



Treasury Chambers, Parliament Street, SW1P 3AG

John Coles Esq  
Private Secretary to the Prime Minister  
10 Downing Street  
LONDON  
SW1

25 July 1983

Dear John

... I attach a draft of the oral statement which the Financial Secretary proposes to make this afternoon in Parliament, reporting the outcome of last week's European Community Budget Council meeting.

In view of the short time scale I would be grateful for comments by telephone not later than 2.30pm.

I am copying this letter to Brian Fall (FCO), Robert Lowson (MAFF) and to John Kerr (here).

Yours ever

Martin Donnelly

M E DONNELLY  
Private Secretary



## EC BUDGET COUNCIL 20-22 JULY

### DRAFT STATEMENT BY THE FINANCIAL SECRETARY

With permission, Mr Speaker, I should like to report to the House on the outcome of last week's Budget Council in Brussels, at which I represented the UK. The Council had a discussion with the Parliament and finally established a draft supplementary and amending budget No 2 for 1983 and a draft budget for 1984. These will now go forward for consideration by the European Parliament. Despite the fact that the Council lasted for no less than 40 hours, including an all-night session, (a Community record) I must tell the House that both drafts contain features which are unsatisfactory from the United Kingdom's point of view.

The draft supplementary budget no 2 for 1983, as established by the Council, in response to a Presidency compromise, makes provision for budget refunds for 1982 for the United Kingdom and Germany under the risk-sharing provisions of the 26 October agreement of 370 mecus. The UK's share in this is around 305-310 mecu. In our view the total figure should have been 495 mecus, including 408 million ecus for the UK. We are therefore left with a shortfall of about 100 mecus gross, or 75 mecus net (£58 million and £43 million). I voted against the Presidency compromise which included this provision but all others voted for it, except the Danes who abstained. I therefore made clear to the Council, for formal inclusion in the minutes, that they had failed to discharge in full their obligations to the UK and that the Community institutions must take the necessary action as a matter of urgency to ensure that the UK receives its full entitlement. The budgetary processes for 1983 are not yet completed, and the Government intend to ensure that this matter is resolved satisfactorily.

The Presidency compromise was also unsatisfactory in that it included a cut of only 50 million ecus in the extra provision for agricultural spending proposed by the Commission. I argued strongly for a larger reduction.



The draft budget for 1984, as now established by the Council, will make provision of 1202 mecus for refunds to the UK and Germany, including 991 mecus for the UK. In contrast with the 1983 supplementary, this gross provision correctly provides for a refund to the UK of 750 mecus net, and so honours the Stuttgart undertaking.

The draft budget provides for agricultural guarantee expenditure of 16½ billion ecus, as recommended by the Commission; but the Council decided to place 250 million ecus out of this total in the 'reserve' chapter of the budget rather than 'on the line'. Together with two other delegations I argued for cuts of 1 billion ecus in the provision for agricultural guarantee spending but this proposal was finally out-voted.

The draft budget makes provision for total non-obligatory expenditure, including the non-obligatory element in the UK and German refunds, to rise by half the maximum rate - that is, by 5.8 per cent. But the combination of the large provision for agriculture with the necessary provision for UK and German refunds left no room inside the own resources ceiling for increases in the Regional Development and Social Funds.

Before either Budget is finally adopted there will be extended negotiations between the Council and the European Parliament. During this period the Government will take all appropriate steps to ensure that the UK receives its agreed entitlement to refunds for 1982 in full. My Rt Hon and learned Friend the Secretary of State for Foreign and Commonwealth Affairs will raise the matter at the Foreign Affairs Council at the earliest possible opportunity.



3.47 pm

Mr. Speaker: [HON. MEMBERS: "Now."] Order. I must be allowed to finish what I was saying. If the right hon. Gentleman wishes to do so, there is no reason why he should not make a statement after the statement on the EC Budget Council.

Mr. Smith: Further to that point of order, Mr. Speaker.

Mr. Speaker: I do not think that any point of order can possibly arise. I have given my ruling.

Mr. Smith: On a new point of order, Mr. Speaker. Can the Chancellor of the Exchequer make a statement at the end of the statement on the EC Budget Council? Many hon. Members are incensed at what is happening, because the issue is important. Would it be possible for the Leader of the House to get to his feet now to say that the Chancellor of the Exchequer will make a statement immediately after that on the EC Budget Council? That would greatly help the House.

The Lord Privy Seal and Leader of the House of Commons (Mr. John Biffen): To help the House, may I assure the right hon. and learned Gentleman and other hon. Members that after the statement that is to be made by my right hon. Friend the Financial Secretary, my right hon. Friend the Chancellor of the Exchequer will seek to catch Mr. Speaker's eye.

Mr. Madden rose—

Mr. Speaker: The hon. Gentleman has raised one point of order already and has heard the remarks of the Leader of the House. I do not propose to take any more points of order on this matter. Is this another issue?

The Financial Secretary to the Treasury (Mr. Nicholas Ridley): With permission, Mr. Speaker, I should like to report to the House on the outcome of last week's Budget Council in Brussels, at which I represented the United Kingdom. The Council had a discussion with the Parliament and finally established a draft supplementary and amending budget No. 2 for 1983 and a draft budget for 1984. These will now go forward for consideration by the European Parliament.

The draft supplementary budget No. 2 for 1983, as established by the Council, in response to a presidency compromise, makes provision for budget refunds for 1982 for the United Kingdom and Germany under the risk-sharing provisions of the 26 October agreement of 370 million ecu. The United Kingdom's share in this is around 305 million ecu—310 million ecu. In our view the total figure should have been 495 million ecu, including 408 million ecu for the United Kingdom. We are therefore left with a shortfall of about 100 million ecu gross, or 75 million ecu net. The equivalent sterling figures are £58 million gross and £43 million net. I voted against the presidency compromise, which included this provision, but all others voted for it, except the Danes, who abstained. I therefore made it clear to the Council, for formal inclusion in the minutes, that it had failed to discharge in full its obligations to the United Kingdom and that the community institutions must take the necessary action as a matter of urgency to ensure that the United Kingdom receives its full entitlement. The budgetary processes for 1983 are not yet completed, and the Government intend to ensure that this matter is resolved satisfactorily.

The presidency compromise was also unsatisfactory in that it included a cut of only 50 million ecu in the extra provision for agricultural spending proposed by the Commission. I argued strongly for a larger reduction.

The draft budget for 1984, as now established by the Council, will make provision of 1,202 million ecu for refunds to the United Kingdom and Germany, including 991 million ecu for the United Kingdom. In contrast with the 1983 supplementary, this gross provision correctly provides for a refund to the United Kingdom of 750 million ecu net, and so honours the Stuttgart undertaking fully.

The draft budget provides for agricultural guarantee expenditure of 16.5 billion ecu, as recommended by the Commission, but the Council decided to place 250 million ecu out of this total in the "reserve" chapter of the budget rather than "on the line". Together with two other delegations I argued for cuts of 1 billion ecu in the provision for agricultural guarantee spending, but this proposal was finally out-voted.

The draft budget makes provision for total non-obligatory expenditure, including the non-obligatory element in the United Kingdom and German refunds, to rise by half the maximum rate—that is, by 5.8 per cent.—but the combination of the large provision for agriculture with the necessary provision for United Kingdom and German refunds left little room inside the own resources ceiling for increases in the regional development and social funds.



Before either budget is finally adopted there will be extended negotiations between the Council and the European Parliament. During this period the Government will take all appropriate steps to ensure that the United Kingdom receives its entitlement to refunds for 1982 in full. My right hon. and learned Friend the Secretary of State for Foreign and Commonwealth Affairs will raise the matter at the Foreign Affairs Council at the earliest possible opportunity. I am sure that the Government can count on support for this from all sections of the House.

**Mr. Jack Straw (Blackburn):** Is the Financial Secretary aware that the sad and sorry tale of the Government's performance which he has presented to the House this afternoon is a far cry from the Prime Minister's promise in her Winston Churchill memorial lecture? She said:

"I cannot play Sister Bountiful to the Community while my own electorate are being asked to forgo improvements in the fields of health, education, welfare and the rest."

The right hon. Lady explicitly committed her Government to seeking a broad balance between Britain's contributions and receipts, and she persuaded the House on 16 July 1979 to agree, by a unanimous resolution, to fundamental reforms of the budgetary arrangements so that Britain's contribution to the budget would not be greater than its receipts.

Given that clear commitment, is not the Government's record on the European Community budget one of continuing and mounting failure, and will the right hon. Gentleman recognise that that failure arises not least because the Government have no consistent policy towards EC spending? The Treasury claims to be seeking control of the Common Market budget, but such is the power of the farming lobby within the Conservative party that the Government have shown no serious intention or commitment to secure a fundamental reform of the common agricultural policy, which lies at the heart of the Common Market budgetary problems. Instead, the Government have allowed the cost of that absurd and wasteful policy to spiral.

The Financial Secretary referred to the draft budget for agricultural guarantee expenditure of £16.5 billion ecu, or more than £10,000 million. Does he recall that the expenditure on the CAP for this year is 41 per cent. higher than it was last year? In those circumstances, what guarantee can he give to the House that the budgeted amount of 16.5 billion ecu for next year will not be exceeded?

To return to the Financial Secretary's failure at the weekend, may I ask whether the right hon. Gentleman recalls that he was quoted in *The Times* as saying:

"We have lost a battle but not the war—and it will be a war to get it back."

Will the right hon. Gentleman tell the House this afternoon what weapons he intends to deploy in the war to ensure that we get our full refund? Will he explain why the Government have thrown away the key and central weapon, which is a veto on any increase in the 1 per cent. ceiling on VAT contributions? Why are the Government pussyfooting about, and why did they, at the Stuttgart summit and at the Foreign Affairs Council meeting, refuse to say categorically that Britain would veto an increase in the VAT ceiling?

When the Financial Secretary talks in his statement of the Community institutions taking the necessary action as a matter of urgency to ensure that the United Kingdom

receives its full entitlement, what is that necessary action? When he says that the Government will take all appropriate steps to ensure that Britain receives its agreed entitlement, what will those appropriate steps be? Will the Government measure up to the task and block further spending on the common agriculture policy? Will they veto an increase in the VAT ceiling?

Is the right hon. Gentleman aware that the reason why he has suffered a further humiliation in a long line of humiliations, and why, for all the Government's bluster, contributions to the Common Market have been running at £100 million more in real terms under the Conservative party than they did under the Labour party, is that the other Community Governments have got the measure of the right hon. Gentleman and of the Prime Minister? They know, as we know, that the Government's sound and fury signifies nothing, and that they are willing to wound but, as ever, afraid to strike.

**Mr. Ridley:** That remark comes ill from a member of the Labour party. I remind the House that our Common Market partners got the measure of the Labour Government's resolve and did not give them back even one ecu, whereas this Government have obtained more than £2.5 billion in refunds. At the Budget Council last week we secured agreement to gross refunds for the United Kingdom and Germany of 1,570 million units of account. We would have liked our full entitlement, but we received a great deal through the Council.

The hon. Member for Blackburn (Mr. Straw) asked about the power of the farming lobby, and it is true that nine out of 10 Community members would wish to increase expenditure on the common agricultural policy. We are always in a weak position in trying to control that expenditure. However, although we have allowed 16.5 billion ecu in the budget for next year, that brings us to the ceiling of what can be spent. There is no question of extra spending on agriculture next year, because the ceiling has been reached in the budget which has been put before the Council. At last we have a real weapon to control agricultural spending, which must now rest within that ceiling.

The hon. Gentleman might not know that last week my right hon. and learned Friend the Secretary of State for Foreign and Commonwealth Affairs proposed a strict financial guideline to control future agricultural spending. That will be negotiated by the special Council, culminating in the Council in Athens in December, and at the Athens Council we intend to achieve proper control of agricultural spending.

The Hon. Gentleman asked about future action on refunds. This is the first stage of the budgetary process. The proposal must go to Parliament, return to the Council and then go back to Parliament before the matter is concluded. During those exchanges there will be ample opportunity for my right hon. Friends to press their case and to do all that is possible to make the Community live up to its undertakings and its obligations. We shall do that.

**Mr. Robert Jackson (Wantage):** Can my right hon. Friend confirm that the obligation to Britain in respect of the 1982 refunds is as legally binding on the Community as the obligation to meet price guarantees to farmers? Has he conveyed to his colleagues on the Council the growing impatience, even among those most committed to the European idea, at the chicanery and prevarication that continues to surround this matter?



**Mr. Ridley:** I agree with everything that my hon. Friend has said. The regulations embodying the 26 October 1982 agreement create an obligation to pay sums to the United Kingdom under the risk-sharing arrangements. Last week, some other member states were arguing about the precise method of calculating these sums. However, the amount which the Council eventually included was based on an arbitrary cut and not on any principle.

**Mr. J. Enoch Powell** (Down, South): Is the right hon. Gentleman aware that many hon. Members were glad to read his statement in the press that he was prepared—and therefore presumably the Government are—to go to war over this matter? Does he think that the threat was taken seriously by his colleagues in Europe? Is he satisfied with the result so far of the transfer of sovereign powers from this House to the institutions of the Community and to a directly elected Assembly?

**Mr. Ridley:** My right hon. Friend the Prime Minister has made it clear that we sincerely hope that we can resolve this matter during the budgetary process, which must first be allowed to complete its course. I should hate to have to have recourse to withholding—this deals with the right hon. Gentleman's question about sovereignty—our contribution until the full budgetary process had run its course. It is as if the Government have lost a point in Committee, but the Report stage remains to put the matter right.

**Mr. Peter Hordern** (Horsham): Will my right hon. Friend confirm that neither he nor the Government will allow any increase in the resources available to the European Community unless the deficits incurred by the common agricultural policy are substantially reduced?

**Mr. Ridley:** The strict financial guideline which my right hon. and learned Friend put forward requests that the rate of increase in agricultural spending be limited to a proportion only of the rate of increase in Community own resources. If that were agreed, there would be a limit on agricultural spending.

**Mr. Robert MacLennan** (Caithness and Sutherland): First, will the Minister withdraw his remark that he would hate to have recourse to withholding our contribution, as it is a threat to act in breach of Community law? Secondly, will he accept that the Government's insistence on maintaining a rigid ceiling on total expenditure at the level that he has mentioned will be damaging to this country and to the Community in three respects? First, putting a ceiling on agricultural guarantee expenditure of the kind that he has mentioned would result in direct harm to the British farmer. Secondly, it would leave no resources for expansion of expenditure by the Community on unemployment measures and social spending. Thirdly, it would result in continuing the reluctance of our Community partners to accept any automatic refund to this country.

**Mr. Ridley:** To say that one would hate to do something cannot be interpreted as a threat, and I stand by what I said. The conditions under which the Government are prepared to consider—that is not a strong word—any increase in own resources are, first, that a strict and binding financial guideline be placed upon the growth of agricultural expenditure and, secondly, that some financial mechanism be in place to ensure that no Community

member state bears an unfair burden of the costs of Community policies. I should have thought that even the hon. Gentleman, and the House, would think that that was the correct way to proceed.

**Sir Anthony Meyer** (Clwyd, North-West): Does my right hon. Friend agree that, infuriating as is the loss of part of the refund for last year, and satisfactory as is the settlement for this year, it is far more important to secure a long-term sensible arrangement for financing the Community? Will he concentrate on that and invite hon. Members to concentrate on it also?

**Mr. Ridley:** I agree with my hon. Friend. Already, two meetings of the special Council have taken place. The atmosphere was constructive and some progress was made. We hope to achieve an effective result by the time of the Athens Council meeting in December. My only sadness is that the events of last week do not give Her Majesty's Government as much confidence that those negotiations will come to a satisfactory conclusion as they would have had without any cuts in the refund.

**Mr. Nigel Spearing** (Newham, South): If, to use the Financial Secretary's words, the Council has made an arbitrary cut in the 1982 repayments during the 1983 budget negotiations, what is to prevent it doing exactly the same with the 1983 repayments in respect of the 1984 budget?

**Mr. Ridley:** The cut in the 1983 budget was in respect of the risk-sharing for 1982, an amount calculated under a complicated mathematical formula, depending upon the outcome of our net contribution and known as the "risk-sharing element". This might have been positive or negative. In fact, it was an increased refund due to us. The rebate for 1983, included in the 1984 budget, was a fixed sum—750 million ecu net—and that amount, properly grossed up and properly calculated, has been included in the 1984 budget. Therefore, there is no doubt that the Council has passed the money required to fulfil that obligation arising out of Stuttgart.

**Sir Michael Shaw** (Scarborough): Does my right hon. Friend accept that, far from being a sad and sorry performance, as described by the Opposition, his performance held high hopes for a satisfactory outcome? I hope he understands that he is to be congratulated on the difficult negotiations, in which he took part over a long period of time. I hope he will agree that a set-back is one thing, but that the determination to succeed remains—quite unlike the illusory changes made by the Opposition at the time of the referendum. The genuine benefits that we should receive in the end are still attainable and must be attained.

**Mr. Ridley:** I am grateful to my hon. Friend. He might feel that some evidence of how hard we struggled to prevail in the Council for what was right can be derived from the fact that the Council lasted for two and a half days, including an all-night session of no fewer than 30 hours. I gather that that is a Community record, soon I hope, to find its way into the "Guinness Book of Records".

**Mr. Ioan Evans** (Cynon Valley): Why is it that every time the Prime Minister returns from the Community finance bill second reading in the Council of Ministers she returns with cries of triumph and rejoicing, while every time the right hon. Gentleman and his junior colleagues



[Mr. Ridley]

The Community may or may not run out of money in October. The supplementary budget was to provide money for the rest of the year, and that money has been made available by the Government, although the money has to go through the European Parliament. Whether or not that is sufficient money to last the CAP for this year, and whether or not the 1984 budget contains sufficient money for the agricultural policy to pay its way next year, there is no conceivable way in which those resources could be increased either during 1983 or 1984. All member states would have to ratify an increase in the 1 per cent. ceiling through their national Parliaments and, apart from the merits of the case, there is no way in which that could be done before the end of 1984.

## Energy Assets (Sale)

4.15 pm

**The Chancellor of the Exchequer (Mr. Nigel Lawson):** On a point of order, Mr. Speaker. Having listened attentively to exchanges earlier today, it appears that it would be for the convenience of the House if I were to read the written answer given to my hon. Friend the Member for Keighley (Mr. Waller) 15 minutes ago. My hon. Friend's question, as on the Order Paper, reads as follows:

"To ask Mr. Chancellor of the Exchequer, what proposals he has for achieving the expanded programme of asset sales in 1983-84 which he announced on 7 July, *Official Report*, column 418."

My answer reads as follows:

"I expect to raise up to £500 million of the asset sales which I am seeking before the end of the 1983-84 financial year from an offer for sale of a further tranche of BP shares."

Parliamentary approval for expenditure in connection with such a sale of BP shares will be sought in a new Vote which will be introduced in a Supplementary Estimate. Pending that approval, any necessary expenditure will be met by repayable advances from the Contingencies Fund.

**Mr. John Smith (Monklands, East):** The House will have noticed that the Chancellor of the Exchequer spoke of the convenience of the House, but failed to talk about courtesy to the House. Would it not have been better for him to have made an oral statement, without his having to be dragged to the Dispatch Box after a parliamentary row to give information that Parliament is entitled to receive?

Will the right hon. Gentleman undertake not to embark on any more sales of public assets without honestly declaring them to the House so that he can be questioned about the principle of the sales and the technique to be adopted? When is the Supplementary Estimate to be introduced? Is it to be before or after the recess?

Will the right hon. Gentleman give an undertaking that the forced sales of the Wytch farm oilfield and British Gas Corporation assets in the North sea will not be proceeded with until there has been a proper debate in the House about the sales? Bearing in mind his lamentable record in the sale of shares in Amersham International and Britoil, what technique will the Chancellor adopt for the sale of the BP shares to avoid some of the disasters for which he was previously responsible?

What justification is there for a national policy that insists that, whenever a public enterprise makes a profit, it has to be sold and the losses have to be borne by the taxpayer?

**Mr. Lawson:** The only matter raised by the right hon. and learned Gentleman that is germane to the exchanges that occurred earlier is that of courtesy to the House, and of that I am sensible.

I can inform the right hon. and learned Gentleman of the precedents in these matters, because there have been a number of previous sales of BP shares. This is not the first by any means, as the right hon. Member for Plymouth, Devonport (Dr. Owen), who was a member of the Government who indulged in such sales, is well aware.

In an oral statement on 7 July I announced that the programme of asset sales during the current year would increase by a further £500 million, and the further details have been filled in by this written answer.

The previous sale of BP shares was in 1981 when the Government and the Bank of England sold the rights that they had as a result of the rights issue. That realised a substantial sum. That was announced to the House in a written answer on 18 June and was accepted by the House.

In 1979 my right hon. and learned Friend the then Chancellor of the Exchequer announced in his Budget statement that there would be a programme of asset sales, and he merely mentioned that BP would be an element in that programme. Nothing was said about the timing. In fact, in early October 1979 the details of the offer were announced in a press notice because the House was not sitting.

The sale previous to that was made by the Labour Government. On that occasion, the then Chancellor made a statement to the House in connection with an agreement with the International Monetary Fund—that does not apply in this case—referring to the intention to sell some BP shares. No details whatever were given. The operation occurred in June 1977. Again, there was an offer for sale and there was a written answer on that day.

**Mr. Gary Waller (Keighley):** I thank my right hon. Friend for the written reply, which I have now also received orally. It was an extremely good one. In view of what he has just said and as what the Government are now doing is clearly no grand precedent but merely a repetition of what the Labour Government did, was not what we saw today during energy questions and subsequently one hell of a wild goose chase?

**Mr. Lawson:** My hon. Friend the Member for Keighley (Mr. Waller) is quite right.

**Dr. David Owen (Plymouth, Devonport):** Is the Chancellor aware that the 1981 operation was not a precedent and that the real precedents were in 1979 and 1977? On both those occasions, the Chancellor announced to the House an intention specifically to sell BP shares. That did not take place on this occasion. That is why the House objected. Quite apart from the wisdom of the Government's selling or proposing to sell about £6 billion in assets since they have been in office and the system of stampede financing that that exemplifies, does the right hon. Gentleman recall the specific promise made by the then Chancellor on 31 October 1979? Elaborating on the terms of the sale, the then Chancellor said:

"The prospectus will record that the Government do not intend to sell any more of their present holding in the company."