



Assumed with Prime Minister who agrees that we may negotiate on the basis described.

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Hand - 6/x

Ref. A03155

Prime Minister

PRIME MINISTER

Agree that Ministers & Officials may negotiate on the basis described in the note attached?

Hand,

European Community Budget Refunds

The draft regulations to implement the 30th May budget settlement will be on the agenda of the Foreign Affairs Council on Tuesday, 7th October. Prolonged discussions in Coreper have resolved most of the technical problems but the difficulties with the French, and to a lesser extent with the Germans, have still not been resolved.

2. Since your talks in Paris with President Giscard and Monsieur Barre, the French have allowed both the sheepmeat regime and the 1980 arrangement for New Zealand butter to go through the Agriculture Council. They were also noticeably co-operative in the recent agreement on conservation in the Fisheries Council.

3. Mr. Franklin has been talking to his French opposite number, Monsieur Achard, to see if there was a basis for resolving the outstanding differences and in particular if the French were still insisting on linking the Budget regulations with progress on the fisheries negotiations. There appear to be divided counsels in Paris but the latest message is that, while the French are still willing to try to resolve the disputed points on the budget regulations (and Monsieur Achard has arranged to meet Mr. Franklin in London first thing on Monday morning), they do not envisage them being adopted before the next Council meeting in November. This attempt to keep the link with progress on fisheries is clearly unacceptable and I understand that the Foreign and Commonwealth Secretary is hoping to speak to Monsieur Francois-Poncet in order to make that clear. There have also been discussions between the Financial Secretary and Herr Lahnstein on the particular German problem of advances for 1980.

1) they are not careful they will have trouble with the next Agriculture Prime interest

4. I attach a note agreed by officials of the Treasury, FCO and Cabinet Office which describes the four points of outstanding difficulty and suggests where possible solutions might be found. On one point, the procedure for approving

they had want - handle Our budget interest was linked with the last prime interest they have had their little bit of the program, we want our

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programmes, you took the view before the Paris Summit (Mr. Alexander's letter of 16th September to Mr. Wiggins refers) that we should not move from the Commission's proposal for a purely consultative procedure. It is now clear that we have no chance of speedy agreement without some voting procedure.

5. You and your colleagues will wish to consider whether a resolution of the outstanding issues on the budget regulation, as indicated in the attached note, would be acceptable. If so, we should press hard for such a solution when Monsieur Achard sees Mr. Franklin on Monday and, if necessary, at the Council on Tuesday. If this proved impossible to get a solution on Tuesday, we should need to ask for another meeting of the Council within the next couple of weeks. The next meeting of the Foreign Affairs Council is not due until 25th November. If the Regulation is not adopted until then, the Government will face strong criticism when the House reassembles and the possibility of receiving advance payments out of the 1980 Budget may be effectively ruled out. It will also be easier for the French to argue in public that there is a link with progress on fish.

6. I am copying this minute to the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer and in view of the fisheries implications to the Minister of Agriculture, Fisheries and Food.

(Robert Armstrong)

3rd October, 1980

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EUROPEAN COMMUNITY BUDGET REFUNDS
SUPPLEMENTARY MEASURES REGULATION

Note by Officials

Following is a brief account of the obstacles to reaching an agreement on this regulation:-

a) Procedure for the Approval of Programmes

We and the Commission have argued that a consultation procedure with member states should be sufficient given that the 30 May agreement would require the Commission to report to the Council at six monthly intervals. The French have hitherto been insisting on unanimous Council approval for programmes, which would give any member state a power of veto, and hence endless opportunities for delay.

Possible Solution: Any procedure adopted must avoid providing opportunities for delay. A possible solution consistent with this objective might involve the choice of programmes for support and the amounts to be paid in respect of each programme being subject to a negative qualified majority voting procedure in an ad hoc committee of member states. Under this arrangement we could stop the Commission's proposals being rejected provided we got either the Italians or the Benelux countries on our side. The French and the Germans would not therefore be able to block proposals on their own.

If the ad hoc committee did vote by a qualified majority against the Commission's proposals, the Commission would have then to amend the proposals or to withdraw them or to appeal to the Council. If this solution were to be pursued we should try to achieve a formula under which, if the Council failed to reach a conclusion in (say) two months, the Commission would be free to go ahead. But we cannot be certain of obtaining agreement to this.

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b) Procedure for the Approval of Advances

Given the terms of the German cabinet decisions published after the 30 May agreement, the German Government sees it as a political imperative that payments made in advance during 1980 should be subject to unanimous approval by the Council. So far the French have supported the German position on this. As before, therefore, any member state would have a power of veto.

Possible Solution: The German commitment to unanimous Council approval does not appear to extend to the years following 1980, and bilateral contacts suggest that they might be willing to go along with majority approval for the years after 1980 provided they have an effective veto for 1980 itself. Although this would still leave the French with the ability to veto advances in 1980, our latest contacts suggest that they now positively favour making such payments this year as a means of lessening the strain on next year's Community budget.

c) The Staging of Approvals and Payments

The French were previously pressing strongly for spreading programme approvals and payments throughout the year. However, it is now possible that they may accept an agreement whereby the "bulk" of the refunds estimated to be due to us in respect of 1980 would be paid over by 31 March 1981, with the provisional outstanding balance following in May or June 1981. Similar arrangements would apply to payments due in respect of 1981. The key question is what is meant by the "bulk" of the refunds. Up to the summer break we had been assuming that we would get 90 per cent of what was estimated to be due to us from supplementary measures. (This, together with 75 per cent from the Financial Mechanism, would make an average of 85 per cent of the estimated total due.)

Possible Solution: The French have indicated informally to us that the "bulk" should not exceed 75 per cent of the estimated total due to us (though they may start in the Council at the $\frac{2}{3}$ figure they have hitherto argued for). Our position in COREPER has been consistent with 100 per cent

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of programmes being approved, which under the normal rules would give us 90 per cent of the money. But this gives the French no staging of programmes and they will not accept it. The latest indications are that the Presidency and the Commission will recommend a compromise that would give us 81 per cent of the estimated amount due (ie 90 per cent of 90 per cent of the programmes). We will obviously try to negotiate this up but we do not believe that it will be possible to get agreement to a higher figure than 85 per cent (ie 90 per cent of 95 per cent of the programmes). The question for decision is whether 81 per cent would be acceptable in the last resort.

Agreement on a figure below the 90 per cent previously assumed would make the cash figures for 1980-81 published in the Public Expenditure White Paper next spring look less attractive. The Treasury are working on ways of improving the traditional presentation so as to reduce the significance of this problem.

d) Linkage with Common Fisheries Policy (CFP)

We have maintained that progress on the CFP should be made in parallel with but should not formally be linked to the implementation of the 30 May agreement. Any such link would seriously prejudice the chances of success in the fisheries negotiations. The French maintain there is a formal link and may want to delay adoption of the Article 235 Regulation until more progress has been made on fish.

Possible Solution: If it would help the French on this point we could agree that the 7 October Council should welcome the progress made at the Fisheries Council on 29 September (which adopted Community fish conservation measures) and reaffirm the commitment to complete negotiations on a revised CFP by the end of the year. If, however, the French persist in maintaining their attempts at formal linkage there is no avoiding a public row.

Cabinet Office

3 October 1980

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