



CONFIDENTIAL

24/11  
Lund Bay

Qz.02373

MR ALEXANDER

EUROPEAN COUNCIL: BUDGET GUIDELINES

1. The draft guidelines on the budget approved by the Prime Minister have now been shown to the Germans, the French and the Secretary General of the Commission. The German reaction was generally favourable but they wished to see a more explicit reference to the German budget problem. M. Noel also thought the Commission would be able to give its general support to the guidelines but made one or two drafting suggestions. The reaction of officials in the Elysee was that President Mitterrand would find it easier to negotiate the details of another ad hoc solution to the UK's budget problem than to agree to guidelines which might seem to call in question some of the Community's principles. While showing some flexibility on duration, they offered only a 3 year arrangement under which refunds to the UK would be degressive, no larger than those in the 30 May agreement and in which the "over payment" for 1980 and 1981 was taken into account.

2. In the light of these reactions officials from the Treasury, the FCO, the Ministry of Agriculture and the Cabinet Office have reviewed the text of the guidelines, as attached to your letter of 20 November to Mr Richards. We feel that, in spite of the French reaction, it would still be worth trying to secure agreement at the European Council to such guidelines. To increase the chances of so doing, we would recommend that they should be circulated before the meeting to all the Heads of Government and that the following amendments should be made:-

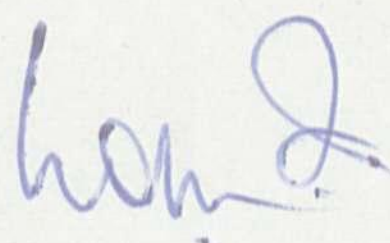
- (i) In paragraph 4, which deals with the corrective arrangement, the concept of relative prosperity should now be linked with the reference to objective criteria and the last sentence amended to point out that corrective payments would be degressive to the extent that the development of Community policies met our needs. These changes should be helpful to the French without conceding their view that there should be built-in degressivity.

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(ii) The last phrase in paragraph 5 should be amended in a direction which will be helpful to the Germans, following a suggestion by M. Noel. The Germans themselves may wish to produce a text which is even more explicit. It is also suggested that, instead of referring expressly to the 1% ceiling, the text would be less provocative to a number of other member states if it referred to the available financial resources of the Community.

--- 3. A revised text with these amendments incorporated is attached,  
--- together with a draft telegram to posts. The Prime Minister will no doubt wish to consider it at her briefing meeting later today.

4. I am copying this minute, and enclosures, to the Private Secretaries to the Foreign Secretary, the Chancellor of the Exchequer and the Minister for Agriculture.



M D M FRANKLIN

24 November 1981

GUIDELINES FOR BUDGET CHAPTER

1. The object of the Community budget is to finance agreed Community policies. At the same time the creation or recurrence of an unacceptable situation for any member state must be avoided and the overall convergence of the economies of member states must be fostered, without imposing an undue burden on any member state.

2. In the long term the reconciliation of these objectives will be achieved through the development of Community policies and of the balance between them. The conclusions reached in Chapters I and II above are a first step in that direction.

3. But the process of reconciling the objectives by these means will take a period whose length cannot be predicted with any precision and, in the meantime, a budgetary corrective arrangement will be needed, if unacceptable budgetary situations are to be avoided.

(ii) M. Chast  
4. The corrective arrangement will need to deal not only with the problem already recognised by the Community when the Financial Mechanism was agreed, but also with the imbalance in the distribution of expenditure, notably FEOGA guarantee expenditure. The arrangement will be based on objective criteria which take account of relative prosperity as between member states so that there will be no need for an annual negotiation. ~~It will operate degressively to the extent that progress is made on the basis of paragraph 2 above.~~

5. The financing of the corrective arrangement will be achieved within the agreed VAT ceiling available Community resources and without putting at risk the financing of other agreed Community policies, if necessary by a method which avoids any net

budgetary impact. The financial effects of the corrective arrangement will have regard to whether the payments come from member states below or above the Community average GDP per head and whether they already have a problem arising from the Community budget.

6. The corrective arrangement will apply with effect from the Community's 1982 budget year. The Council, acting on a proposal of the Commission, will take the necessary detailed decisions by 31 December 1981.

7. The detailed arrangements so agreed will be reviewed after seven years to consider the progress made towards the Community's long term budgetary objectives and whether any changes are needed.

File No. ....

OUTWARD

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Department .....

TELEGRAM

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Distribution:-

(TEXT)

30 MAY MANDATE: BUDGET GUIDELINES

1. My i.p.t. contains the text of guidelines on the budget (Chapter III) which you should transmit immediately to the office of the Prime Minister/President of the country to which you are accredited. You may also provide copies to the Foreign and Finance Ministries.

2. In handing this over you should say that, since last week's Council meetings, we have been reflecting on how to make progress on budgetary questions despite the considerable differences revealed in recent discussions which have meant that we did not feel able to put forward the draft budget guidelines at the same time as those on the other 2 chapters. As your interlocutor will be aware from her recent message the Prime Minister

Copies to:-

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is particularly concerned that preparations on Chapter III should have lagged so far behind those on other Chapters and that failure to make progress there could jeopardise the objective we all share of giving the internal development of the Community a new impetus when the European Council meets in London.

3. You should not seek to explain the text in detail but you should say that it represents a major effort by the Presidency to build on the small amount of common ground that has emerged in recent weeks. No doubt there will be criticism of it; certainly we, as the UK, consider it falls well short of what we had been hoping to achieve by this stage of the Mandate discussions. But it does, without prejudicing firmly held views on the amount and the method of any budgetary corrective arrangement, seek to establish operational guidelines within which a solution can be found.

4. (For Paris) [Treasury considering what should be said in light of Mr Franklin's meeting]

5. (For Bonn) You should draw the attention of the Germans to the change at the end of paragraph 5 which is intended to meet their wishes.

6. (For UKREP) You will wish to point out that in revising the text we have taken account of Noels suggestions for changes in paragraphs 4 and 5.

7. (For The Hague) [reply to expected message from Van Agt]

NOTHING TO BE WRITTEN IN THIS MARGIN