



Ref. A084/2141

PRIME MINISTER

Cabinet: Community Affairs

The Chancellor of the Exchequer will report on the discussion of the proposed Community 1984 supplementary budget and the 1985 preliminary draft budget at the Council of Ministers (Budget) on 19-20 July when the Economic Secretary represented the United Kingdom. The United Kingdom said that both the 1984 and 1985 budgets had to be financed within the existing own resources ceiling and put forward a balanced package of saving and deferrals, particularly of agricultural expenditure, into 1985. We recognised that later in 1985 the revised Own Resources Decision might be available to make some more finance available. On the 1985 preliminary draft budget progress was made in our direction. The Council agreed, provisionally, to reduce the initial draft budget within the 1 per cent VAT ceiling, with the bulk of the reductions falling on agricultural guarantee expenditure. The agreement was provisional because other member states linked the operation either with financing the 1984 overrun or with a commitment to some supplementary finance later in 1985. The United Kingdom made it clear that we were not prepared to provide supplementary finance outside the own resources system but said that it might be acceptable for the revised Own Resources Decision to come into force in 1985, thus legitimately providing a specified and limited amount of new resources in 1985. The Germans, however, were unwilling to agree. Subsequent discussion in the Council of Ministers (General Affairs) showed that only Germany was opposing the likely solution for 1985, ie a budget now within the 1 per cent ceiling and entry into force of the new own resources later in the year. On the 1984 supplementary budget the position was difficult. The nine other member states were willing to have a supplementary budget (the Presidency suggested 1350 million ecu, which is about 1000 million ecu less than the Commission proposed) for which the finance would be

provided by a regulation under Article 235 or, more probably, an intergovernmental agreement outside the Treaty. The United Kingdom did not agree. Subsequently in the Council of Ministers (General Affairs) when it would have been wise to leave the question until the next Council of Ministers (Budget) in September, Herr Genscher stirred up the issue and attacked the United Kingdom's position, using the familiar "nine to one" arguments. Despite this, the draft budgets will in fact be next considered in the Budget Council on 6-7 September.

2. The Minister of State, Foreign and Commonwealth Office (Lady Young), in the Foreign and Commonwealth Secretary's absence in the Far East, will report on the Council of Ministers (General Affairs) on 23-24 July at which the Foreign and Commonwealth Secretary and the Minister of Trade represented the United Kingdom. Much time was spent on the Community's position in the negotiations on the enlargement of the Community and in meetings with Spain and Portugal. The Council agreed that in the enlarged Community the qualified majority should be 54 votes - a position acceptable to the United Kingdom - but Belgium and Luxembourg asked for time for further reflection. It also agreed on a 13th Judge and 6th Advocate-General for the European Court, although the United Kingdom made clear its reservations on the former. The Spanish took a hard line on industrial tariffs, which was not unexpected at this stage of the negotiation, and this will be an important element in the negotiations in September. No conclusion was reached on the follow-up to the Budget Council. There was a general attack on the United Kingdom, which the Foreign and Commonwealth Secretary refuted.

3. The Minister of Agriculture, Fisheries and Food may refer to the subsequent decision by the Commission to introduce further disposals of surplus products by export and other measures of support for beef and the distillation of wine, even though the funds required for this are in the 1984 supplementary budget which has not been approved by the Council and might be



affected by its decisions on savings. The United Kingdom Permanent Representative is being instructed to protest against this.

4. The Minister of State, Foreign and Commonwealth Office, may also refer to this week's opening session of the new European Parliament, at which Monsieur Pflimlin, the former French Prime Minister, has been elected to the Presidency. The Commission are still awaiting a letter from the President of the new European Parliament reporting approval of the proposal (which had been approved earlier by the authorised Budget Committee of the European Parliament) to transfer our 1983 refunds from the reserve chapter of the 1984 budget before they will actually pay the refunds.

5. The next Community meetings are the General Affairs Council on 3 September and the Budget Council on 6-7 September.

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ROBERT ARMSTRONG

Handwritten scribbles and initials

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Dubois
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Pres.
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