

Prime MinisterA.F.C. $\frac{20}{7}$ 

FCS/83/135

FINANCIAL SECRETARY
EC Budget Council 20-21 July

1. Thank you for your letter of 18 July about how you intend to handle the forthcoming Budget Council. I fully support your general approach and have only one or two comments.

2. As you will have seen from the reporting telegrams I made our position very clear over lunch at the Foreign Affairs Council on Monday. As well as explaining our position on the particular points at issue (grossing up, assiette/payments and Chapter 100) I clearly and firmly rejected linkage on the lines of the Prime Minister's recent reply to Chancellor Kohl. I imagine you will do the same at the Budget Council, though the question of linkage to the longer term solution is in fact irrelevant to the Budgetary decision, given the unambiguous undertaking at Stuttgart to enter the figures in the draft 1984 budget.

3. I agree with you that grossing up and the assiette versus payments issue are both sticking points. If we were outvoted on either of these points I think we should vote against the adoption of the budget concerned. We should also vote against any proposal to put our refunds in Chapter 100 but I agree with you that we should not regard this as a sticking point in the same sense as the other two and I do not think that failure to obtain satisfaction on this point would be a sufficient reason

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for opposing the budget as a whole since we could not argue
that a decision to place our refunds in Chapter 100 was
contrary to the conclusions reached at Stuttgart.

4. I am copying this letter to the Prime Minister, members
of OD(E) and Sir Robert Armstrong.

20 JUN 1964



CONFIDENTIAL



Prime Minutes

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The Chancellor describes his
tactics for handling tomorrow's
very difficult Budget Council.

A.J.C. ^{19.}/₇

Treasury Chambers, Parliament Street, SW1P 3AG

The Foreign and Commonwealth Secretary
Foreign and Commonwealth Office
Downing Street
LONDON
SW1

18 July 1983

Dear Geoffrey

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EC BUDGET COUNCIL, 20-21 JULY 1983

I set out below my approach to the forthcoming Budget Council, which will consider both the second Supplementary to the 1983 Budget, and the 1984 Budget.

This is going to be a difficult Council. The French have made it clear, both in President Mitterrand's recent letter to Herr Kohl and in every other way, that they will cause the maximum problems. You will, I know, be taking a firm line at the Foreign Affairs Council on Monday about these attempts to go back on agreements about UK refunds, but the prospect is nevertheless difficult.

UK Budget Refunds

The priority is to establish both budgets, including the net benefit the UK was intended to receive both from the risk-sharing payments in respect of 1982, and from the 750 million net refund agreed at Stuttgart in respect of 1983.

There are four main difficulties which arise on one or other Budget. I refer below to a judgement of our priorities, and to the possible outcomes of this Council. The contentious issues are:

i. Payments versus Assiette Basis for 1982 Refunds
(Arises on the 1983 Supplementary)

There are strong indications that other member states will try to insist on altering the customary basis for calculating our net contribution, and hence our entitlement to risk-sharing refunds, by scoring the once-yearly VAT adjustment against the year to which they relate (the so-called 'assiette' basis) rather than the year in which they are paid (the so-called 'payments' basis). Their motive is simply to reduce the UK's entitlement to risk-sharing refunds. On our calculations, the amount involved is likely to be of the order of 100 million ecus. The Commission's earlier calculations pointed to an even higher figure. Total UK refunds over the four years 1980-1983 would be reduced accordingly below the figures assumed in the percentages which the Prime Minister reported to Parliament after the Stuttgart summit.

ii. Reimbursement of UK Contribution to German Refunds
(Relates to both Budgets)

Other member states, with the possible exception of Germany, will argue against 'grossing up' our refunds so as to reimburse us for our contribution to the German refunds. This would mean that we would not receive the correct 'net' refund figures for which provision was made in the 1982 and Stuttgart agreements. The amounts at issue are 23 million ecus for 1982 refunds and about 50 million ecus for 1983 refunds. This is going to be a very difficult issue.

iii. Reserve Chapter (Chapter 100) (Arises on the 1984 Budget)

Some member states - though so far a minority - are trying to insert provision for our 1983 refunds in the reserve chapter on the Budget, and not 'on the line'. Their motive is to increase the obstacles to payment of our refunds, by enabling the European Parliament to prevent transfer on to the 'line', and to facilitate linkage between the solution for 1983 and the longer term solution.

iv. Classification of Expenditure (Arises on the 1984 Budget)

This is likely to be rather less contentious. The measures to give effect to our risk-sharing refunds are at present partly classified 'obligatory' and partly 'non-obligatory'. This follows recent precedent. If they could all be classified 'obligatory', which means that the Council had the last word on them, the European Parliament would find it more difficult to follow the tactic of splitting the Supplementary, agreeing to the FEOGA money, and delaying the risk-sharing. On the other hand recent precedent

argues against a UK initiative to change the present classification proposal; it could provoke the Parliament from the start; and it might also upset the Germans, whose refunds have to take a non-obligatory form. If others take a strong line in favour of obligatory classification I shall certainly follow but I shall not take up a strong position at the outset.

The problem of securing a successful outcome on our refunds will be the more difficult because of the need to find headroom big enough to permit provision for the figures we need. There is now a considerable squeeze. The available own resources for 1984 up to the 1 per cent VAT ceiling will be smaller than had been estimated. There must be a margin for contingencies. The Parliament will also wish to use - **to the full or beyond** - its own powers to increase non-obligatory expenditure. I propose, however, to adopt the following tactics on the main issues.

1983 Supplementary Budget

The 1983 Supplementary No.2 Budget consists substantially of extra provision for FEOGA guarantee spending and provision for UK risk-sharing 1982 refunds.

On FEOGA, as agreed in inter-departmental discussion I shall seek reductions of some 130 million ecu in the guarantee provision. (This 130mecu replaces an earlier target of 200 mecu, since the Commission have now themselves eliminated the provision for Christmas butter in 1983.) We are trying to get German and Dutch support for this cut.

We must face the possibility that the French and others will try to remove provision for UK risk-sharing money from this Supplementary Budget entirely, using the argument that by doing so the Budget will be more likely to pass through the Parliament. This would, of course, be entirely unacceptable.

But there is also the possibility that the Supplementary will remain intact, but that the UK will be isolated and out-voted on the "assiette" versus "payments" issue, and on the grossing up (paragraph 4(i) and (ii) above). These are both sticking points, on which I would not compromise. If there appeared a real prospect of my being out-voted I would in the first instance urge that the discussion should proceed to examine the 1984 draft Budget before final positions were taken on the Supplementary. This might help to achieve the best possible final outcome of this Council.

I should mention one more point of detail. The Supplementary Budget includes 25.6 million ecu for aid to Northern Ireland. I shall strongly push for agreement to this, though the French and others may create difficulties about it.

1984 Draft Budget

On the 1984 draft Budget, there is one possibility of compromise in the context of refunds. This is on the Chapter 100 point - paragraph 4(iii) above. I shall fight hard on this, but not regard it as a

sticking point if I cannot command sufficient support, provided that I secure "grossing up".

I cannot obviously compromise on the "grossing up" issue.

Subject to this, the main possibilities are:

- a) that our desiderata are met;
- b) that there are tactical possibilities for buying further time. For example, a qualified majority for establishing the Budget might be prevented if the Italians maintain their opposition to reduced figures for non-obligatory expenditure and we decide to join them, thus preventing agreement at this Council;
- c) that agreement is possible on everything other than the UK refund items, and that in the face of continued disagreement on this I am able to secure agreement to a recess, and to the recalling of the Budget Council in September to give time for further consultations before the Budgets are sent to the European Parliament by 5 October, the date specified in the Treaty;
- d) that I am out-voted on the UK refunds items and that one or other, or both draft Budgets, are "established" by the Council on the basis of a qualified majority in a form unacceptable to us.

In the latter - worst - case I would insist on a strong and specific reference in the Council Minutes which expressed our view that refunds agreements were being dishonoured by the draft Budgets as established, and made it plain that the UK would not take no for an answer and did not regard the matter as closed, and would raise the issues in all appropriate Community fora, in order that the wrongs should be put right before the end of the Budgetary process. I would make it plain that the UK was determined to protect its interest.

We should have to consider carefully on the spot how to present the situation to the press in the light of the precise outcome. Even if there are serious difficulties, I do not think that at this stage we shall want to give any sign that we doubt our ability to secure our objectives in the course of the Budgetary process.

It follows that, even though we may need to start preparing the ground for the weapon of withholding again, I do not think that, even if we are out-voted on the key issues referred to above, we shall come to that at the end of this Council.

Other areas of Expenditure

Turning to the remainder of the 1984 draft Budget, there will be much argument about agricultural spending. Our objective, agreed with MAFF officials, has been to reduce the Commission's proposed total of 16.5 billion ecu by some 1 billion. Reduction below this figure will be bitterly resisted by some other member states, who may take up harder positions on our own refunds in response. We have already proposed specific line by line reductions totalling 1 billion ecu, and so far in official discussions in Brussels we have had support for some of these reductions from the Dutch. The Germans, whose support will be essential, have publicly reserved their position. I will lobby them before the Council starts in order to co-ordinate tactics. The Germans would prefer to go for across the board cuts in the FEOGA guarantee provision - rather than the specific reductions we have suggested. This is less satisfactory than our more selective approach. But in view of the overriding requirements to make headroom available within the Budget for our refunds I judge it essential that I should support the Germans if, as expected, they opt for an across the board reduction.

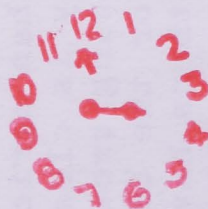
On non-agriculture policies, it would be right for us to emphasise our "positive approach", and to show our interest in progress towards redressing the imbalance in Community financing through the development of existing policies other than agriculture, and new Community policies. But since the Community is close to the limit of its own resources, and our refunds risk being crowded out, good presentation is important. There is no need for the UK to be at the forefront of those pressing for these cuts - others have already made clear that they will be doing so. We may however have to "reluctantly acquiesce" in limiting the non-obligatory increase to half the maximum rate, a 5.8 per cent increase, even if this means curtailing increases, or delaying expenditure, on some areas of benefit to the UK. 5.8 per cent itself is, of course, still well beyond the rate of increase in public expenditure that we and a number of other member states find acceptable domestically.

I am sending copies of this letter to the Prime Minister, to members of OD(E) and to Sir Robert Armstrong.

John
Nicholas

NICHOLAS RIDLEY

118 JUL 1983



TO BE CHECKED
AGAINST DELIVERY

FOREIGN AFFAIRS COUNCIL AND SPECIAL COUNCIL 18/19 JULY

STATEMENT BY THE SECRETARY OF STATE FOR FOREIGN AND COMMONWEALTH
AFFAIRS

With permission, Mr Speaker, I will make a statement on the outcome of the Foreign Affairs Council held in Brussels on the 18th of July at which I represented the United Kingdom and at which my right honourable Friend, the Minister for Overseas Development was also present. I will also take this opportunity to say a few words about the Special Council which met on the 19th of July to discuss the future financing of the Community.

I shall deal first with the discussion about the decision of the United States Administration to impose import curbs on certain special steel products. Coming so soon after the Williamsburg commitment against protectionism this decision has caused great dissatisfaction within the Community. I made this quite clear both to President Reagan and to Secretary of State Shultz during my visit to the United States last week. The European Commission has already taken this up with the United States Administration on behalf of the Community but there has been no sign of American willingness to reconsider or amend the decision. The Commission therefore proposed to seek consultation in the GATT and also to raise the issue in the Organisation for Economic Co-operation and Development.

The Council strongly supported the Commission's proposals and agreed to issue a statement of conclusions setting out the Community's position. A copy of this has been placed in the Library of the House.

The Council made satisfactory progress towards agreeing its position on negotiations with the African, Caribbean and Pacific countries on a successor to the Lome Convention, which are due to open in October. There will be further discussions on the outstanding points of the Commission's negotiating mandate at the September meeting of the Council.

The annual report of the Committee of Permanent Representatives on relations between the Community and the countries of EFTA was accepted by Ministers who expressed their support for the strengthening of the relationship.

The Council reviewed progress on Greenland's application to withdraw from the Community. Ministers agreed the need to make progress in the negotiations and, in particular, the desirability of an agreement which satisfactorily balanced the development of Greenland's fisheries with the proper needs of the Community.

In informal discussion of UK refunds in respect of 1982 and 1983, decisions on which are for the Budget Council which is meeting today and tomorrow, I underlined the need for full and correct implementation of what was agreed in October 1982 and at Stuttgart.

In the context of political co-operation Ministers of the Ten also briefly discussed progress at the Madrid meeting on the Conference on Security and Co-operation in Europe and the situation in Central America and in Poland.

Finally, the Ministerial meeting with the Portuguese, held in the margins of the Council, reviewed progress in Portugal's accession negotiations.

Yesterday, my Rt hon Friend the Financial Secretary to the Treasury and I took part in a meeting of the Special Council to discuss the future financing of the Community and other issues covered in the Stuttgart Declaration. I explained our views on a number of issues, particularly on a safety net scheme for limiting net contributions to the Community budget and on strict financial guidelines for controlling agricultural expenditure.