotiation.



5. I do not foresee major difficulties in 1985 when financial stringency will curtail research activities. But these factors could constitute a serious obstacle to our agreeing to Community R and D priorities for 1986 and beyond, when the research programmes stemming from the Framework Programme will need to move ahead. Some of these programmes ought to be adopted in the coming months so as to allow the initial, inexpensive, groundwork to be laid during 1985; and to provide some guarantee of continuity in areas where previous programmes are up for renewal.

6. We need, I think, to consider how the flexibility which you and Norman Tebbit built into your joint memorandum of 20 February 1984 should be exercised. The PESC-EC process and the Brussels negotiating and decision making cycles do not operate on the same timescale. For this reason it is difficult for departments plausibly to make a bid for offsets from the public expenditure programme as a whole (one of the options you agreed) when this is impossible from their departmental budgets. For the same reason the Treasury would presumably have difficulty entertaining such a bid if it were made, say, in July. These factors, together with the uncertainties inherent in agreeing expenditure programmes several years ahead make it very difficult for transfers within PESC-EC to be made with confidence that the PESC limits will be respected.

7. We need to decide upon a new baseline figure and a new rate of growth which together will ensure that our commitments can be honoured in the years ahead. I suggest that the review of arrangements which you proposed for when we had a budget settlement should now take place. Officials should be asked to examine the projections for Community R & D expenditure and consider what is realistic in negotiating terms. They should also report on the means of accommodating these figures within the system of financial control and on



whether the budgetary system should affect our attitude to Community R and D programmes.

8. Budgetary discipline must remain the principal objective. But it is also our objective to ensure that there is a shift of resources away from agriculture and towards policies which are likely to benefit the United Kingdom. After the emphasis we have placed on this, for us to take a line which would mean that the Community could not honour the commitment to increase expenditure on R & D would be damaging. I suggest that we should consider at Ministerial level the result of the review by officials of the PESC(EC) arrangements as they apply to R & D and to take a decision on how the baseline for R & D expenditure might be increased to enable us to play a positive role in determining the future direction of the Community's R and D effort, in accordance with our interests.

9. I am copying this to OD(E) colleagues.

A handwritten signature in black ink, appearing to be 'G. Howe'.

GEOFFREY HOWE

Foreign and Commonwealth Office

18 July, 1984

24

MWF 100/42		
RECEIVED IN REGISTRY		
20 JUL 1984		
DESK OFFICER		REGISTRY
INDEX	PA	Action Taken

CONFIDENTIAL

33013 - 1

OO UKREP BRUSSELS
 GRS 180
 CONFIDENTIAL [FRAME ECONOMIC]
 FM FCO 161300Z JUL 84
 TO IMMEDIATE UKREP BRUSSELS
 TELEGRAM NUMBER 351 OF 18 JULY
 INFO OTHER EC POSTS
 YOUR TELNO 2390: 1984 AND 1985 BUDGETS

1. PLEASE DELIVER THE FOLLOWING REPLY FROM THE PRIME
 MINISTER TO M THORN.
 BEGINS

QUOTE THANK YOU FOR YOUR LETTER OF 12 JULY.

I AM VERY CONSCIOUS OF THE SCALE OF THE BUDGET PROBLEM
 FACING THE COMMUNITY. THIS IS WHY THE BRITISH GOVERNMENT HAS
 PUT FORWARD DETAILED PROPOSALS FOR SAVINGS. OTHER MEMBER
 STATES HAVE DONE THE SAME. THE BUDGET COUNCIL WILL BE AN
 OPPORTUNITY TO GIVE THESE PROPOSALS THE FULL CONSIDERATION
 WHICH IS NECESSARY.

IF THE BUDGET COUNCIL CONCLUDES THAT, WHEN THE FULL
 SCOPE FOR SAVINGS HAS BEEN EXHAUSTED, THERE IS STILL A POTENTIAL
 PROBLEM, THEN WE ARE WILLING TO CONSIDER TOGETHER HOW THE
 REMAINING PROBLEM SHOULD BE TACKLED WHILE RESPECTING ARTICLE
 199 OF THE TREATY AND WITHIN THE COMMUNITY'S OWN RESOURCES

I HAVE DRAWN YOUR LETTER TO THE ATTENTION OF IAN
 STEWART, THE ECONOMIC SECRETARY TO THE TREASURY, WHO WILL BE
 THE BRITISH REPRESENTATIVE AT THE BUDGET COUNCIL.
 UNQUOTE. ENDS

HOWE
 FRAME ECONOMIC
 ECD(I)

RESTRICTED



File *SM*

10 DOWNING STREET

From the Private Secretary

18 July 1984

Message from Gaston Thorn

Thank you for your letter of 17 July enclosing a draft reply from the Prime Minister to M. Thorn's letter of 12 July about the 1984/85 Budget over-run.

BF
The Prime Minister has approved the message and I should be grateful if you could arrange for its early despatch.

I am sending copies of this letter to the Private Secretaries to the Chancellor of the Exchequer, the Economic Secretary and Sir Robert Armstrong.

C D Powell

Colin Budd Esq
Foreign and Commonwealth Office

RESTRICTED

*Subject on
Euro Pol - Appt. of
President of
EC Commission*

Ref. A084/2063

PRIME MINISTER

Cabinet: Community Affairs

You may like to tell Cabinet about your discussions with Dr FitzGerald, in his capacity as President of the European Council, and with the French Minister for European Affairs, Monsieur Dumas, particularly about the next President of the Commission. In the absence of a German candidate, most member states are supporting Monsieur Delors (until the recent reshuffle, the French Minister of Finance). The French Government are pressing for an early decision, in order to resolve uncertainties about Monsieur Delors's future. We do not dispute Monsieur Delors's personal qualities, although we should have preferred greater respect for rotation of this office between member states.

2. The Foreign and Commonwealth Secretary may refer to the appointment of Monsieur Fabius as Prime Minister of France and the consequences for Ministerial responsibilities there. He will also report on his discussion with Monsieur Dumas about the handling in Brussels of the Commission's proposals for a supplementary budget for 1984 and for the preliminary draft budget for 1985 which are in excess of the revenue available under the 1 per cent VAT ceiling. In discussion with Monsieur Dumas, the Foreign and Commonwealth Secretary has also received an assurance, in exchange for our agreement to Monsieur Delors as the next President of the Commission, of French support for a United Kingdom candidate for the post of Secretary General of the Commission, when this becomes available at some time between now and 1987.

3. The Minister of Agriculture, Fisheries and Food will report on the Agriculture Council on 16-17 July. This reached agreement on better control of production aid for olive oil. In response to pressure from the United Kingdom, the Commission promised a comprehensive report in September about the

arrangements in other member states for administering the milk supplementary levy; Mr Jopling urged the vital importance of avoiding discrimination between the producers in different Community countries. The United Kingdom also urged the Commission to produce early proposals for the introduction of a guarantee threshold for olive oil. The French made a statement on the budgetary implications of the 1984 farm price fixing, arguing that the package of economies then agreed was the most that was politically acceptable and that everybody had recognised that a supplementary budget would be needed later in the year. Mr Jopling recalled that the United Kingdom had made it clear at the time that agreement to the prices package did not signify the United Kingdom's acceptance of the need for additional budgetary provision for 1984 and had recorded this view formally in the minutes. The United Kingdom believed that the budget must be brought into balance in accordance with the Treaty.

4. The Budget Council on 18-19 July is discussing the draft supplementary budget for 1984 and the 1985 preliminary draft budget: this will be a difficult Council, since it is in the United Kingdom's interest to maximise savings and to push any irreducible minimum 1984 budget overrun into 1985 when we shall benefit from the new budget refund system. The interest of other member states in the contrary. It is unlikely that the results of this Council will be known before Cabinet. The last Foreign Affairs Council before the Community's August holiday is on 23-24 July.

R

Approved by
ROBERT ARMSTRONG
and signed in his absence.

18 July 1984

Prime Minister

Ref. A084/2053

PRIME MINISTER

Timetable for a Referendum

The interval between the publication of the White Paper on the referendum on membership of the European Community in 1975 and the date of the referendum itself was three months and ten days. This period could be somewhat curtailed, but probably (depending on the time required for Parliamentary debate on the Bill and the Order) not to much less than seven to eight weeks from the date of the decision to hold the referendum.

2. After it had been decided (presumably by Cabinet) to hold a referendum, there would be policy decisions to be taken on the franchise (Britons abroad, service voters, absentee voters), on the question and the layout of the ballot paper, on the conduct of the poll (returning officers for local elections or Parliamentary elections), on counting (local authority districts, Parliamentary constituencies, counties or centrally) and on the campaign. The Cabinet could be invited to take decisions on these matters one week after the decision to hold the referendum.

3. A Bill could then be drafted for introduction one week later. On publication of the Bill, the Stationery Office could be authorised to print poll cards and other stationery (time required two to three weeks); and negotiations on the fees payable to those organising the poll could begin (time required two to three weeks).

4. As the Bill would be a constitutional measure, all stages would have to be taken on the floor of the House. The Bill and the Referendum Order would presumably take not less than one to two weeks to pass (even that would be pushing it), unless the Opposition was willing to co-operate in its passage as in effect emergency legislation.

5. Once the Bill had received Royal Assent and the Referendum Order had been approved, ballot papers could be printed; that should take four to seven days. At least seven days would

therefore need to be allowed between Royal Assent and the last day for receipt of application for absent votes. That would be the date on which the formal election timetable began to run. Postal ballot papers could be issued a week after that, and polling day would be ten days thereafter.

4-5 weeks

5-6 weeks

7-8 weeks

RA

ROBERT ARMSTRONG

17 July 1984

cc/PC



Foreign and Commonwealth Office

London SW1A 2AH

17 July 1984

Dear Charles,

Yes Mr Prime Minister
Agree
message to
M. Thorn?

Message from Gaston Thorn

Thank you for your letter of 13 July.

I enclose a draft reply from the Prime Minister to M. Thorn's letter of 12 July about the Commission's proposals for dealing with the 1984/85 budget overrun.

CDD
17/7

The reply does not go into the detail of our position since this will be made clear at the Budget Council on Wednesday. Both the Foreign Secretary and the Economic Secretary have approved the proposed reply. Sir Geoffrey Howe thinks that a reply should be sent to M. Thorn.

I am copying this letter and enclosure to the Private Secretaries to the Chancellor of the Exchequer, the Economic Secretary and Sir Robert Armstrong.

Yours ever,

Colin Budd

(C R Budd)
Private Secretary

C D Powell Esq
10 Downing Street

OUT TELEGRAM

Classification and Caveats
CONFIDENTIAL

Precedence / Deskby
IMMEDIATE

ZCZC	1	ZCZC
GRS	2	GRS
CLASS	3	CONFIDENTIAL
CAVEATS	4	
DESKBY	5	
FM FCO	6	FM FCO 161300Z JUL 84
PRE/ADD	7	TO IMMEDIATE UKREP BRUSSELS
TEL NO	8	TELEGRAM NUMBER
	9	AND REPEATED TO FOR INFORMATION OTHER EC POSTS
	10	YOUR TELNO 2390: 1984 AND 1985 BUDGETS
	11	1. Please deliver the following reply from the Prime
	12	Minister to M Thorn.
	13	Begins
	14	Quote Thank you for your letter of 12 July.
	15	I am very conscious of the scale of the budget problem
	16	facing the Community. This is why the British Government has
	17	put forward detailed proposals for savings. Other member
	18	states have done the same. The Budget Council will be an
	19	opportunity to give these proposals the full con sideration
	20	which is necessary.
	21	If the Budget Council concludes that, when the full
///	22	scope for savings has been exhausted, there is still a potential
//	23	problem, then we are willing to consider together how the
/	24	remaining problem should be tackled while respe cting Article
	25	199 of the Treaty and within the Community's Own Resources

NNNN ends telegram	BLANK	Catchword
File number	Dept	Distribution
Drafted by (Block capitals)		
Telephone number		
Authorised for despatch		
Comcen reference	Time of despatch	

OUT TELEGRAM (CONT)

Classification and Caveats

CONFIDENTIAL

IMMEDIATE

Page

2

<<<<

1 <<<<

2 I have drawn your letter to the attention of Ian
3 Stewart, the Economic Secretary to the Treasury, who will be
4 the British representative at the Budget Council.

5 Unquote. Ends

6

7 HOWE

8 NNNN

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

26

27

28

29

30

// 31

// 32

/ 33

34

NNNN ends
telegram

BLANK

Catchword



IRISH EMBASSY, LONDON.

17 Grosvenor Place

SW1X 7HR

NBP7

COY

17th July 1984

Dear Private Secretary

I sent you on Thursday, 12th July, the text of a letter from the Taoiseach, Dr Garret FitzGerald to the Prime Minister about the follow-up to Fontainebleau.

TIZZ4184

I now enclose herewith the original of the letter which has just come to hand.

Yours sincerely

A handwritten signature in cursive script, appearing to read 'Noel Dorr'.

Noel Dorr
Ambassador

Mr Charles Powell
Private Secretary
Office of the Prime Minister
10 Downing Street
London

Encl.



10 DOWNING STREET

From the Private Secretary

17 July 1984

EUROPEAN COMMUNITY:
AD HOC COMMITTEES ON INSTITUTIONAL QUESTIONS
AND ON A "PEOPLE'S EUROPE"

Thank you for your letter of 17 July enclosing a draft reply from the Prime Minister to Dr. FitzGerald's letter about the above Committees.

WFT

I believe that the Prime Minister will wish to make clear her misgivings about the proposed terms of reference for the Ad Hoc Committee on Institutional Affairs rather more explicitly than your draft at present does. I have in mind in particular the point about the possibility of extending the competence of the Community. You may like to consider this point further before I put the draft reply to the Prime Minister, though I would still hope that we could despatch the reply by 19 July.

I am copying this letter to Richard Hatfield (Cabinet Office).

C.D. POWELL

Colin Budd, Esq.,
Foreign and Commonwealth Office

SM



Foreign and Commonwealth Office

London SW1A 2AH

17 July, 1984

Dear Charles,

European Community: Ad Hoc Committees on Institutional Questions
and on "A People's Europe"

Thank you for your letter of 12 July to Roger Bone, enclosing a copy of Dr Fitzgerald's letter to the Prime Minister about the above committees.

The Prime Minister has already told Dr Fitzgerald who our representatives on the committees will be. Our only reservation about Dr Fitzgerald's proposals concerns the terms of reference of the ad hoc Committee on Institutional Affairs. Dr Fitzgerald suggested that the Committee should consider "the possibility of extending the competence of the Community" in relation to a number of items. Sir Geoffrey Howe thinks that we should make clear that the Committee should first consider what areas are right for greater cooperation and only thereafter consider whether such cooperation can take place within the existing Community framework or outside it.

The Irish have not proposed a chairman for the Committee on "A People's Europe". The only way of avoiding competing claims for the chairmanship would be for the Irish to take it on themselves. It would be worth making this suggestion in the reply to Dr Fitzgerald.

I enclose a draft reply to Dr Fitzgerald in the form of a telegram to Dublin.

I am copying this letter to Richard Hatfield (Cabinet Office).

Yours ever,

Colin Budd

(C R Budd)
Private Secretary

C D Powell Esq
10 Downing Street

OUT TELEGRAM

	Classification and Caveats CONFIDENTIAL	Precedence/Deskby PRIORITY
--	---	--------------------------------------

ZCZC	1	ZCZC
GRS	2	GRS
CLASS	3	CONFIDENTIAL
CAVEATS	4	FRAME INSTITUTIONAL
DESKBY	5	
FM FCO	6	FM FCO 16 Z JUL 84
PRE/ADD	7	PRIORITY DUBLIN
TEL NO	8	TELEGRAM NUMBER
	9	REPEATED FOR INFO TO UKREP BRUSSELS
	10	AND TO OTHER EC POSTS
	11	EUROPEAN COMMUNITY: AD HOC COMMITTEES ON INSTITUTIONAL QUESTIONS
	12	AND ON A PEOPLE'S EUROPE
	13	1. Please pass the following message from the Prime Minister
	14	to Dr Fitzgerald, in reply to his letter to the Prime Minister of
	15	11 July (copy by bag).
	16	BEGINS QUOTE:
	17	Thank you for your letter of 11 July about the
	18	composition and terms of reference of the two committees which
	19	are to be set up as a result of the Fontainebleau European
	20	Council.
	21	As I mentioned when we spoke on the telephone, I welcome
///	22	your suggestion that Senator Dooge should chair the Ad Hoc
//	23	Committee on Institutional Affairs. Our representative will be
/	24	Mr Malcolm Rifkind MP, Minister of State at the Foreign and
	25	Commonwealth Office.

NNNN ends telegram	BLANK	Catchword As
File number	Dept ECD(I)	Distribution FRAME INSTITUTIONAL
Drafted by (Block capitals) J S WALL		
Telephone number 233 5629		
Authorised for despatch		
Comcen reference	Time of despatch	

OUT TELEGRAM (CONT)

Classification and Caveats

CONFIDENTIAL

PRIORITY

Page

2

1

1 <<<<

2

As to the terms of reference of the Committee, I see its task as being, first of all, to make recommendations about things which we ought to do together. Some of these things are identified in your letter; some of them are subjects which were mentioned in the British Government's paper 'Europe - The Future', which I sent to you and other colleagues before Fontainebleau and which we shall want to follow up in the ad hoc committees and in Specialist Councils where appropriate. Once the Committee has reached agreement on subjects where action in common is thought to be desirable, it can go on to consider whether they should be done under the existing Treaties, or whether action should be undertaken outside the Treaties. It strikes me that this would be a better way for the committee to proceed than for it to start by considering possible extensions of Community competence. With that proviso, I can agree to the terms of reference which you propose.

3

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

For the Committee on 'A People's Europe' our representative will be Mr David Williamson, Deputy Secretary and Head of the European Secretariat in the Cabinet Office. I agree with your suggestion for the terms of reference of this second committee.

19

20

21

22

23

You suggest that the chairman of the second Committee should be a person of European standing who could keep in direct contact with the Presidency in office. Since you envisage that the Committee will report to the European Council in December, I think it would be very appropriate if your government were to take on the chairmanship of this Committee, as well as that of the Committee on Institutional Affairs. This would mean that both committees could get down to work with the minimum delay.

24

25

26

27

28

29

30

31

I look forward to hearing from you again when you have completed your consultation with other Member States. Unquote.

32

33

34

NNNN ends telegram

BLANK

Catchword /Ends

OUT TELEGRAM (CONT)

	Classification and Caveats CONFIDENTIAL	PRIORITY	Page 3
--	---	----------	------------------

<<<<
 1
 2
 3
 4
 5
 6
 7
 8
 9
 10
 11
 12
 13
 14
 15
 16
 17
 18
 19
 20
 21
 22
 23
 24
 25
 26
 27
 28
 29
 30
 III 31
 II 32
 / 33
 34

<<<<
 Ends.
 2. Signed original will follow by bag.

HOWE
 NNNN

NNNN ends telegram	BLANK	Catchword
--------------------	-------	-----------

Euro (M) Budget

to 20

19 JUL 1984
10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31

CONFIDENTIAL

Subject

cc Refers



file

RM

bc PC

10 DOWNING STREET

From the Private Secretary

16 July 1984

EUROPEAN COMMUNITY BUDGET

The Prime Minister held a meeting at 6.30 pm on Friday 13 July in order to discuss the United Kingdom's approach to the Commission's proposals for a Community supplementary budget for 1984 and for the Community preliminary draft budget for 1985. The Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Minister of Agriculture, Fisheries and Food, the Economic Secretary, HM Treasury, Sir Michael Butler and Mr. Williamson were present.

The Chancellor of the Exchequer said that he had set out his proposals in his minute of 11 July to the Prime Minister. The Council of Ministers (Budget) on 18/19 July would be examining how to deal with the Community budget overrun. Since both the proposals of the Commission involved expenditure above the level of the resources available under the 1 per cent VAT ceiling, the Council would be difficult. While setting out his basic position in paragraph 8 of his minute, therefore, he had concluded that the Economic Secretary, Treasury ought to be given some flexibility on the lines of paragraph 9 of his minute. The Foreign and Commonwealth Secretary said that, if the United Kingdom was to achieve the objective of pushing the irreducible minimum of the 1984 budget overrun into 1985, it would in his view be necessary to let it be known in the Community that we were prepared to see the level of the Community's own resources increased in 1985. Sir Michael Butler said that, in addition to avoiding an article 235 regulation and pushing into 1985 the 1984 overrun remaining after the maximum savings had been obtained, it was also in the United Kingdom's interest to ensure that the 1984 refund was obtained in 1985 by deduction from our VAT contribution. This would take up, with the German adjustment, almost 0.1 per cent of Community VAT. It was most unlikely that we

/ could negotiate

CONFIDENTIAL

ECL

could negotiate an arrangement under which both the 1984 and 1985 overruns were pushed into 1986 nor was this to the United Kingdom's advantage in two respects: it would defer the 1984 refund into 1986 and it would overload the 1986 budget, thus probably triggering a review of the refund arrangements.

In discussion it was pointed out that it would be very difficult to get agreement to our proposed action (temporary financing with reimbursement) for dealing with the 1984 overrun and that we would be strongly pressed to agree to funding this expenditure in 1984. Mr. Tugendhat had advised that in any event other member states would insist that the 1984 overrun should not be so handled as to give the United Kingdom a substantial refund of its share of the expenditure under the new United Kingdom refund arrangements applicable from 1985. Other member states might seek to argue that it had been agreed at the European Council at Fontainebleau that the 1984 budget overrun should be financed by advances during 1984 but that was not the case.

If we were able to obtain our proposed solution for the 1984 overrun, with an increase in the Community's own resources in 1985, it would be necessary to circumscribe the extra amount of these resources available in 1985. This could be done either by setting an interim figure for the VAT veiling in 1985 (whether that should be 1.1 per cent or a little higher depended on the amount required for the United Kingdom's refund and on the irreducible minimum overrun) or by bringing in the new VAT ceiling of 1.4 per cent in 1985 a month after the last completed ratification but without retroactive effect. In any event the United Kingdom would be seeking the maximum negotiable savings. The composition of the savings either on agriculture or on other policies would depend on the negotiating circumstances in the Budget Council and, in particular, on the German position. We should not exclude some further savings on non-obligatory expenditure, if this were necessary to meet our other objectives.

The Prime Minister said that the discussion had confirmed that the United Kingdom's approach in the Council of Ministers (Budget) on 18/19 July should be to try to reduce the 1984 overrun by savings and deferment (para 8(a) of the Chancellor of the Exchequer's minute); to finance the irreducible minimum 1984 overrun by temporary financing with reimbursement, as recommended in para 8(b) of the Chancellor of the Exchequer's minute; to bring the 1985 draft preliminary budget back within the 1 per cent VAT ceiling (para 8(c) of the Chancellor of the Exchequer's minute); and to accept, if necessary, that the increase in the Community's own resources should come into force in 1985 (para 9 of the Chancellor of the Exchequer's minute) but to

/ circumscribe

circumscribe its application in 1985 in one of the two ways discussed.

I am sending copies of this letter to David Peretz and Adrian Ellis (HM Treasury), Ivor Llewelyn (Ministry of Agriculture, Fisheries and Food) and to Sir Robert Armstrong.

C.D. POWELL

Colin Budd, Esq.,
Foreign and Commonwealth Office

CONFIDENTIAL



X 03823

MR POWELL - 10 Downing Street

EUROPEAN COMMUNITY BUDGET

1. I attach a draft record of the meeting which the Prime Minister had at 6.30 pm today.

A handwritten signature in cursive script that reads "D F Williamson".

D F WILLIAMSON

13 July 1984

Encl.

DRAFT LETTER FOR MR POWELL TO SEND TO MR APPELEYARDEUROPEAN COMMUNITY BUDGET

1. The Prime Minister held a meeting at 6.30 pm on Friday, 13 July in order to discuss the United Kingdom's approach to the Commission's proposals for a Community supplementary budget for 1984 and for the Community preliminary draft budget for 1985. The Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Minister of Agriculture, Fisheries and Food, the Economic Secretary, Treasury, Sir Michael Butler and Mr Williamson were present.

2. The Chancellor of the Exchequer said that he had set out his proposals in his minute of 11 July to the Prime Minister. ^{The} Council of Ministers (Budget) on 18-19 July would be examining how to deal with the Community budget overrun. Since both the proposals of the Commission involved expenditure above the level of the resources available under the 1 per cent VAT ceiling, the Council would be difficult. While setting out his basic position in paragraph 8 of his minute, therefore, he had concluded that the Economic Secretary, Treasury ought to be given some flexibility on the lines of paragraph 9 of his minute. The Foreign and Commonwealth Secretary said that, if the United Kingdom was to achieve

/the objective

the objective of pushing the irreducible minimum of the 1984 budget overrun into 1985, it would in his view be necessary to let it be known in the Community that we were prepared to see the level of the Community's own resources increased in 1985. Sir Michael Butler said that, in addition to avoiding an Article 235 regulation and pushing into 1985 the 1984 overrun remaining after the maximum savings had been obtained, it was also in the United Kingdom's interest to ensure that the 1984 refund was obtained in 1985 by deduction from our VAT contribution. This would take up, with the German adjustment, almost 0.1 per cent of Community VAT. It was most unlikely that we could negotiate an arrangement under which both the 1984 and 1985 overruns were pushed into 1986 nor was this to the United Kingdom's advantage in two respects: it would defer the 1984 refund into 1986 and it would overload the 1986 budget, thus probably triggering a review of the refund arrangements.

3. In discussion it was pointed out that it would be very difficult to get agreement to our proposed action (temporary financing with reimbursement) for dealing with the 1984 overrun and that we would be strongly pressed to agree to funding this expenditure in 1984. Mr Tugendhat had advised that in any event other member states would insist that the 1984 overrun should not be

/so handled

so handled as to give the United Kingdom a substantial refund of its share of the expenditure under the new United Kingdom refund arrangements applicable from 1985. Other member states might seek to argue that it had been agreed at the European Council at Fontainebleau that the 1984 budget overrun should be financed by advances during 1984 but that was not the case.

4. If we were able to obtain our proposed solution for the 1984 overrun, with an increase in the Community's own resources in 1985, it would be necessary to circumscribe the extra amount of these resources available in 1985. This could be done either by setting an interim figure for the VAT ceiling in 1985 (whether that should be 1.1 per cent or a little higher depended on the amount required for the United Kingdom's refund and on the irreducible minimum overrun) or by bringing in the new VAT ceiling of 1.4 per cent in 1985 a month after the last completed ratification but without retroactive effect. In any event the United Kingdom would be seeking the maximum negotiable savings. The composition of the savings either on agriculture or on other policies would depend on the negotiating circumstances in the Budget Council and, in particular, on the German position. We should not exclude some further savings on non-obligatory expenditure, if this were necessary to meet our other objectives.

/5.

5. The Prime Minister said that the discussion had confirmed that the United Kingdom's approach in the Council of Ministers (Budget) on 18-19 July should be to try to reduce the 1984 overrun by savings and deferment (para 8(a) of the Chancellor of the Exchequer's minute); to finance the irreducible minimum 1984 overrun by temporary financing with reimbursement, as recommended in para 8(b) of the Chancellor of the Exchequer's minute; to bring the 1985 draft preliminary budget back within ^{the} 1 per cent VAT ceiling (para 8(c) of the Chancellor of the Exchequer's minute); and to accept, if necessary, that the increase in the Community's own resources should come into force in 1985 (para 9 of the Chancellor of the Exchequer's minute) but to circumscribe its application in 1985 in one of the two ways discussed.

6. I am sending copies to David Peretz and A M Ellis (Treasury), Ivor Llewelyn (Ministry of Agriculture, Fisheries and Food) and to Sir Robert Armstrong.

em.

1
2
3
4
5
6
7
8
9
10
11
12

1963 JUL 19 9 24

EUROPE - THE FUTURE

INTRODUCTION

1. At the European Council in Stuttgart an ambitious programme was decided, involving a review of almost every aspect of the Community's activities. The negotiation has not been easy; and that is not surprising. There will continue to be arguments over priorities and the allocation of resources. That would be true even in a full-fledged federation. The Community progresses by the process of argument and discussion necessary to resolve its differences.

2. The Community is now close to agreement on the issues determining the course of its future development. Some progress has been made towards financing Community activity in the longer term and establishing a fairer balance of contributions. Some steps have been taken towards limiting the future costs of the agricultural regime. The Ten have agreed to work on a series of new policies to promote the economic, social and political growth on which their future well being depends. The negotiations remain to be completed. Their completion will enable the Community to concentrate on longer term objectives, and on responding to the needs and aspirations of its 270 million inhabitants.

3. This means giving greater depth to the Community in both its internal and external activities. The European Community, which has the largest share of international trade in the world and the immense benefit of the ingenuity of its peoples, and of the diversity of its economies, has only just begun to take advantage of its great potential. The Common Market is a means to an end, described in the Treaty itself as, "a harmonious development of economic activities, a continuous and balanced expansion, an increase in stability, an accelerated raising of the standard of living".

4. The Community's energies must also be turned outwards so that we can:

- (i) create the sense of common purpose and momentum needed to hold together a Community of 12;
- (ii) defend our collective interests in an increasingly troubled world;
- (iii) fulfil our international responsibility to the causes of freedom, democracy, prosperity and peace;

5. If the European Community is to be effective in the world, it must also be effective in the national life of each of its Member States.

/Strengthening

Strengthening the Community

6. If the problems of growth, outdated industrial structures and unemployment which affect us all are to be tackled effectively, we must create the genuine common market in goods and services which is envisaged in the Treaty of Rome and will be crucial to our ability to meet the US and Japanese technological challenge. Only by a sustained effort to remove remaining obstacles to intra-Community trade can we enable the citizens of Europe to benefit from the dynamic effects of a fully integrated common market with immense purchasing power. The success of the United States in job creation shows what can be achieved when internal barriers to business and trade come down. We must create the conditions in which European businessmen too can build on their strengths and create prosperity and jobs. This means action to harmonise standards and prevent their deliberate use as barriers to intra-Community trade; more rapid and better coordinated customs procedures; a major effort to improve mutual recognition of professional qualifications; and liberalising trade in services, including banking, insurance and transportation of goods and people. If we do not give our service and manufacturing industries the full benefit of what is potentially the largest single market in the industrialised world, they will never be fully competitive at international level, and will be unable to create much needed jobs within the Community.

7. At the same time we must do more, and work harder, to make actions undertaken within the Community relevant to the lives of our people. A sustained effort will be required further to simplify and speed up customs and other formalities affecting the ease with which our citizens can travel across intra-Community borders. We should aim, for example, to allow European citizens to travel as freely and cheaply as the inhabitants of the United States. Important steps could be taken in that direction by increased competition and the de-regulation of air services.

8. The Common Agricultural Policy has succeeded in the objective of providing Europe with a strong agricultural base. Remarkable increases in productivity have been achieved. The preservation of the best elements of that policy requires a continuing effort to correct the distortions which manifest themselves in the form of massive and costly surpluses of certain products, imposing high storage costs and the need to dispose of them in ways which complicate trading relations with our OECD partners and are impossible to defend to our own citizens and tax payers. An important and courageous effort has been made to control surpluses in the dairy sector. A sustained, multi-year effort will be required to achieve a better balance between production and demand, thereby releasing resources for other purposes.

9. For in the next decade equal priority must be given to creating the right conditions for the development of a vigorous, efficient and cost effective industrial sector able to compete with the United States, Japan and the newly industrialised countries. To this end, we need to examine urgently whether more can be achieved, or can be achieved more economically, by action on a Community basis rather than nationally. Better cooperation on research and development will help avoid duplication and waste. In some cases Governments can cooperate directly to encourage industrial activity at European levels - as in the case of Airbus, ESPRIT and JET. The Commission has suggested that the Community now look at possible programmes in telecommunications and biotechnology. We should examine these and similar proposals carefully to see whether they will be more effective at the Community level. In doing so, we should give high priority to facilitating collaboration at the industrial level. Member Governments must act to limit the administrative and legal impediments to risk-sharing and investment, in order to allow European firms to compete and cooperate in a way which will enhance their ability to match the performance of their competitors.

10. Creating the right conditions for economic growth without due regard for the wider interests of our environment and of our consumers is not acceptable. The peoples of Europe must feel

/that

that the Community improves the quality of their lives. Many environmental problems require action going beyond the capabilities of individual Member States. They have to be tackled on the basis of serious analysis of the scientific evidence and with due regard to industrial costs and efficiency. This is an area in which the Community has an important role to play. The United Kingdom has already suggested that decisions should be taken urgently to bring about the elimination of lead in petrol. It is also time for a programme of research aimed at finding solutions to the problems caused by acid rain, and for controls on trans-frontier shipments of hazardous waste to continue to be developed.

11. At the cultural level, we should examine whether Governments cannot do more to encourage the learning of other Community languages. The European Foundation could play a useful role in this and in developing professional exchanges. Full access to each others' satellite broadcasting systems would help the process of cultural interchange in an eminently practical way of direct concern to mass audiences.

12. This process will require political direction. We should agree in the European Council that each Member Government should examine its priorities and policies in sectors covered by the Treaties in order to see in each case whether greater progress

/could

could be made by a cooperative approach at the Community level.

A flexible Europe

13. The European Communities, with their corpus of institutional and legal structures, and their own resources, are and must remain the framework within which Community law applies. Action undertaken in the Community framework must continue to be on a basis of equal rights and equal obligations. But a certain flexibility of approach may be necessary in the coming decade, when the Community will have become larger, its membership more diverse, and in some areas of technological development, the industrial structures and interests of Member States more varied. For such practical reasons, it may sometimes make sense for participation in new ventures to be optional. This should not lead to rigid distinctions between different groups of participants. That would be particularly disillusioning for our new members who expect to be joining a democratic and homogeneous Community. Where ventures are launched by Member States with limited participation, it should be open to others to join in as and when they are able to do so. The possibility for action financed by the Community or with Community law as its legal base should be examined before it is decided to proceed on a more limited basis. The progress of all such work relevant to European integration should be monitored and open for discussion in a suitable high-level forum.

Europe in the World

14. It must be our objective to aim beyond the Common Commercial Policy through Political Cooperation towards a common approach to external affairs. Such a policy can only be achieved progressively: it must nevertheless be the aim before us.

15. The Community and its Member States already have at their disposal many of the elements for a common external policy. It is linked to other Western European countries through the EEC/EFTA agreements. The Lomé Convention binds the Community in a contractual relationship covering aid and trade with 64 developing countries. The Common Commercial Policy governs its trade relations with the rest of the world. The Community takes common action in international economic organisations. There is the network of Association and Cooperation agreements both with individual countries and with groups such as ASEAN and the Andean Pact. The growth of Political Cooperation enables the members of the Community increasingly to adopt common positions on world problems and to vote together in non-economic international bodies. Our aim for the future should be to bring about a greater coherence between these different elements. In that way a common external policy could be progressively achieved.

16. The US will remain central to European security and the

/management

management of East-West relations, and no less so in the management of the problems of the world economy and trade. Our task must be to ensure that Europe plays no less central a role in all those respects. By common action of the Community and the Ten, Europe must impress on the US that unilateral American action, eg on technology transfers, extra-territoriality, unitary taxation and, above all, protection for US industries will put the success of Alliance consultation and coordination at risk. Equally we must be ready in Europe to make progress towards the liberalisation of our trading practices, and to play a full part in strengthening the GATT trading system. Mechanisms for consultation and coordination between the Allies are already in place. What we need is the will on both sides to use them to get results: bilaterally, within the Alliance, and on behalf of the Community and its Member States.

17. Europe is more than Western Europe alone. By the end of this century we could see the Soviet Union with increasingly serious economic difficulties and growing problems in Eastern Europe. At that stage more than ever, a coherent and persuasive West European voice will need to be heard on the management of East-West relations. Europeans have their own interest in economic relations with the Soviet Union and East European countries, illustrated by the level and intensity of their political contacts with them. They should reflect on the special

status this gives them, and on the scope it offers for a more coordinated approach on wider questions, eg the encouragement of a more differentiated economic and social development in Eastern Europe. Steps of this kind will strengthen the European political entity and enable it to act more effectively in relation to the major international issues which legitimately concern it.

18. The Community must also use its weight to influence the other major industrialised economies to shoulder their share of responsibility for the world economy: the United States by paying more attention to the international consequences of its domestic economic policies, and Japan by integrating its financial markets into the world economy and raising the level of its manufactured imports to one comparable with other industrial democracies. The Community must act jointly with these major trading partners to promote the further liberalization of international trade and to extend the open trading system, including a well-prepared new GATT trade round. This would bring the many varieties of developing countries more effectively into the world trading system, and persuade the more advanced among them to take more responsibility for its good management. Our performance so far in encouraging development in the Lomé countries, in South-East Asia, in Latin America, and in many other countries through our food aid and non-associates programmes is commendable. But there

is room for better coordination between Member States, the Community and other donors to secure maximum political as well as developmental effectiveness from our aid.

19. In Political Cooperation, the Ten need to act with more vigour and greater purpose. Cooperation should not just be a matter of making declarations in the face of increasingly complex challenges. The Ten have the weight and must show more political will to act together: concentrate their efforts where their leverage is greatest and their interests most directly touched e.g. in the Middle East and Africa; and recognise that influence does not last if not backed by the necessary resources. Member States must take more seriously their solemn commitments to consult and take account of partners' views and work for common positions. The objective should be the progressive attainment of a common external policy.

Defence and Security

20. Our objective must be to strengthen the European pillar of the Alliance and improve European defence cooperation.

21. Europe already carries a heavy defence burden within the Alliance - although some of its members take a greater share of that burden than others. It contributes to security both on this Continent and in the wider world by a variety of political and economic as well as military instruments. This contribution is

far greater than is understood in the United States. If such views are not corrected, the temptation will grow for America, under pressure from the Congress, to look more toward interests outside Europe. Yet the US strategic commitment to Europe will remain an irreplaceable guarantee of Western security. If we wish to preserve it and ensure that our views continue to be given due weight by future US Administrations, the European Allies must find answers to some difficult questions: Are we able to take on a larger share of the responsibility for our defence? How should we respond to renewed public questioning of defence policy? Or the need to develop new technologies at a time of rising costs and resource constraints? The answers make it evident that such problems have to be tackled jointly.

22. Most work to coordinate European positions on this so far has been done in the NATO framework, particularly in the Eurogroup and the IEPG (which has the merit of including France), and there is still more that could be done to exploit the potential of these groupings. We must continue to work for the implementation of the Genscher/Colombo Solemn Declaration of 19 June 1983 which provides a helpful reaffirmation of the Community's political and economic objectives. But if we want early progress - and an early chance to demonstrate our seriousness - we must be willing to look at new openings including those offered by the WEU.

23. Procedure and new organisations are no substitute for content and action to solve existing problems. We have to be prepared to make efforts before we can pool them. Progress demands in particular that we focus on the resource allocation and defence industrial aspects of the problem. We should be able to achieve better value for money by common procurement and collaborative manufacturing projects, recognising (as past experience has always shown) that this process will give rise to very real political problems and difficulties for which there are no facile solutions. Individual projects are probably best organised on a case-by-case basis between those member countries with the capacity and wish to undertake them, making use of the framework of the IEPG. But the general prospects for them could be greatly improved by progress towards a more integrated European industrial and technological base, and by strengthening the Community's internal market. These are areas of proper Community concern which need our urgent attention.

Organisation and Institutions

24. There are several areas in which specific improvements can be made. With regard to the Community:

- (a) The Commission's role is central to the functioning of the Community. It is crucial that it should attract, and that Member States should appoint, individuals of the

/highest

highest calibre with a clear recognition of the tasks to be done. After enlargement the Commission still needs to be able to provide real jobs for people of the best quality. A Commission of 17 is liable to be too large for efficiency or to provide all members with serious portfolios.

(b) The Presidency also plays a key role in the management of the Community's business. Its effectiveness would be enhanced by greater cooperation between the Presidency in office and the preceding and succeeding Presidencies.

(c) An early European Council should consider adopting a new procedure under which each year the European Council would adopt a brief and succinct statement of priorities, with specific timings and targets, which would form the basis of the Community's activities for the following 12 months.

(d) When the Commission reviews its legislative proposals each year, there should be a thorough weeding out of hopelessly blocked items and unnecessary cases of obstruction brought to the notice of the Council.

(e) The voting provisions of the Treaty must be fully honoured. Unanimity must be respected in all cases where the Treaty so provides. The same applies for majority

/voting

voting. At the same time, Member States must be able to continue to insist where a very important national interest is at stake on discussion continuing until agreement is reached. But they should be required in each case to set out their reasons fully.

(f) The European Council should eschew the role of Court of Appeal from the Council. Its true and irreplaceable task is to provide strategic direction and political impetus for all areas of Community work and Member States' cooperation. For this, it might be enough for it to meet no more than twice a year, perhaps for two full days. Alternatively, one of the three annual meetings might be conducted on a more informal "Gymnich-type" framework without advisers. The primary responsibility for preparing European Councils should rest, as it does now, with Foreign Ministers.

(g) In a grouping of democratic European states the directly elected European Parliament must reflect with increasing responsibility the preoccupations and priorities of our peoples. Through the various procedures set out in the Solemn Declaration of June 1983, the Council and Member States need to work out ways of keeping the Parliament better informed, responding to its suggestions and bringing it to work in greater harmony with the main decision making

/institutions

institutions of the Community.

(h) Once the post-Stuttgart negotiation has been completed it should be possible for Member Governments to take common action to present the Community to their peoples in a more favourable light. It is important that people should receive an objective picture of the present state of European integration. It would be desirable for Foreign Ministers, at an early informal meeting, to discuss this question and, if possible, to agree on some common themes for Governments to put forward in their presentation of the Community and of the issues under discussion in it.

Conclusions

25. The European Community and the Alliance jointly have brought an unprecedented period of peace and prosperity to the peoples of Europe. We cannot rest on the achievements of the post-war generation. Over the next decade Europe will face new economic and social challenges, and a continuing threat to her security.

26. Periodic expressions of pessimism about the future of the Community have never turned out to be justified. Europe needs to advance its internal development. The progress that has been made towards "an ever-closer union of the peoples of Europe" of which the Treaty of Rome speaks in its first paragraph is

/unlikely

unlikely to be reversed.

27. The objectives now must be to:

- strengthen democracy and reinforce political stability in Europe. This means bringing to a successful conclusion the accession negotiations with Portugal and Spain;
- develop a dynamic society in which industry thrives and activities which create wealth are encouraged. To do so, we must complete the internal market, particularly in the services sector;
- strengthen the European pillar of the Alliance and the contribution Europe makes to its own security;
- promote policies which will improve the quality as well as the standard of life in the Community;
- with due regard for the needs of economic and industrial efficiency, do more to promote the improvement and protection of the environment;
- agree urgently on certain organisational changes;
- adopt policies which will guarantee the relevance of the Community to the problems, particularly unemployment, which

/affect

affect our societies;

- take the necessary steps to strengthen the voice of the Community and make its influence felt in the world;

- heighten the consciousness among our citizens of what unites us.

1967 JUL 5 7

1967 JUL 5 7

2 JUL 1984

12
1
2
3
4
5
6
7
8
9
10
11
12



horse

10 DOWNING STREET

From the Private Secretary

13 July 1984

Message from Gaston Thorn

Roger Bone sent over a copy of the message which President Thorn had sent the Prime Minister about the Community budget. The answer will of course be explicit in the position we adopt at the Budget Council next week. There seems to me therefore little point in a substantive reply unless it is sent quickly and before the Budget Council.

BF

I should be grateful for advice on this and a draft reply in the form you judge most suitable.

C.D. POWELL

Colin Budd, Esq.,
Foreign and Commonwealth Office.

h

COMMISSION
OF THE
EUROPEAN COMMUNITIES

The President

Prime Minister

Just received. Relevant
to this evening's meeting
on the Community
budget.

200 RUE DE LA LOI
1049 BRUSSELS
TEL (02) 232 11 11

12. VII. 1984

C D P 13/7 . SG (84) D/ 9087

Dear Margaret,

The agreement we reached at Fontainebleau has been greeted by the public with relief and hope. It is seen as offering the prospect of a reactivated Community at last freed from the internal squabbling that had been paralyzing it for years.

That hope would be dashed, and the credibility of the European Council gravely impaired, were it to emerge in the coming weeks that, contrary to the European Council's clear resolve, the normal functioning of the Community is not set to continue in the short term.

And given the way the post-Fontainebleau budget proceedings in the Council machinery have been going, I am obliged to say that there is a very real risk that this functioning will be disrupted from the coming autumn onwards. To avert this, it is vital to restore consistency between policy guidelines decided by the European Council and budgetary decision-making forthwith.

For unless the Commission's proposals for the 1984 Supplementary Budget are adopted it will have in a few week's time to suspend agricultural payments to the Member States. This would have serious implications for the budget year 1985, whose own funding is not assured.

The effect on public opinion, now in the wake of Fontainebleau regaining faith in Europe, would be disastrous. People in general, and the farmers in particular, would be equally incensed at the Council's inconsistency in refusing the Community the wherewithal to honour the commitments arising out of its own legislation.

The Rt. Hon.
Margaret THATCHER
Prime Minister
10, Downing Street
LONDON

The position as regards 1985 is difficult too.

- The Budget has to provide the funds to keep the common agricultural policy on course, and hence to cover all foreseeable expenditure under the existing legislation.
- In addition it has to provide the funds to continue the other Community policies and mount the new priority technological and scientific operations endorsed by the European Council itself. Non-compulsory expenditure will therefore have to be determined accordingly; furthermore Parliament's powers in respect of non-compulsory expenditure must be duly deferred to; it is also essential that the Council establishes from the outset good relations with the newly elected European Parliament, the other arm of the budgetary authority.

The only way to ensure this, and ensure that Britain is paid in 1985 the lump-sum rebate accorded her for 1984, is for the new own resources agreed on at Fontainebleau to come on stream in 1985, as urged by the Commission, and for the national Parliaments' ratification proceedings to be completed accordingly by the autumn of 1985.

The decisions by the Councils, starting with the session of Ministers for the Budget on 19 July, are thus all-important. They will be the test of the will to Community reactivation shown at Fontainebleau: far more will hinge on them than the actual tenor of the matters the Ministers will be considering.

This is why I am writing to you, and to all the members of the European Council, to ask you, in full awareness of the immensity of the issues, to impress this on those of your Ministers more especially involved.

Yours very sincerely,


Gaston E. Thorn

cebu

2

QZ 03819



~~Prime Minister~~
Good news.

cdp
12/7

MR POWELL - No 10

EUROPEAN COMMUNITY: UNITED KINGDOM REFUND FOR 1983
OF 750 MILLION ECU (ABOUT £440 MILLION) NET

1. The Budget Committee of the European Parliament has today approved the transfer of the budget provision for the United Kingdom's 1983 refund from the reserve chapter to the operational lines. This is the final step on the long haul from Stuttgart. The money should be received in the 'United' Kingdom shortly.

2. I am sending copies to Roger Bone (FCO), David Peretz (Treasury) and to Sir Robert Armstrong.

D F Williamson

D F WILLIAMSON

12 July 1984

PRIME MINISTERSeen by
Prime Minister

CDD 13/7

~~Prime Minister.~~
This sets out the
issues very clearly.
The Parliament's decision
on the 1983 refunds reduces
the others' leverage against
us.

EUROPEAN COMMUNITY: SUPPLEMENTARY BUDGET FOR 1984 AND
PRELIMINARY DRAFT BUDGET FOR 1985

CDD
12/7

BRIEF FOR THE PRIME MINISTER FOR MEETING OF MINISTERS,
13 JULY, 6.30 pm

Questions for decision

1. It is necessary to decide what line the United Kingdom should take in the Council of Ministers (Budget) on 18-19 July on:

(i) the Commission's proposed supplementary budget for 1984 and (ii) the Commission's proposed preliminary draft budget for 1985. Both proposals are in excess of the resources available with the 1 per cent VAT ceiling in effect. The proposed approach of the United Kingdom is set out in the minute of 11 July to you from the Chancellor of the Exchequer. The chances of achieving our objectives will be increased if we can start to influence the Presidency and some other member states in advance of the Budget Council.

2. It is recommended that you should base the discussion on the Chancellor of the Exchequer's specific proposals in paragraphs 8 and 9 of his minute:

(i) reducing the 1984 overrun (para 8(a)). We should certainly aim to reduce the overrun below the
/Commission's

Commission's latest figure of about 2000 million ecu and will probably have some success. There will remain, however, some expenditure which most or all other member states will want to be paid in 1984 but which it is in the United Kingdom's strong financial interest to defer into 1985.

- (ii) Financing what remains of the 1984 overrun (para 8(b)).
 The Chancellor of the Exchequer's proposal that any irreducible minimum overrun in November/December 1984 should be financed by the national intervention agencies with reimbursement from the Community's 1985 budget is clearly the most advantageous for the United Kingdom. The difficulty will be to persuade the other member states to accept it, since it has the effect of pushing Community expenditure away into 1985 when the United Kingdom benefits from the new system of budget refunds. Our chances of obtaining our objective will be better if other member states believe that new own resources will become available later in 1985.
- (iii) 1985 budget to be within the 1% VAT ceiling (para 8(c)).
 We believe that agreement on this could be reached in the Budget Council.
- (iv) Date of entry into force of new own resources (para 8(d) and para 9)
 The Chancellor of the Exchequer is realistic in seeking negotiating discretion that "we should not exclude bringing forward new own resources into autumn 1985". Whether in the end the revised Own Resources Decision after ratification enters into force on 1 January 1986 or in autumn 1985 depends also on the decision of the Germans. The Foreign and Commonwealth Secretary will probably argue in the meeting that we should make clear

/in the

in the contacts before the Budget Council that we would be ready to see the increase in own resources in 1985. If so, the essential elements are, first, to keep some discipline on the Community's expenditure in 1985 and, secondly, not to aggravate any difficulties in the House of Commons. One possibility, as suggested by the Chancellor of the Exchequer, would be an interim VAT ceiling for 1985 (eg 1.1 per cent or 1.2 per cent: almost 0.1 per cent will be needed for the UK refund alone). Another possibility, which would probably attract less attention in the House of Commons, would be that the revised Own Resources Decision should enter into force one month after the completion of ratification in all member states and that the higher VAT ceiling would not be retroactive. We could explain that in our view this would probably mean entry into force in the autumn of 1985 or January 1986 at the latest, depending on the procedures in other member states.

HANDLING

3. The Ministers present at the meeting will be the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and the Minister of Agriculture, Fisheries and Food. Sir Michael Butler will also be present.

4. You may wish to ask the Chancellor of the Exchequer to introduce his minute and the Foreign and Commonwealth Secretary to comment. The Minister of Agriculture, Fisheries and Food's concern is mainly with the financing at the end of 1984 and in our view he should be satisfied with the Chancellor of the Exchequer's proposal ("temporary funding with reimbursement").

5. You may be able to conclude in favour of the Chancellor of the Exchequer's proposals in para 8(a), (b) and (c) of his

/minute;

minute; depending on the discussion, in favour of not excluding entry into force of the new VAT ceiling in 1985 (para 9); and that we ought to limit the impact of the higher VAT ceiling, if it comes into force in 1985, either by setting an interim ceiling for that year or on the lines suggested above.

D F Williamson

D F WILLIAMSON



CR

QZ 03820

MR POWELL - NO 10

EUROPEAN COMMUNITY: SUPPLEMENTARY BUDGET FOR 1984 AND
PRELIMINARY DRAFT BUDGET FOR 1985

1. I attach a brief for the Prime Minister for the meeting at 6.30 pm tomorrow. My minute of 10 July is also relevant in explaining what the problems are.

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

D F Williamson

D F WILLIAMSON

12 July 1984

Encl.

AMBASÁID NA hÉIREANN, LONDAIN.



IRISH EMBASSY, LONDON.

17 Grosvenor Place

SW1X 7HR

12th July 1984

Dear Private Secretary,

The Irish Ambassador, Mr Noel Dorr, has asked me to forward the enclosed text of a letter received from Dublin by telex today from the Taoiseach, Dr Garret FitzGerald TD, to the Prime Minister, The Rt Hon Mrs Margaret Thatcher MP. I should be grateful if you would bring it to the Prime Minister's attention.

On receipt of the original letter we will forward it to you.

Ena Murtagh

Ena Murtagh
Personal Assistant to the Ambassador

Mr Charles Powell
Private Secretary to
The Rt Hon Mrs Margaret Thatcher MP
10 Downing Street
London SW1

Encl.

Euro 197. Budget

bc P.C.

J



10 DOWNING STREET

From the Private Secretary

12 July 1984

EUROPEAN COMMUNITY: AD HOC COMMITTEES ON
INSTITUTIONAL QUESTIONS AND ON A PEOPLE'S EUROPE

BF | I enclose a copy of a letter to the Prime
Minister from the Taoiseach received today.
I should be grateful for advice and a draft
reply.

(CHARLES POWELL)

Roger Bone, Esq.,
Foreign and Commonwealth Office.

NR



PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T 122A/84

11th July, 1984.

Oifig an Taoisigh
Office of the Taoiseach

The Rt. Hon. Mrs. Margaret Thatcher, M.P.,
Prime Minister.

Dear Margaret

Following our telephone conversation today and my discussions with our colleagues about the establishment of the Committees mentioned in the Presidency Conclusions of our meeting in Fontainebleau, I would propose that the terms of reference of the high level committee on the further development of the Community should be -

"To consider and make recommendations to the European Council on the extension and deepening of European integration, and for that purpose to examine

- (1) the possibility of extending the competence of the Community in relation to education, culture, health, justice and the fight against terrorism, and the technological future of Europe, and of developing the European Monetary System
- (2) the functioning and decision-making arrangements of the Institutions and the inter-relationships between them."

I would propose that Senator James Dooge, who is Government Leader in the Senate and a former Minister for Foreign Affairs, would chair the Committee for the duration of its work, and that the Head of State or Government of each country would each nominate a representative, as could the Commission. I would envisage that the members of the Committee would be persons of high political standing. I would intend asking the Secretary General of the Council to ensure the provision of the necessary secretariat for the Committee, which would normally meet in Brussels.

I am writing to you to request your agreement to these proposed arrangements as soon as possible and to ask you to nominate the person whom you would propose to act as your representative on the Committee.

/.....



Oifig an Taoisigh
Office of the Taoiseach
-2-

I would suggest that the terms of reference of the other Committee mentioned in the Fontainebleau Conclusions should be

"To consider and make recommendations on measures to strengthen and promote the identity of the Community and its image both for its citizens and for the rest of the world, taking into account, to that end, the measures suggested in the Presidency Conclusions of the European Council at Fontainebleau and other appropriate measures."

According to the Fontainebleau Conclusions, the Committee is to comprise representatives of the Heads of State or Government of the member States. I would suggest that, in view of the terms of reference, persons of high or the highest standing associated with the administration of each country could appropriately be nominated. The suggestion has been made that the Chairman should be a person of European standing who could keep in direct contact with the President in office.

I suggest that the Commission should be represented also on this Committee while the Secretary General of the Council might appropriately be asked to ensure the provision of a secretariat. The Committee would normally meet in Brussels and would also be asked to report to the European Council in Dublin in December.

If you find that the foregoing suggestions are acceptable to you, I would propose to proceed with the arrangements for the establishment of the two Committees, having received from you and our colleagues your proposed nomination of representatives for the Committees.

Best wishes

Yours

Garret FitzGerald, T.D.,
Taoiseach.

Subject in market
ep

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T122A/84.

11th July 1984

The Rt Hon Mrs Margaret Thatcher MP
Prime Minister

Following our telephone conversation today and my discussions with our colleagues about the establishment of the committees mentioned in the Presidency. Conclusions of our meeting in Fontainebleau, I would propose that the terms of reference of the high level committee on the further development of the Community should be -

"To consider and make recommendations to the European Council on the extension and deepening of European integration, and for that purpose to examine

- (1) The possibility of extending the competence of the Community in relation to education, culture, health, justice and the fight against terrorism, and the technological future of Europe, and of developing the European Monetary System.
- (2) The functioning and decision-making arrangements of the institutions and the inter-relationships between them."

I would propose that Senator James Dooge, who is Government Leader in the Senate and a former Minister for Foreign Affairs, would Chair the Committee for the duration of its work, and that the Head of State or Government of each country would each nominate a representative, as could the Commission. I would envisage that the members of the Committee would be persons of high political standing. I would intend asking the Secretary General of the Council to ensure the provision of the necessary Secretariat for the Committee, which would normally meet in Brussels.

I am writing to you to request your agreement to these proposed arrangements as soon as possible and to ask you to nominate the person whom you would propose to act as your representative on the Committee.

/...

I would suggest that the terms of reference of the other Committee mentioned in the Fontainebleau conclusions should be

"To consider and make recommendations on measures to strengthen and promote the identity of the Community and its image both for its citizens and for the rest of the world, taking into account, to that end, the measures suggested in the Presidency Conclusions of the European Council at Fontainebleau and other appropriate measures."

According to the Fontainebleau Conclusions, the Committee is to comprise representatives of the Heads of State or Government of the member States. I would suggest that, in view of the terms of reference, persons of high or the highest standing associated with the administration of each country could appropriately be nominated. The suggestion has been made that the Chairman should be a person of European standing and could keep in direct contact with the President in Office.

I suggest that the Commission should be represented also on this Committee while the Secretary General of the Council might appropriately be asked to ensure the provision of a Secretariat. The Committee would normally meet in Brussels and would also be asked to report to the European Council in Dublin in December.

If you find that the foregoing suggestions are acceptable to you, I would propose to proceed with the arrangements for the establishment of the two Committees, having received from you and our colleagues your proposed nomination of representatives for the Committees.

Garret FitzGerald TD
Taoiseach

CC 100

Discarded
on 13/7

Prime Minister

C.D.P. 13/7

C.D.P.
12/7

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

PRIME MINISTER

BUDGET COUNCIL 18/19 JULY

Ian Stewart will be attending the Budget Council in Brussels on 18/19 July. The Council will have to consider some difficult issues on the 1984 and 1985 Budgets and on the financing of our 1000 mecu 1984 refund. I attach a paper prepared by officials, analysing the problems. My own views are set out below.

2. The Council will have before it both the Commission's Preliminary Draft Budget (PDB) for 1985 and a draft Supplementary Budget for 1984 to finance the agricultural overrun of about 2 billion ecus. It will also have before it a draft of the revised Own Resources Decision, providing both for our 1984 refunds and the Fontainebleau mechanism. The Commission are proposing that additional own resources should come into effect in late 1985, so as to finance higher budgetary expenditure, in particular on the CAP, in excess of the 1 per cent VAT limit by 1.9 billion ecu as well as our refunds in respect of 1984.

3. The central problems we will have to face at the Council are as follows. First, a majority of other member states, with France in the lead, will be pressing us to agree to finance at least some of the agricultural overruns both in 1984 and 1985.

4. For 1984 they will be asking us to agree to a regulation under Article 235 of the EC Treaty, under which member states would finance the overrun by "special advances" paid on the Community's normal budgetary VAT key, to be reimbursed from 1986 onwards. This would be extremely unwelcome to us. Our net contribution in 1984 (and thus in the current financial year, 1984-85) would rise by between £105 million - £125 million. Because our refund in respect of 1984 is the flat-rate 1000 mecus, we would not benefit from the 66 per cent correction in respect of this extra burden. Moreover, to agree to the Article 235 regulation would undermine the validity of both the new and old VAT ceilings and be inconsistent with our stance on budgetary discipline.



5. As regards the 1985 Budget, all other member states except Germany seem ready to accept that the higher VAT ceiling should be made available during the course of 1985, even if the initial 1985 PDB has to be brought back within the 1 per cent ceiling. The higher VAT own resources would be used to finance both our 1984 refund and the 1.9 billion ecu excess on agriculture in 1985. But the introduction of a Supplementary Budget for these purposes during 1985 would also give the European Parliament the opportunity to add a further 1 billion ecus on to non-obligatory expenditure. The outcome could be a VAT rate of 1.3 per cent or over, depending on how much agricultural spending had been carried over from 1984. Such an outcome would be widely seen in the House of Commons as wholly contradicting all we had said on the need for budgetary discipline and the control of agricultural spending.

6. Second, if we reject any proposal to bring the own resources increase forward into 1985 or to provide some other form of supplementary financing in that year, the corollary is that we will probably not get our 1000 mecu refund in respect of 1984 before 1986, though it might be possible to ensure that it falls in financial year 1985-86. This delay would carry a small interest cost - perhaps of the order of £15 million - compared with the alternative of receiving it in October 1985; and would be unattractive politically. It would also bring the Community close up to the 1.4 per cent ceiling in 1986 itself, because of the need to finance both our 1984 and 1985 abatements and any carry-over of agricultural spending from 1985. Nevertheless the deferment may arguably be an acceptable price to pay for better budgetary discipline in 1985.

7. It is desirable that either at, or in the run-up to, the Budget Council we should try to reach an agreement with our main Community partners on how to deal with the 1984 and 1985 budget overrun. While we must continue to press for the maximum possible savings on agriculture for both years, it is simply not realistic to assume that the whole of the gap can be bridged in this way. If we are unwilling to show any flexibility, there is a risk that we shall be completely isolated at the Budget Council. This could provoke the new European Parliament into blocking our 1983 refunds; and there would be no agreed arrangement for implementing the 1984 refund either.



8. There are two possible "packages" we could put to the French and Germans for dealing with the financing problem. The first package would confine any concessions to dealing with the 1984 problem. It would be as follows:

(a) the 1984 overrun would be reduced to the maximum possible extent by savings and deferment;

(b) we would be willing to accept that the remaining gap should be financed exceptionally and temporarily by the national intervention agencies in each member state, whose costs would be reimbursed from the Community Budget in 1985 or 1986. Our contribution to the reimbursement in 1985 or 1986 would then benefit from the 66 per cent corrective factor agreed at Fontainebleau and would thus be reduced to about a third of the £105-£125 million figure mentioned above;

(c) the 1985 Budget would be brought back within the 1 per cent ceiling. We would seek to impose the brunt of the cuts on agricultural spending and to protect priority areas like the Social Fund from which we do well. But it may be necessary at the end of the day for Ian Stewart to accept broadly equal cuts in agricultural and non-agricultural spending;

(d) new own resources would not come into effect until 1 January 1986. Our 1984 refunds would accordingly have to be deferred until 1986.

9. It must, however, be doubtful whether this package will be sufficient to buy any agreement from the French. Ian Stewart will need to decide the best tactics on the spot, but in the last resort I think we should not exclude bringing forward new own resources into autumn 1985, provided the initial Budget for 1985 is brought back within the 1 per cent ceiling and the additional own resources limited to the minimum necessary to finance our 1984 refund and any unavoidable agricultural overrun. As a fall-back, therefore, I recommend that we should be prepared to agree to bringing the new own resources into play in October next year. But we should aim to limit this by writing into the Own Resources Decision a special VAT ceiling for 1985 only of, say, 1.1 per cent, so as to circumscribe the Parliament's powers to increase the Budget.



10. If you and other colleagues agree to this approach, I suggest our officials should sound out the French and German Governments as soon as possible.

11. I am sending copies of this letter to the Foreign Secretary, the Minister for Agriculture and Sir Robert Armstrong.

(N.L.)

11 July 1984

CONQUEROR

BUDGET COUNCIL, 19 JULY

NOTE BY OFFICIALS

THE AGENDA

1. The Budget Council on 19 July will be faced with:

(a) the PDB for 1985, which exceeds available own resources within the 1% limit by 1.9 billion ecus;

(b) the Commission's draft of a new own resources decision which will propose inter alia that ratification should be completed by October 1985, but that a new VAT rate should then be made retrospectively valid back to 1 January 1985. This also provides for both our refund of 1000 million in respect of 1984 and the subsequent 66% corrective system.

(c) an Article 235 regulation providing as a contingency measure for the own resources gap to be bridged between January and October 1985 by loans or advances;

(d) an extra-ordinary regulation providing for advances to meet the 1984 overrun (under Article 235 or others);

(e) a Supplementary and Amending Budget for 1984 providing for additional expenditure of around 2 billion ecu mostly on agriculture (on the assumption that the Regulation referred to in (e) will be adopted);

2. This note sets out our objectives in relation to those of other Member States and considers what approach we should adopt at the Budget Council.

UK OBJECTIVES

3. The UK's objectives are to ensure that:-

(a) the 1985 budget is adopted within the 1% VAT ceiling, that a substantial proportion of the necessary cuts falls on FEOGA Guarantee, consistently with the European Council agreement that agricultural spending should grow less rapidly than the own resources base.

(b) Article 235 or similar regulations are ruled out as a means of providing supplementary finance in 1984 or 1985;

(c) the 1984 overrun should be covered so far as possible by savings and deferments or, if necessary, a short suspension of payments, with any unavoidable financing gap being met in ways (eg national financing) which ensure that the UK either makes no additional net contribution at all or is compensated through the 66% system for any addition to its net contribution.

(d) if new own resources are to be made available during 1985, these should be confined to meeting the cost of the UK's 1000 mecu refund for 1984 and any clearly unavoidable costs in excess of the 1% ceiling arising from earlier

years' commitments or circumstances beyond the Community's control;

(e) no part of the Fontainebleau agreement is put at risk and in particular that there should be no doubts raised concerning the application of the 66% formula from 1985 onwards or the payment of our 1984 1000 mecu refund.

THE PROBLEMS

4. It is clear that we shall be pressed hard at the Budget Council by France and a majority of other Member States to agree to provide supplementary Community financing in 1984 to meet that year's Budget overrun through an Article 235 Regulation or an informal "gentleman's agreement" (the German position). The Commission are asking for a sum of 2.1 billion ecus. Were we to agree to this the net public expenditure cost to the UK on programme 2.7 would be of the order £105m - £125m, depending on our share in the receipts. We should get no reimbursement for this, since our 1984 refund is fixed at 1000 mecu. There would be a major political embarrassment to the Government in defending this additional bill to Parliament on top of our agreement to increase the VAT ceiling to 1.4% and we would have agreed to a most unwelcome precedent for circumventing the VAT ceiling.

5. The French are already claiming that there was a decision in principle at Fontainebleau. This is not so. It was agreed at Fontainebleau only that the 1984 overrun should be referred to the Budget Council. There was no agreement to the French

Presidency's demand for a commitment to covering the overrun by the additional money.

6. There is also likely to be pressure on us at the Budget Council to agree to some arrangement for financing the potential 1985 overrun. The majority of other Member States, including both France and Germany, will want to avoid cuts in agricultural provision for 1985 of the order which we believe are necessary. Only the Dutch seem likely to give worthwhile support on this issue. Whilst the Germans are adamant that the 1985 Budget must be kept within the 1% ceiling they envisage the bulk of the cuts falling on non-agricultural expenditure and intend to start by arguing for 1 billion ecu reductions in agriculture, and will probably fall back to 600 mecu.

7. The French appear to be ready to bring forward the Own Resources increases into 1985. Only the German and perhaps the Dutch Finance Ministries seem likely to resist this. Moreover, (though this does not appear in the texts and did not come up in the plenary sessions) the French agreement at Fontainebleau to drop their demand for a second ad hoc refund was linked with their understanding that we were ready to consider bringing the Own Resources increase forward.

8. There is a definite possibility that, if we make no hint of any move on financing the 1984 and 1985 overruns, we will indeed have a 9 to 1 line-up against us at the Council. The risk would then be that the Parliament might block our 1983 refunds and that there will be no agreement on how to pay the

1984 refund. (If the latter is to be financed by abatement of our 1985 VAT rate, that will require a VAT rate of more than 1 per cent to be paid by either Member States). In the absence of an agreement we could then be publicly under pressure in the autumn to concede the financing of the 1984 and 1985 overruns or jeopardise the implementation of the Fontainebleau package.

ASSESSMENT AND TACTICS

9. We are clearly likely to face some awkward tactical choices at the Council and achieving the aims set out in paragraph 3 will be extremely difficult, if not impossible.

10. For the reasons set out in paragraph 4 we can agree neither to the adoption of a 1985 budget in excess of the 1% ceiling, nor to the use of Article 235 regulations to finance the 1984 and 1985 overruns.

11. On the other hand for the reasons given in paragraph 8 we wish to avoid being isolated on all issues at the Council. A difficult situation would arise if the 1985 budget were brought within the 1% VAT ceiling wholly or predominantly by cuts in non-agricultural expenditure, while the UK was alone in resisting the Commission's Article 235 Regulations to meet the overruns or some equally unacceptable variant of them. UK Ministers could also be open to criticism if doubts were left at the end of the Council as to the financing of our 1984 refund. Almost equally bad would be a situation in which the Budget Council broke up in disorder because it was unable to agree on a 1985

budget or anything else, and with the UK in a similar 1:9 position.

12. The central tactical difficulty with which we are faced concerns the timing of the increase in own resources. If our 1000 mecu refund is to be paid by abatement of our 1985 VAT rate, as the Fontainebleau conclusions provide, then a VAT rate in excess of 1 per cent will be required in 1985. Other Member States would, however, insist that the increased VAT own resources should likewise be available to finance the 1985 agricultural overrun together with any overrun carried over from 1984. Moreover, if a supplementary budget is allowed for agriculture in 1985, the European Parliament could extend it to non-obligatory expenditure. On their interpretation of the "maximum rate" governing non-obligatory expenditure, they could add over 1 billion ecus to the budget. The result of all this could be a 1985 VAT rate in excess of 1.3 per cent and the Government would clearly be open to the charge that it had abandoned budgetary discipline.

13. On the other hand, if we do not agree to bringing forward additional own resources into 1985, there is no way in which we could get our 1000 mecu refund in respect of 1984 paid before the first quarter of 1986. The burden of this additional expenditure plus the 1985 agricultural overrun could then entail a VAT rate in 1986 of close to 1.4 per cent.

RECOMMENDATIONS

14. Against this background the best approach seems to be to

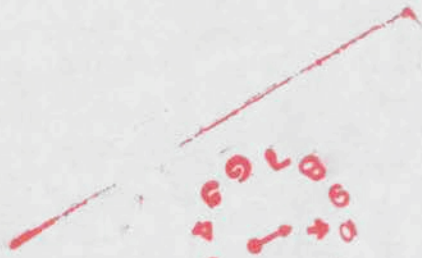
try to reach an understanding with the French and Germans on the following lines:-

(a) no Article 235 Regulations for meeting either the 1984 or 1985 overruns;

(b) any unavoidable 1984 overrun (after savings and economies) to be met exceptionally by temporary funding by national intervention agencies, reimbursable not earlier than 1985.

(c) the 1985 Budget to be brought within the 1% VAT ceiling, if necessary through broadly proportionate across the board cuts, but on the understanding if that were done that we would accept that payment of our 1984 refund would be deferred to 1986, with the increased own resources coming into effect for 1 January 1986.

(d) alternatively, if (c) proves unnegotiable, we would be prepared to agree to an increase in own resources to come into effect in 1985, together with a supplementary budget to meet unavoidable agricultural financing needs. We would want if possible to limit this to a specific low figure. If this course were adopted it would be necessary to write into the Own Resources Decision a VAT ceiling for 1985 of about 1.1% in order to prevent the European Parliament's exercising its powers (cf paragraph 12 above) to increase non-obligatory expenditure.



JUL 1984



Ref. A084/1988

PRIME MINISTER

Cabinet: Community Affairs

The Foreign and Commonwealth Secretary may comment on the debate in the House of Commons on 10 July about the outcome of the European Council at Fontainebleau. The Government's majority was substantial (165) and only a small number of Government backbenchers (about 18) abstained in the final vote.

2. The Foreign and Commonwealth Secretary may also report on his meeting on 11 July with the President of the European Parliament, Mr Dankert, whose visit was mainly to hand over the text of the draft Spinelli Treaty on European Union, which he was asked by the European Parliament to present to each member state. This draft Treaty has no chance of progressing further, but some of the ideas may be discussed in the high-level group on Community institutions which will be set up following President Mitterrand's proposal at the last European Council.

3. The Chancellor of the Exchequer will report on the Finance Council on 9 July. The result on budget discipline was reasonable: the Council agreed that in order to carry forward the discussions on the measures necessary to guarantee the effective application of the principles of budget discipline, the existing ad hoc group will prepare a report for a substantial discussion at the informal Finance Council on 15-16 September. The Council also approved the Commission's proposal to transfer the provision for the 1983 refund (750 million ecu net) from the reserve chapter of the budget to the operational budget lines (you will recall that the regulations themselves were approved by the Foreign Affairs Ministers immediately after the Fontainebleau European Council). No more action is required by member states. It is now for the European Parliament to make the transfer. We do not yet know when they will do so. The bulk of the refunds will actually be paid within about a month of the European Parliament's decision.

CONFIDENTIAL

4. The Agriculture Council meets on 16-17 July. The Budget Council on 18-19 July will be discussing the Commission's proposals for a supplementary budget for 1984 and for the Community's preliminary draft budget for 1985. Both proposals are in excess of the revenue available under the 1 per cent VAT ceiling. You are discussing the attitude the United Kingdom should take with the other Ministers most directly concerned on 13 July.

approved by ROBERT ARMSTRONG
and signed in his absence.

Lindsay Wilkinson.

11 July 1984

CONFIDENTIAL

[Sir Geoffrey Howe]

historic place in the reconstruction of our continent in a way which excludes the possibility of another European war.

Britain has always been a major contributor to the defence and security of Europe. We form a key element in the European pillar of the Atlantic Alliance. We were not present at the birth of the European economic community. Even so, we played a key part in the post-war construction of European co-operation in many fields; and in due course it became evident that our economic and political well-being lay in closer links with our nearest neighbours, with whom we already share so much, and with whom we could develop the enormous potential of the largest single market of the industrialised world.

The European Community is of course still very young. Inevitably it has experienced growing pains but now, with the agreement at Fontainebleau, we have the chance to move into a new phase.

Europe has the chance now to work at creating the conditions for sustained economic growth which should, in time, enable it to match the United States and Japanese performance in creating jobs. Europe has the chance now to strengthen the European pillar of the Alliance and thus make its voice more widely heard on foreign policy. If we are to achieve those aims we must now make a reality of the treaty of Rome, beginning with the establishment of a true common market in goods and services.

Mr. Teddy Taylor (Southend, East): As my right hon. and learned Friend has mentioned the great potential for jobs, could he tell us what has been the net increase in jobs during the past 10 years in the Common Market, America and Japan—the three areas that he mentioned?

Sir Geoffrey Howe: The argument is one with which I am familiar and which I often advance. One of the most important reasons for pressing ahead with the establishment of a true Common Market in goods and services in the EC is to create precisely that unity which has led to the creation of 12 million jobs in the United States. To achieve that, we need the EC and the full implementation of the Common Market.

Mr. Nicholas Budgen (Wolverhampton, South-West): Will my right hon. and learned Friend give way?

Sir Geoffrey Howe: No.

The importance of Fontainebleau is that it provides a much sounder financial basis on which to tackle precisely those tasks.

Mr. Budgen rose—

Sir Geoffrey Howe: I know that my hon. Friend is always anxious to make a point during my speeches. I might give way to him later but I do not wish to do so soon after giving way to my hon. Friend the Member for Southend, East (Mr. Taylor).

Fontainebleau provides a sounder financial basis on which to tackle the tasks that I have outlined. That is the measure of what was achieved last month. The budget settlement was a means to those ends. I shall say more about that in a few minutes. Let me first say something about the budget.

When the Government took office, we made two things crystal clear to our partners. First, Britain would once again adopt a positive attitude to Community membership

—that was an important commitment—and secondly, that we were determined to secure reform of the unfair budgetary arrangements.

It is no secret that our task was not easy. Some of our partners suggested that increased expenditure on industry, on regions, and on social funds would take care of the problem. Meanwhile, we were offered a series of decreasing annual refunds.

There were three good reasons why we rejected that approach. First, the prospect of a spontaneous and significant change in our favour in the balance of Community spending was not a real one; secondly, our case could not be met by declining annual refunds, but only by a fair and lasting system; and thirdly, there was an overriding need to bring Community spending under control.

As I said in a speech at The Hague three years ago, conscious decisions needed to be taken on the size and direction of financial transfers. Those decisions needed to be based on objective criteria reflecting member states' ability to pay. Beginning in May 1980 our partners agreed to the first of a series of annual refunds. Those refunds have already brought us £2 billion—£2 billion more than the Labour Government ever got back, for all their negotiations.

Mr. Alan Howarth (Stratford-on-Avon): My right hon. and learned Friend has just referred to the regions, the social fund and the need for objective criteria. Does he agree that there is a real problem associated with the attitudes that are apparent in the Commission? For example, it has proposed for 1985 increases in those two items in the budget of more than 16 per cent. apiece. Such increases bear no relation to the rate of inflation in any of the member countries or to the capacity of those countries to pay. Will my right hon. and learned Friend therefore not have to devise hoops of steel to contain the Commission's aspirations?

Sir Geoffrey Howe: I am grateful to my hon. Friend for drawing attention to the 1985 budget proposal of the Commission, which has yet to be scrutinised by the Council and which certainly does not represent the council's conclusions. I agree with him about the importance of the need for a financial disciplinary framework. The annual refunds did not produce a lasting settlement. Moreover, they have become progressively harder to negotiate at an acceptable rate.

For 1982, for example, our refunds amounted to some £660 million, including a so-called risk-sharing element of £176 million. As the House well knows, there has been continuing disagreement between the Council and ourselves over a part of that risk-sharing element, amounting to £42 million. We took that factor into account in coming to an agreement at Fontainebleau. Given the generally satisfactory nature of that agreement, the Government have decided not to pursue that outstanding claim.

For 1983, as hon. Members will know, the total agreed refund amounted to only £440 million. Taken over the four years, the total refund agreed to be paid amounted to £2.5 billion. That was a very substantial achievement, but over the longer term these ad hoc refunds were on a declining path. They did not provide a systematic correction of the budgetary burden and they provided no answer to the fundamental problem of structural imbalance in the Community's finances.

WHAT ABOUT 1982 REFUNDS

This disagreement was of a quite different order than the 1983 refunds. There was no dispute about our basic refund, all of which has been paid, but about a small element of the so called risk sharing payment. The disagreement arose over the calculation of the amount due. We took this into account in negotiating the agreement at Fontainebleau. Given the satisfactory settlement that was agreed, the Government have decided not to pursue the outstanding claim.

GOVERNMENT LIGHTLY ABANDONING UK INTEREST OVER 1982 REFUNDS

We have already secured a refund for 1982 worth £624 million. We took a decision in the context of the overall agreement reached at Fontainebleau, which sets the £42 million in dispute against the longer term benefits we have secured under the system.

WHY NOT GO TO THE ECJ OVER 1982 REFUNDS?

Because the national interest lies in reaching an overall settlement of lasting benefit to the UK, not in prolonging this particular disputed aspect of our refunds. In a complex issue of this kind, there would be difficulties, both of procedure and substance, in establishing a case before the European Court.

010



CONFIDENTIAL

CDP

Prime Minister

Qz.03816

Minister
Prime saw e
discussed this
evening 13/7

CDP

10/7

MR POWELL

EUROPEAN COMMUNITY: BUDGET OVERRUNS IN 1984 AND 1985

We spoke about the Community budget overruns. This question was discussed in the Steering Committee on European Questions last week. The Chancellor of the Exchequer is now sending a minute to his colleagues. I understand that a time has also now been earmarked on Friday, 13 July for a meeting between the Prime Minister and the Ministers most directly concerned.

2. The Council of Ministers (Budget) on 18-19 July will be discussing the Commission's proposals for a supplementary budget for 1984 and for the Community's preliminary draft budget for 1985. Both proposals are in excess of the revenue available under the 1 per cent VAT ceiling. It is clear, therefore, that firm corrective action by the Council to respect the Community's legal obligations is necessary. The United Kingdom's tactics are also important, so that we avoid fall-out and gain the maximum advantage from the handling and timing of the corrections.

3. There are three guidelines for the United Kingdom's broad approach to the 1984 and 1985 budget overruns -

(i) we have consistently taken the view that the rules on the Community's own resources must be respected and that the Community cannot legally adopt a budget unless there is the revenue to finance it (article 199 of the Treaty). We have ensured that the 1 per cent VAT ceiling has not been undermined and we need to make sure that nothing is done now which would allow the undermining of the 1.4 per cent VAT ceiling later;

(ii) we believe that savings both on the Community's 1984 budget and on the preliminary draft budget for 1985 are possible and must be made. Realistically we have accepted - although we have not said so publicly - that if there were difficulties about financing some Community expenditure in November/December 1984, the Community financing would have to come out of the 1985 budget;

(iii) the negotiation in the European Council at Fontainebleau has now secured that the lasting system of budget correction will apply to the United Kingdom's refund in respect of 1985 and subsequent years. There will be only one year (1984) to which a fixed refund of 1000 million ecu will apply. It is therefore to our advantage that, if there is a choice, Community expenditure should fall in 1985 or later years rather than in 1984.

4. 1984 budget overrun. The Commission proposed in April to submit a supplementary budget of 2300 million ecu and, in order to legitimise its proposal in the absence of finance, also proposed a regulation under article 235 of the Treaty (unanimity) for a loan from member states repayable with interest when own resources had been increased. Germany and the United Kingdom opposed this loan proposal and it will not be adopted. The Commission is expected to withdraw it and to replace it with a proposal for financing by repayable advances from member states.

5. There are two key questions for the Council of Ministers (Budget) on 18-19 July: first, how far the Council can reach agreement on reducing the Commission's estimated overrun; and, secondly, what should be done about the financing when the overrun has been cut back to the irreducible minimum. The Commission has recently looked again at its figures and is revising the overrun downwards slightly to about 2000 million ecu. The Council may be able to reach agreement on a figure below, but not much below, this level (we are, of course, arguing for bigger savings).

CONFIDENTIAL

6. Thereafter we expect that there will be a disagreement on the action to take -

either (i) member states should make available temporary advances to the Community in order to pay the bills in November/December 1984. These advances would be in accordance with the VAT key, so that the United Kingdom would be liable for 20-21 per cent. The Commission would propose a regulation under article 235 of the Treaty (unanimity), by-passing the 1 per cent VAT ceiling on the Community's own resources but justifying this on the ground that they were also proposing that the ceiling should be increased on 1 October 1985. We do not like this approach because of the undermining effect of an article 235 regulation on the own resources ceiling and because the United Kingdom would be paying straightaway at the VAT rate. It would be difficult to get any repayment of the advances in 1985 within the budget correction/United Kingdom refund system, because all other member states would oppose this. The Germans also do not like an article 235 regulation and have been thinking about payment of advances under a gentlemen's agreement

("advances": solution of nine member states - Germany equivocal);

or (ii) any legitimate expenditure for which Community finance was not available in the last weeks of 1984 would be met nationally, with reimbursement from the Community budget at the beginning of 1985. Under this arrangement the United Kingdom would be paying out only about 13 per cent or less of Community expenditure in the last weeks of 1984 (ie payments to our own farmers and traders) and we would be certain that, when all member states were reimbursed in 1985, the new budget correction/UK refund system would be in effect ("temporary funding with reimbursement": solution of the United Kingdom).

/7.

7. The chances of agreement on (ii) above would be increased if we could break up the incipient nine to one situation. We need, if we can, to keep the Germans in favour of our solution or at least opposed to an article 235 regulation. The other member states will be more amenable to our solution if they think that the difficulties are temporary and will be unravelled by new own resources becoming available in 1985.

8. 1985 preliminary draft budget. The Commission's proposal is about 1900 million ecu over the level of finance available with the 1 per cent VAT ceiling in place. The Budget Committee has already agreed to take about 600 million ecu off the Commission's proposal. It is possible that the Council of Ministers (Budget) on 18-19 July will reach agreement on a 1985 preliminary draft budget within the 1 per cent VAT ceiling. If so, there will be strong pressure from other member states on Germany to agree to the Commission's proposal that the revised Decision on Own Resources should enter into force on 1 October 1985, thus providing the safety-valve of a potential supplementary budget after the Decision had come into force. A similar argument will be advanced to the United Kingdom if (as we propose in para 6 (ii) above) we argue in favour of pushing some 1984 expenditure into 1985. Entry into force of the revised Own Resources Decision on 1 October 1985 has advantages as well as disadvantages for the United Kingdom: it would ensure that we obtained our 1984 refund of 1000 million ecu in 1985 (otherwise we might have to wait until 1986) but for technical reasons it would give the European Parliament a higher baseline for non-agricultural expenditure.

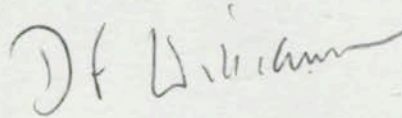
9. The July Budget Council normally reaches a common position on the preliminary draft budget for the following year, so that the procedures with the European Parliament can be launched. Although the 1984 and 1985 budget overruns are not directly linked with the budget correction/United Kingdom refund system

CONFIDENTIAL

negotiated at Fontainebleau, any serious disagreement or delay might be presented as a setback to the Fontainebleau package. It is all the more important, therefore, that the United Kingdom should seek, in a deal on 18-19 July on the budget overruns -

- (i) to achieve the maximum negotiable savings;
- (ii) to push any remaining 1984 overrun into 1985 ("temporary funding with reimbursement");
- (iii) to keep the 1985 preliminary draft budget within the 1 per cent VAT ceiling;
- (iv) if the revised Own Resources Decision is to enter into force on 1 October 1985, to circumscribe to the maximum extent possible the European Parliament's baseline for non-agricultural expenditure.

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



D F WILLIAMSON

10 July 1984

A BRIEF FOR THE DEBATE ON
EUROPEAN COMMUNITY AFFAIRS

HOUSE OF COMMONS
TUESDAY, 10TH JULY 1984

This brief is to be read in conjunction with Members Brief No. FA(84)4, the Briefing Note, No. 23, 28th June 1984, and the text of the conclusions of the Presidency following the Fontainebleau Summit of 25th/26th June 1984.

CONTENTS

	Page
1. The Advantages of the System	1
2. The Size of the Refund	1
3. Budget Discipline	2
4. The increase in Own Resources and procedures for ratification	2
5. Labour's Line	3

SOME KEY POINTS

1. The advantages of the System

The agreement reached at Fontainebleau* is durable, equitable and immutable.

a) Durability. The duration of the budgetary corrective mechanism is linked to the duration of the new own resources (See 4). It will be incorporated into the new own resources decision. Any changes to the new own resources decision will require unanimity. It will therefore not be possible to suspend the operation of the budget corrective mechanism without the United Kingdom's agreement.

b) Equity. Section I of the Presidency text at Fontainebleau reads:

'it has been decided that any member state sustaining a budgetary burden which is excessive in relation to its relative prosperity may benefit from a correction at the appropriate time.'

The European Council went on to agree that the United Kingdom was in this position and should accordingly benefit from a correction. From the wording of the text it is clear that other member states can also benefit at the appropriate time if they fulfil the condition of sustaining an excessive budgetary burden in relation to their relative prosperity.

c) Immutability. The system works by reducing VAT contributions by the given amount one year in arrears. This contrasts with the previous arrangement for ad hoc refunds of expenditure. The system of reduced VAT contributions will give us protection against interference by other member states or by the Parliament. Moreover, the system could only be changed by unanimous agreement of all member states.

2. The Size of the Refund

It is very difficult to forecast movements in our net contribution since these would depend on the size and composition of the Community budget and changes in our share of Community expenditure. However, it can be said that even with an increased VAT ceiling, we shall be paying around half of what we would have had to pay with no increase in the VAT ceiling and no agreement on refunds. Without the Fontainebleau settlement we would probably have paid around £1.2 billion to the Community in 1984, and this could have risen to £1.5 billion or more in later years.

The system used to measure our excess contribution, the so-called VAT expenditure share gap, does not exclude from consideration all customs levies and agricultural duties that we contribute. It only excludes those which are notionally in excess of the share of our VAT base in VAT own resources. To illustrate, if the UK's duties and levies share is 25 per cent of European Community revenue from all partners' customs receipts and the UK VAT share is 21 per cent, only the 'excess' (25 minus 21 per cent) of the levies and duties is not taken into account. For 1983 this amounts to about 300 million ecu or £170 million.

*NB: Only items 1,2 and 4 of the Presidency conclusions were fully discussed and agreed.

Marginal Contributions. An important consequence of the system is that our marginal contribution to new spending (which is financed by VAT contributions), will be one-third of 21 per cent, i.e. 7 per cent. By contrast Italy is likely to contribute at more than twice that rate, and West Germany and France at an even greater rate. This is a powerful incentive to economy and prudent financial discipline on the part of these countries.

3. Budget Discipline

On Budget discipline the Prime Minister made it clear in the House on 27th June that:

'The Government will be prepared in due course, and when the arrangements are in place on budget discipline, to recommend to the House that the own resources ceiling should be increased to 1.4 per cent of VAT' (Hansard, 27th June 1984, col. 993).

The Council of Ministers will now work on how best to achieve arrangements to guarantee budgetary discipline, both for agriculture and other expenditure. The basis for these discussions reflects the United Kingdom's position put in discussions before and after the Stuttgart Summit last June. The UK has stressed the need to keep the rate of growth of CAP market support expenditure below the rate of growth of own resources base, and the need to implement that principle in annual price fixing, in the Budget, and in the Commission's management of agricultural expenditure.

Progress has already been made in curbing CAP expenditure. CAP common prices were reduced throughout the Community and prices expressed in terms of their national currencies fell significantly in all member states. Expenditure on the milk sector has been curbed. This was absorbing about one third of FEOGA guarantee expenditure and production was increasing rapidly. These were difficult decisions but they are only the first step. We shall continue to press for restraint in CAP support levels and expenditure.

4. The increase in Own Resources and procedures for ratification

The European Council agreed to increase the VAT own resources ceiling from 1 per cent to 1.4 per cent no later than 1st January 1986. The new rate will come into force as soon as the ratification procedures are completed. The UK believes that with prudence and firm financial control this increase will be sufficient for the Community for some years to come. Any further increase would require unanimity as well as ratification by the Parliaments of all member states. No further increase beyond 1.4 per cent was agreed. The increase in own resources relates to the maximum rate of VAT which the Community can call up. The actual rate of VAT called up would depend upon the size of the Community Budget for any given year.

Article 201 of the Rome Treaty lays down the procedure for increasing the VAT own resources ceiling. After consulting the European Parliament, the Council, acting unanimously, lays down the appropriate provisions - which in this case will be a revised version of the own resources decision of 21st April 1970. The

provisions are then 'adopted' by the member states in accordance with their respective constitutional requirements. The increase cannot come into force until all member states have adopted the appropriate provisions. In the United Kingdom the draft proposal from the Commission to increase the VAT ceiling will be deposited in the House and examined by the Scrutiny Committee. When the Council has agreed the proposal the final text will also be deposited for examination by the Scrutiny Committee, which may recommend either or both for debate in the House. The Government would then lay a draft order in Council under Section I (III) of the European Communities Act, and this draft order would need to be approved by an affirmative resolution in each House of Parliament before ratification was complete.

The exact timing of the above will depend upon when the texts are agreed and adopted by the Council. The European Council concluded that the increase should be ratified at the latest by 1st January 1986.

5. Labour's line (See also Briefing Note No. 23)

a. Labour have stated that they would not have agreed to such a deal. It is important to realise that non-agreement would have meant:

- no receipt of our 1983 refunds (worth about £450 million).
- no receipt of the agreed 1984 refund of 1,000 million ecu (about £600 million).
- no protection from excess contributions in 1985 and beyond. These could easily have risen to £1.5 billion.
- no systematic reform of the Community's financial arrangements and no progress towards the achievement of greater budget discipline. Agricultural expenditure could well have continued to rise within the 1 per cent ceiling and further squeeze out other policies.
- that there would have been delay in the enlargement negotiations for Spain and Portugal.
- that there would have been no money available for new policies of potential benefit to the United Kingdom.

b. Their renegotiation failed to secure any refunds whatsoever. Net contributions for the last two years for which they were responsible (the only two years not protected by transitional arrangements, negotiated by a Conservative Government) were out of all control. At 1983 prices Labour's net contribution to the Community exceeded £1.41 billion per annum for 1978 and 1979, compared with an average of £655 million for the following four years under the Conservatives. See table overleaf.

EC Budget (Contributions)

Mr. Haselhurst asked the Chancellor of the Exchequer what have been the amounts paid net to the European Economic budget during each of the years of the United Kingdom's membership, at constant 1983 prices.

Mr. Ian Stewart: The information requested is set out in the following table:

	<i>£ million</i>
1973	374
1974	93
1975	*-141
1976	365
1977	708
1978	1,420
1979	1,431
1980	890
1981	448
1982	638
1983	647

* Negative sign denotes a net receipt.

The figures given in the reply have been calculated to constant prices by use of the GDP deflator based on GDP in pounds sterling at 1983 average market prices. These figures are published in Economic Trends.

(Source: Hansard, 27th June 1984, WA, col. 458)

RESTRICTED

GR 900

RESTRICTED
FRAME ECONOMIC
DESKBY 100800Z
FM UKREP BRUSSELS 091823Z JUL 84
TO IMMEDIATE F C O
TELEGRAM NUMBER 2328 OF 9 JULY,
INFO DUBLIN,
INFO SAVING: BRUSSELS COPENHAGEN THE HAGUE PARIS BONN
LUXEMBOURG ATHENS ROME.

ECOFIN COUNCIL 9 JULY.
SECOND QUARTERLY ECONOMIC REVIEW.

mt

SUMMARY

1. CHAIRMAN OF CO-ORDINATING GROUP OUTLINED RISKS TO COMMISSION FORECASTS AND UNDERLINED PERSISTENCE OF UNEMPLOYMENT. COUNCIL TOOK NOTE OF REVIEW AND, ON FRENCH REQUEST, ASKED MONETARY COMMITTEE TO CONSIDER SCOPE FOR COMMUNITY INITIATIVE AT IMF ON INTEREST RATES, EXCHANGE RATES AND THIRD WORLD DEBT.

DETAIL

2. DOYLE (CHAIRMAN OF CO-ORDINATING GROUP) SAID THAT THERE WAS GENERAL AGREEMENT THAT THE ECONOMIC CLIMATE IN THE COMMUNITY WAS IMPROVING, HOWEVER THE OUTLOOK REMAINED UNCERTAIN PARTICULARLY GIVEN THE IMPACT OF ELECTIONS ON THE U.S ECONOMIC STRATEGY. THE COMMISSION FORECASTS WERE BASED ON AN ASSUMPTION OF RELATIVE STABILITY IN EXCHANGE RATES, INTEREST RATES, OIL PRICES AND INTERNATIONAL INDEBTEDNESS, AS WELL AS A SOFT LANDING FOR THE U.S ECONOMY. THE RISKS OF SHOCKS FROM ANY OF THESE REMAINED SUBSTANTIAL. THERE WAS ALSO SOME DISAGREEMENT IN THE COMMITTEE BETWEEN THOSE WHO FELT THAT ANTI-INFLATIONARY POLICIES, ALTHOUGH SERVING A VERY IMPORTANT PURPOSE, WERE INADEQUATE TO DEAL WITH THE PROBLEM OF UNEMPLOYMENT AND SHOULD BE COMPLIMENTED BY POSITIVE EMPLOYMENT POLICIES, AND THOSE WHO FELT THAT THE POSITIVE EMPLOYMENT EFFECTS OF ANTI-INFLATIONARY POLICIES HAD YET TO BE FELT.

3. ORTOLI (COMMISSION) ACKNOWLEDGED THAT THE INTEREST RATE ASSUMPTIONS IN THE FORECASTS MIGHT BE OPTIMISTIC. HE ALSO UNDERLINED THE IMPORTANCE OF CONTINUED FIRM BUDGETARY POLICIES BECAUSE OF THE RISKS ASSOCIATED WITH ACCUMULATING EXCESSIVE BURDENS OF PUBLIC DEBT WHICH COULD GIVE RISE TO PROBLEMS SIMILAR TO THOSE FACED CURRENTLY BY THIRD WORLD DEBTORS. BUDGETARY CONTROL NECESSITATED A MEDIUM-TERM APPROACH AND FLEXIBILITY IN FISCAL POLICY WAS DEPENDENT ON SUCH CONTROLS.

4. DELORS (FRANCE) THEN LAUNCHED INTO AN IMPASSIONED PLEA FOR A COMMUNITY INITIATIVE ON INTEREST RATES AND EXCHANGE RATES

TO HEAD OFF AN IMMINENT DEBT CRISIS. THE COMMUNITY NEEDED TO DEVELOP A COHERENT LINE TO FOLLOW AT THE MEETINGS OF THE INTERIM COMMITTEE AND THE DEVELOPMENT COMMITTEE. RECENT IMF ESTIMATES HAD HIGHLIGHTED THE PROBLEM OF THE BUNCHING OF DEBT SERVICING OVER THE PERIOD 1986-89 WHICH COULD ONLY BE MANAGED IF THE CIRCUMSTANCES WERE ALL FAVOURABLE. THIS WAS UNLIKELY TO BE THE CASE WITHOUT CONCERTED OFFICIAL ACTION. THERE WERE SIGNS THAT THE U.S ADMINISTRATION WAS BECOMING MORE SENSITIVE TO INTERNATIONAL PRESSURE AND THERE MIGHT BE SCOPE FOR SUCH A EUROPEAN INITIATIVE. PERHAPS THE MONETARY COMMITTEE COULD EXAMINE MEANS OF EASING THE PRESSURE ON DEBTOR COUNTRIES AND OF CALMING VOLATILE CAPITAL MARKETS IN TIME FOR THE INFORMAL COUNCIL IN SEPTEMBER. IN THIS CONTEXT IT WAS UNFORTUNATE THAT THE U.S HAD NOT INITIATED CONCERTED CENTRAL BANK ACTION TO CALM FINANCIAL MARKETS RECENTLY AS AGREED AT LAST YEAR'S ECONOMIC SUMMIT.

5. TIETMEYER (FRG) WHILST ACCEPTING THE IMPORTANCE OF INTEREST RATE DEVELOPMENTS FOR DEBTOR COUNTRIES SAID THAT THE COMMUNITY SHOULD BE REALISTIC ABOUT WHAT COULD BE ACHIEVED. ON THE ONE HAND THE COMMUNITY SHOULD TRY SO FAR AS POSSIBLE TO DE-COUPLE FROM AMERICAN INTEREST RATES. SUCH DE-COUPPING HAD BEEN SUCCESSFULLY ACCOMPLISHED IN GERMANY FOR EXAMPLE. ON THE OTHER HAND MUCH COULD BE DONE FOR DEVELOPING COUNTRIES BY ESTABLISHING CONDITIONS FOR SUSTAINED REAL GROWTH IN THE COMMUNITY AND BY MOVING TOWARDS MORE OPEN MARKETS FOR THEIR EXPORTS, AS AGREED AT THE LONDON SUMMIT.

6. ORTOLI AGREED THAT IT WAS IMPORTANT TO PURSUE BOTH THE POSSIBILITY OF DE-COUPPING AND THE ISSUES RAISED BY FRANCE. THE POSSIBILITIES OF OPENING COMMUNITY MARKETS WERE BEING CONSIDERED ALREADY BY FOREIGN MINISTERS. AS TO THE COMMISSION'S REPORT THERE WERE SPECIFIC ISSUES RAISED AT THE CO-ORDINATING GROUP BY DENMARK AND BELGIUM. THE COMMISSION ACKNOWLEDGED THAT THERE WAS CONSIDERABLE UNCERTAINTY ON THE OUTTURN OF BUDGET NEGOTIATIONS IN BELGIUM. NEVERTHELESS A MEDIUM-TERM COMMITMENT TO RESTRAINT WAS ESSENTIAL. IN DENMARK THE COMMISSION DID ACCEPT THAT EFFORTS HAD BEEN MADE TO ACHIEVE GREATER CONTROL OF INFLATION BUT NEVERTHELESS THE PUBLIC DEBT BURDEN CONTINUED TO RISE.

7. RIBERHOLDT (DENMARK) SAID THAT THEY APPRECIATED THESE COMMENTS. THE GOVERNMENT ACKNOWLEDGED THAT THE SITUATION WAS STILL NOT SATISFACTORY BUT STEPS WERE IN HAND TO IMPROVE THE SITUATION. THEY WERE HOWEVER VERY AWARE OF THE FACT THAT LEVELS OF EMPLOYMENT HAD NOT YET RESPONDED TO ANTI-INFLATIONARY POLICIES AND THAT MORE DIRECT ACTION MIGHT BE REQUIRED IN THIS AREA.

RESTRICTED (2)

/ 8

RESTRICTED

8. IN CONCLUSION DUKES (PRESIDENCY) SAID THAT THE COUNCIL TOOK NOTE OF THE REPORT AND OF THE FACT THAT THERE WAS NO NEED TO CHANGE THE ECONOMIC GUIDELINES ESTABLISHED IN DECEMBER 1983. THE MONETARY COMMITTEE WOULD CONSIDER THE POINTS RAISED BY FRANCE AND SHOULD REPORT BACK ON THESE IN TIME FOR THE INFORMAL COUNCIL IN SEPTEMBER.

FCO ADVANCE TO (ALL DESKBY):-

FCO - FAIRWEATHER, MARSDEN.

CAB - LAMBERT.

TSY - PS/CHANCELLOR, UNWIN, BYATT, FITCHEW, INGHAM.

B/ENG - BALFAOUR

FCO PASS SAVINGS TO: COPENHAGEN THE HAGUE ROME LUXEMBOURG
ATHENS PARIS BONN.

BUTLER

[ADVANCED AS REQUESTED]

[REPEATED AS REQUESTED]

FRAME ECONOMIC
ECD(I)

COPIES TO:
ADVANCE ADDRESSEES

3
RESTRICTED

CONFIDENTIAL

GR 630

CONFIDENTIAL

FRAME ECONOMIC

DESKBY 100800Z

FM UKREP BRUSSELS 091821Z JUL 84

TO IMMEDIATE F C O

TELEGRAM NUMBER 2326 OF 9 JULY

INFO: DUBLIN PARIS BONN,

INFO SAVING: BRUSSELS COPENHAGEN THE HAGUE ROME LUXEMBOURG
ATHENS.

ECOFIN 9 JULY 1984.

BUDGETARY DISCIPLINE.

SUMMARY

1. COUNCIL AGREED ON A PROCEDURE FOR CARRYING FORWARD
DISCUSSIONS ABOUT THE IMPLEMENTATION OF BUDGET DISCIPLINE.
AD HOC GROUP TO CONTINUE AND TO PREPARE FOR A DISCUSSION
OF SUBSTANCE AT THE INFORMAL ECOFIN COUNCIL ON 15-16 SEPTEMBER.

DETAIL

2. MINISTERS DISCUSSED THIS SUBJECT AT LUNCH. DUKES (PRESIDENCY)
PROPOSED THAT THE AD HOC GROUP SHOULD CONTINUE. THE MATTER
WAS URGENT AND HE SUGGESTED EARLY DISCUSSIONS AT ECOFIN AND
FOREIGN AFFAIRS COUNCILS. THE PRESIDENCY WOULD AIM TO PICK
OUT ISSUES FOR THE INFORMAL ECOFIN COUNCIL IN SEPTEMBER.

3. THE CHANCELLOR AGREED THAT CONTINUATION OF THE AD HOC
GROUP WAS IMPORTANT. IT MUST WORK FAST AND REPORT IN SEPTEMBER.
HE PREFERRED TO KEEP THE SUBSTANCE IN THE ECOFIN COUNCIL RATHER
THAN THE FOREIGN AFFAIRS COUNCIL. THERE MUST BE THOROUGH WORK
ON DETAILED PROCEDURES - NOT JUST DECLARATIONS - IN ORDER TO BE
ABLE TO GUARANTEE EFFECTIVE APPLICATION OF THE EUROPEAN COUNCIL
CONCLUSIONS.

4. DELORS AGREED WITH THE IDEA OF DISCUSSION AT THE INFORMAL
ECOFIN COUNCIL. ECOFIN SHOULD PRODUCE A TEXT FOR THE DUBLIN
EUROPEAN COUNCIL. THERE WAS A NEED TO REACH A GENTLEMEN'S
AGREEMENT WITH THE PARLIAMENT THEREAFTER. TIETMEYER AGREED
ON THE IMPORTANCE OF WORKING OUT PROPER PROCEDURES. A TEXT
SHOULD BE AVAILABLE FOR THE EUROPEAN COUNCIL. UNLESS HEADS OF
GOVERNMENT ENDORSED IT THERE WOULD BE TROUBLE IN BINDING OTHER
COUNCILS. ORTOLI ALSO ARGUED FOR A TEXT FOR THE EUROPEAN
COUNCIL, BUT IT SHOULD NOT LEAVE OPEN TOO MANY ISSUES FOR
DISCUSSION.

5. THE CHANCELLOR PRESSED FOR THE AD HOC GROUP TO PRODUCE
A REPORT FOR THE SEPTEMBER ECOFIN WITH WELL WORKED OUT OPTIONS.
TREATY AMENDMENT SHOULD NOT BE EXCLUDED. THE U.K GOVERNMENT
COULD NOT JUSTIFY INCREASING OWN RESOURCES UNTIL PROCEDURES FOR
EFFECTING BUDGET DISCIPLINE HAD BEEN WORKED OUT.

CONFIDENTIAL

16.

CONFIDENTIAL

6. TUGENDHAT DREW ATTENTION TO THE RESPECTIVE ROLES OF THE COUNCIL AND PARLIAMENT. HOWEVER IT SHOULD BE POSSIBLE TO GET PARLIAMENT TO RECOGNISE THE LINK BETWEEN THE INCREASE IN OWN RESOURCES AND BUDGETARY DISCIPLINE. ERSBOLL ALSO STRESSED THE URGENCY OF THE WORK BECAUSE OF THIS LINK, ESPECIALLY IN THE U.K. WE COULD NOT WAIT UNTIL DECEMBER FOR RESULTS. THE ROLE OF THE FOREIGN AFFAIRS COUNCIL COULD BE PROCEDURAL. SINCE THE SEPTEMBER ECOFIN WOULD BE INFORMAL, FIRM DECISIONS WOULD HAVE TO WAIT FOR THE OCTOBER ECOFIN COUNCIL. ORTOLI THOUGHT THE FOREIGN AFFAIRS COUNCIL WOULD HAVE TO BE KEPT IN THE PICTURE BUT IT NEED NOT DISCUSS SUBSTANCE.

7. DUKES PRODUCED A TEXT SETTING OUT A PROCEDURE. A SMALL NUMBER OF AMENDMENTS WERE AGREED. DUKES CONCLUDED THAT THE AD HOC GROUP SHOULD WORK FLAT OUT TO PROVIDE THE BASIS FOR ECOFIN COUNCIL DISCUSSIONS IN SEPTEMBER AND OCTOBER.

8. DURING THE COUNCIL MEETING IN THE AFTERNOON THE REVISED TEXT WAS CIRCULATED AND FORMALLY APPROVED (TEXT IN M I F T). THE NEXT MEETING OF THE AD HOC GROUP WILL BE ON 17 JULY.

FCO ADVANCE TO (ALL DESKBY):-

FCO - RENWICK, FAIRWEATHER, WALL.

CAB - WILLIAMSON, LAMBERT.

MAFF- ANDREWS.

TSY - PS/CHANCELLOR, UNWIN, FITCHEW, BOSTOCK, HOPKINSON.

TSY - SOL, PRESTON.

FCO PASS SAVINGS TO: COPENHAGEN THE HAGUE ROME LUXEMBOURG
ATHENS.

BUTLER

[ADVANCED AS REQUESTED]

[REPEATED AS REQUESTED]

FRAME ECONOMIC
ECD(I)

COPIES TO:
ADVANCE ADDRESSEES

2
CONFIDENTIAL

Caroline CR. 10/17. 1830 on Friday

MR. POWELL

cc: Mr. Barclay

Now 1830 on Friday, without
the Lord President.

Dms
9/7

MEETING TO DISCUSS HANDLING OF THE COMMUNITY BUDGET

Cabinet Office asked me to set this up on Friday and in your absence I attempted to do so. The attendance is the Foreign and Commonwealth Secretary, Chancellor of the Exchequer, Lord President and Minister of Agriculture. Friday was no good.

So, I fixed it for Monday, 16 July at 1100 hrs. David Williamson is unhappy to leave it until next week. But I see no option unless we take some time out of the diary allotted for Wednesday's speech.

You may get a call from David Williamson. Do you want officials?

CR.

9 July, 1984



file
cc R

10 DOWNING STREET

From the Private Secretary

MR. WILLIAMSON
CABINET OFFICE

Implementation of the
Fontainebleau Agreement:
Revised Own Resources Decision

Thank you for your minute of 6 July on this subject. The Prime Minister has noted it.

I am sending copies of this minute to Miss Lewis-Jones (Lord President's Office), Mr. Bone (Foreign and Commonwealth Office), Mr. Peretz (HM Treasury) and Mr. Hatfield (Cabinet Office).

(C.D. Powell)

9 July 1984

CONFIDENTIAL

CST

CONFIDENTIAL

Prime Minister

CDP 6/7

Qz.03814

MR POWELL

IMPLEMENTATION OF THE FONTAINEBLEAU AGREEMENT: REVISED OWN
RESOURCES DECISION

The Commission has now formally proposed the text of the revised Own Resources Decision implementing the Fontainebleau agreement. In all important respects it matches what the Prime Minister said in presenting the agreement. In particular, the text includes:-

(i) the systematic correction of the budget inequity (refund of 66 per cent of the United Kingdom's VAT share/expenditure share gap on a payments basis) in a form which will continue unless there were a unanimous decision of member states and their parliaments to alter it;

(ii) an increase in the VAT ceiling to 1.4 per cent but no reference to 1.6 per cent.

The juridical effect of (i) and (ii) is that the United Kingdom has a veto on any further increase in the VAT ceiling and on any proposal to change the system of budget correction. If adopted in this form the revised Own Resources Decision would ensure that, if there were a disagreement when the question was reviewed later, the 66 per cent refund and the 1.4 per cent VAT ceiling would continue. On the principle of "what we have, we hold", the United Kingdom's negotiating position would be markedly stronger than in the recent negotiation.

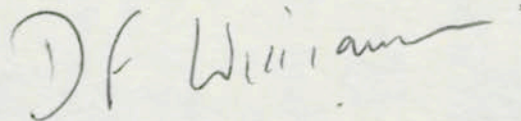
2. The preamble to the revised Own Resources Decision states that any member state bearing an excessive budgetary burden in relation to its relative prosperity should benefit from a

CONFIDENTIAL

correction at the appropriate time but no member state other than the United Kingdom actually benefits, except that Germany's contribution to the United Kingdom refund is abated by one third and the resulting cost is passed on to the remaining member states other than the United Kingdom. This is in line with the Fontainebleau text which in this respect was more favourable than the earlier Brussels text.

3. The Commission proposes that the revised Decision should enter into force on 1 October 1985 and thus be applicable to Community spending in 1985. In consequence, they also propose that the United Kingdom's 1984 ad hoc refund of 1000 million ecu should be paid by deduction from our VAT contribution in 1985 after the revised Decision has entered into force.

4. I am sending copies to Janet Lewis-Jones (Office of the Lord President of the Council), Roger Bone (FCO), David Peretz (Treasury) and to Sir Robert Armstrong.



D F WILLIAMSON

6 July 1984

RESTRICTED

TRF
to note
CDP 577.



Foreign and Commonwealth Office

London SW1A 2AH

5 July 1984

New Britain

TR
SP

European Council Meeting at Fontainebleau:
Conclusions of the Presidency

with CP?

Please refer to Adrian Ellis' letter to me of 4 July about the Economic Secretary's testimony to the Treasury Select Committee.

As you know, the Conclusions from the European Council at Fontainebleau (copy attached) were not agreed textually by Heads of Government in all respects. The sections on budgetary imbalances, own resources and enlargement, and dismantling of MCAs in the Federal Republic of Germany were discussed and agreed by Heads of Government. The other conclusions were issued on the authority of the Presidency after Fontainebleau. We made this clear in a covering note to the Conclusions when they were deposited in the Library of the House of Commons and the House of Lords last week.

In addition to the issue mentioned in Ellis's letter, we understand that the members of the Treasury Select Committee asked why no reference had been made in the Prime Minister's statement to the House to the possible further increase in the own resources ceiling mentioned in the Conclusions. This and other points relating to the Conclusions are dealt with in the enclosed notes for supplementaries.

As regards the quality of the Conclusions placed in the Library, you will recall that the Conclusions had to be deposited to coincide with the answer to a PQ to the Prime Minister. We deposited the only version then available to us. We are now arranging for a clean copy to be deposited.


We have not deposited the text of the March conclusions because the Presidency have not yet decided whether and in what form to make them publicly available. We have asked Sir Michael Butler to press the Council Secretariat on this point. Since some of the March texts were overtaken by the texts agreed at Fontainebleau we should, if possible, deposit only an authorised version. The text on budget discipline will be made available to the Treasury Select Committee in the meantime.

I am copying this letter to the Private Secretaries to the Chancellor of the Exchequer, the Economic Secretary, the Leader of the House and Sir Robert Armstrong.

[Handwritten signature]
(R B Bone)
Private Secretary

C D Powell Esq
10 Downing Street

RESTRICTED



WHAT IS THE STATUS OF THE FONTAINEBLEAU CONCLUSIONS?

The Conclusions were issued by Presidency. The texts covering the agreement on budgetary imbalances; own resources and enlargement; and dismantling of positive MCAs in the Federal Republic of Germany were discussed and agreed by Heads of Government in the European Council. The remaining texts were issued on the authority of the Presidency. This has been the practice on a number of occasions in the European Council.

DOES THE UK AGREE TO EVERYTHING IN THE DRAFT CONCLUSIONS?

Where texts were specifically endorsed by Heads of Government, as on budget imbalances, we are of course committed to them, as are other Member States. In other instances, the texts deal with matters which will be the subject of further discussion. They do not preempt decisions which will need to be taken in the relevant specialist Councils.

HAS THE UK AGREED TO FINANCE THE 1984 BUDGET OVERRUN?

The European Council agreed to refer this issue to the Budget Council. It will be for the Budget Council to decide what steps need to be taken to balance the 1984 budget in accordance with Article 199 of the Treaty. Our position on this has not changed. We shall continue to press for savings and deferrals.

DOES THE TEXT ON SOCIAL POLICY MEAN THAT THE UK HAS AGREED TO THE RECOMMENDATION ON WORKING TIME?

No. I made clear that we did not accept the draft Recommendation on Working Time as discussed at the Social Affairs Council on the 7th of June. We are not prepared to agree to any recommendation which would diminish our competitive position and thus endanger the viability of industry and hence jobs in the longer term.



HAS THE UK AGREED TO INTRODUCE THE COMMON FORMAT
PASSPORT BY 1 JANUARY 1985 AT THE LATEST?

Ministers agreed in 1981 to use their best endeavours to introduce the passport by 1 January 1985. We have always made clear our intention to introduce the passport together with a machine readable facility which will be of benefit to British travellers. My rt hon Friend, the Home Secretary, hopes to make a statement on this issue before the recess.

HAS THE UK AGREED TO A EUROPEAN SPORTS TEAM, A FLAG, AN
ANTHEM ETC?

No. These are among a number of items to be discussed by a Committee of representatives of Heads of State and Government. The agenda of this Committee naturally reflects the priorities of all Member States. Our priorities are the practical goals also listed in the Conclusions, such as a single document for the movement of goods and other measures to complete the common market in goods and services.

WHY DID THE PRIME MINISTER NOT MAKE ANY MENTION IN HER
STATEMENT OF AN INCREASE IN OWN RESOURCES TO 1.6% ON
1 JANUARY 1988?

This provision has been a feature of the text since March. It represents no more than a statement of the obvious, namely that any further increase in own resources is only possible if all Member States agree and if all national parliaments agree. We successfully blocked attempts to secure a further, and automatic, increase in own resources in 1988. Our position, and that of the House, is fully secured by the wording we established. This is a further example of the way in which British interests have been fully protected by the agreement we negotiated.

EUROPEAN COUNCIL MEETING AT FONTAINEBLEAU
CONCLUSIONS OF THE PRESIDENCY

The attached text of Conclusions of the Presidency was issued following the European Council meeting in Fontainebleau on 25/26 June.

Conclusions 1. (Budgetary Imbalances), 2. (Own Resources and Enlargement) and 4. (Dismantling of Positive MCAs in the Federal Republic of Germany) were discussed and agreed by Heads of Government in the European Council. The remaining texts have been issued on the authority of the Presidency.

Foreign and Commonwealth Office
29 June 1984

EUROPEAN COUNCIL MEETING AT FONTAINEBLEAU

CONCLUSIONS OF THE PRESIDENCY

The European Council, meeting at Fontainebleau on 25 and 26 June 1984, adopted the decisions on the questions left in abeyance at its meeting in Brussels on 19 and 20 March 1984.

The European Council also confirmed the points of agreement which it has reached in Brussels. It took note of the progress made in regard to new policies and discussed environment and health issues. It adopted new guidelines for the reactivation of European co-operation.

1. BUDGETARY IMBALANCES

1. Expenditure policy is ultimately the essential means of resolving the question of budgetary imbalances.

However, it has been decided that any Member State sustaining a budgetary burden which is excessive in relation to its relative prosperity may benefit from a correction at the appropriate time.

The basis for the correction is the gap between the share of VAT payments and the share of expenditure allocated in accordance with the present criteria.

2. As far as the United Kingdom is concerned, the following arrangement is adopted:
 - for 1984, a lump sum of 1000 MECUS is fixed;
 - from 1985 the gap (base of the correction) as defined in § 1 is, for the period referred to in § 4, corrected annually at 66%.

3. The corrections foreseen in § 2 will be deducted from the United Kingdom's normal VAT share in the budget year following the one in respect of which the correction is granted. The resulting cost for the other Member States will be shared among them according to their normal VAT share, adjusted to allow the FRG's share to move to 2/3 of its VAT share.

4. The correction formula foreseen in § 2 (2nd indent) will be a part of the decision to increase the VAT ceiling to 1,4%, their durations being linked.

One year before the new ceiling is reached, the Commission will present to the Council a report setting out the state of play on:

- the result of the budgetary discipline
- the Community's financial needs
- the breakdown of the budgetary costs among Member States, having regard to their relative prosperity, and the consequences to be drawn from this for the application of the budgetary corrections.

The Council will re-examine the question as a whole and will take the appropriate decisions ex novo.

- 1 -

OWN RESOURCES AND ENLARGEMENT

The maximum rate of mobilization of VAT will be 1.4% on 1 January 1986; this maximum rate applies to every Member State and will enter into force as soon as the ratification procedures are completed, and by 1 January 1986 at the latest.

The maximum rate may be increased to 1.6% on 1 January 1988 by unanimous decision of the Council and after agreement has been given in accordance with national procedures.

The European Council confirms that the negotiations for the accession of Spain and Portugal should be completed by 30 September 1984 at the latest. Between now and then the Community will have to make every effort to create the right conditions for the success of this enlargement, both in the negotiations with Spain on fisheries to ensure the conservation of fish stocks and also by reforming the common organization of the wine market to ensure that the quantities of wine produced in the Community are controlled and by means of a fair balance between agricultural and industrial agreements.

3. FINANCING OF THE 1984 BUDGET

The European Council agreed that, pending national parliaments' ratification of the increase in own resources, steps will be taken at the next (Budget) Council meeting to cover the needs of the 1984 budget to ensure that the Community operates normally.

Dismantling of positive monetary compensatory amounts
in the Federal Republic of Germany

The European Council asks the Commission to propose, and the Council to decide on, measures which will enable VAT relief for German agriculture under the German national budget to be increased from 3% to 5% with effect from 1 July 1984 until 31 December 1988 in compensation for dismantling the monetary compensatory amounts; the compensation shall not exceed the amounts dismantled.

31. SOCIAL POLICY

The European Council asks the Commission to carry out the work programme set out in the Community's medium-term social action plan and to forge ahead with the work stemming from the Council's conclusions on technological change and social adjustment and with that on production organization.

A PEOPLE'S EUROPE

The European Council considers it essential that the Community should respond to the expectations of the people of Europe by adopting measures to strengthen and promote its identity and its image both for its citizens and for the rest of the world.

An ad hoc Committee will be set up to prepare and co-ordinate this action. It will be composed of representatives of the Heads of State or of Government of the Member States.

The European Council approves the agreement reached on the principle of creating a European passport and asks the Council to take the necessary decisions to ensure that this passport is actually available to Member States' nationals by 1 January 1985 at the latest.

It asks the Council and the Member States to put in hand without delay a study of the measures which could be taken to bring about in the near future, and in any case before the middle of 1985:

- a single document for the movement of goods;
- the abolition of all police and customs formalities for people crossing intra-Community frontiers;
- a general system for ensuring the equivalence of university diplomas, in order to bring about the effective freedom of establishment within the Community.

The Committee will examine inter alia the following suggestions:

- symbols of the Community's existence, such as a flag and an anthem;
- formation of European sports teams;
- streamlining procedures at frontier posts;
- minting of a European coinage, namely the ECU.

It would also like the Member States to take steps to encourage young people to participate in projects organized by the Community beyond its frontiers, and in particular to support the creation of national committees of European volunteers for development, bringing together young Europeans who wish to work on development projects in the third world.

The ad hoc Committee will also examine the following suggestions:

- measures to combat drug abuse;
- the twinning of children's classes.

The Commission will contribute to the proceedings of the Committee within the limits of its powers.

The European Council decided to set up an ad hoc Committee consisting of personal representatives of the Heads of State and of Government, on the lines of the "Spaak Committee".

The Committee's function will be to make suggestions for the improvement of the operation of European co-operation in both the Community field and that of political, or any other, co-operation.

The President of the European Council will take the necessary steps to implement that decision.

RESTRICTED



cc CO
NIO
DTI
LOD
WPSO
MAFF
HMT
MJ
be PC

10 DOWNING STREET

From the Private Secretary

5 July 1984

Dear Roger,

European Community: Industrial Standards and
Removing Barriers of Collaboration between
Enterprises

The Prime Minister has noted the Foreign and Commonwealth Secretary's minute (PM/84/112) on this subject.

The Prime Minister is disappointed with the rather meagre results of this exercise so far. She hopes that concrete and substantial proposals of obvious benefit to Britain can be prepared in good time for presentation as a British initiative, perhaps at the next European Council.

I am copying this letter to the Private Secretaries of members of OD(E) and to Richard Hatfield (Cabinet Office).

*yours sincerely,
C.D. Powell*

C.D. Powell

R.B. Bone, Esq.,
Foreign and Commonwealth Office.

RESTRICTED

CONFIDENTIAL
FRAME ECONOMIC
DESKBY 050800Z

CONFIDENTIAL

FM UKREP BRUSSELS 041840Z JUL 84

TO IMMEDIATE FCO

TELEGRAM NUMBER 2275 OF 04 JULY 1984

INFO BRUSSELS, COPENHAGEN, THE HAGUE, ROME, DUBLIN, PARIS,
BONN, LUXEMBOURG, ATHENS.

NEW OWN RESOURCES DECISION AND 1984 SUPPLEMENTARY BUDGET

1. LEVER HAS TOLD US THAT THE COMMISSION AGREED TODAY ON A DRAFT OWN RESOURCES DECISION. THEIR CONCLUSIONS ON THE MAIN POINTS ON WHICH WE HAVE BEEN LOBBYING TUGENDHAT WERE:

- (A) PROVISION IN THE DECISION FOR MAKING 1984 REFUNDS THROUGH THE EARLY INTRODUCTION OF OWN RESOURCES IN 1985;
- (B) A DEFINITION OF VAT SHARES, AS REPORTED EARLIER IN THE WEEK TO FITCHEW, WHICH CLEARLY SPECIFIES A PAYMENTS BASIS;
- (C) A REFERENCE TO RELATIVE PROSPERITY IN THE PREAMBLE;
- (D) NO DEFINITION OF THE ALLOCATED BUDGET IN THE DECISION BUT A CROSS-REFERENCE TO AN IMPLEMENTING REGULATION WHICH WOULD CONTAIN A DEFINITION.

2. THE TEXT OF THE DRAFT OWN RESOURCES DECISION WILL PROBABLY BE SENT TO THE COUNCIL NEXT MONDAY. WE EXPECT TO OBTAIN A PRIVATE ADVANCE COPY TOMORROW.

3. THE COMMISSION ALSO AGREED ON A DRAFT SUPPLEMENTARY AND AMENDED BUDGET FOR 1984. THE FIGURES WILL BE BASED ON COM(84) 250 EXCEPT FOR A REDUCTION IN EXPENDITURE DUE TO THE GREATER THAN EXPECTED STRENGTH OF THE DOLLAR AGAINST THE ECU (100-150 MECU) AND SOME REDUCTION IN THE PROVISION FOR TURKEY AND STAFF COSTS. THE PROPOSAL MAY BE RELEASED ON FRIDAY.

4. THE COMMISSION AGREED ON THE TEXT OF A CONTINGENCY ARTICLE 235 REGULATION FOR FINANCING THE 1985 OVERRUN. THEY ALSO AGREED TO CERTAIN AMENDMENTS TO THEIR EXISTING ARTICLE 235 REGULATION FOR FINANCING THE 1984 OVERRUN. THESE WILL BE ISSUED AS A WORKING DOCUMENT RATHER THAN AS A REVISED PROPOSAL PENDING AN OPINION FROM THE PARLIAMENT.

FCO ADVANCE TO:-

FCO - RENWICK, FAIRWEATHER, WALL
CAB - WILLIAMSON, STAPLETON
MAFF - ANDREWS
TSY - UNWIN, FITCHEW, MORTIMER, HOPKINSON

BUTLER

FRAME ECONOMIC
ECD (1)

COPIES TO
AS ADDRESSEES.

REPEATED AS REQUESTED

CONFIDENTIAL

Ref. A084/1901

PRIME MINISTER

Cabinet: Community Affairs

The Foreign and Commonwealth Secretary will report on the discussion on the size of the next European Development Fund (EDF VI) among Community aid Ministers in the margins of the negotiations on 28-29 June with the African, Caribbean and Pacific countries (ACP) for a successor to the Lome Convention, at which the Minister for Overseas Development (Mr Raison) represented the United Kingdom. The United Kingdom contributes about 17.76 per cent to the European Development Fund. Most member states were prepared to accept a level of aid at least the same in real terms as the existing fund. The United Kingdom argued for an aid fund unchanged in cash terms and therefore lower in real terms (with some addition for Angola, Mozambique and Nigeria which do not draw on the present fund). Germany and Belgium were prepared to support a figure between the United Kingdom position and that of the other member states. It is probable that this question will come back to the Foreign Affairs Council for decision in September.

2. The Secretary of State for the Environment will report on the Environment Council on 28 June at which the Parliamentary Under Secretary of State (Mr Waldegrave) represented the United Kingdom. The agreements reached were useful and should be well received by public opinion. The Council reached agreement in principle to the introduction of unleaded petrol by 1989 at the latest. It also agreed on a directive on monitoring and controlling the trans-frontier shipment of dangerous waste products. A common position was also reached on a directive on air quality standards for nitrogen dioxide.

3. The Secretary of State for Trade and Industry may report on the Research Council on 29 June, at which the Parliamentary Under Secretary of State ~~for Industry~~ (Mr Butcher) represented the United Kingdom. This discussed priorities for Community research

and development. The United Kingdom and Germany pressed strongly for the prior identification of specific priorities before individual programmes could be agreed, although the Commission and other member states argued that priorities had been set by the adoption of the overall framework programme. These views will be reported to the Budget Council on 19 July, and a further Research Council this month is possible.

4. The only meeting scheduled over the next week is the Finance Council on 9 July. We expect that the Commission's proposal for the revised Own Resources Decision, implementing the Fontainebleau agreement, will come forward this week (we have been exerting strong pressure on the Commission to ensure that it is absolutely right).

RA

ROBERT ARMSTRONG

4 July 1984

PRIME MINISTER

EUROPEAN COMMUNITY: INDUSTRIAL STANDARDS
AND REMOVING BARRIERS OF COLLABORATION BETWEEN ENTERPRISES

Please see the note from Geoffrey Howe attached.

This is the response to your request for an initiative at Fontainebleau which would be a contribution to the relaunch of the Community and in the real interests of the UK.

The first effort by officials was feeble. It is now a matter of working up something better for the European Council. If you agree, I propose to reply emphasising the importance you attach to having concrete and substantial proposals of obvious benefit to Britain.

C.D.P.

Yes - Thank you

MS

4 July 1984

CCPC

PM/84/112PRIME MINISTEREuropean Community: Industrial Standards and Removing
Barriers to Collaboration between Enterprises

1. OD(E) under my chairmanship has considered an interim report from officials about ways in which we might improve trading prospects within the Community through action on industrial standards and by removing barriers to collaboration between commercial and industrial enterprises. This was in response to your Private Secretary's minute of 11 May to the Secretary to the Cabinet instructing him to arrange for consideration of possible initiatives, especially in the fields of standards and industrial collaboration, which the United Kingdom could take in the Community once the reform of the Community's financing had been settled.

2. OD(E) agreed that it was very much in the United Kingdom's interest to press forward with work in the Community to eliminate the barriers caused by differing national standards. As regards industrial collaboration, while OD(E) agreed on the desirability of removing the obstacles to collaboration, they also agreed that the United Kingdom should not support moves to give Community subsidies to firms to persuade them to collaborate when they would not otherwise choose to do so.

3. Officials were instructed to do further work on the various proposals and to submit a revised paper to OD(E) when they had done so. I therefore propose to put forward a fuller report on possible initiatives which we might take once the

/further

2
RESTRICTED



further work by officials has been considered by OD(E).

4. I am copying this minute to all those who attended the OD(E) meeting and to Sir Robert Armstrong.

A handwritten signature in blue ink, appearing to be 'G. Howe', written in a cursive style.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
4 July 1984

RESTRICTED



Treasury Chambers, Parliament Street, SW1P 3AG

Roger Bone Esq
PS/Foreign & Commonwealth Secretary
FCO
Downing Street
LONDON
SW1

4 July 1984

Dear Roger

EUROPEAN COUNCIL: TREASURY SELECT COMMITTEE HEARING

At the hearing before the Treasury Select Committee this morning the Economic Secretary was pressed hard on both the form and status of the Presidency conclusions of the Fontainebleau meeting which your Department placed in the library of the House under a short covering note last week.

On the form, the Committee complained strongly about the illegibility of the text. This manifested itself in confusion about the crucial dates in the first paragraph of the conclusions on own resources and enlargement. The Economic Secretary thinks, therefore, that it might be helpful if you could arrange for a clean copy of the text to be prepared and made available to the House as soon as possible, and in any event before the debate proposed for next Tuesday. He would also like to be able to send one to Mr Higgins.

On the status, in reply to questions the Economic Secretary and Treasury officials, drawing on the FCO covering note of 29 June, explained that conclusions 3 and 5 to 7 had been issued on the authority of the French Presidency and were not regarded by us as having been agreed by Heads of Government in the European Council. The Committee were critical of this, pointing to the opening words of conclusion 3 and implying that this might cast doubt on the agreements recorded on budgetary imbalances and other subjects in the conclusions 1, 2 and 4. The Economic Secretary suggests, therefore, that your Department should circulate quickly further briefing on the status of the conclusions, particularly since the Prime Minister might be questioned on this at question time tomorrow.

I should add that the Economic Secretary also undertook to let the Committee have the text of the section on budgetary discipline included in the provisional conclusions of the March Brussels Council, and endorse at Fontainebleau.

I am copying this letter to Charles Powell at No.10.

*Yours ever,
A M Ellis*

A M ELLIS
Private Secretary



10 DOWNING STREET

Prime Minister ②

You asked about the increase in the cost of the

European agreement on
and above the ~~right~~ stylised
assumptions in Cmd 9143.

These are set out in the
Annex to the Cabinet
paper. This confirms
that the figure is £300
million in 1985-86

L 300
" "
ml

AT 417



10 DOWNING STREET

From the Private Secretary

4 July, 1984.

1982 Risk-Sharing Refund: TCSC Enquiry

As I told you on the telephone, the Prime Minister has considered the line which the Economic Secretary should take in his appearance before the TCSC today on the question of the 1982 Risk-Sharing Refund. She agrees that, if pressed on this, the Economic Secretary should respond on the lines proposed by the Chancellor: that is that the outstanding claim for £42 million net in respect of 1982 risk-sharing was taken into account in considering the package on offer at Fontainebleau. Given the satisfactory settlement that was agreed, the Government have decided not to pursue the outstanding claim.

I am sending copies of this letter to Roger Bone (Foreign and Commonwealth Office) and David Williamson (Cabinet Office).

Charles Powell

D.L.C. Peretz, Esq.,
HM Treasury.

107

CONFIDENTIAL



ls
Xref

10 DOWNING STREET

From the Private Secretary

Mr. Williamson

European Community: Work of the Commission on
Industrial Policy

Thank you for your minute of 3 July recording that Ronald Grierson has been asked by Mr. Davignon to write a report on the Commission's future work on industrial policy over the next few years. The Prime Minister was grateful to be informed of this.

CP

4 July, 1984.

CONFIDENTIAL

67

GRS 780
CONFIDENTIAL
FRAME GENERAL

CONFIDENTIAL

FM DUBLIN 030955Z JUL 84
TO PRIORITY FCO

TELEGRAM NUMBER 304 OF 3 JULY 1984

INFO ROUTINE UKREP BRUSSELS ATHENS BONN BRUSSELS COPENHAGEN PARIS
THE HAGUE LUXEMBOURG ROME
INFO SAVING LISBON MADRID WASHINGTON UKDEL NATO UKDEL STRASBOURG
UKDEL OECD UKMIS NEW YORK

PROSPECTS FOR THE IRISH PRESIDENCY

1. THE IRISH WERE RELIEVED BY THE OUTCOME OF FONTAINEBLEAU BUT ARE SOMEWHAT DAUNTED BY THE VOLUME OF COMMUNITY BUSINESS IN PROSPECT OVER THE NEXT SIX MONTHS. DESPITE THIS THEY ARE DETERMINED TO MARK THEIR PRESIDENCY BY CARRYING THE COMMUNITY FORWARDS AND AVOIDING CONFUSION. THEY WANT TO MAKE THEIR PRESIDENCY A NATIONAL SUCCESS AND WILL SPARE NO EXPENSE OR OFFICIAL EFFORT TO THIS END.
2. ENLARGEMENT IS SEEN AS THEIR MOST IMMEDIATE TASK AND THEY ARE A BIT ALARMED ABOUT THE AMOUNT OF THE SPANISH DOSSIER STILL TO BE DEALT WITH AND THE PARALLEL DIFFICULTY OF COPING WITH PORTUGUESE IMPATIENCE. THEY HAVE A NATIONAL PROBLEM OVER SPANISH ACCESS TO IRISH FISHING GROUNDS BUT WILL HOPE TO SHELTER SOMEWHAT BEHIND THEIR PARTNERS' SIMILAR WISH FOR PROTECTION AGAINST THE SPANISH FISHING FLEET.
3. THERE IS ALSO THE QUESTION OF FINANCE FOR THE BUDGET OVER-RUN IN 1984, WHERE THEIR INSTINCT TO ACCEDE TO THE COMMISSION PROPOSALS PARALLELS THEIR CONCERN TO AVOID NATIONAL FINANCING OF EC PROGRAMMES. THE FINANCE MINISTERS' WORK ON BUDGETARY DISCIPLINE AND THE WORK ON THE TEXTS ON BUDGETARY IMBALANCES AND NEW OWN RESOURCES WILL SET THE SCENE FOR RESOLVING THE PROBLEM OF THE CURRENT DEFICIT. IN MR DUKES WE SHOULD FIND AN IMAGINATIVE AND RESOURCEFUL CHAIRMAN, BUT HE WILL HAVE LITTLE ENTHUSIASM FOR BUDGETARY DISCIPLINE.
4. ON CAP ISSUES MR DEASY WILL ACCEPT THE LOGIC OF REFORM BUT WILL SEEK TO AVOID CONTROVERSY AND RADICAL ACTION. HE WILL NOT CEASE TO LOOK FOR PRIVILEGES FOR IRISH AGRICULTURE. DIFFICULT DECISIONS, E.G. ON WINE, MAY BE REQUIRED IN THE ENLARGEMENT CONTEXT, BUT THE IRISH CAN AFFORD TO BE IMPARTIAL ON WINE.
5. ON THE INTERNAL MARKET, AS THEY ASSURED MR CHANNON LAST WEEK, THE IRISH WILL WORK FOR THE REMOVAL OF BARRIERS TO TRADE, BUT THEY MAY LACK THE IMAGINATION TO CIRCUMVENT OBSTACLES.
6. THE LOME NEGOTIATIONS ARE ALSO SEEN AS IMPORTANT. THIS IS A POPULAR FIELD DOMESTICALLY, AND THERE WILL BE PRESSURE ON THE GOVERNMENT TO BE GENEROUS ON BOTH TRADE AND AID.

CONFIDENTIAL

/2

7. ON THE WIDER POLITICAL ISSUES, IRISH MINISTERS WILL WISH TO AVOID ANY DISCUSSIONS WHICH MIGHT SEEM TO AFFECT THEIR NEUTRALITY, WHICH IS A VERY SENSITIVE EXPRESSION OF THEIR SOVEREIGNTY AND NOT A TOPIC FOR DISCUSSION WITH THEIR PARTNERS. THEY WILL BE UNWILLING TO DISCUSS DEFENCE COOPERATION. AT THE SAME TIME, THEY WILL TRY TO OPPOSE ALL SUGGESTIONS OF A TWO-SPEED EUROPE. THEIR APPROACH TO THE NEW COMMITTEES FOR THE EXPRESSION OF EUROPEAN UNITY AND FOR INSTITUTIONAL REFORM WILL THEREFORE BE WARY: THE TAOISEACH WILL HAVE HIS OWN VIEWS. THE PRESIDENCY WILL BE AN OPPORTUNITY FOR IRELAND TO TAKE A PLACE AT THE FRONT OF THE WORLD STAGE AND PARTICULARLY AT THE GENERAL ASSEMBLY, AND IRISH MINISTERS MAY WELL APPEAR TO BE IRRITATINGLY SELF-RIGHTEOUS IN THEIR ROLE, PARTICULARLY WHERE THIRD WORLD AND LATIN AMERICAN PROBLEMS ARE AT ISSUE. ON THE OTHER HAND, IRISH OFFICIALS WILL BE RELIABLE COLLEAGUES IN POLITICAL COOPERATION.

8. THE IRISH DO NOT EXPECT AN EASY PRESIDENCY EVEN THOUGH, HAVING ACHIEVED A TEMPORARY VICTORY ON MILK, THEY HAVE NO VERY BIG AXES TO GRIND THEMSELVES. ALTHOUGH IMPROVISATION COMES MORE NATURALLY TO THEM THAN METHODOLOGICAL PREPARATION, IRISH OFFICIALS EXPECT TO WORK VERY HARD AND ARE WILLING TO DO SO TO PREPARE MEETINGS WELL. THE TAOISEACH, WHO PRIDES HIMSELF ON HIS KNOWLEDGE OF THE COMMUNITY, IS KEEN TO PROMOTE GREATER ECONOMIC ACTIVITY IN EUROPE IN THE HOPE THAT THIS WILL PROMOTE HIS OWN ECONOMY. HE CANNOT AFFORD TO IGNORE THE PROBLEM OF HIGH UNEMPLOYMENT. THE IRISH WILL IN GENERAL SEE THE PROMOTION OF COMMUNAUTAIRE SOLUTIONS AS SERVING THEIR OWN INTERESTS.

9. IN DEALING WITH THE IRISH PRESIDENCY WE SHALL HAVE TO KEEP CONTINUALLY IN MIND THAT, FROM THE IRISH POINT OF VIEW AT LEAST, THE MORE IMPORTANT ASPECT OF OUR RELATIONS CONCERNS NORTHERN IRELAND AND NOT THE COMMUNITY. THE IRISH WILL NOT BE INCLINED TO HELP US IN COMMUNITY MATTERS IF CONTACTS OVER THE NORTH, WHICH WILL MOVE THROUGH A PARTICULARLY DELICATE STAGE, DO NOT GO WELL. IRISH OFFICIALS INSTINCTIVELY ADMIRE OUR EXPERTISE AND MAY BE GLAD AT TIMES OF PRIVATE INFORMATION AND ADVICE FROM US. BUT ANY EVIDENCE OF ANGLO-IRISH GETTING TOGETHER WILL BE EMBARRASSING FOR THEM. IRISH OFFICIALS AND MINISTERS ALIKE ARE MORE LIKELY, IF THEY HAVE TO FOLLOW ANYONE ELSE'S LEAD, TO PREFER THOSE OF THEIR PARTNERS WHO DO NOT AROUSE HISTORICAL PREJUDICES OF SUCH COMPLEXITY AND DOMESTIC CONTROVERSY OF SUCH DEPTH.

FCO PLEASE PASS TO ALL SAVING ADDRESSEES.

**THIS TELEGRAM
WAS NOT
ADVANCED**

GOODISON

(REPEATED AS REQUESTED)

FRAME GENERAL

ECD (1)

RJD

³
CONFIDENTIAL

810

5/10 (2)



CONFIDENTIAL

Prime Minister

CDP 3/7.

ms

Qz.03806

MR POWELL

EUROPEAN COMMUNITY: WORK OF THE COMMISSION ON INDUSTRIAL POLICY

You should know that Mr Ronald Grierson, Vice Chairman of GEC, has been asked by Mr Davignon to write a short report on the main objectives and approach of the Commission to its work on industrial policy over the next few years.

Mr Grierson expects to submit his report in September and will discuss the main points with us before he does so. I am drawing this to your attention now because, when he saw me this morning, Mr Grierson said that he might be mentioning this to the Prime Minister.

2. Mr Grierson's own views are on the lines that a great deal of Government (and Community) financial intervention in industry makes little or no difference to industrial development and employment. It is, at best, neutral. The Commission should not be proposing grandiose schemes of temporary glamour but no long term benefit. On the contrary, its continuing task is to attack hidden barriers to a genuine common market, including such sensitive subjects as public procurement.

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

D F Williamson

D F WILLIAMSON

3 July 1984

CONFIDENTIAL



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

3 July 1984

C D Powell Esq
10 Downing Street

all
Prime Minister
Agree that Economic Secretary should take the line at X?

C.D.P. 3/7.

Yes no

Dear Charles

1982 RISK-SHARING REFUND: TCSC ENQUIRY

with CP
I wrote to you yesterday about the Economic Secretary's appearance before the TCSC tomorrow and the line which we consider he should take on the figures for the Fontainebleau settlement. We also need to have a line for him to take on the 1982 risk-sharing refund about which you wrote to Roger Bone on 28 June. The Chancellor agrees with the Prime Minister that we would gain nothing by pursuing the 1982 refund further.

[A]

If, as is likely, the Economic Secretary is asked about the Government's position on the outstanding £42 million tomorrow, the Chancellor thinks that it would be counter-productive for him simply to say that the matter was under review and that a decision would be announced in due course. To do so would invite further questioning and expose the Government to criticism for being dilatory or deceptive. It would also make it more difficult to claim subsequently that we had taken account of the £42 million in arriving at the Fontainebleau settlement. And it would give the issue of the £42 million too high a profile altogether.

The Chancellor suggests therefore that the Economic Secretary, if he is asked about the 1982 risk-sharing, should respond on the following lines:

X | "The outstanding claim for £42 million net in respect of 1982 risk-sharing was taken into account in considering the package on offer at Fontainebleau. Given the satisfactory settlement that was agreed, the Government have decided not to pursue the outstanding claim."



This does not make use of the point mentioned in your letter of 28 June that the agreement at Fontainebleau to measure the budgetary burden on a payments basis was worth more than the sum outstanding on the 1982 risk-sharing. The Chancellor considers that we need to be discreet in advertising this point. Until we have a final agreement on the text of the own resources decision, there remains a risk that our partners will seek to change this. Any statements here which alerted our Community partners to the financial importance for us of securing the payments basis, could only serve to encourage them (or their Parliaments) to make more difficulties for us.

The Chancellor would be grateful to know whether the Prime Minister would be content with the above line. If, however, she feels that we should not tomorrow be prepared to reveal our decision not to pursue the £42 million, the Economic Secretary would have to take the line that we were reviewing the matter in the light of the Fontainebleau settlement and that a decision would be announced in due course, and refuse to be drawn further. It would then be necessary to announce the decision separately later, when it would be likely to attract more attention.

Since the Economic Secretary is appearing before the TCSC at 10.30 tomorrow morning, it would be most helpful if you could let us know of the Prime Minister's reactions by first thing tomorrow morning.

*Yours ever
David*

David

D L C PERETZ
Principal Private Secretary

PS. I am copying this letter to Roger Bone (FCO) and David Williamson (Cabinet Office).

PART 25 ends:-

CP to FCO 28.6.84.

PART 26 begins:-

HMT to CP 3.7.84.

