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Prime Minister.
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Treasury Chambers, Parliament Street, SW1P 3AG

Charles Powell Esq
No.10 Downing Street
LONDON SW1

30 November 1984

Dear Charles

BUDGET COUNCIL: 29 NOVEMBER

The Economic Secretary attended the Budget Council held on 29 November to meet a delegation from the European Parliament and to discuss their proposed changes to the 1985 Draft Budget.

In addition to changes of a relatively routine sort, the Parliament put forward a number of far-reaching proposals, acceptance of which would have been most prejudicial. In particular they sought:

to put our 1,000mecu compensation for 1984 on the expenditure side, in contravention of Fontainebleau;

to increase the agricultural provision by 1,300mecu, thus taking the Budget well beyond the 1 per cent VAT ceiling;

to make alterations relating to the revenue side of the Budget.

The Parliamentary delegation gave no sign of being willing to yield on these but the Council eventually took a position which, I believe, fully safeguards our essential needs. In particular all were solid on maintaining the abatement of our contribution on the revenue side.

There was no inclination to allow the Parliament powers over the revenue side of the Budget but it was only with great difficulty that the Presidency and most delegations could be prevented from taking the Budget beyond the 1 per cent ceiling. They argued that there was a need for some significant gesture to the Parliament if rejection of the Budget was to be avoided and that no harm would be done by

inserting figures in the Budget for the potential agricultural over-run with qualifying words which would prevent the utilisation of the allocations before a revenue basis was provided.

That was obviously unacceptable. In the face of mounting pressure to concede to the Parliament the Economic Secretary persuaded France, Germany and the Netherlands to resist any increase in the Budget above the 1 per cent ceiling. This objective was achieved by two Memorandum entries (one on the revenue side and one on the expenditure side) together with commentaries making clear the position. The commentary on the revenue side will incorporate the whole of the Council's October undertaking, including the reference to our abatement. Although this is less than the Parliament wishes, it goes some way to recognising their concern about 1985 expenditure and is a satisfactory outcome from our point of view. There will be further discussions with the Parliament in the week beginning 10 December and the Economic Secretary shall seek to hold other Members firm on this position.

On other matters, there was useful progress on the question of the reimbursement of the IGA money. The Commission has offered a general assurance of reimbursement and we now have a position acceptable to all sides except Germany. The Economic Secretary would hope that, on reflection, the Germans could accept that it meets their concerns.

Finally, a compromise was reached on aid expenditure and on IMPS. On aid, when it became apparent that we could not find support for any lower figure than the Presidency compromise, the Economic Secretary judged it necessary to support what was already a qualified majority in order to avoid being isolated on such a sensitive issue. On IMPS, in order to preserve our position for the European Council, we managed to remove the reference to a separate line which had been included in the Presidency's original proposal; the 1985 expenditure has been placed in the reserve chapter 100 and limited to 50mecu, which was the lowest negotiable figure.

I am copying this letter to the Private Secretaries of Members of OD(E) and to Mr Williamson (Cabinet Office).

Yours aw,
A M Ellis

A M ELLIS

Private Secretary

30 MAY 1964

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CONDENSATOR

and Malcolm Rixing

B. H.