



PM/84/110

PRIME MINISTER

Outcome of Fontainebleau

1. The details of the agreement reached at the European Council at Fontainebleau on 26 June are important but complex. I believe that Colleagues may find it useful to have the attached note explaining the main features of the agreement. It is designed both for their own use and for the briefing of backbenchers, journalists and other contacts.
2. I am sending copies of this minute to all members of Cabinet, with the suggestion that they make copies available to junior Ministers and Parliamentary Private Secretaries. I am making separate arrangements for copies to be sent to Conservative backbenchers and to British members of the European Democratic Group.

GEOFFREY HOWE

Foreign and Commonwealth Office  
28 June 1984

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Prime Minister

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OUTCOME OF EUROPEAN COUNCIL, FONTAINEBLEAU

25/26 JUNE

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1. MAIN FEATURES OF THE BUDGET AGREEMENT:

A. We will get back 66% of the VAT/Expenditure share gap..

B. This means that, even with an increased VAT ceiling, we shall be paying around half what we would have had to pay with no increase in the VAT ceiling and no agreement on refunds.

C. Even if the VAT ceiling of 1.4% were called up in its entirety, our rate of contribution would remain below 1%.

D. The UK's net contribution to new Community expenditure will be no more than 7% (34% of our VAT share of about 20%).

E. The budgetary system is lasting. Its duration is linked to the duration of new own resources. This can only be changed by unanimous agreement of Member States.

## 2. COMMUNITY BUDGET: OWN RESOURCES

### A. General

The ceiling on the Community's own resources is to be raised from the present level of 1% of VAT revenue to 1.4%. There can be no further increase without the unanimous consent of member governments and the approval of national parliaments.

Levies and duties contribute 40% of the Community's income, while VAT provides 60%. This means that increasing the VAT ceiling from 1% to 1.4% raises the ceiling on the total Community budget by 24%, not 40%.

In practice, the full 1.4% is a maximum. The actual call-up rate should be within this maximum for a considerable number of years. Our share of whatever sum is subsequently called up will, of course, be correspondingly lower. The UK's VAT rate will remain below 1% while all other Member States pay above the 1% rate.

Those who say we should agree to no increase are giving bad advice. Even with the increase in own resources we

shall be paying around half what we would have had to pay with no increase and with no agreement on a budget system. Even on worst case assumptions about agricultural costs we would be substantially better off with the increase in own resources and the budget system than with no increase.

The increase in own resources is necessary for:

- the development of new policies of potential benefit to the United Kingdom (note no. 6)
  
- the expansion of the Regional and Social Funds, of which we are currently among the largest net beneficiaries (£375m in 1983)
  
- Spanish and Portuguese membership, which is of major importance to the Alliance
  
- the payment by others of UK refunds

The agreement on higher own resources was part of a package. Without such a package there would have been:

- (a) no new budget system, ending the need for an

annual crisis over Britain's refunds;

(b) no agreement to reduce agriculture's share of the Community budget;

(c) no agreement on the overall control of Community spending;

(d) agricultural spending would have tended to squeeze out spending of greater benefit to UK, eg on Regional and Social funds.

### 3. COMMUNITY BUDGET: BRITAIN'S CONTRIBUTION

Since 1980, we have received ad hoc annual refunds as follows:

1980	£645 million
1981	£783 million
1982	£491 million

A further £440 million was agreed for 1983 but was blocked by France and Italy. They have now lifted their reserve. Disagreement over that 1983 refund shows the weakness of annual refunds: they were only achieved after a lengthy, damaging argument and friction with the European Parliament.

We now have a lasting system, which will ensure that we pay no more than our fair share of the budget. Our refunds will be 66% of our contribution as defined in the system.

The method of calculation of our refund is based on the difference between our share of VAT contributions to

the Community budget and our share of receipts from that budget. The agreed system gives us fair relief of our contributions in line with our relative prosperity.

The system can only be changed by the unanimous agreement of all Member Governments. It will be reviewed if and when the new ceiling on own resources is reached. The system will by then have become part of the Community's way of doing things. We shall be able to block any attempt to abolish it.

#### 1983 Refunds

The bulk of the £440m of agreed 1983 refunds should have been paid, on past practice, by the end of March. France and Italy blocked the refunds, pending settlement of the budgetary question. Foreign Ministers meeting immediately after the European Council adopted the regulations releasing the refunds. The European Parliament must now approve transfer of the funds. We expect it to do so in the near future.



#### 4. COMMUNITY BUDGET: DISCIPLINE

This was a key part of the Stuttgart package for Britain.

Two years ago no Member State other than Britain was prepared to contemplate controlling EC expenditure. Now everyone accepts the need. France and Germany, with growing contributions to the Community budget, increasingly share our concern to control costs. We have secured agreement to:

- (i) apply the principles that govern budgetary affairs in individual Member States to the budgetary affairs of the Community as a whole;
- (ii) ensure that a total amount of money available to the Community is fixed annually so that revenue determines expenditure, not the other way round as in the past;
- (iii) restrict any future growth in agricultural spending to less than the rate of growth of the Community's own resources base.

Finance ministers have been asked to draw up an implementing text incorporating the measures necessary

to guarantee the effective application of the agreement. The increase in own resources will only be ratified when these measures are in place.

#### 1984 Budget Overrun

This issue has been referred to the Budget Council on 19 July. Nearly all Member States have objected to the Commission's proposal to raise a loan and have insisted on savings being found. The European Court of Auditors has also criticised the Commission for not examining all the available options for savings. Britain and the Netherlands have put forward detailed proposals for savings in the agricultural sector.

#### 1985 Preliminary Draft Budget

The Commission's proposals exceed the 1% ceiling. But these are just proposals. The budget must, as the Council legal services in Brussels have advised, conform to the own resources ceiling. Under the Treaty of Rome the Community could not in law adopt a budget which exceeded the ceiling.

## 5. AGRICULTURE

Agricultural spending will be brought under control as part of the agreement on budgetary discipline (Note no 4). As part of the post-Stuttgart package, Agriculture Ministers made an important start in March on the reform of the detailed working of the Common Agricultural Policy.

For the first time:

- (i) prices were cut;
- (ii) measures were taken to reduce the milk surplus
- (iii) the principle of guarantee thresholds was agreed for products in or entering surplus.

The CAP was out of control because of:

- (i) open-ended payment obligations leading to wasteful and costly surpluses;
  - (ii) a widening gap between Community and world food prices.
  - (iii) the lopsided subsidisation of the agricultural Community at the expense of other sectors of society.
- In addition, CAP expenditure has been a major cause of our excessive budgetary contribution, since only 2.7% of our active population is engaged in agriculture,

compared to a Community average of 7.5%. For this reason, we receive just 10.5% of CAP expenditure while we contribute 24% of the Community budget.

The CAP is now being brought under control. But more needs to be done. Useful progress was made at Fontainebleau on controlling the cost of the wine regime. We shall continue to press for lower prices for cereals and other products in surplus, and for the narrowing of the difference between EC and world prices.

## 6. NEW POLICIES

The Community has agreed on a number of priorities.

These include:

- Measures to break down the remaining barriers to the common market (eg simplification of trade and custom formalities, harmonisation of standards and products); this will play an important role in economic recovery and job creation;
- Liberalisation of trade in services, notably road transport, air travel and insurance.
- Increased percentage of the budget to be devoted to research and development and in particular initiatives on telecommunications and biotechnology;
- Action on the environment (eg a firm date - no later than 1990 - for the introduction of unleaded petrol in the Community).



# Members' Brief

No. 19  
28th June 1984

## AGREEMENT AT THE EUROPEAN COUNCIL AT FONTAINEBLEAU, 25th-26th JUNE

The Agreement at Fontainebleau marks a successful conclusion to the Government's persistent efforts to secure a lasting solution to the problem of Britain's inequitable budgetary burden. The arrangements made for Britain are far better than anything previously on offer and far better than the offer made to the Government at the Brussels Council in March.

### Main Elements of the Agreement

- (i) A refund for 1984 of about £600 million (1 billion ECU).
- (ii) A new system for correcting UK budgetary imbalances under which we will receive a refund of 66% of the gap between our share of VAT and our share of expenditure. The refunds will be implemented in the manner the Government requested, by reducing the UK's VAT payments to the Community in each successive year.
- (iii) The Council of Ministers approved the necessary regulations to release Britain's refund for 1983 of about £440 million (750 million ECU).
- (iv) Finance Ministers are working on the precise measures to guarantee the effective application of budgetary discipline, that is, measures to ensure that the rigorous rules which at present govern budgetary policy in each member state also apply to the budget of the Community.
- (v) The European Council agreed that the own resources ceiling should be increased to 1.4% of VAT. Because VAT forms about 60% of total Community revenues, the increase from 1.0% to 1.4% in the VAT ceiling represents an increase in available Community revenue of only about 24%. On the question of raising the ceiling, the Prime Minister said: '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.' (Hansard, 27th June, 1984, col. 993).
- (vi) Progress was also made in other areas. The European Council confirmed that the negotiations for the accession of Spain and Portugal should be completed by the end of September this year so that they can enter the Community in 1986. The renewal of the Lome Agreement (Lome III) was discussed. Measures on the future development of the Community were also discussed. The Government 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.

### What the Deal means for Britain

- (i) We will continue to receive large refunds. The Government has already negotiated refunds in excess of £2.5 billion since taking office. This deal means that henceforth we will obtain similar protection from excess contributions. As the Prime Minister said: 'Under the new VAT ceiling of 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 1.0% limit.'

- (ii) The Agreement is durable. As Mrs. Thatcher said, ' this system can be changed only by a unanimous decision by all member governments and ratified by their Parliaments. The benefits for the United Kingdom will continue unless and until we ourselves agree to change it.' (ibid.)
- (iii) The Agreement will put an end to the annual haggle over the budget problem. This has absorbed the energies of heads of government at successive European Council meetings. The way is now open for new policies to be developed. As the Prime Minister said:

' 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.'

#### Labour's Dire Record

The Conservatives were able to negotiate this Agreement because our commitment to membership is taken seriously by our Community partners. Labour have changed their mind five times on the question of membership. Only a year ago their General Election Manifesto said: 'British withdrawal from the Community is the right policy for Britain - to be completed well within the lifetime of the Parliament. That is our commitment.' Yet their European Election manifesto reads: 'Britain, like all member states, must retain the option of withdrawal from the EEC.'

Labour's own negotiating record should not be forgotten. Had the Government not obtained this settlement, the terms which Labour negotiated would have resulted in the UK paying £1.2 billion to the Community this year. Moreover, their protracted renegotiation of the terms of membership failed to obtain any refunds for Britain and they allowed our contributions to get out of all control. At constant 1983 prices, Labour's contribution for the last two years for which they were responsible (the only two not benefiting from the Conservatives' negotiated transitional arrangements) was £1,425 million. By contrast, contributions for the four years 1980-3 inclusive were only £655 million at constant prices.

Labour have no policies for Europe, merely a hotchpotch of incompatible statements designed to shore up the deep divisions within their party.

Conservative Research Department  
32 Smith Square, London S.W.1

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Ref. No: FA(84)4  
28.6.84

THE FONTAINEBLEAU SUMMIT

Conservative Research Department,  
32 Smith Square,  
London SW1  
Tel. 222 9000 x 2519

Enquiries on this brief to:  
ANDREW TYRIE



OUTCOME OF EUROPEAN COUNCIL, FONTAINEBLEAU

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