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Prime Minister ②

A useful summary.

No decision required

yet. But unless the Germans lift their linkage of introduction of new own resources to enlargement by the end of March we shall have no practical alternative

Qz.04275

MR POWELL

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EUROPEAN COMMUNITY BUDGET 1985, THE REVISED OWN RESOURCES DECISION AND THE UNITED KINGDOM'S 1000 MILLION ECU ABATEMENT

but to go for a double IGA. CDP 15/5

1. Since this point is under discussion in the run-up to the European Council, it may be helpful to summarise the state of the various proposals for establishing a 1985 Community budget, launching the ratification of the revised own resources decision and implementing the United Kingdom's 1000 million ecu abatement in 1985. The Fontainebleau agreement states that the ad hoc lump sum of 1000 million ecu for 1984 "will be deducted from the United Kingdom's normal VAT share in the budget year following the one in respect of which the correction is granted".

The proposals are:

(i) a limited amount of new own resources in 1985. This would provide the means of financing the 1985 budget overrun (and thus make possible the establishment of a 1985 budget) and of implementing the United Kingdom's 1000 million ecu abatement. It would be the simplest solution, consistent with Fontainebleau and acceptable to Nine member states. Against: Germany which will not agree to any increase in own resources before 1 January 1986 (linked with enlargement). This solution will not run but still has some tactical value in isolating the Germans;

(ii) the "mixed solution" (ie own resources to be increased from 1 January 1986 through the revised own resources decision, with the United Kingdom's 1000 million ecu abatement implemented in 1985 on ratification: the 1985 budget overrun to be financed by an intergovernmental agreement). The Foreign and Commonwealth Office considers that this is the safer route to obtaining our full 1000 million ecu abatement. Nine member states could probably accept this. Against: Germany (but German objections relate partly to an extra

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element imported but now withdrawn by the Presidency, namely the possibility of bringing forward by unanimous decision the new own resources into 1985);

(iii) the "double IGA" (ie the 1985 budget overrun and the United Kingdom's 1000 million ecu abatement to be financed through an intergovernmental agreement; new own resources from 1 January 1986 through the revised own resources decision). This could meet our objectives. It would give us our 1000 million ecu in 1985 and would introduce the durable mechanism of abatements from 1 January 1986. The Treasury sees advantage in this route. France, Belgium and Italy see difficulties in putting to their Parliaments an arrangement which specifically provides money for the United Kingdom (ie it is not precisely the Fontainebleau text because we would receive the 1000 million ecu in 1985 by payments under the intergovernmental agreement and not by an abatement of our normal VAT share) and we do, of course, need their agreement;

(iv) "mixed solution" with German addition. The Germans have now proposed that the "mixed solution" should be adopted with an article holding up introduction of new own resources until the enlargement treaties have been ratified. There is Franco/German disagreement on the interpretation of this text and opposition from some other member states (eg Belgium, Italy) because it could hold up the increase in own resources. In its present form it is not acceptable to us since it would almost certainly shift not only the increase in own resources but also our abatement into 1986.

2. At present it is still feasible for the United Kingdom to make clear that it could accept either the "mixed solution" or the "double IGA". As indicated by the Chancellor of the Exchequer at Cabinet, it will become increasingly unrealistic to base ourselves on the "mixed solution" as time goes by and the available period for completing the ratification in all national Parliaments in 1985 becomes less and less sufficient.

3. The risks of the various solutions and our recommendation on tactics are as follows:-

(i) the "mixed solution" has the advantage that it includes our ad hoc 1000 million ecu in the revised own resources decision and thereby provides the legal basis for the abatement of our contribution if everything goes right. In the view of the Cabinet Office (although not yet confirmed by the Law Officers) it would also give a good basis for unilaterally abating our contribution if some new obstruction (eg by the European Parliament) were to arise. The disadvantages are, first, that the revised own resources decision has to be ratified by all national parliaments and this process ought to start soon if it is to be completed in 1985. Secondly, the European Parliament might shift the United Kingdom abatement on to the expenditure side of the 1985 budget. This would be un-Fontainebleau and unjustified. We should have to respond either by holding up the ratification of the own resources decision or by ratifying that decision but abating our contribution by the 1000 million ecu in implementation of that decision as soon as it has been ratified by all member states.

We have taken the view that the pressure on most member states and on the European Parliament to get the new own resources will be such as to make the "mixed solution" a reasonable option which will not lead to any anti-British blockages. Whether it will be obtained probably depends on the willingness of the Germans to downgrade their link with the ratification of the accession treaties. If the enlargement negotiations are in all practical respects (except possibly the Greek link with integrated Mediterranean programmes) finished at the Foreign Affairs Council on 17-20 March the Germans may change their position sufficiently to make the "mixed solution" a runner. If, however, agreement is not reached at the Foreign Affairs Council, the "mixed solution" may have to be ruled out on timing considerations;

(ii)

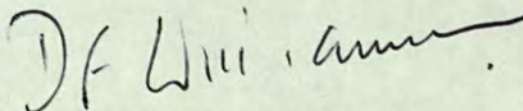
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(ii) the "double IGA" has the advantage that it might be agreed more quickly than the ratification of the own resources decision. Thus we might start to abate our contribution earlier. Potential difficulties with the European Parliament might be less, because payment would be outside the budget. A disadvantage, however, is that other national parliaments may object to funding the United Kingdom's abatement through an intergovernmental agreement, arguing that this method was not agreed at Fontainebleau. In general, of course, the United Kingdom stance is that we are in favour of the Fontainebleau agreement to the letter. We have also to keep in mind the risk that others might propose that part of our abatement should be effected by no United Kingdom contribution to the intergovernmental agreement but that the rest of our abatement should be pushed into 1986.

We should make clear that, if all member states commit themselves to adopt the "double IGA" solution, we would also be in favour of it. The Community has both to honour its obligation to the United Kingdom on the 1000 million ecu and to settle the 1985 budget financing arrangements.

4. The conclusion is that we should insist at the Foreign Affairs Council on 17-20 March that this argument has gone on long enough and that the other member states must now decide which method they intend to adopt. If, however, the Germans are not prepared at the Foreign Affairs Council to accept the "mixed solution" without linking our 1000 million ecu abatement to the ratification of the enlargement Treaties, we should press for the "double IGA" as a practicable solution.

5. I am sending copies to Rachel Lomax (Treasury), Colin Budd (FCO) and to Sir Robert Armstrong.



D F WILLIAMSON

15 March 1985

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~~fl. resubmit on 21 March~~

Treasury Chambers, Parliament Street, SW1P 3AG

C Powell Esq
 10 Downing Street
 LONDON SW1

18 March 1985

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Dear Charles,

EUROPEAN COMMUNITY BUDGET 1985, THE REVISED OWN RESOURCES DECISION AND THE UNITED KINGDOM'S 1000 MILLION ECU ABATEMENT

The Economic Secretary has seen Mr Williamson's minute to you of 15 March on this subject and has asked me to say that he supports the recommendation in paragraph 4 that if it is not possible to secure a satisfactory "mixed solution" at the current Foreign Affairs Council we should press forthwith for the "double IGA" as a practicable solution. Although neither the "mixed solution" nor the "double IGA" can by themselves guarantee receipt of our 1000 million ecu abatement before the end of 1985, the Economic Secretary believes that on balance the "double IGA" offers the better prospect of so doing. It would also strengthen the Government's position in the House of Commons since there would presumably be no question of asking Parliament to ratify the new Own Resources decision until our 1000 million ecu had actually been received.

I am copying this letter to Colin Budd at the FCO, Sir Robert Armstrong and Mr Williamson.

Yours ever,
Adrian Ellis
 ADRIAN ELLIS
 Private Secretary

EMO PR: Budget A 29



THE HOUSE OF COMMONS

119 MAR 1985

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