

✓OCND



Foreign and Commonwealth Office

London SW1A 2AH

 nbpm
 2ms
 27/4
 25 April 1984

How would,

Chancellor of the Exchequer's Proposed Amendments to
 Presidency Texts on Budgetary Discipline, Budget
 Imbalances and Own Resources

Thank you for your letter of 6 April. I understand that the amendments suggested by the Chancellor have already been discussed in detail by officials.

On budgetary discipline, Sir Geoffrey Howe drew attention at the Foreign Affairs Council on 27 March to one of our principal reservations about the Presidency text (questioning the text's endorsement of the Commission paper) when the six draft Council Resolutions were distributed by the Presidency at that meeting. It was subsequently agreed that further work on the text on budgetary discipline should be remitted to Finance Ministers.

Sir Geoffrey Howe doubts whether it would be tactically right to reopen discussion in the Foreign Affairs Council. As you will be aware, the Dutch, Danes and Belgians have indicated that they are unhappy with the present text and cannot be assumed to have accepted it. If we put forward further amendments or reservations, we would in effect be encouraging other Member States to do so too, thereby putting at risk the considerable improvements in the text to which you refer.

Further discussion will take place in ECO/FIN and perhaps in a preparatory high-level group of Finance Ministry representatives. Sir Geoffrey believes that it would be safer to encourage ECO/FIN to consider how to enforce or deliver what is already in the text so as to guarantee the effective application of the principles set out in it, rather than risk unpicking the text itself by opening up further discussion on detail.

Similarly, on budget imbalances, there are obvious dangers in pressing amendments to the Presidency text at this stage. As you know, our partners are beginning to realise that the Presidency system is likely to be of considerable benefit to us over the years and, therefore, costly for them. The French and others have argued that what was on offer at the 27 March Foreign Affairs Council is no longer on offer. There is an obvious tactical element in

/this:



this: we intend to hold them to the Presidency text. Our objective must be to ensure that the Presidency text remains on the table and to reach agreement on the one outstanding element, i.e. the inclusion of satisfactory figures in paragraph 5, or the establishment of a satisfactory threshold/rate of compensation on the lines now being worked on by Davignon.

I enclose detailed comments on each of the amendments proposed in the enclosure to your letter.

have requested

I am copying this letter to the recipients of yours.

[Handwritten signature]
(R B Bone)
Private Secretary

D L C Peretz Esq
HM Treasury

25 APR 1984



COMMENTARY ON THE CHANCELLOR OF THE EXCHEQUER'S CONSOLIDATED LIST
OF AMENDMENTS

Proposed Amendment

Comment

BUDGETARY DISCIPLINE

High Priority

1. Para 2, second indent:
Commission's version of the financial
guideline for agricultural spending
should not be specifically endorsed
Council because it contains a number
of loop holes.

Agree. Raised by
Secretary of State at 27
March Foreign Affairs

2. Para 3: Text should specify that
arrangements will need to be embodied
in the Community's budgetary
procedures in a form binding on all 3
institutions.

Current text includes
provision that the Council
will adopt the measures
necessary to guarantee the
effective application of
the arrangements. This
broadly meets our
objective.

OTHERS

3. Para 1, 3rd sub para:
Phrase "within their respective
powers" should be deleted because
this could be interpreted to rule
out Treaty amendment.

At 27 March Foreign Affairs
Council Secretary of
State suggested "in the
framework of their
respective powers", which
is in line with what is in
the French language version
But text even as it stands
would not necessarily rule
out Treaty amendment.

Proposed Amendment

Comment

4. Para 2, 2nd indent, 1st sentence:
Insert specific definition of FEOGA expenditure in order to make clear that we do not accept exclusion of ACP sugar and food aid restitutions from definition of FEOGA expenditure.

Useful but this argument could be left to technical discussion without prejudicing our position.

5. Para 2, 2nd indent, 3rd sentence:
Reference to exceptional circumstances should be deleted. We accept the need for adjustments to take account of enlargement but not for other reasons such as a fall in world prices. Inclusion of this phrase in Presidency text could prejudice our efforts to secure its exclusion from Commission document on agricultural guideline.

Doubtful if we have much chance of removing this phrase from Commission document.

6. Para 2, 3rd indent, 1st sentence:
Reference to Article 203 of the Treaty of Rome should be deleted. Prejudicial to our chances of securing Treaty amendment.

Certainly desirable but French Presidency reaction would be strongly adverse. This was inserted as the mildest possible reference to Article 203 with a view to making the text more negotiable to other member states.

Proposed Amendment

Comment

BUDGETARY IMBALANCES

High Priority

7. Para 3, first indent:

Clarify definition of VAT share/ expenditure share gap. Definition of VAT share in Presidency text is ambiguous and may be interpreted by others on the assiette rather than the payments basis. The Chancellor reserved our position on this point at ECOFIN on 2 April.

Definition of VAT share is likely to emerge implicitly in whatever parameters are agreed for the system. Clarification might be achieved more simply by adding at the end of para 3, 1st indent, a reference to the actual figure for 1983.

8. Para 3, 4th indent:

Description of financing arrangements should indicate that we would contribute towards any refunds for Germany at the rate of our ticket modérateur rather than at our full VAT rate.

This is a difficult negotiating issue because we do not wish to stir up the Germans in a way which would make it more difficult to reach agreement.

OTHERS

9. Para 3, 1st line: Insertion of phrase "including its application in respect of 1984" is intended to ensure that detailed arrangements for our 1984 ad hoc refund are agreed by the Council before June together with the arrangements for the long term solution.

Drafting of proposed amendment is misleading. Suggests that we are not willing to accept ad hoc payment in respect of 1984.

Proposed Amendment

Comment

10. Para 5: Reference to payment of reliefs in 1985 on the revenue side should be inserted.

Unnecessary since method of correction is already spelt out in para 3, 4th indent.

11. Para 3, 5th indent:
Reference to duration of corrective mechanism being linked to decision on new own resources should be deleted. Others could interpret this as meaning that corrective mechanism will only last as long as own resources under the new ceiling.

Text states that duration of system will be linked to the duration of the revised own resources decisions. This meets our point that there can be no change without unanimous agreement. This wording was achieved at Brussels with great difficulty. Any change would risk unravelling what was agreed.

OWN RESOURCES AND ENLARGEMENT

High Priority

12. Substitute "in accordance with" for "in agreement with" national procedures. Amendment intended to make it more difficult for Italy and others to argue that ratification by national parliaments is unnecessary for further increase to 1.6%.

Existing text is compatible with UK position that further ratification is required. In any case, we would not propose to go to Parliament except on 1.4%.



PS/EST.
 Sir P. Middleton
 Mr Little
 Mr Lewis
 Mr Fitchew
 Mr Bostock
 Mrs Court
 Mr Mortimer, Mr Post,

Treasury Chambers, Parliament Street, SW1P 3AG
 01-233 3000

6 April 1984

Roger Bone Esq
 Private Secretary to the
 Foreign and Commonwealth Secretary

Dear Roger

**FOREIGN AFFAIRS COUNCIL 9-10 APRIL: TEXT ON BUDGETARY
 DISCIPLINE, BUDGETARY IMBALANCES AND OWN RESOURCES**

The Chancellor has asked me to write to you about the state of play reached on the latest Presidency texts setting out the Council's Conclusions on budgetary discipline, budgetary imbalances and own resources.

As we understand it, if and when an agreement on the budgetary imbalances figures is reached, a rapid decision might then be called for as to whether to adopt these texts as the basis for the further work on implementation which would then be needed.

The Chancellor recognises that these texts represent a considerable advance on those which were circulated immediately before the European Council and that it may not now be easy to get any further changes in them. Nevertheless, there are a number of changes to the texts which he considers to be in the highly desirable category to improve our prospects of getting really effective arrangements on budgetary discipline and of ensuring that we do not lose out on some of the important details in the budgetary imbalances system.

He has accordingly asked me to send with this letter a note attaching a full list of the amendments which have been put forward at different times in the discussions by Treasury officials. The list also includes the amendments suggested by the Chancellor in his minute of 23 March.

The Chancellor recognises that the question of whether and how hard to press these amendments depends on a tactical judgement of the circumstances, in particular of whether this might lead to other major elements in the texts being re-opened. Subject to this judgement, which can only be made at the time, the Chancellor's view is that if an opportunity to introduce these amendments into the text arises, it is very desirable

CONFIDENTIAL



to take it. If, however, the Foreign Secretary decides against putting forward the amendments to the text, he considers that the alternative would be to reserve our position on the four major points of substance listed in the attached note and to make clear how we proposed to interpret them in the course of the subsequent negotiations on implementation of the texts.

Copies of this letter go to John Coles at No 10, Ivor Llewelyn (MAFF), David Williamson (Cabinet Office) and Sir Michael Butler (UKREP).

*Yours sincerely
David Peretz*

D L C PERETZ

NOTE ON PRESIDENCY TEXTS

The most important points in the present texts which need to be corrected are:-

Budget Discipline

(i) the implication that the Commission's version of the financial guideline for agricultural spending is approved as it stands and is not open to further amendment. (There are a number of loopholes in the Commission's text which need to be closed if it is to be a really effective constraint on agricultural spending);

(ii) the absence of any suggestion that the arrangements on the guideline and on budgetary discipline in general will need to be embodied in the Community's budgetary procedures or made binding on the three institutions.

Budgetary Imbalances

(iii) the definition of our VAT share is ambiguous and may be interpreted by others on the "assiette" basis not on the "payments" basis. The Chancellor reserved our position on this point at the ECOFIN Council on Monday;

(iv) the description of the financing arrangements might leave us liable to contribute to any refunds for Germany at our full VAT rate rather than at the reduced "ticket modérateur" rate.

These points are covered by the four "high priority" amendments set out below.

CONSOLIDATED LIST OF AMENDMENTS TO PRESIDENCY TEXTS

I. BUDGETARY DISCIPLINE (SN728/84, 27 MARCH)

i. High priority amendment:

Paragraph 2, second indent, last sentence: Rephrase as "The necessary provisions will be laid down taking account of the proposals in the Commission document on financial guidelines concerning the common agricultural policy".

Paragraph 3: Add at end: "so that they are embodied in the Community's budgetary procedures in a form binding on all three institutions. These texts will be acted on by the Council (ECOFIN)".

ii. Other amendments:

Paragraph 1, third sub-paragraph: delete "within their respective powers";

Paragraph 2, second indent first sentence: Insert after "markets" "as shown in the FEOGA guarantee section of the Budget (titles 1 and 2)".

Paragraph 2, second indent, third sentence: Delete "exceptional circumstances, in particular in connection with"

Paragraph 2, third indent first sentence: Delete "as defined in article 203 of the Treaty of Rome".

II. BUDGETARY IMBALANCES (SN 641/3/84, 20 MARCH)

i. High priority amendments

Paragraph 3, first indent: Replace by: "The basis for correction is the difference between the share in value added tax payments before abatement during the year and the share in Community Budget expenditure allocated to Member States in accordance with present criteria, multiplied by the total of such expenditure".

Paragraph 3, fourth indent: Add at the end "and count towards their basis for correction".

ii. Other amendments

Paragraph 3, first line: After "correction" insert "including its application in respect of 1984".

Paragraph 5: Insert "on the revenue side" after "1985" in the last sentence.

Paragraph 3, fifth indent: Delete the last four words.

III. OWN RESOURCES AND ENLARGEMENT (SN 728/84, 27 MARCH)

i. High priority amendment:

Paragraph 1: Substitute "In accordance with" for "[In agreement with]".

Envo for Budget

26 APR 1984

