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10 DOWNING STREET

From the Private Secretary

27 June, 1984

EUROPEAN COUNCIL, PRIME MINISTER'S STATEMENT
TO THE HOUSE

I enclose a further draft of the Prime Minister's Statement in the House of Commons today on the outcome of the European Council, amended to take account of the Prime Minister's preliminary comments.

(C.D. Powell)

R. Bone, Esq.,
Foreign and Commonwealth Office

CONFIDENTIAL

PRIME MINISTER'S STATEMENT ON THE EUROPEAN COUNCIL,

FONTAINEBLEAU

WEDNESDAY 27 JUNE

WITH PERMISSION, MR SPEAKER, I SHOULD LIKE TO MAKE A STATEMENT ABOUT
THE EUROPEAN COUNCIL IN FONTAINEBLEAU ON 25-26 JUNE, AT
WHICH I WAS ACCOMPANIED BY MY RT HON AND LEARNED FRIEND
THE FOREIGN AND COMMONWEALTH SECRETARY.

I AM GLAD TO TELL THE HOUSE THAT THE EUROPEAN COUNCIL REACHED
AGREEMENT ON A FAIRER AND MORE SOUNDLY BASED SYSTEM
FOR THE UNITED KINGDOM'S FINANCIAL CONTRIBUTION TO THE
COMMUNITY.

THIS IS A SUCCESSFUL CULMINATION OF OUR LONG AND
PERSISTENT EFFORTS TO CORRECT THE BUDGET INEQUITY AND
TO PUT THE UNITED KINGDOM'S REFUNDS ON A LASTING BASIS.

THE MAIN FEATURES OF THIS AGREEMENT ARE, FIRST, THAT IT PROVIDES
FOR A REFUND OF ^{about £600m} ~~£590~~ MILLION (1,000 MILLION ECU) IN 1984,
WITH THE NEW SYSTEM IN EFFECT THEREAFTER.

UNDER THE NEW SYSTEM THE UK WILL GET A REBATE OF 66%
OF THE GAP BETWEEN OUR SHARE OF VAT AND OUR SHARE OF
EXPENDITURE.

/THIS MEANS

THIS MEANS THAT, IN TERMS OF OUR MARGINAL NET CONTRIBUTION, THE UK WILL BE CONTRIBUTING NOT ABOUT 21% AS WE ARE LIABLE TO DO AT PRESENT BUT ABOUT 7% TO NEW COMMUNITY EXPENDITURE. THIS ARRANGEMENT IS FAR BETTER THAN ANYTHING PREVIOUSLY ON OFFER AND FAR BETTER THAN THE OFFER OF THE OTHER NINE MEMBER STATES AT THE LAST EUROPEAN COUNCIL.

SECONDLY, THIS SYSTEM CAN ONLY BE CHANGED BY A UNANIMOUS DECISION BY ALL MEMBER GOVERNMENTS AND RATIFIED BY THEIR PARLIAMENTS. THE BENEFITS FOR THE UK WILL CONTINUE UNLESS AND UNTIL WE OURSELVES AGREE TO CHANGE IT.

THIRDLY, THE ADVANTAGES OF THE SYSTEM WILL BE AVAILABLE TO US FROM 1985.

WE SHALL HAVE THE ARBITRARY REFUND OF ^{about £600-} £590 MILLION, FOR THE SINGLE YEAR 1984 ONLY.

THIS IS A SUBSTANTIALLY BETTER SITUATION FOR THE UK THAN WAS ON OFFER EARLIER.

/FOURTHLY,

FOURTHLY, THE REFUNDS WILL BE IMPLEMENTED, AS WE HAVE REQUESTED, BY REDUCING THE UK'S VAT PAYMENTS TO THE COMMUNITY IN EACH SUCCESSIVE YEAR.

THE HOUSE MAY RECALL THAT AT THE LAST EUROPEAN COUNCIL WE REACHED PROVISIONAL AGREEMENT THAT MEASURES BE TAKEN ON BUDGETARY DISCIPLINE.

WE CONSIDERED IT ESSENTIAL THAT THE RIGOROUS RULES WHICH AT PRESENT GOVERN BUDGETARY POLICY IN EACH MEMBER STATE ALSO APPLY TO THE BUDGET OF THE COMMUNITIES.

WE WENT ON TO ADD THAT THE COMMUNITY SHOULD FIX AT THE BEGINNING OF THE BUDGET PROCEDURE THE MAXIMUM LEVEL OF EXPENDITURE WHICH IT CONSIDERS IT MUST ADOPT TO FINANCE COMMUNITY POLICIES DURING THE FOLLOWING FINANCIAL YEAR; AND FURTHER THAT NET EXPENDITURE RELATING TO AGRICULTURAL MARKETS SHOULD INCREASE LESS THAN THE RATE OF GROWTH OF THE OWN RESOURCES BASE.

FINANCE MINISTERS ARE NOW WORKING ON THE PRECISE MEASURES TO GUARANTEE THE EFFECTIVE APPLICATION OF THESE PRINCIPLES.

IN THE LIGHT OF THE AGREEMENT REACHED BOTH ON THE UK REFUND AND THE FUTURE CONTROL OF COMMUNITY SPENDING, THE EUROPEAN COUNCIL ALSO AGREED THAT THE OWN RESOURCES CEILING SHOULD BE INCREASED TO 1.4% OF VAT. THE GOVERNMENT WILL BE PREPARED IN DUE COURSE, AND WHEN THE ARRANGEMENTS ARE IN PLACE ON BUDGET DISCIPLINE, TO RECOMMEND TO THE HOUSE THAT THE OWN RESOURCES CEILING SHOULD BE INCREASED TO 1.4% OF VAT.

HOWEVER, THE NET EFFECT OF SUCH AN INCREASE AND OF THE VAT REFUNDS FOR THE UK IS THAT, ALTHOUGH THE CEILING WILL BE INCREASED TO 1.4% FOR THE COMMUNITY AS A WHOLE THE UK WILL ITSELF BE CONTRIBUTING LESS THAN WE ARE AT PRESENT LIABLE TO CONTRIBUTE UNDER THE 1% LIMIT.

IT WAS FURTHER AGREED THAT THE REFUND OF £440 MILLION (750 MILLION ECU) DUE TO THE UK IN RESPECT OF 1983 SHOULD NOW BE RELEASED.

THE COUNCIL OF MINISTERS YESTERDAY APPROVED THE NECESSARY REGULATIONS.

IT IS NOW FOR THE EUROPEAN PARLIAMENT TO TRANSFER THE FUNDS FROM THE RESERVE CHAPTER OF THE BUDGET.

WE THUS HAVE THE ASSURANCE OF THE SUCCESSFUL IMPLEMENTATION OF OUR REFUNDS FOR 1983 (£442 MILLION) 1984 (£590 MILLION) AND FOR FUTURE YEARS, FOR AS LONG AS THE 1.4% VAT CEILING LASTS.

THE EUROPEAN COUNCIL DISCUSSED CURRENT WORLD POLITICAL AND ECONOMIC DEVELOPMENTS.

I DESCRIBED THE OUTCOME OF THE LONDON ECONOMIC SUMMIT. PRESIDENT MITTERRAND AND CHANCELLOR KOHL SPOKE ABOUT THEIR VISITS LAST WEEK TO THE SOVIET UNION AND HUNGARY.

IT WAS HEARTENING TO FIND THAT THE FOUR KEYNOTES OF THE LONDON SUMMIT - UNITY, RESOLVE, DIALOGUE AND CO-OPERATION - WERE UNANIMOUSLY ENDORSED AS THE BASIS FOR A SECURE AND CONSTRUCTIVE RELATIONSHIP WITH THE SOVIET UNION WHICH THE VISIT TO MOSCOW BY MY RT HON FRIEND THE FOREIGN AND COMMONWEALTH SECRETARY IN JULY IS DESIGNED TO PROMOTE.

THE EUROPEAN COUNCIL CONFIRMED THAT THE NEGOTIATIONS FOR THE
ACCESSION OF SPAIN AND PORTUGAL SHOULD BE COMPLETED
BY 30 SEPTEMBER 1984.

WE ALSO DISCUSSED THE NEGOTIATIONS FOR THE RENEWAL OF
THE LOME AGREEMENT WITH AFRICAN, CARIBBEAN AND PACIFIC
COUNTRIES.

THE EUROPEAN COUNCIL STRESSED THE IMPORTANCE OF BRINGING
THESE NEGOTIATIONS TO AN EARLY CONCLUSION.

THE EUROPEAN COUNCIL ALSO DISCUSSED THE FUTURE DEVELOPMENT OF THE
COMMUNITY.

WE HAVE PUT FORWARD SPECIFIC IDEAS IN A PAPER WHICH I GAVE
BEFORE THE EUROPEAN COUNCIL TO OTHER HEADS OF GOVERNMENT.
COPIES HAVE BEEN PLACED IN THE LIBRARY OF THE HOUSE.

I LAID PARTICULAR EMPHASIS ON THE IMPORTANCE OF ACHIEVING
A GENUINE COMMON MARKET IN GOODS AND SERVICES LEADING TO
THE CREATION OF NEW JOBS THROUGHOUT THE COMMUNITY.

/THE OUTCOME

THE OUTCOME OF THE COUNCIL IS GOOD FOR BRITAIN AND GOOD FOR THE
COMMUNITY.

IT WILL RESULT IN BRITAIN'S PAYING FOR THE FORESEEABLE
FUTURE LOWER CONTRIBUTIONS THAN WOULD HAVE BEEN DUE UNDER
EXISTING ARRANGEMENTS WITH THE 1% VAT CEILING; IT WILL
MAKE POSSIBLE A RELAUNCHING OF THE COMMUNITY IN WHICH
BRITAIN WILL PLAY A FULL ROLE; WILL GIVE AN IMPETUS TO
ENLARGEMENT THUS STRENGTHENING DEMOCRACY IN SPAIN AND
PORTUGAL; AND REMOVE WHAT HAS BEEN A CONSTANT SOURCE OF
FRICTION IN OUR RELATIONS WITH THE COMMUNITY EVER SINCE
WE JOINED.

DRAFT STATEMENT TO THE HOUSE ON 27 JUNE

With permission, Mr. Speaker, I ^{should like to} ~~shall~~ make a statement about the European Council in Fontainebleau on 25-26 June, at which I was accompanied by my Rt Hon and Learned Friend the Foreign and Commonwealth Secretary.

I am glad to tell the House that the European Council reached agreement on a fairer and more soundly based system for the United Kingdom's financial contribution to the Community. This is a successful culmination of our long and persistent efforts to correct the budget inequity and to put the United Kingdom's refunds on a lasting basis.

The main features of this agreement are, first, that it provides for a refund of £590 million (1,000 million ecu) in 1984, with the new system in effect thereafter. Under the new system the UK will get a rebate of 66% of the gap between our share of VAT and our share of expenditure. / This means that, in terms of our marginal net contribution, the UK will be contributing not about 21% as we are liable to do at present but about 7% to new Community expenditure. This arrangement is far better than anything previously on offer and far better than the offer of the other Nine Member States at the last European Council.

Secondly, this system can only be changed by a unanimous decision by all member governments and ratified by their Parliaments. The benefits for the UK will continue unless and until we ourselves agree to change it.

Thirdly, the advantages of the system will be available to us from 1985. We shall have ^{an} ~~an arbitrary~~ ^{fixed} refund for the single year 1984 only. This is a substantially better situation for the UK than was on offer earlier.

Fourthly, the refunds will be implemented, as we have requested, by reducing the UK's VAT payments to the Community in each successive year.

The House may recall that at the last European Council we reached a provisional agreement under which measures will be taken to guarantee the ^{on budgetary discipline} effective application of budgetary discipline. Finance Ministers are now working on the method by which this will be incorporated in the Community's budgetary procedures.

In the light of the agreement reached both on the UK refund and the future control of Community spending, the European Council also agreed that the own resources ceiling should be increased to 1.4% of VAT ~~(with the possibility of a further increase to 1.6% later)~~. The Government will be prepared in due course, and when ^{the} adequate arrangements are in place ^{on} to guarantee budget discipline, to recommend to the House that the own resources ceiling should be increased to 1.4% of VAT. However, the net effect of such an increase and of the VAT refunds for the UK is that, although the ceiling will be increased to 1.4% for the Community as a whole, the UK will itself be contributing less ^{we are at present} than 1% of VAT. *(able to contribute with the 7% limit)*

It was further agreed that the refund of £442 million (750 million ecu) due to the UK in respect of 1983 should now be released. The Council of Ministers yesterday approved the necessary regulations. It is now for the European Parliament to transfer the funds from the reserve chapter of the budget. We thus have the assurance of the successful implementation of our refunds for 1983 (£442 million) 1984 (£590 million) and for future years, for as long as the 1.4% VAT ceiling lasts.

The European Council discussed current world political and economic developments. I described the outcome of the London Economic Summit. President Mitterrand and Chancellor Kohl spoke about their visits last week to the Soviet Union and Hungary. It was heartening to find that the four keynotes of the London Summit - unity, resolve, dialogue and cooperation - were unanimously endorsed as the basis for a secure and constructive relationship with the Soviet Union which the visit to Moscow by my Rt. Hon Friend the Foreign and Commonwealth Secretary ^{is} designed to promote.

The European Council confirmed that the negotiations for the accession of Spain and Portugal should be completed by 30 September 1984. We also discussed the negotiations for the renewal of the Lome Agreement with African, Caribbean and Pacific countries. The European Council stressed the importance of bringing these negotiations to an early conclusion.

The European Council also discussed the future development of the Community. We have put forward specific ideas in a paper which I gave before the European Council to other Heads of Government. Copies have been placed in the Library of the House. I laid particular emphasis on the importance of achieving a genuine common market in goods and services leading to the creation of new jobs throughout the Community.

The outcome of the Council is good for Britain and good for the Community. It will result in Britain's paying for the foreseeable future lower contributions than would have been due under existing arrangements with the 1% VAT ceiling; it will make possible a relaunching of the Community in which Britain will play a full role; will give an impetus to enlargement thus strengthening democracy

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in Spain and Portugal; and remove what has been a constant source of friction in our relations with the Community ever since we joined.

BUDGETARY IMBALANCES

1. Control of expenditure is ultimately the essential means of resolving the question of budgetary imbalances.

However, it has been decided that any Member State sustaining a budgetary burden which is excessive in relation to its relative prosperity may benefit from a correction at the appropriate time.

The basis for the correction is the gap between the share of VAT payments and the share of expenditure allocated in accordance with the present criteria.

A part of administrative expenditure is charged to each Member State in accordance with the present formula.

2. As far as the United Kingdom is concerned, the following arrangement is adopted:

- for 1984, a lump sum of 1000 MECUS is fixed;
- from 1985 the gap (base of the correction) as defined in § 1 is, for the period referred to in § 6, corrected annually at 65%.

3. In the case of new Member States benefitting during the period of transition from a reduction of own resources, the resulting cost for other Member States will be met out of VAT in the normal way.

4. The corrections foreseen in § 2 will be deducted from the United Kingdom's normal VAT share in the budget year following the one in respect of which the correction is granted.

The resulting cost for the other Member States will be shared among them according to their normal VAT share, adjusted to allow the FRG's share to move to 2/3 of its VAT share.

5. The correction formula foreseen in § 2 (2nd indent) will be a part of the decision on the new own resources, their durations being linked.

One year before the new ceiling is reached, the Commission will present to the Council a report setting out the state of play on:

- the result of the budgetary discipline
- the Community's financial needs
- the breakdown of the budgetary costs among Member States, having regard to their relative prosperity, and the consequences to be drawn from this for the application of the budgetary corrections.

The Council will take the appropriate decisions.
