



Prime Minister

A.F.C. 7.

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

SECRETARY OF STATE FOR FOREIGN AND COMMONWEALTH AFFAIRS

EC BUDGET: REFUNDS TO THE UK IN RESPECT OF 1983

The agreement reached at Stuttgart about refunds to the United Kingdom in respect of the 1983 Community Budget meant that we could put our contingency "withholding" plans on ice.

2. But the response of the French and some others to that agreement suggests that securing its implementation will not be easy, and that we cannot wholly rule out the possibility of again having to consider withholding at some stage. We would have to examine the question again if the Community's budgetary procedures, including not only the insertion of the relevant lines in the Budget, but the drawing up of the necessary Regulations which would provide the legal basis for payments to the UK, were clearly being used to frustrate the timely receipt of the net 750 million ecus promised by the Council. By "timely" I imply the now customary procedure for the receipt of about 90 per cent of the sums due by the end of the UK financial year: in the present case, March 1984.

3. I have accordingly looked at the budgetary timetable to identify critical dates - see parts I and II of the attached Annex. Events at each stage would be influenced by the progress - or lack of it - being made in the parallel discussions on the longer term problems of Community financing.

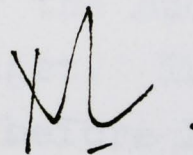
/4. I conclude

4. I conclude at present that while we must expect attempts at obstruction beginning at the time of the July Budget Council, these should not precipitate any final crisis. More important would be the weeks before mid-October - the last practical time for inserting refund figures in the Budget if the so-called Rectifying Letter procedure becomes necessary: and towards the end of December, by which time we would need to have secured both the necessary Regulations - implying the full consent of the Council to the implementation of the refunds - and the adoption of the Budget by the European Parliament - implying their final consent, too.

5. I have also looked again at the arithmetic of withholding - see part III of the Annex. It looks as if - despite unavoidable uncertainties - we would have a fair chance of securing in the current financial year a high proportion of the amounts due to us, if in the event we were forced to start withholding in November.

6. If we were again obliged to consider taking this step, we would have to consider, in the new circumstances, the question of the timing of legislation. Given the advice of the Attorney General, I would be very uneasy about delaying legislation, as suggested in your minute of 10 June - which dealt of course with the different scenario of no agreement at Stuttgart.

7. I am sending copies of this minute to the Prime Minister, the Minister of Agriculture, the Attorney General and to Sir Robert Armstrong.



(N.L.)
1 July 1983

REFUNDS : CRITICAL DATES

Prorogation Provision

July

The Commission should propose appropriate budget entries, to add to the ^{Preliminary} Draft Budget they have already presented. If they do not do so, the Council must make them.

21/22 July

Budget Council should take decisions to enter amounts in draft 1984 Budget. These should be against the appropriate "lines". There may be an attempt to place them instead in "Chapter 100" which includes provisional appropriations, released at a later stage to agreed budgetary lines when the necessary Regulations are in place.

The use of Chapter 100 is most undesirable, because it adds the complication of a subsequent layer of debate about the refunds. It adds no new fundamental risk, however, and in the end we might reluctantly accept it as better than no provision at all.

If the July Budget Council did not agree to enter amounts anywhere in the draft budget, the UK could demand that the Council be postponed and reconvened - before 5 October : see next section.

Mid-September

Latest practical date for the Budget Council to "establish" the draft budget. The Treaty specifies that this should be laid before European Parliament by 5 October, and about two weeks are needed for translation and printing. Even if this draft budget contained no provision for UK refunds, there would still be a little leeway to put them in subsequently by means of the "Rectifying Letter" procedure.

The arrangements for transfer out of Chapter 100 are : for non-obligatory expenditure, the transfer is approved unless the European Parliament votes against it; for obligatory expenditure, the transfer is approved unless a qualified majority in the Council votes against it.

- End-September Latest date" for Commission to propose to the Council such a Rectifying Letter.
- Mid-October Latest date" for Council to establish the Rectifying Letter to the draft budget. This is the last practical time for entering refunds if they have not already been entered.
- 24-28 October European Parliament : first reading of draft budget. The Parliament may propose modifications to reduce or remove those parts of our refund provision which are classified obligatory; or amendments for those classified non-obligatory.
- 22 November Second Budget Council : consideration of the European Parliament's amendments and modifications. A qualified majority of the Council is required to reject any proposals which do not increase overall expenditure.
- 5-6 December European Council, Athens.
- 12-16 December European Parliament plenary session to adopt/reject 1984 Budget. They may reinstate any amendments to non-obligatory provision (subject to the maximum rate of increase) but not any modifications (obligatory).
- The European Parliament can (with a two-thirds majority) reject the draft Budget in its entirety (and has done so on earlier occasions).

II. Regulations

Community Regulations provide the legal basis for making payments specified in the Community Budget. It is in the context of preparing

The Financial Regulation states that these deadlines should apply "save in very exceptional circumstances". In practice, the European Parliament's agreement is required to invoke this escape clause. It has been used twice before, but only for totally non-controversial measures.

the Regulations that the French, or any other country which wished to frustrate the refund payments to the UK, would have the best chance of making difficulties.

There is no specific timetable. But stages to be gone through by the end of December 1983 are :-

- i. Commission draft of Regulations
- ii. Opinions from Court of Auditors and Economic and Social Committee. (These do not, however, have any mandatory effect).
- iii. European Parliament Opinion, which may demand conciliation with Council before Regulations are adopted. Regulations cannot be adopted without an Opinion from the European Parliament, but the Opinion need not be favourable.
- iv. Adoption by the Council. This requires unanimity since the Regulations fall to be made under Article 235. There might have to be conciliation with the European Parliament before adoption.

III. Outflows from EEC No.1 Account

It is impossible to be certain about the pattern of outflows from the EEC No.1 Account. Much depends for example on the timing of agricultural receipts by the UK; and the dates of adoption of any supplementary budgets.

On the assumption that the 1983 supplementary budget will be adopted in October or November, payments out in the last quarter of the year may be of the order of £150-200 million. This is rather lower than at other times in the year since the UK secures more receipts from the Regional and Social Funds in December than in other months. The outflow in the first quarter of 1984 may be some £250-300 million.

The total outflow between October and 31 March which we might expect to intercept if we withheld over that period is thus of the order of

/ ... £400-500 million

£400-500 million. This would imply building up a balance equivalent to over 90 per cent of the net refund by the end of the financial year. But there are two qualifications to bear in mind :

i. We may wish to accumulate our gross rather than our net refund. This would imply the need to build up to some £550 million rather than £440 million.

ii. One of the elements of the 1983 supplementary budget is our risk-sharing payments in respect of 1982. On past precedent, these would be financed to a considerable extent by transfers from other member states' accounts. The amount involved is some £225 million. If the Commission did not pay this sum, or if they financed it from gross contributions from this country, it would take longer to accumulate the amount appropriate to the 1983 refunds.