



From: M E DONNELLY

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MRS HEDLEY-MILLER

cc PS/Chancellor  
Mr Littler  
Miss Court  
Mr Edwards

THE EUROPEAN BUDGET ISSUE: NOTE BY ROBERT JACKSON

... The Financial Secretary thought you might be interested to see the attached note given to him by Robert Jackson MEP on the European Budget Issue over the coming year. The Financial Secretary finds Mr Jackson's assessment rather depressing but probably realistic. He considers the vital point of to be that at X on page 3: the question/ the European Court's judgement of any withholding by the UK.

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M E DONNELLY

## The European Budget Issue in 1985-4

### The 1982 Refund (payable out of the 1983 Budget)

The European Parliament will probably give a first reading approval to the 1982 refunds at its mid-FEBRUARY session. It will impose conditions. These will have to be negotiated with the Council.

The final vote will probably take place at the Parliament's MARCH session: but the timetable may slip to APRIL.

### The 1983 Refund

Between FEBRUARY and JULY the Council will doubtless pursue negotiations about a long-term solution to the problem, covering the refunds for 1983: arising from this, or included in it, will be a negotiation about a fourth year of ad hoc payments, in respect of 1983 (possibly also for 1984 and another year or so ahead).

There will therefore be no provision for the 1983 Refund in the Commission's Preliminary Draft Budget for 1984 - presented in APRIL or MAY. Council could include provision when it adopts the Draft Budget in JULY. But the probability must be that this will not be done, and the Commission will have to propose amendments to the 1984 Draft in the autumn.

Such amendments to the 1984 Draft could be introduced at any stage up till early NOVEMBER. Following the precedent of the 1982 Refund it would even be possible to finance an ad hoc payment for 1983 from a supplementary budget for 1984 passed before the end of MARCH 1984 (to fall within the British 1983 financial year).

### Implications for the British election

If the general election were to be in OCTOBER 1983 it would probably be possible to fudge this issue, provided that (a) the European Parliament had approved the 1982 Refund in MARCH/APRIL 1983, and (b) that the Commission brings forward proposals in the early autumn to cover 1983 in the form of amendments to the 1984 Draft Budget.

If the election were to be in the Spring of 1984 it would probably be very difficult to defuse this issue, even if there had been agreement on 1982, unless there had also been agreement before MARCH 1984 on the 1983 Refund.

#### An Assessment of the chances for the 1982 and 1983 Budget

I am pessimistic about the chances of the Council agreeing to the minimum concessions acceptable to Parliament in respect of the 1982 Refund.

Probably all that Parliament will insist on is the classification of the Refunds as non-obligatory, with Parliament accepting that it will not then draw advantages from such classification. Even if the British Government were to agree to this is it doubtful if others would.

I am very pessimistic about the chances of Refunds for 1983 and further years. (a) Unlike the 1982 Refund there is no political agreement in Council on this. (b) Parliament may not continue to press its "no-more-ad-hoc payments" line in relation to 1982: but it will almost certainly do so in respect of 1983. (c) The Commission is so worried about being censured by Parliament that it may not be prepared to bring forward proposals for a 1983 Refund without strong cover from Council.

#### The Choice

If the probability, thus, is a major bust-up on this issue, the choice for the British Government is

- should it ensure that there is no agreement in Council for minimum concessions to Parliament in respect of the 1982 Refund, thus provoking the rejection of that Refund in MARCH/APRIL 1983 - with the crisis following immediately, but the blame falling largely on Parliament;
- or should it work hard for agreement with Parliament on the 1982 Refund, in the hope of playing the 1983 issue beyond the general election.

Two Points to note: (a) whatever the British Government may try to do in Council, there may be no agreement in respect of 1982 - leading to rejection and presumably, a crisis: (b) the longer 1983 wears on without any agreement for Refund to cover the year, the more difficult it will be to get the money back by withholding.

Observations on "With-holding"

A British decision to with-hold part or all of the payments from Britain to the European Budget would almost certainly be found illegal by the Court. Our legal ground is strongest in respect of the 1982 Refund, where there is at least a political agreement within Council to rest on.

The impact on our partners would not be immediate: it would be cumulative; and, depending on the state of the agricultural markets, it would eventually be quite serious. There is little prospect of any agreement ending the illegal situation before the election, whenever it is held.

With-holding payments does in a sense solve the problem: Britain is paying what she considers to be a reasonable amount; the others are obliged to find ways of carrying the burden. On the other hand, we could not - nor could the Community - carry on indefinitely in such an irregular situation. With-holding should therefore be seen as in the context of the need to find a legal solution.

Such a solution would be more difficult to obtain if the British were to play the with-holding card in a triumphalist manner. The tone should be "more in sorrow than in anger".

This surely fits with the electoral logic of the situation, in which our line would presumably be that the best way to serve Britain's interest is to stay in Europe (cp Labour), and to fight hard to win for Britain (cp Alliance).