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Qz.03946

MR POWELL

This has been covered in oral briefing. CDP

COMMUNITY BUDGET

It may be helpful to let you have these comments on where we stand after the meetings of the ECOFIN Council on 1 October and the Foreign Affairs Council on 2 October.

2. As a result of the ECOFIN Council, at which the Chancellor of the Exchequer made substantial progress, we now have a text on budget discipline which is subject to only two points of dispute:-

(i) 8 member states, including the United Kingdom, can accept that the budgetary discipline should be based on "original budgets". France and Denmark are trying to torpedo the system by basing it permanently on outturn;

(ii) the ECOFIN Council is ready to take a real commitment on this text but the exact form of this commitment is still open to dispute. As you know, I personally attach great importance to this point and I think that we need to continue to make the most of any leverage we can find in order to achieve a form which is binding on the Council.

3. The Foreign Affairs Council was a much more depressing affair. The Council was largely conducted in meetings of Ministers alone and Herr Genscher was consistently unhelpful, not to say anti-British. The present situation is:-

(i) the 1985 budget has been established and will be sent to the European Parliament within the 1 per cent ceiling. Whether there will be any significant overrun

will not be apparent until the middle of next year. 9 member states have made clear that, if there is any overrun, it must be financed through the proper procedures of the Treaty and the own resources system. The Federal Republic of Germany remains opposed to any increase in own resources before 1 January 1986. The Foreign Affairs Council reiterated in even more explicit terms that the United Kingdom's 1000 million ecu reduction in VAT will be implemented;

(ii) the 1984 supplementary budget is being sent to the European Parliament at the reduced level of 1000 million ecu. This would be financed by an inter-Governmental agreement and the United Kingdom has included in the inter-Governmental agreement the terms that we shall not contribute until the European Parliament has agreed to release our 1983 refunds and we are satisfied on budget discipline.

4. In the earlier discussions we have been anxious to press ahead to finalise texts on the own resources decision. In the new circumstances I share the view of the Chancellor of the Exchequer that our best leverage on budget discipline is the revised Decision on Own Resources. Most member states are anxious to start the procedures because they want the 1.4 per cent ratified before the end of 1985; in particular, they want it ratified so that the 1986 budget can be established during 1985 at a rate higher than 1 per cent. My own view is, therefore, that, without making any formal linkage, we should maintain the pressure on the two outstanding points on budget discipline and not hurry to settle the Own Resources Decision now.

5. The results of the two Councils have received a rather favourable press in Britain. I would recommend that we should continue to present the issues publicly on the following lines:-

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(i) the long term correction of the budget inequity. This was settled at Fontainebleau on a lasting basis and in a way which will provide an automatic reduction in the United Kingdom's VAT contribution from 1986. No member state has challenged the decisions taken at Fontainebleau. On the contrary, the Foreign Affairs Council in its discussion on the 1985 budget on 2 October reaffirmed in even more specific terms the relevant part of the commitment undertaken at Fontainebleau. The text of the revised Own Resources Decision incorporating the budget correction mechanism will be presented to Parliament in due course. The United Kingdom has no problems with it. Nine member states are of the opinion that it should come into effect on completion of ratification, which will probably be in the latter part of 1985: the Federal Republic of Germany would prefer to set the specific date of 1 January 1986;

(ii) the short term transitional issues (1984 and 1985 budgets). The Council has now taken a position on the short term transitional problems of the 1984 and 1985 budgets and has sent the texts to the European Parliament. The Council has established the 1985 draft budget within the 1 per cent ceiling. If at the end of next year this were to prove insufficient, it would then be necessary to see whether any new own resources had become available by ratification of the revised Own Resources Decision. In any event the 1000 million ecu correction of the United Kingdom's VAT contribution is decided.

On the 1984 supplementary budget the Commission asked for an additional 2.3 billion ecu. At the insistence of the United Kingdom very substantial savings and deferrals have been agreed by the Council. The draft supplementary budget is now of 1 billion ecu (about £580 million) of which the United Kingdom's net share

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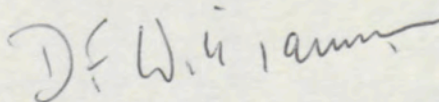
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would be about £60 million. Member states have agreed to finance this budget. We have made clear - and included in the text of the agreement itself - that we shall not put this to our Parliament unless the European Parliament has agreed to release the United Kingdom's 1983 refund and unless we are satisfied on the text on future budget discipline;

(iii) the 1983 refund (750 million ecu or about £440 million). This was decided at Stuttgart. There is no dispute among member states. In July this year the European Parliament made the ill-judged decision to hold back, until the 1984 supplementary budget was submitted by the Council, the transfer of the funds from the reserve chapter of the budget on to the effective budget lines. The 1984 draft supplementary budget is now being submitted by the Council. It is up to the European Parliament now to release our 1983 refund;

(iv) budget discipline. The text on budget discipline necessary to guarantee the implementation of the principles agreed at Fontainebleau has itself now been very largely agreed. There is one point on which two member states have a reserve, although the other eight member states (including the United Kingdom) can accept the text. The Council has also to decide the exact form in which it implements the remit from the European Council. Our position that the arrangements must be properly incorporated in the budgetary procedures of the Community remains unchanged, except that we have now made real progress on the substance of the measures.

6. I am sending a copy to Sir Robert Armstrong.



D F WILLIAMSON

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3 October 1984

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10 DOWNING STREET

From the Private Secretary

MR. WILLIAMSON

CABINET OFFICE

Community Budget

The Prime Minister has noted without comment your minute of 3 October on the state of play on Community budget issues following the ECOFIN Council on 1 October and the Foreign Affairs Council on 2 October.

(C.D. POWELL)

5 October 1984

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