



10 DOWNING STREET  
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*From the Private Secretary*

4 September, 1984

EUROPEAN COMMUNITY BUDGET

The Prime Minister held a meeting yesterday with the Foreign and Commonwealth Secretary, the Minister of Agriculture, Fisheries and Food, the Chief Whip and Economic Secretary, Treasury, in order to discuss outstanding Community budget issues. Sir Robert Armstrong, Sir Michael Butler and Mr. Williamson were also present.

The Prime Minister said that it was desirable that the main outstanding budgetary questions in the Community should now be quickly resolved together. She did not favour a piecemeal approach. It was the task of the Presidency to carry forward the implementation of the Fontainebleau agreement on the correction of the budget inequity, on the increase in the Community's own resources and on budget discipline and to ensure that any irreducible minimum 1984 overrun was dealt with in accordance with the Treaty. This was the message that she intended to give to Mr. Garret FitzGerald at her meeting with him later in the day.

The Foreign and Commonwealth Secretary said that this was the right approach with Mr. FitzGerald. The Presidency should now move all these issues forward and, in particular, they should not neglect budget discipline. On the 1984 budget overrun it was common ground that this should be reduced to the maximum feasible extent. The Council of Ministers (Budget) should complete this work on

6-7 September. There would, however, be some overrun remaining even after savings had been made. He considered that, if other conditions were met in a satisfactory package, we should be prepared as an exceptional and temporary measure to contribute to financing the overrun, preferably by a regulation under Article 235 of the Treaty. The conditions should ensure, however, that we obtained "the measures necessary to guarantee the effective application of the principles" of budgetary discipline agreed by the European Council. He also supported that idea put forward by the Economic Secretary in his Private Secretary's letter of 30 August that we should seek to obtain early payment in 1985 of the United Kingdom's 1984 refund of 1000 million ecu.

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The Economic Secretary, said that in his view the three options were as set out in paragraph 6 of Mr. Williamson's minute to Mr. Powell of 15 August but he had also suggested another quid pro quo for agreement to supplementary finance for 1984 which could be sought in the Budget Council, namely the early payment of the 1984 refund. The interest saved would largely offset the United Kingdom's net share of the supplementary finance for 1984. In the Budget Council he foresaw a difficulty of timing: the 1984 budget problem was urgent and we should probably have to make a provisional commitment on the 1984 budget overrun before the other elements were finally agreed.

In discussion of the options it was suggested that United Kingdom agreement that 1984 expenditure pushed into Community financing in 1985 would not count towards the United Kingdom rebate ("sterilisation") would not be likely to gain any significant counter-concessions from other member states. In addition, it would be a bad precedent to exclude any expenditure from rebate and it would provide no incentive for other member states to hold down expenditure. In the circumstances it might be better to concentrate on the conditions which should be satisfied if the United Kingdom were to agree to some supplementary financing in 1984. In particular, we must be satisfied on budget discipline and on our budget rebates. In advance of the Budget Council it was difficult to see the whole package. The Economic Secretary needed to explore with other member states at or in the margins of that Council the scope for progress on budget discipline and budget rebates on the lines of option (iii) in paragraph 6 of Mr. Williamson's minute of 15 August and of the idea put forward by the Economic Secretary himself (letter of 30 August from his private secretary to Mr. Powell). On the legal base for supplementary financing in 1984 - either an intergovernmental agreement or Article 235 of the Treaty - the present position was that the Germans were standing out for an intergovernmental agreement outside the Treaty. For the United Kingdom the main issue was to ensure that the arrangement should be genuinely exceptional and temporary. There was a very strong argument on this ground for an intergovernmental agreement outside the Treaty. On the other hand, it was argued that, in view of the agreement to increase the Community's own resources but the temporary financing problem in the interim, the Council and Commission legal services had already taken the view that Article 235 could be used. The use of this basis might make it easier for the United Kingdom to secure a regulation on budget discipline on the same legal base.

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In discussion of the 1985 situation it was pointed out that the Budget Council had already reached a provisional agreement to keep the 1985 budget within the 1 per cent value added tax ceiling. Any declaration about the financing of a possible overrun later in 1985 would need to protect the United Kingdom's position that such financing would have to be limited and would have to be implemented in accordance with the Treaty, i.e. through the proper procedures provided in the Treaty for an increase in the Community's own resources. This implied that the German (and Dutch) Governments should modify their position on the date of implementation of the increase in the 1 per cent value added tax ceiling.

With reference to the effects of enlargement it was noted that a recent Commission paper indicated that Spain would be a net contributor to the Community budget for up to eight years. Sir Michael Butler explained, however, that this was a theoretical position based on the present state of the negotiation without taking account of any proposal for dealing with the Spanish budget situation. It was expected that the Commission would propose some alleviation for Spain, probably on the lines of the phasing in of budget contributions which had been applied in earlier accessions.

Summing up the discussion, the Prime Minister said that it was now time - and the task of the Presidency - to bring the outstanding budgetary questions to an early conclusion. It was in the United Kingdom's interest to deal with a number of issues together. On the 1984 budget overrun the United Kingdom would be prepared to consider some supplementary finance in 1984 but only if we received satisfactory assurances on related budgetary questions. The Commission's proposal for the 1984 overrun must be cut back by the Budget Council to the irreducible minimum. It must be made clear to all member states that, at or before any supplementary budget, the European Parliament must release the United Kingdom's 1983 rebate. The European Council's instruction to the Council of Ministers to adopt the measures necessary to guarantee the effective application of the principles of budgetary discipline must be honoured. Even if these conditions were met, the United Kingdom's objective was that the supplementary financing in 1984 must be genuinely temporary and exceptional, and it would of course require the agreement of the United Kingdom Parliament. An intergovernmental agreement outside the Treaty was to be preferred and we also needed to protect our position for 1985; if, as expected, the Council of Ministers (Budget) agreed on a 1985 budget within the 1 per cent value added tax ceiling, any declaration on possible supplementary finance later in 1985 would need to be consistent with the United Kingdom's view that any such supplementary finance in

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1985 would have to be limited and to be provided in accordance with the Treaty by the proper procedures for increasing the Community's own resources. A clear understanding on the implementation of the 1984 refund of 1000 million ecu was also necessary and the meeting endorsed the Economic Secretary's suggestion that we should seek the earliest possible payment in 1985.

I am sending copies of this letter to David Peretz and Adrian Ellis (HM Treasury), Ivor Llewelyn (Ministry of Agriculture, Fisheries and Food), Murdo Maclean (Chief Whip's Office) and to Richard Hatfield (Cabinet Office).

(C.D. Powell)

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Foreign and Commonwealth Office.