

a MASTER SET



cc/c

10 DOWNING STREET

From the Private Secretary

17 September 1984

Dear David,

EC Budget

The Chancellor saw the Prime Minister this morning to brief her on the outcome of the informal meeting of Finance Ministers at Dromoland Castle on 15/16 September.

The Chancellor reported that useful progress had been made on a text establishing Guidelines for a Council Decision on Budgetary Discipline. This text would determine how the agreement on Budget discipline reached at the Brussels European Council would be implemented. A number of improvements had been agreed to it, including his suggestion that the Brussels European Council conclusions should be embodied in the preamble. The High Level Group would now meet to try to settle outstanding details notably on base-drift and clawback. ECOFIN would hold a special meeting on 1 October, in parallel with the special session of the Foreign Affairs Council already planned, to try to reach final agreement.

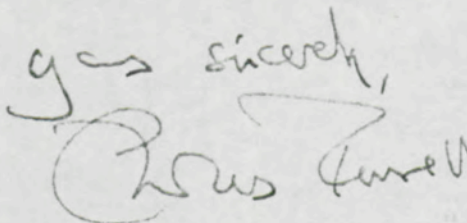
The Chancellor said that the most difficult remaining question concerned the status of the guidelines, and whether they should be legally binding. The UK and the Netherlands wanted them to be legally binding, and the Belgian Minister (de Clercq) could agree to this on a personal basis. But the French and Germans remained opposed. The Chancellor said that he had trailed the idea that the guidelines should be cast as a Council decision under Article 189 of the Treaty rather than as a regulation. While this had not met any immediate opposition, it was likely that objections would be raised when other Member States understood the full implication i.e. that such a decision would be legally binding. A Council decision would meet the UK's needs if we could get it, though his feeling was that it was probably not attainable. The Chancellor also reported that he had made clear to his colleagues the United Kingdom's wish that whatever decision was adopted by the Council of Ministers should be explicitly endorsed by the Dublin European Council.

The Prime Minister said that the text on budgetary discipline was the crucial element in the package of measures to implement the Fontainebleau conclusions and would have a determining influence in the UK Parliament when it came to examine the New Own Resources decision. It was important that we should fight as hard as possible to obtain a formal Council decision.

The Chancellor said that the issue would now be taken up at today's Foreign Affairs Council, which would also consider the other outstanding matters on the Budget viz the Supplementary Budget for 1984, the financing of the UK's 1984 refund, the date of introduction of new own resources and the release of the UK's 1983 refunds. There would be pressure from the other Member States to adopt the 1984 Supplementary Budget at the Foreign Affairs Council even if discussion on budgetary discipline had not been completed. The Prime Minister said that it was essential to maintain the integrity of the package. It must be made clear by the United Kingdom at the Foreign Affairs Council that any agreement on other outstanding points was subject to ECOFIN on 1 October agreeing a text on budgetary discipline as a formal decision of the Council. I subsequently conveyed this to Mr. Williamson in Brussels,

Finally the Chancellor suggested that the UK should make a statement for the Council minutes when the text on budgetary discipline was adopted to the effect that if the agreed arrangements proved ineffective, the Council would have to return to consideration of a regulation. This would give us a peg for insisting upon a regulation on budgetary discipline as a condition for any further increase in the VAT ceiling to 1.6%. The Prime Minister agreed that this was desirable.

I am copying this letter to Colin Budd (FCO), Ivor Llewelyn (MAFF) and to David Williamson (Cabinet Office).

Yours sincerely,


Charles Powell

David Peretz, Esq.,
HM Treasury.