

CCP/1 230/24 (2)



Prime Minister
We've got things moving
but no realistic chance
of settling these issues at

Treasury Chambers, Parliament Street, SW1P 3AG

September Foreign Affairs
Council (17/10/84). We should
keep on applying
pressure to the others, above
all on budgetary discipline,
10 September 1984
as the October deadline
by which the Community
runs out of money gets
closer. CDD 11/9

The Rt Hon Margaret Thatcher MP
10 Downing Street
LONDON
SW1

Dear Prime Minister

BUDGET COUNCIL, 6/7 SEPTEMBER

I attended the Budget Council in Brussels on 6 and 7 September. You may like an early report on how it went and on the further prospects.

During bilateral meetings and over lunch on the first day, I set out our position, as agreed at your meeting on 3 September, - namely that we would only be prepared to consider some supplementary finance in 1984 - and that on an exceptional and one-off basis - if the Community reached satisfactory solutions on all the other budgetary questions outstanding from Fontainebleau; that a second year of supplementary finance outside the own resources decision in 1985 was out of the question; and that all difficulties relating to our 1983 and 1984 refunds had to be removed.

There was some recognition by colleagues of the need to carry forward the work on budgetary discipline and on the own resources decision with some urgency. There was also some understanding of and sympathy for our problems on the 1983 and 1984 refunds. Indeed, on the latter, both the Germans and Dutch specifically said that the 1984 refunds could be provided for on the revenue side in 1985, apparently implying the possibility partial implementation (for that purpose only) of the new own resources decision. Some of this understanding was reflected in the subsequent Presidency texts which were discussed by the Council.

When the Council reconvened in plenary after very difficult discussions, I was eventually able to secure a significant reduction in the amount of supplementary finance required in 1984. It was provisionally agreed to reduce the Presidency compromise figure of 1,350 million ecu to 1,003 million ecu, (about half the Commission's latest proposal). I said this was a figure I could accept, provided all other related issues were resolved.

The Council also made some proposals on the form of a possible inter-governmental agreement for supplementary financing, though a number of difficult points - in particular that of ensuring its simultaneous implementation of all Member States - were unresolved.

The Council was deadlocked however on the questions of establishing the 1984 Supplementary Budget and the inter-Government agreement to finance it. All the others wanted these adopted immediately by the Council. I made it clear that we could not agree to this given the need to see progress made on the other Fontainebleau budgetary issues, and while some important legal and technical issues were unresolved. They also pressed for adoption of a declaration on the 1985 Budget, which would have had the effect, if the Germans and Dutch do not change their position on introducing new own resources in 1985 of committing us to a second year of supplementary financing through an inter-governmental agreement. I said that this was not acceptable and insisted that the Community must not develop a habit of raising revenue outside the own resources system.

A number of unhelpful points also emerged during the discussion of the rest of the Fontainebleau budget package still which diverge widely from our own. Specifically:

- i) The French said they would not agree to incorporate the strict financial guideline for agricultural expenditure in a regulation;
- ii) Both the Germans and Dutch continued to insist that new own resources should not be made available until 1 January 1986;
- iii) Both the French and Italians made it clear that they were opposed to providing for our 1984 refund through an inter-governmental agreement.

The Council therefore ended without agreement. There was general concern on the part of all the other Member States and the Commission that, unless the inter-governmental agreement is quickly approved, it will not be possible to process the supplementary budget through the Council and the European Parliament in time; and the UK's position was

quite sharply criticised by most others, notably France and Germany. The Presidency however summed up, that although it had not been possible to establish either draft budget, good progress had been made. They followed this line in their subsequent press briefing. Their draft conclusions (copy attached below) will remain on the table and be remitted to the Foreign Affairs Council on 17 September.

The provisional agreement to reduce the size of any supplementary budget for 1984 is a welcome step forward. But it is by no means clear that there will be sufficient progress on the rest of the post-Fontainebleau package to enable us to agree to establish the supplementary budget and to sign up to the inter-governmental agreement to finance it at next week's Foreign Affairs Council.

My assessment is that, although there is genuine urgency and it is in the UK's interests to reach agreement on the 1984 and 1985 budgets as soon as possible, it will not be easy for us to obtain adequate conclusions on the linked issues quickly enough to do a deal at the Foreign Affairs Council or shortly thereafter, as the budgetary timetable demands. The main stumbling blocks, so far as the draft text of the own resources decision and the 1984 and 1985 budget problems are concerned, are the German and Dutch refusal to bring forward new own resources before 1 January 1986 and (so long as they maintain this position) the difficulty of securing the payment of our 1984 refund during 1985. These issues are to be discussed in Brussels at official level during the course of this week.

There is also as yet no final agreement on either the detailed contents or legal form of budgetary discipline. This is to be discussed by officials this week and will be on the agenda of the Informal ECOFIN Council at the weekend.

In the light of the various meetings in Brussels on own resources and budgetary discipline further consideration will have to be given before the end of the week to the questions whether and in what circumstances the Foreign Secretary would be able to agree to a supplementary budget for 1984 on 17/18 September. I understand that, against the possible need for a further Ministerial discussion before the informal ECOFIN and General Affairs Council meetings, the Cabinet Office will aim to produce a note setting out the issues and the latest state of play in the next day or so.

I am sending copies of this letter to the Chancellor, the Foreign Secretary, the Minister of Agriculture and Sir Robert Armstrong.

*Kate Sheehy,
Adnan Elhi*

Approved by IAN STEWART
and signed in his absence



FILE

RJ

cc: PC

10 DOWNING STREET

From the Private Secretary

12 September, 1984

BUDGET COUNCIL, 6/7 SEPTEMBER

The Prime Minister has read with interest Mr. Stewart's letter of 10 September reporting the outcome of the recent Budget Council.

I am sending copies of this letter to David Peretz (HM Treasury), Colin Budd (Foreign and Commonwealth Office), Ivor Llewelyn (Ministry of Agriculture, Fisheries and Food) and to Richard Hatfield (Cabinet Office).

(C.D. Powell)

A. Ellis, Esq.,
HM Treasury

A handwritten signature in cursive script, appearing to be 'A. Ellis'.

Brussels, 7 September 1984

2nd REVISION

DRAFT CONCLUSIONS
OF THE BUDGET COUNCIL
6/7 SEPTEMBER 1984

1. The Council established Draft Supplementary and Amending Budget N° 1/84 (Annexe I) and noted the agreement among Member States on the method to finance it (Annexe II (1) (2)).
2. The Council established the Draft Budget for 1985 (Annex III).
3. The Council confirmed that work on other budgetary questions, namely :
 - the adoption by the Council of the decision to increase own resources in conformity with the conclusions of the European Council of Fontainebleau, including in this context the detailed provisions for compensation to the United Kingdom for 1984 on the receipts side of the 1985 budget ;
 - the adoption by the Council of measures of budgetary discipline in conformity with the conclusions of the European Council

.../...

(1) Alternative proposed by UK : The Council agreed provisionally on the content of a Draft Supplementary and Amending Budget for 1984, the establishment of which depends on the implementation of the arrangements for its financing.

(2) The Council Legal Service confirms the opinion given orally by its representative that the text of this agreement as set out in Annexe II provides the Council with an adequate basis for establishing the Draft Supplementary and Amending Budget N°1/84.

└ - The adoption of a decision on the method of financing an agreed figure for inclusion in a 1985 Supplementary Budget 7 (1) └ to meet the additional budgetary requirements which will arise in 1985 despite rigorous market management 7 (2)

would be completed as a matter of the utmost urgency.

4. The Council confirmed that compensation for the United Kingdom and Germany provided for in the 1984 budget should be executed without delay and it asked its President to intervene with the European Parliament to obtain Parliament's approval.

(1) UK proposal, replacing declaration n° 5 on the 1985 budget.

(2) Addition proposed by NL.

- 1 The Representatives of the Governments of the Member States, meeting within the Council, undertake to pay to the Community in 1984 to finance draft supplementary and amending budget N° 1 the following amounts in the form of reimbursable advances.

	%	Mio Ecus (1)
B	3,45	34,617
D	28,76	288,578
DK	1,99	19,968
G	1,53	15,352
F	22,79	228,675
IRL	0,86	8,629
I	15,33	153,820
L	0,25	2,509
N	4,99	50,070
UK	20,05	201,182
TOTAL	100	1.003,400

(1) Provisional amounts subject to final calculations to be made by Commission

2. The Representatives of the Governments of the Member States, while recognizing the need for payment of these amounts as soon as possible after the final adoption of the Supplementary and Amending Budget n° 1, note that in certain Member States the payment of these amounts in implementation of the undertaking requires the completion of certain internal procedures .

The Representatives of the Governments of the Member States understate that their governments will do everything in their power to complete their national procedures with all possible urgency. (1)

3. The Representatives of the Governments of the Member States take the view that the Council will adopt a regulation under Article 235 as the basis for the reimbursement of the above amounts to the Member States.

(1) D. DK. I. and UK. state that "internal procedures" involve parliamentary approval.

Outline of the contents of the draft supplementary
and amending budget No 1/1984 (3)

Budget heading	Heading	ECU	MECU
	<u>STATEMENT OF REVENUE</u>		
10	Agricultural levies	- 498.510.000	0
11	Sugar levies	- 27.010.000	0
111	Carry-forward of 1985 sugar levies	0	+ 200 (4)
12	Customs duties	- 34.500.000	0
13	VAT own resources (2)	+ 41.909.702	+ 41,909
20	GNP-based financial contribution - Greece (2)	- 6.668.203	- 6,6
300	Surplus available from the preceding financial year	+ 307.104.849	+ 307,1
302	Surplus available from the current financial year	+ 350.000.000	+ 500
310	1983 VAT balance	- 198.000.000	} - 207,3 (5)
311	Adjustment to VAT balances for 1979 to 1982	- 10.000.000	
40	Deductions from staff remuneration	+ 3.585.000	+ 0,7
807	EEC guarantee for transport infrastructure projects	+ p.m.	p.m.
820	Amount to be financed by refunds granted by the Member States in 1984	+ 2.071.467.011	1.003,4
	TOTAL	+ 1.999.378.359	1.839,2

(1) Excluding Greece.

(2) The figure of - 6.668.203 ECU represents the difference between VAT own resources in the initial budget and the financial contribution entered in this preliminary draft supplementary and amending budget.

(3) Amounts subject to correction during the final calculations.

(4) New regulation to be introduced.

(5) Taking into account the letter of amendment.

Outline of the contents of the draft supplementary
and amending budget No 1/1984 ⁽²⁾

ECU

Chapter Article Item	Non- comp	Comp	Heading	Appropriations for Commitment	Appropriations for Payment	MECU
			<u>STATEMENT OF EXPENDITURE</u>			
			<u>SECTION III/A:</u>			(Non-differen- tiated appropriation)
10	X		Expenditure relating to persons working with the institution	(¹)	(¹)	7,5 (Comp)
11	X	X		+ 27.714.000	+ 27.714.000	
12	X	X				
			<u>SECTION III/B:</u>			
Titles 1 and 2		X	EAGGF Guarantee Section	+ 1.983.000.000	+ 1.983.000.000	1833 (³)
300		X	Flat-rate repayment to the Member States of costs incurred in collecting own resources	- 56.002.000	- 56.002.000	0
360		X	Refunds to Greece	- 1.333.641	- 1.333.641	- 1,3
963		X	Financial cooperation with Turkey	-	+ 46.000.000	0
TOTAL				+ 1.953.378.359	+ 1.999.378.359	1839,2

- (¹) 7.500.000 ECU in compulsory expenditure and 20.214.000 ECU in non-compulsory expenditure.
(²) Amounts subject to correction during the final calculations.
(³) 150 MECU reduction for release from stocks.