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Foreign and Commonwealth Office

London SW1A 2AH

14 December 1979

Dear Mr Alexander

Consequences of European Parliament's Rejection
of 1980 Community Budget

/ You asked today for a short paper on this subject for the Prime Minister. The attached paper has been prepared by FCO officials after consultation with Treasury officials.

Laws

M Chandie

PP (P Lever)
Private Secretary

M O'D B Alexander Esq
10 Downing Street

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/4.12.79

CONSEQUENCES OF EUROPEAN PARLIAMENT'S REJECTION OF THE
COMMUNITY BUDGET FOR 1980

IMMEDIATE PROCEDURAL CONSEQUENCES

Note by the Foreign and Commonwealth Office officials

1. The European Parliament voted by 288 to 64 (one abstention) to reject the draft budget for 1980 on 13 December under Article 203.8 of the Treaty. In the resolution (attached) accompanying rejection the Parliament called upon the Commission to present a new preliminary draft budget on the basis of which the Council would present a new draft budget to the Parliament.
2. The Treaties do not make clear whether in fact the budgetary procedure should be repeated in full (a preliminary draft budget by the Commission plus up to two readings by each institution) or whether it is now for the Council to produce new proposals for the Parliament. Council lawyers are preparing a paper on this. The normal budget procedure would allow for adoption of the budget after one reading by Council and Parliament. Only if the Parliament proposes changes in the Council's draft does it go back to the Council; and only if they then alter the Parliament's draft does it go back to the Parliament for a second reading.
3. The timing is still uncertain! The Commission have told us in confidence that they do not intend to start work on the provisional draft budget until they have found guidelines for the new budget acceptable to both the Parliament and the Council. In the normal way, the preparation of the preliminary draft takes about three months' work in the Commission. Even though the estimating for most of the items will have been done, it is most unlikely that the Council will be able to hold its first reading within the next month.

/The Twelfths

The Twelfths Regime

4. The operation of Community finances will continue under the provisional twelfths regime, i.e. the Community may spend each month up to one twelfth of 1979 budget appropriations (or what is entered in the 1980 draft budget if that is less) and on the contributions side, levies and duties are paid in full each month together with one twelfth of the amount entered under VAT contributions in the 1980 draft budget.

5. Article 204 (which regulates Commission spending under the twelfths regime) lays down that a qualified majority of the Council may unilaterally authorise further obligatory expenditure in excess of the one-twelfth. (For non-obligatory expenditure the consent of the Parliament is required.) It is not clear whether there is any limit on the use of this power. Government and Commission lawyers are looking into the point.

6. No immediate problem is likely to arise since the agricultural spending in the early part of the year is less than average. We may need in time to consider whether we should seek to block any proposal for additional agricultural expenditure either by finding any ally (perhaps Italy) to vote against or by invoking the Luxembourg Compromise. The implications of the latter course of action would have to be considered carefully. Qualified majority voting has always been used in the context of the Budget. To break with this practice could create uncertainties in the future and a precedent which could be used against us.

7. Under the twelfths regime it seems likely that our gross monthly contribution would be reduced only by something under £1 million. It is not possible to predict what effect the twelfths regime may have on Community spending levels in the UK.

/Prospects

Prospects for Agreement between Council and the Parliament

8. The Parliament has two main related aims:

(i) to get the Council to recognise its status as an effective part of the Community budgetary authority, so as to increase its influence over the content of the budget, and in particular to confirm its right to propose modifications to obligatory expenditure (and thus to influence agricultural policy);

(ii) to restructure the budget: by shifting the balance away from agricultural expenditure, especially on surpluses, towards structural expenditure on e.g. agricultural guidance, Regional Development Fund and Social Fund, and other new policies (some of which have not yet been approved by the Council).

9. On (i), the French and Danes have resisted any reference in a public statement by the Council to the Parliament as part of the Community budgetary authority. In our view this appears to contradict the wording of the Treaty.

10. On (ii), the Second Budget Council on 23 November rejected (the UK also voted against) the Parliament's modifications designed to reduce provision for expenditure on milk etc and greatly reduced the Parliament's proposed increases to non-obligatory expenditure (RDF etc). They thus, in the Parliament's view, not only voted for the status quo on substance but effectively frustrated the Parliament's attempt to play its legitimate role.

11. Prospects for agreement on the 1980 budget largely turn on these two points.

/UK Interests

UK Interests

12. On (i), the UK has no difficulty in acknowledging the Parliament's status as part of the Community budgetary authority. We have made clear that we recognise it has the right under the Treaties to propose modifications to obligatory expenditure. We are, however, faced with a dilemma in how we vote in practice on such modifications. HMG decided to vote against the Second Budget Council on 23 November to avoid provoking the Germans and especially the French in the context of the Dublin European Council. The French are particularly concerned that a majority in the Parliament and a minority in the Council should not be allowed to overturn an earlier decision taken by consensus in the Council relating to obligatory (agricultural) expenditure. Our vote at the Second Budget Council did not apparently affect President Giscard's attitude at Dublin in our favour, though it is true that the French appeared to be willing to go along with revision of the 1975 Financial Mechanism which goes further than they had gone previously. Too warm a welcome in public to the Parliament's rejection of the budget could make further difficulties in our relationship with the French.

13. On (ii) (restructuring the Budget), UK interests largely coincide with the Parliament's objectives.

Consequences of Rejection for reducing UK net budget contribution

14. Of the three elements identified at Dublin as a possible basis for a Budget settlement, two are relevant here:

- (a) the Commission's proposals for developing supplementary Community measures within the United Kingdom could include proposals for additional expenditure under the structural funds, which the Parliament also wishes to increase;

/(b)

(b) the Commission's advocacy at Dublin of long term reform of the budget, which is also one of the Parliament's objectives.

15. The questions arise what opportunities exist to pursue our major budget aims in the negotiation of a new 1980 budget and how to exploit the situation to our advantage. Our partners are likely to want early adoption of the 1980 budget. It is not yet clear whether we share this interest or whether we should seek to play it long. We are urgently considering these questions.

Conclusion

16. We draw three preliminary conclusions:

- (i) Rejection of the budget will not bring the Community to a halt financially nor, even if the provisional twelfths regime continues for a long time, will our net budgetary contribution be significantly affected.
- (ii) Important tactical opportunities in relation to our strategy on getting a budget settlement and to our policy on the CAP have been opened up and will need further study.
- (iii) We must keep in close touch with both the Commission and UK MEPs in the weeks ahead.

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