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27 November 1980

EUROPEAN COUNCIL, LUXEMBOURG

1/2 DECEMBER 1980

1981 BUDGET

Brief by the Foreign and Commonwealth Office

INTRODUCTION

1. Unlikely to be any discussion of this in the Council itself, but the Prime Minister may wish to be aware of background, especially outcome of 24 November Budget Council in case there is discussion in margins.

POINTS TO MAKE (if raised)

2. Outcome of Budget Council was satisfactory compromise. Will be necessary to offer Parliament further margin in December to secure smooth adoption.

BACKGROUND

3. Overall UK aim is to assure smooth and timely adoption of 1981 Budget in order that we can receive refunds on time.

4. 1981 draft budget has now reached final stage of procedure. Council have completed second reading and will hand draft back to Parliament for their second reading (and, we hope, adoption). Deadline set in Treaty for adoption is 15 days after draft is passed back to Parliament. In their final session, Parliament has right to reinstate amendments (ie to non-obligatory expenditure) but discussion of modifications (ie to obligatory - mainly agricultural - expenditure) is now closed.

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5. Constraint on Parliament is the "maximum rate", ie percentage increase in non-obligatory expenditure over previous year's budget. Remains at 12.2% for commitments (ie commitments into which the Commission may enter for given items); but for payments (ie that which is actually to be financed in 1981) Council has now agreed to an increase in maximum rate originally set by Commission to 19.9%. Council and Parliament are not in agreement about what exactly this leaves for latter at their second reading. What has happened in the past is a hagggle over the lump sums involved.

6. 24 November Budget Council : outcome broadly satisfactory for UK. In the light of our need to adopt sympathetic approach to the Parliament's wishes, our major aims were

- a) to ensure Parliament's two modifications to agricultural expenditure were not rejected;
- b) to break through maximum rate on payments.

Successful in both aims. On first, Franco/German axis was broken. Germans supported Parliament's modifications; the French voted against. This reflects French concern about increasing tendency for Parliament to involve itself in CAP debate.

7. The Financial Secretary successfully protected UK interests by ensuring that the lion's share of the extra payments and commitments agreed at the Budget Council would go to the Regional and Social Funds (Social Fund plus 40mEUA commitments, plus 60mEUA payments; Regional Fund plus 140mEUA commitments, plus 120mEUA payments).

8. The Financial Secretary made clear at his press conference on 25 November (and Presidency representative made the same point to the Budget Committee of the

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Parliament) that this was not Council's last word and that the dialogue between the two institutions would continue. The Germans have recognised privately that some extra money will have to be offered to the Parliament and it is possible that the Budget Council may meet in the margins of the final Budget session of the Parliament in the week beginning 15 December. The French, though likely to be reluctant to offer the Parliament anything more, have a more pressing need than the Germans to see the budget adopted in a way acceptable to both institutions and on time, given their concern about agricultural disbursements in run-up to Presidential election.

Foreign and Commonwealth Office

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