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MR POWELL

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Prime Minister ②  
Re implication of  
this is that we  
are sitting pretty.  
A bit complacent: it  
is still important to  
get Budget Discipline  
agreed a.s.a.p. or there  
could be problems in  
the House.  
CDP 11/1

EUROPEAN COMMUNITY: STATE OF THE BUDGET DISCUSSIONS

I have no doubt that in the long-running Community budget battle it is the British army which is now rolling forward. It is for this reason that we have recommended that the Prime Minister does not need to stress to Monsieur Delors on 15 October specific British budgetary problems but rather to seek to "co-opt" him to the view that he must stand firm in implementing agreed Community policies on own resources and on budget discipline. Following today's favourable decision of the European Parliament on the 1983 refund, the state of the budget discussions is:-

(1) 1983 refund (750 million ecu or about £440 million). Settled and payment being made to the United Kingdom;

(2) the revised Own Resources Decision. This will implement the Fontainebleau agreement on the 1.4 per cent value added tax ceiling and on the mechanism to correct the budget inequity. The text of the revised Own Resources Decision formally proposed by the Commission is in all substantive respects very satisfactory for the United Kingdom, eg it correctly includes the Fontainebleau mechanism on a lasting basis (no time limit and United Kingdom agreement necessary for any change) and the ad hoc 1000 million ecu in respect of 1984 by reduction of our VAT payments in 1985. The only important point in dispute in the Council is the date of implementation. Nine member states can accept some new own resources during 1985. Germany is isolated in insisting (because of the links with enlargement) on 1 January 1986 and will have to reconsider its position.



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It is, of course, possible that the German position will cause some delay or, if the enlargement negotiations become even more bogged down, more serious difficulties. But, if so, it would be wrong to see this as a problem particularly for the United Kingdom. For specific reasons (avoiding an inter-governmental agreement in 1985 and certainty on the 1000 million ecu) we have taken the same view on timing as the rest of the nine. Fundamentally, however, we are in no hurry to bring in the 1.4 per cent VAT ceiling. We shall get what was agreed at Fontainebleau. It is the spendthrift member states which will be under most pressure from a delay in starting the ratification procedures.

It is almost certain that the European Parliament will propose wholesale amendments to the revised Own Resources Decision, which would have the effect of overturning the Fontainebleau agreement. Some member states will become jittery. The European Parliament, however, has no power to change a comma in the text. They have only to give an Opinion. If they delay their Opinion, we shall be under less pressure than other member states;

(3) budget discipline. The Chairman of the Council of Ministers (Finance) on 1 October ruled that the implementing text on budget discipline was agreed except in three respects: a general Danish reserve; a French reserve on one very important word in Article 4 (eight member states have accepted the text of this article); and a disagreement on the juridical or other form. Subsequently the French have discovered some more difficulties. These are important matters for us, both in substance and in relation to the United Kingdom Parliament, but they are not insoluble.

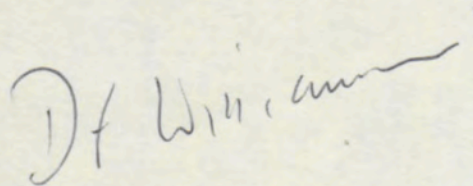
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(4) the 1984 draft supplementary and 1985 draft preliminary budget. These are now before the European Parliament - the 1984 draft supplementary budget at the much reduced level negotiated by the Economic Secretary, Treasury and the 1985 draft preliminary budget within the 1 per cent value added tax ceiling. If the European Parliament tries to significantly change these budgets, this will be the normal dispute between the Council and the European Parliament. It is unlikely to be a specifically British issue. If the European Parliament were to throw out the 1984 supplementary budget, the result would be the British proposal of last July, ie national funding reimbursed in 1985. If the European Parliament were to throw out the 1985 draft budget, the result laid down in the budgetary procedures is a budget on a month by month basis not exceeding the lower level of the last budget or the 1985 proposal. This would be quite satisfactory for us. We can watch the shenanigans calmly.

I am sending a copy to Sir Robert Armstrong.



D F WILLIAMSON

10 October 1984



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10 DOWNING STREET

*From the Private Secretary*

MR. WILLIAMSON  
Cabinet Office

European Community: State of the Budget  
Discussions

The Prime Minister has read your  
minute to me of 10 October on this subject  
with interest.

C. D. POWELL

15 October, 1984

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