

THE EUROPEAN COUNCIL

**BRUSSELS
19-20 MARCH 1984**

Documents in the dossier include:

Preparations for the Brussels European Council
Reproduced from the Bulletin of the European Communities No. 2/1984

Conclusions
Session of the European Council

Brussels European Council
Reproduced from the Bulletin of the European Communities, No. 3/1984

Policy Statement on the European Council in Brussels
Chancellor Helmut Kohn to the Bundestag on March 18, 1984

The Brussels Summit
Margaret Thatcher, Prime Minister, in the House of Commons
March 21, 1984

2. Preparations for the Brussels European Council

1.2.1. The future financing of the Community, which will be at the centre of the stage at the European Council in Brussels on 19 and 20 March, has three aspects: budgetary discipline, the correction of budgetary imbalances and increased own resources.

In February the Commission sent the Council communications on two of these. The first, on budgetary discipline, clarified and amended the proposals made last November and added special provisions for the agriculture sector.¹ The second, on new own resources for the Community,² amended the proposals made in May 1983.³ By sending the Council its own proposals, which will form the sole basis for discussion, the Commission intends to ensure that preparations for the Brussels European Council are carried out strictly in accordance with Community rules.

1.2.2. In its communication on budget discipline the Commission proposed certain improvements to the existing budgetary

procedures of a kind which complement, while still respecting, the provisions of the Treaty in this field.

One of the proposals was for a prior phase of conciliation between the Council, Parliament and the Commission, before the beginning of the budget procedure proper, on the structure and volume of the Community's budget for the coming year. The Commission also suggested the introduction of specific rules for the various types of Community expenditure. For agricultural expenditure, which currently represents nearly two thirds of the Community budget, the Commission proposed as a guideline keeping its growth, expressed as a three-year moving average, below the growth of the Community's own resources. If, in the Commission's view, the Agriculture Ministers looked like reaching a decision whose cost would

¹ COM(84) 83 final/3.

² COM(84) 140 final.

³ Bull. EC 5-1983, point 1.1.1 *et seq.*

exceed the Commission's initial proposals, the decision would be remitted to a special Council meeting of Foreign and Agriculture Ministers.

In the Commission's opinion, agreement on budget discipline would assist agreement on the other two aspects. Guarantees that the management of expenditure was subject to fair and binding rules would act as a powerful stimulus for agreement on the Community's financial resources.

1.2.3. In sending the Council amended proposals on new own resources, the Commission recognized that its May 1983 proposals to remove the ceiling on VAT own resources did not have adequate support in the Council. It therefore agreed to amend them by accepting the principle of a new ceiling, while arguing in favour of a sufficiently high figure. If the ceiling were set at 2%, instead of the present 1%, the Community would have sufficient resources for a considerable period, as happened following the 1970 decision, which has proved adequate to meet Community expenditure until now.

Budget discipline

'The need for discipline which applies to the Community as much as to its Member States is of a general nature. Optimum use of the Community's resources can be ensured only if the budget as a whole is managed in a rigorous fashion, in line with clearly defined forecasts and priorities and on the basis of precise rules applicable to all types of expenditure. Such a discipline has to be imposed in agreement with Parliament, given the role which the latter plays in the budget procedure.

In the Commission's view there would be advantage in introducing certain improvements into the existing budget procedure which, while complying with the Treaty, would enable a better choice of budgetary options to be made on the basis of the Community's aims and priorities. The Commission is therefore proposing a set of rules to be applied to the whole of the budget which will be supplemented by special rules relevant to the nature of the particular expenditure or new development of the Community in question. Thus as regards agricultural expenditure the Commission is asking the European Council to approve the financial provision which it has proposed and

which it has refined by the incorporation of certain adjustments the need for which has become apparent during the course of discussion (see 'Common agricultural policy: Financial guidelines' below).

As regards other types of expenditure, the Commission proposes to introduce certain specific forms of framework, by drawing a distinction between expenditure whose normal rhythm is stable (administrative appropriations), expenditure which can be the subject of qualitative guidelines (in particular structural expenditure) and finally expenditure which by its nature is dependent upon multiannual programming. The aim is that the budget authority should be provided, on the basis of a proposal from the Commission and before the start of the budget procedure proper, with all the information necessary in order to define the priorities in the Community's objectives and to assess the means required in order to attain them.

The Commission therefore submits the following draft conclusions for adoption by the European Council.

1. The European Council requests the Council to agree with Parliament and the Commission on an improvement in the budget procedure (with due respect for Article 203, and in particular paragraph 9 thereof) so as to provide a greater rationalization of budgetary options in line with the objectives of the Community.

To this end it submits the following provisions:

2. Before the opening of the budget procedure proper a conciliation between the three institutions will take place, on the basis of a report from the Commission quantifying the main budget components for the year ahead: the estimated revenues and volume of the budget as a whole compared with the previous year, together with the estimated volume compared with the previous year of each of the major budget parameters.¹

3. As regards agricultural expenditure, the European Council endorses the financial guidelines proposed by the Commission with regard to agricultural expenditure, in the form in which the Commission has refined them as a result of the Council's discussions (see 'Common agricultural policy: Financial guidelines' below). In this way the common agricultural policy will be better integrated into the budget procedure of the Community.

The Commission's forecasts will be drawn up in accordance with the guideline thus laid down.

¹ The report will be drawn up within the context of the three-year forecasts which the Commission submits each year for the three financial years following.

4. As regards other expenditure:

(i) The Council will seek with Parliament, on the basis of proposals from the Commission, agreement on multiannual programming in all fields where this is appropriate, in line with Community objectives.

(ii) In the case of actions or policies which have already been the subject of such multiannual programming, or which have been subject to qualitative guidelines (to be established also through conciliation between the Council, Parliament and the Commission), the main budget parameters will be costed on the basis of a normal implementation of these programmes or guidelines.

(iii) In the case of other actions (including new actions) the main budget parameters will be costed on the basis of the clearly defined aims which the Commission proposes should be achieved. In proposing these aims the Commission will take proper account of the need to apply to the Community budget a discipline compatible with that applied to the budgets of its Member States.

If the total volume of non-obligatory expenditure costed in the above manner would lead to the maximum rate being exceeded, the Commission will submit a full and reasoned justification, taking into consideration not only the requirements of the development of the Community but also the economic and financial situation of the Community and the Member States.

5. The aim of the conciliation is to secure the greatest possible measure of agreement among the institutions on the structure and volume of the budget.

The Commission shall draw up the preliminary draft budget upon completion of the conciliation, within the limits of the total volume of expenditure proposed in its report; it shall incorporate the points on which agreement had been reached and shall take account of the discussions which will have taken place on other issues.

6. The preliminary draft budget shall also contain a contingency reserve. The primary purpose of this reserve shall be to provide for conjunctural fluctuations in agricultural expenditure; but it shall also be available in the case of a shortfall in the actual receipts from the Community's own resources by comparison with the budget forecasts.

7. The Commission will continue to report regularly to the Council and Parliament on the implementation of the budget, as regards both agricultural and non-agricultural expenditure. In the event of an overrun or the likelihood thereof it shall submit appropriate proposals to the Council and Parliament.'

**Common agricultural policy:
Financial guidelines**

1. 'The amendments which the Commission has proposed to the rules governing the various common agricultural market organizations will, if implemented, ensure control of agricultural expenditure and act as a brake on its future growth. It is on the assumption that the Council will endorse all these measures that the Commission now submits the following financial guidelines.

2. The Commission will give the European Council an undertaking to adopt a qualitative guideline with respect to its own management, namely that the rate of growth of agricultural expenditure,¹ as an average calculated over several years, is to remain below the rate of growth of the Community's own resource base² calculated on a similar basis. The average in each case shall be that of the current year and the two preceding years.³

3. The Commission suggests that the European Council expressly request the Council to adopt the

¹ The amounts to be taken into account are the expenditure chargeable to Section III, Part B, Titles 1 and 2 (EAGGF Guarantee) of the budget. This expenditure is currently presented in the budget in a manner which includes 'negative expenditure', i.e. is already reduced by the incidence of the financial contribution by milk producers (co-responsibility levy). The calculation of agricultural expenditure for the purposes of the guideline shall be this expenditure, further reduced by the sum of amounts corresponding to the marketing of ACP sugar and refunds in connection with food aid, the payments by producers in respect of the sugar and isoglucose levies as well as the revenues from any future internal agricultural charges.

² The amounts to be taken into account are the potential revenues upon which Titles 1 and 2 of Section III (Revenue) of the budget are determined. The calculation of the Community's own resource base for the purposes of the guideline shall be the total VAT base upon which the VAT rate of the year in question is calculated, the amount of financial contributions (if any) included in the budget of the year together with the own resources, other than those derived from VAT, set out in Revenue Title 1 less the sugar and isoglucose levies. For the purpose of calculating the VAT base account shall not be taken of any abatements on the VAT payments of individual Member States.

³ In calculating the rates of growth in the own-resource base and in agricultural expenditure, due account will need to be taken of:

- (i) Changes in the own-resource base, e.g. as a result of an increase in the VAT ceiling;
- (ii) any discrepancy in timing between the full availability to the Community of the additional own resources derived in the two new Member States and changes in agricultural expenditure occasioned by their accession. (One possible solution would be the neutralization, for the purposes of the calculation of this guideline, of the effects of enlargement during the first years of the transitional period.)

same qualitative guideline in the decisions falling within its competence.

4. The Commission requests the Council to adopt special procedural rules in order better to ensure strict budget discipline in the management of the common agricultural policy.

5. As regards the decisions which have a determinant effect on the volume of agricultural expenditure, that is the decision on agricultural prices which the Council of Agriculture Ministers must take each year on a proposal from the Commission, the Commission proposes the following rules:

(a) When submitting its agricultural proposals the Commission will supply a quantified estimate of their budget impact in relation to the movement in the growth of the Community's own resource base calculated according to a common and constant formula, namely the sliding average of the growth rates for the current year, the year immediately preceding and the year ahead. These figures will allow a judgment to be made of the compatibility of the proposals with the guideline referred to in paragraph 2 of this section.

(b) The Commission will draw up its proposals on prices (and related measures) in the light of the guideline referred to in paragraph 2. To this end the Commission confirms that it intends in the coming years to pursue a restrictive price policy for sectors in surplus and for those where a rapid growth in expenditure is coupled with limited outlets for disposal.

(c) On this basis the Commission suggests that the European Council request the Council to adopt the following rule: if in the Commission's opinion the Council of Agriculture Ministers seems likely to take decisions whose cost would exceed that of the original proposals of the Commission, the final decision must be referred to a special Council session attended by both Finance and Agriculture Ministers and can be taken only by that special session.

6. As regards the preparation and implementation of the budget the Commission proposes the following rules:

(a) In submitting its budget proposals in the context of its preliminary draft budget the Commission will take account of all foreseeable expenditure in the budget year concerned, including that stemming from its price proposals.

The aim of the Commission and the Council will thus be to keep EAGGF Guarantee expenditure within the appropriations for the year.

(b) The Commission will institute an early-warning procedure enabling it to detect promptly any

risk during the year of budgetary overruns and report to the Council and Parliament forthwith.¹

It will in any event report to the Council and Parliament each month on the trend of agricultural expenditure.

After making use of all the opportunities afforded by the routine management of the CAP it will if need be propose to the Council and Parliament measures designed, without detriment to the principles of the CAP, to restrict increases in agricultural expenditure. It will be incumbent on those institutions to take the necessary decisions as speedily as possible so that these measures can achieve their purpose. Where appropriate the Council's decisions could be taken at a special session of the kind referred to in paragraph 5(c).

The Commission will not introduce a supplementary budget until it has exhausted all the opportunities for savings afforded by the routine management of the CAP and by any additional Council decisions.

(c) In the event of failure to respect the qualitative guideline referred to in paragraph 2 (by reason either of a special Council decision [5(c)] or of a supplementary budget), adherence thereto will mean that both the Council and the Commission must during the following two financial years ensure that, barring aberrant developments, agricultural expenditure is brought back within the limits imposed by the qualitative guideline. In so doing they must concentrate primarily on the production sectors responsible for the failure to adhere to the guideline.

Future financing of the Community

The Commission proposed in May 1983 that under the 1970 decision on own resources a new Community decision-making procedure should be instituted for setting the rate of call-up applicable to the basis of assessment for VAT.

The procedure would be operated for the first time before the setting of a VAT call-up rate above 1.4%.

The Commission's proposal received the support of the European Parliament, with the qualification that the matter must be dealt with in the frame-

¹ Apart from a Council decision on prices in excess of the Commission's proposals (when the special decision-making procedure in paragraph 5(c) would apply), such 'overruns' could only occur as a result of compelling economic developments which could not have been foreseen when the budget was adopted.

work of the powers pertaining to national ratification procedures. From the Council discussions it emerged that the overwhelming majority of the Member States wished to continue the principle of a ceiling rate laid down in the 1970 decision and the requirement that any increase in the ceiling rate is to be agreed by the Member States unanimously and ratified by the national Parliaments.

This being so, the Commission would now make the point that the Community is consequently in the same position as at the time of the 1970 decision; the Community has accordingly to set a new ceiling on the increase of VAT own resources.

The 1970 decision gave the Community financial security for 13 years.¹ A decision of like scope is called for now, taking account of a number of considerations that did not apply when the 1970 decision was taken.

Future development of the Community budget in the context of budget discipline

1. Raising the own-resources ceiling is this time part and parcel of a set of arrangements proposed by the Commission for containing farm spending and establishing strict budget discipline generally.

The strict budget management guaranteed by the decisions which the Council takes on the basis of the Commission's proposals will ensure that the new resources are of a permanent nature by enabling the growth of the Community budget to be kept within bounds.

At the same time the European Council's decision on the future financing of the Community must show a dynamic approach and offer a real prospect of further development in the medium term.

For there are cases where joint action by the Member States is more effective and economical than piecemeal national measures. With all due respect for the constraints on public spending throughout the Community, the financing system of the Community must therefore be given sufficient flexibility to take on further developments in line with these economy requirements, particularly as they mean in practice that the demands on the national budgets are less.

Enlargement

2. The raising of the own-resources ceiling must also enable the Community budget to cover the financial implications of Spanish and Portuguese accession.

The annual profile of the budgetary effects of enlargement cannot be determined at the present stage of the negotiations with Spain and Portugal. To start with, the increase in Community expenditure will stem mainly from higher structural expenditure for the benefit of the acceding countries and the Mediterranean regions of the Community; later on, enlargement might involve a net increase in the Community budget of 0.1-0.2% of VAT.

Rate of growth of own resources

3. Prudence demands that we should not bank on a real growth rate in Community GDP of more than 2.5% p.a. over the coming years.

The average annual growth in the VAT basis of assessment should not exceed that in GDP. Moreover, the trend in movement of the other revenues is sluggish: in fact in real terms their value has actually declined.²

In 1978 customs duties and the other common policy-related revenues accounted for 45% of available own resources, but in 1984 the figure is only 42%.

This trend can be expected to continue, and indeed to gather pace, in the years ahead. Most customs duties are bound in GATT and come under a dismantling schedule which could be speeded up in accordance with the progress of world efforts to liberalize international trade.

As for the agricultural levies, they are a particularly erratic source of finance, whose yield will be adversely affected by the implementation of the Commission's proposed CAP reforms.

Care must be taken therefore not to equate an increase in the Community budget with an increase in the VAT revenues required. The relative diminution in the other resources automatically involves, for a given real increase in the budget, a faster increase in the VAT revenues called up. Thus it has been estimated that tariff dismantling and the fall in the agricultural levies consequent on CAP

¹ Whereas in 1981 the VAT call-up rate was still the same as in 1979, namely, 0.78, in 1982 it suddenly moved to over 0.9. Since 1983 the Community budget has been up against the own-resources ceiling, as the combined result of farm spending and offset payments to correct the imbalances in the distribution of budget charges. (Had it not been for the offset payments the 1983 call-up rate would have been 0.875.)

² The traditional own resources (agricultural levies, sugar and isoglucose levies, customs duties) rose in face value by an average 6.8% p.a. in the period 1978-83, while during the same period GDP implied prices rose by 8.9% p.a. The real value of the traditional own resources thus fell by an average 1.9% p.a. during those five years.

reform could mean, at a time-scale of 10-15 years, a 0.2% increase in the VAT call-up rate merely to maintain the real value of available own resources.

Time needed

4. To gain the Council's agreement to a proposal for going above the own-resources ceiling, and after that to obtain ratification by the national parliaments (12 of them after enlargement), will take at least two years. This cuts two years off the period during which the higher own-resources ceiling will allow trouble-free Community budgeting.

Moreover the credibility of the Community system would suffer severely if the national parliaments had to be constantly applied to in order to obtain the wherewithal to go ahead with the common venture.

In the two financial years that will elapse between the exhaustion of own resources within the 1% ceiling and the advent of the new resources, budget growth will be completely straitjacketed. Hence there is bound to be an accumulation of commitments and deferrals of expenditure which will have to be honoured later. This is inevitable even if the Commission's proposals for the reform of the CAP are adopted in full in principle by the Brussels European Council in March, for even then it would still take time to turn the decisions-in-principle into operational regulations, and time again for the regulations to have their full budgetary impact. So it could be that the Community budget will have to be temporarily increased for so long as it takes to implement the arrangements for properly containing farm spending. This factor, which may be discounted in a long-term context, would become very relevant indeed if the new

own-resources ceiling were not consonant with the long-term context and in fact only afforded the Community a breathing space.

*

5. In view of the foregoing, the Commission is proposing that the Council today take a decision of like importance to that of 1970, raising by one point the maximum rate determining the revenue from value-added tax which may be assigned to the Community.

The Commission is of the opinion that this increase of the ceiling rate from 1 to 2% of the basis of assessment for VAT would give the Community secure financing for long enough to cover the whole transitional period of its enlargement to include Spain and Portugal.¹

In asking the European Council to give the Community this financial security — monitored in accordance with the budget discipline rules — it is thus asking the Member States to have the same degree of confidence in Europe as they did in 1970.

It is not asking them to accept the principle of automatic, regular increases in Community revenue-generation.

By deciding to make available to the Community a certain range of potential resources the Member States will not be authorizing their deployment; the actual expenditure and revenue of the Community will be determined through the annual budget procedure, strictly within the framework of the rules on budget discipline proposed by the Commission.²

¹ During that period it is also necessary to allow for the effects, at the appropriate time, of budgetizing the EDF.

Session of the European Council

Brussels, 19 and 20 March 1984

Conclusions

The Presidency did not issue any communiqué. Topics discussed and matters pending:

Budgetary and financial discipline

The European Council considers it essential that the rigorous rules which at present govern budgetary policy in each Member State also apply to the budget of the Communities.

The level of Community expenditure will be fixed as a function of available revenue.

Budgetary discipline, which calls for a combined effort by all the institutions in the framework of their respective powers, will apply to all budget expenditure.

The European Council invites the Council of Ministers for its part:

- (i) to fix at the beginning of the budget procedure a reference framework, i.e. the maximum level of expenditure which it considers it must adopt to finance Community policies during the following financial year;
- (ii) so to proceed that the net expenditure relating to agricultural markets calculated on a three-yearly basis will increase less than the rate of growth of the own-resources base. This development will be assessed on comparable bases from one year to the next. Account will be taken of exceptional circumstances, in particular in connection with enlargement. The provisions laid down in the Commission document on financial guidelines concerning the common agricultural policy will be implemented;
- (iii) to undertake to comply with the maximum rate throughout the budget procedure as defined in Article 203 of the Treaty of Rome. At the first reading the Council will keep the increase in non-compulsory expenditure to a level no higher than half the maximum rate. At the second reading the Council will adopt a position such that the maximum rate is not exceeded.

The European Council invites the Council of Ministers to adopt by June 1984 the measures necessary to guarantee the effective application of the principles referred to above.

New policies

With a view to the creation of a genuine economic union, the Council intends, through specific commitments, both externally and internally, to give the European economy an impetus comparable to that which it gained from the founding of the customs union in the early 1960s.

The following priority objectives will be pursued:

- (i) convergence of economic policies and Community action, capable of promoting productive investment and thereby a vigorous and lasting economic recovery;
- (ii) development, in close consultation with the Community industries and bodies concerned, of Europe's scientific and technological potential;
- (iii) strengthening of the internal market so that European undertakings derive more benefit from the Community dimension;
- (iv) protection and promotion of employment, which is a crucial factor in Community social policy, especially as regards young people.

The European Council invites the Council of Ministers actively to pursue the examination of the Commission proposals which already meet these objectives and invites the Commission to report to it in time for its meeting in June on the progress made on relaunching Europe, laying particular emphasis on the following sectors:

- The European Council stresses the importance of the agreement reached on the launching of the Esprit programme, which is an exemplary cooperation project between undertakings.

It expects the Council of Ministers to specify without delay the other areas in which Community initiatives are called for.

A framework programme will be adopted before the end of the first half of 1984 in the areas of telecommunications and bio-technology. Scientific and technical cooperation and exchanges will be intensified in the Community, in particular by the encouragement given to mobility among researchers.

It agrees on the need to increase the proportion of Community resources devoted to financing priority Community research and development activities.

- The European Council is satisfied with the agreement reached on reducing technical barriers to trade and combating illegal commercial practices by the Community's partners, and considers that new measures need to be adopted rapidly to:

- (i) bring about a decisive simplification of formalities in trade within the Community and modernize the customs system;
 - (ii) harmonize European standards and products, and open up public contracts in the Member States to European undertakings;
 - (iii) harmonize conditions of competition and progressively liberalize trade in services, notably in the transport and insurance sectors, within specific time limits to be set by the Council before the end of the year;
 - (iv) implement a common transport policy and a transport infrastructure programme of Community interest;
 - (v) develop a suitable climate for cooperation between European undertakings by establishing a favourable legal and tax framework;
 - (vi) make full use of existing financial instruments to aid Community policies, including encouragement of productive investment.
- The European Council reaffirms that the ECU is the central element and pillar of the EMS. It is pleased with the spontaneous growth in the private use of the ECU and notes that the Council of Ministers is continuing its discussions with a view to developing the EMS by making specific adjustments.

Steps will be taken to encourage greater use of savings available within the Community for financing investment. The Council therefore considers that significant progress will be made in order to improve financial integration within the Community.

- The European Council asks that, before its next meeting in June 1984, the arrangements necessary for the organization of the European social area be prepared, with the aim of fully associating social forces with the economic and technological changes which are decisive for recovery prospects within the Community.

It also requests the Ministers for Education and the Commission to consider ways and means of promoting language teaching in each Member State.

Structural Funds

The European Council considers that the Structural Funds should become effective Community policy instruments aimed at reducing regional development lags and converting regions in industrial decline; promoting dynamic and competitive agriculture by maintaining and developing effective agricultural structures, in particular in the less-favoured regions; combating unemployment, in particular youth unemployment.

To that end:

- Management of the Funds will be improved having regard to the observations of the Court of Auditors and to the Commission report, in particular by a suitable evaluation of the aid they provide, by concentrating the Funds' activities and the elimination of any duplication, through improved cooperation between the Commission and the Member States.
- An attempt will be made to coordinate the activities of the various Funds, for example in the form of integrated programmes.

With this in mind, integrated Mediterranean programmes will be launched in favour of the southern regions of the present Community so as to be operational in 1985. Designed to be of limited duration, such programmes will have as their aim improvement of the economic structures of those regions to enable them to adjust under the best conditions possible to the new situation created by enlargement. They will also cover problems raised in the Greek memorandum.

- The financial resources allocated to aid from the Funds, having regard to the IMPs, will be significantly increased in real terms within the limits of financing possibilities.

The current discussions initiated on the basis of the Commission's proposals, relating to the revision of the ERDF and the EAGGF Guidance Section, must be concluded before the next meeting of the European Council.

1. Brussels European Council

1.1.1. The first European Council of the year took place in Brussels on 19 and 20 March, following intense preparations¹ to avoid a repetition of the failure in Athens.² Although a number of agreements were reached on the basis of draft conclusions drawn up by the French Presidency, the European Council was unable to agree on a solution to the problem of the British contribution to the Community budget. Since all the other partial agreements reached on other matters were conditional upon an overall agreement, in principle they became a dead letter. No conclusions were adopted and Mr Mitterrand, like Mr Andreas Papandreu in Athens, said that it would be inappropriate to make any political statements on the Middle East or East-West relations, when no overall agreement had been reached on internal Community policy problems.

Nevertheless, considerable progress was made and subject to an overall agreement, the following points were agreed:

(i) confirmation of the agreement on the overall compromise regarding the reform of the common agricultural policy obtained at the Council meetings from 11 to 13 March and 16 and 17 March: limits to milk production, flexibility of national quotas, advantages for small-scale producers, fixing of agricultural prices and the gradual dismantling of MCAs. However, the problems which the Agriculture Ministers had left for the European Council were not resolved (special arrangements for Irish milk—Ireland pleading a vital national interest on this point—Community participation in compensation for German farmers following the dismantling of the MCAs, measures for products other than milk). Solutions to these problems were found at the Council meeting on 30 and 31 March;³

(ii) the launching of a number of new policies and the integrated Mediterranean programmes; an increase in financial resources allocated to the Funds;

(iii) a decision to activate the enlargement negotiations so that they could be completed by September this year (national par-

liaments will then ratify the Treaties at the same time as they ratify the increase in own resources);

(iv) measures to contain the growth in the Community budget, i.e. the question of 'budgetary and financial discipline': firstly, the growth in agricultural spending calculated over three years must be kept below the rate of increase in the own resources base; secondly, the Council undertakes not to exceed the maximum rate of increase for non-compulsory expenditure as laid down in Article 203 of the Treaty;

(v) the maximum VAT own resources rate will be 1.4% from 1 January 1986, provided the instruments for enlargement and the creation of new own resources are ratified by the national parliaments at the same time; it is already envisaged that, subject to a unanimous decision by the Council and ratification by the national parliaments, this rate could be raised to 1.6% on 1 January 1988.

The discussion of the British budget contribution could be summed up in this way: was a mechanism necessary? If so, for how long? On the basis of what figures?

The Ten agreed on the principle of the following mechanism: the imbalance to be corrected in a given country would be calculated by comparing its share of VAT payments and its share of Community budget expenditure. Thus no account would be taken of agricultural levies and customs duties which belong to the Community and which derive from purchases made outside the Community. The principle of Community preference remained fundamental.

Any imbalance above a certain threshold would be corrected to an extent varying with the relative wealth of the Member State in question.

The correction would be made by a deduction from the VAT own-resources payments

¹ Bull. EC 1-1984, point 2.4.3; Bull. EC 2-1984, point 2.4.9.

² Bull. EC 12-1983, point 1.1.1 *et seq.*

³ Point 1.2.1 *et seq.*

due from the country concerned the following year. The resulting cost would be divided among all the Member States according to their normal share of VAT payments. The mechanism would be linked to the lifetime of the new own resources set up by the decision to raise the VAT ceiling. This formula had been accepted by all the Member States. For the agreement to become operative, there had to be further agreement on the amount of the correction that would be produced by application of the mechanism to the 1983 budget figures. This would then enable the Council to fix the parameters of the mechanism (threshold and rate of compensation). This was where the difficulties arose: despite various compromises offered, it proved impossible to eliminate completely the gap between the British Government and the other Member States.

Did that mean then, asked Mr Mitterrand President of the European Council, at his press conference, that Europe was in serious difficulties over a matter of two or three hundred million ECU? Certainly not, but negotiations had ended in discussions about principles. The fundamental principles of the Community had been called into question.

The United Kingdom's initial position had been to include agricultural levies and customs duties when calculating its contribution. However, these duties and levies were the Community's own, and the nine other delegations agreed on this point.

Mr Mitterrand then went on to talk about the future. He would continue his tour of the capitals to prepare for the European Council in June. He announced a new initiative: 'I want to ask all the countries of the Community, in particular those which were involved in Europe from the outset, to meet up and discuss what can be done to safeguard Europe ... We will make a fresh start,' he concluded, 'which means we will carry on. The Ten have received another blow, but for those of us who are ready to fight on, the cause is not lost.'

Mrs Thatcher, the British Prime Minister, said that she had appreciated President Mit-

terrand's efforts and that he had been very cooperative and steadfast in seeking a solution. She hoped that the problems would be solved by the European Council in June or even earlier.

While Mr Bettino Craxi, the Italian Prime Minister, spoke of a 'paralysed Community' and Mr Wilfried Martens, the Belgian Prime Minister, deplored 'the failure of the European Council and its inability to settle the Community budget problem', the West German Chancellor, Mr Helmut Kohl, said that although the actual outcome has been the worst imagined, essential progress had nevertheless been made on a great many specific matters.

1.1.2. Mr Thorn told the press that the Commission would prepare proposals to enable the Council to give shape to the points on which agreement had been reached within the European Council. President Mitterrand had listed the points of agreement and had also specified that these would be presented to the various Council meetings so that decisions could be taken on them.

The Foreign Ministers accordingly met again on 27 March to resume discussions on the basis of the draft conclusions of the Presidency. They confirmed the points of agreement and re-opened negotiations on the issue which had proved the stumbling block of the European Council, the British budgetary contribution. However, the discussions foundered on both the operation of the corrective mechanism and the reference amounts for the first year of operation (planned to be 1985).

In the absence of any agreement on correcting the budget imbalance, the Council recorded that no progress was possible beyond the point reached in the European Council and it agreed to take the matter up again at its next meeting on 9 and 10 April. The Agriculture Ministers resumed discussions on the same day and on 31 March reached a unanimous overall agreement¹

¹ Points 1.2.1 *et seq.* and 2.1.113 to 2.1.120.

covering both the conditional agreements reached between 11 and 17 March and the points outstanding from the European Council.

1.1.3. The failure of the European Council was the subject of two important statements to Parliament on 28 March, one from the President of the Council, Mr Claude Cheysson, the other from the President of the Commission, Mr Gaston Thorn. Mr Cheysson began by outlining the many points of agreement and stated his optimism because only two obstacles remained. He was optimistic when he compared what was at stake with the small amount that was causing the dispute. However, he was pessimistic to see that so much time put in by such a representative selection of people had not enabled either matter to be settled; authority and credibility had been lost in the eyes of those abroad who expected so much from Europe and so too—quite honestly—had hope in the European ideal.

Mr Thorn had the following to say:

'This new summit failure is unfortunately just another in a long line—and more's the pity. I fear that it is a sign of a slow but sure deterioration of political will. It also reveals an inability on the part of certain Member States to look beyond their national interests or at least to put them in second place behind the maintenance of an efficient and dynamic Community.'

Although, thanks to the French Presidency, there were signs in Brussels of a basis for an overall agreement on the essential matters, many points in that agreement were nevertheless not sound enough to form a base from which we could really make a fresh start.'

After repeating the main points of agreement, he made statements regarding budgetary discipline and the increase in own resources.

As regards budgetary discipline:

'True, the European Council did accept the provisions put forward by our Commission as regards agricultural expenditure, but not for non-compulsory expenditure. In this respect, it diverged entirely from our proposals and in defining the discipline which the Council will impose on itself, its object is to keep non-compulsory expenditure within the straitjacket formed by the maximum rate; it has discarded the idea put forward by our

Commission for a pre-budget concertation between the three institutions. In doing so there is the risk, regrettably, that Parliament's powers will be diminished. For our part, we have shown that it was wrong to claim that if budget spending was getting out of hand, it was the fault of Parliament's margin of manoeuvre.'

As regards own resources:

'... It was only possible to reach agreement on the basis of the lowest common denominator, namely a 1.4% ceiling ... The communiqué issued by the European Council indicates that a rise to 1.6% would first have to be ratified by the national parliaments or in accordance with national procedures. Personally, I feel that this result is quite unacceptable and our Commission could not possibly take this as the final word. How can you claim to want to get the European Community back on its feet again and then virtually refuse it the means to do so? Fixing the new ceiling at 1.4% most probably means that all the institutions will have to face the financing problem again before three years are out. Can so cheap a price be put on the credibility of the European ideal, which even now is already under siege? To my mind, the new ceiling for own resources needs to be fixed at a higher level to give our Community secure financing ...'

The ensuing debate appeared to lack a firm guiding line, and this was reflected in the fact that no less than seven motions for resolutions from various political groups were submitted, five of which were adopted:

(i) In the resolution moved by Mrs Scrivener (*Lib/F*), Parliament stressed that by virtue of its election, it was responsible for exposing the grave dangers threatening the Community's very existence and repeated its categorical refusal to subscribe to the principle of 'fair returns'; it further requested application of the normal procedures laid down in the Treaties and invited the Commission to draw up proposals immediately to take account of the convergence of views which had emerged during the European Council.

(ii) Mr Barbi's (*PPE/I*) resolution noted that the Heads of State or Government of nine Member States were able to reach agreement on only a few, but nevertheless significant issues, and stressed that only a return to majority voting in the Council would enable the Community to start moving in the right direction.

(iii) In the Committee on Agriculture's resolution, Parliament deplored the fact that the absence of a solution to the financial problems had blocked the agreements reached on agriculture. It called on the Council to adopt, before 1 April, regulations to give effect to the agreement already reached.

(iv) In the resolution tabled by Mr de la Malène (EPD/F) and Mr Lalor (EPD/IRL), Parliament invited all the Heads of State or Government, and in particular the President of the French Republic, to do their best to ensure that the constitutional procedures

for ratifying the draft Treaty on European Union were initiated in each Member State and that the minimum number of accessions required for its entry into force were speedily obtained.

(v) The Arndt (Soc/D) resolution considered that a just solution had to be found since the situation was unacceptable for the United Kingdom but that no solution should affect the legal status of own resources, the notion of 'fair returns' had to be rejected and any compensation had to be subject to the rules of the Treaty of Rome.

Statements & Speeches



Federal Republic of Germany

Vol VII / No 5 March 29, 1984

Editor: Hans Wiessmann

POLICY STATEMENT ON THE EUROPEAN COUNCIL IN BRUSSELS
CHANCELLOR HELMUT KOHL TO THE BUNDESTAG ON MARCH 28, 1984
(TRANSLATION OF ADVANCE TEXT)

The European Council in Brussels on March 19 and 20 failed to achieve any conclusive results. I find this most regrettable, especially since agreement on all points of the package prepared in Stuttgart was within reach.

EUROPEAN COMMUNITY'S GOALS

Allow me, at the start, to outline once more the agreement reached in Stuttgart. Last June we combined the most pressing problems of the Community to form a package. We set ourselves tasks relating to the following:

- Enlargement of the Community to include Spain and Portugal,
- new developments in research and technology as well as their repercussions for industry and society,
- structural economic problems and environmental issues, and
- progressive development of the internal market.

If the Community is to master these tasks, it must be set on a sound financial foundation. For this reason, we undertook in Stuttgart to make balanced progress in the following areas:

- To achieve greater budgetary discipline, which means both improving the efficiency of the structural funds and curbing the rise in agricultural expenditure,
- to eliminate budgetary imbalances, and
- to ensure the Community's future finances by increasing its own revenue.

Nobody cherished any illusions about the difficulty of coping with these tasks. To this end, the interests of member countries must be reconciled.

GERMAN INFORMATION CENTER, 410 PARK AVENUE, NEW YORK, N.Y. 10022/(212) 888-9840

ECONOMIC AND FINANCIAL PROBLEMS IN MEMBER COUNTRIES

Such reconciliation cannot only consist in aligning national wishes as equally as possible. It can only be achieved through clear-cut changes to existing structures.

The economic situation in member countries and in the Community as a whole compels us to exercise increased budgetary discipline and to limit expenditure, especially spending in the agricultural sector.

Whether we like it or not, the Community and its members are no longer living in a period of ever rising prosperity and full coffers. Today we are gravely affected by structural crises and unemployment throughout the Community. All governments are forced to consolidate national economies by means of substantial retrenchment in their budgets. The Community and its budget must not be an exception to this.

At the same time, there is growing resistance to such radical measures among the groups or countries affected. However, fundamental measures are necessary to ensure that the decisions which have to be taken now have a lasting impact.

LET'S NOT LOSE SIGHT OF THE COMMON GOAL

It is therefore understandable that the negotiations are tough and prolonged. I take this opportunity to appeal once more to all members of the Community to guard against national or political short-sightedness and not to lose sight of the common goal. The Community is founded on economic and political solidarity, in other words, on a balance of interests. But it needs a perspective for the future.

Great credit is due to President Mitterrand of France and to the Commission for having created in advance of the Brussels meeting the conditions for a compromise ripe for a decision. Thanks to their commitment to the European cause and their determination to secure now a fair balance of interest among the member countries, the heads of state or government had a proposal before them in Brussels which should have been largely acceptable to all participants.

AGRICULTURAL POLICY DECISIONS

In advance of the Brussels summit, the Agricultural Ministers had, in tough and very strenuous negotiations, achieved agreement on three essential elements:

1. The introduction of a threshold in the milk sector, meaning that the quantity of milk produced in the Community subject to price guarantees will be reduced in the long run from 104 million tons at present to 97.8 million tons. In this way, the most urgent problem of the common agricultural policy was tackled.

I realize that this result entails hardship in individual cases for the German farmers concerned. However, in view of the rapid rise in expenditure and the surpluses caused by the hitherto unlimited price guarantees and considerable progress in rationalization, surpluses which can be sold neither at home nor abroad, we were all agreed in Brussels that there was not other solution to this problem.

Swift and effective action was needed.

If we are not prepared to take this action, the bill for agriculture might some day be much higher. We have to prevent the common agricultural policy, and with it a cornerstone of the Community as a whole, from collapsing.

2. Agricultural prices were fixed for the financial year of 1984/85 together with collateral measures. This ensured that the necessary restrictions in agricultural expenditure were extended equitably to all member countries by introducing guarantee thresholds for other products, too. Above all, this concerns mediterranean products. This represents - as does the action in the milk sector - a modification of the common agricultural policy which seemed impossible until now.

3. We are prepared to accept an arrangement for reducing in three stages the monetary compensatory amounts granted to German farmers.

This solves a problem on which agreement had to be achieved above all in the context of Franco-German relations in order to establish a new common basis for the agricultural policy. The granting of compensation totalling DM 2 billion taken from national funds and partly from the Community budget ensures that this arrangement is not effected exclusively to the disadvantage of German farmers. The compensation will start to be granted once the monetary compensatory amounts begin to be reduced.

I appreciate the fears of our farmers, who are in a difficult situation. They can rely on us: We will not allow them to become scapegoats for the faulty policy pursued in the past.

During earlier price negotiations, too, our farmers showed patience and a readiness to make sacrifices. We owe them thanks for this. At the end of the European Council we were agreed on all questions except for two important budgetary matters. The problems of Britain's rebate and Ireland's milk production remained unsolved.

Most of the tasks that we had set ourselves in Stuttgart had thus been dealt with. This constitutes a success whose importance must not be overlooked or underrated, even though no agreement was ultimately achieved on the overall package.

What did we achieve?

CURBING AGRICULTURAL EXPENDITURE

We succeeded in re-orientating the common agricultural policy. This offers the prospect of bringing the problem of surplus production under control,

curbing the rising expenditure in the agricultural sector and adapting the common agriculture policy to the generally changed conditions now prevailing.

The governments of this country had persistently pursued this goal over the years. In advance of the Brussels summit, the agricultural ministers virtually achieved a final settlement on it.

We agreed on the introduction of a financial arrangement for greater budgetary discipline in the European Community. This, too, is a completely new element.

Envisaged is a procedure designed to control effectively the general trend in Community spending by means of collaboration between the Council, the Commission and the European Parliament. The Federal Government attaches the utmost importance to observance of the principle it has insisted on for a long time, namely that the rise in agricultural spending must lie below the increase in the Community's own revenue.

Achieving this is what this country has demanded for many years now. It affords greater financial scope for other Community tasks.

We also agreed to introduce a mechanism for fairer burden-sharing. Since the Federal Republic of Germany shoulders the greatest burden within the Community, the Federal Government attached particular importance to this point. In this manner, an important step has been taken to put an end to the controversy that has gravely hampered co-operation in the Community for many years now. If a member country bears an exceptional budgetary burden in relation to its prosperity, a corrective mechanism takes effect in accordance with specific criteria. This protects us against excessive burdens. The details are to be worked out before the next European Council in June by the finance ministers meeting within the Council of ministers.

FRESH IMPETUS TO THE COMMUNITY

Furthermore, in Brussels the heads of state or government agreed to impart fresh impetus to the Community by expanding its policies and developing them further. The following can be singled out:

- Measures for increased co-operation in research and technology, especially through programs relating to telecommunications and biotechnology. These are areas in which the countries of Europe are in danger of falling far behind their two major rivals, the United States and Japan. Incentives are to be created to improve the mobility of scientists in Europe.

- Measures are to be taken for expanding the internal market. In particular, formalities relating to trade within the Community are to be greatly simplified and the customs system is to be scaled down and streamlined. In this way, the kind of disturbances that have occurred at frontiers of late are to be prevented in the future.

Agreement was also reached on improving the efficiency of the Community's structural funds. The financial resources are to be increased in real terms as far as possible and are to focus on specific problems. The specific needs of mediterranean countries are to be met by means of integrated programs.

SPAIN AND PORTUGAL

It was agreed that the negotiations with Spain and Portugal on accession should be completed by September 30 so that accession can take place on January 1, 1986. Thus a major goal of German policy has been achieved. We have kept our word to these two friendly states.

It was agreed, in connection with the Spanish and Portuguese accession, to enlarge the Community's financial framework by raising the percentage of value-added tax accruing to the Community from 1 percent to 1.4 percent as from January 1, 1986. Ratification of this increase is to take place at the same time as the ratification of the treaties on the accession of Spain and Portugal.

A declaration of intent by the European Council envisages a further increase to 1.6 percent from January 1, 1988. This is subject to the unanimous decision of the member states.

WHAT MADE THE SUMMIT FAIL

Two difficult and thorny problems remained unresolved at Brussels:

1. The question of Irish participation in the retrenchment of milk production. In view of the major role played by dairy farming in its national economy, Ireland insisted on special treatment and requested the allocation of a higher production quota. Basically, the Irish concern met with sympathy on all sides. However, to the Irish Government the concessions by its partners seemed insufficient. Given goodwill, an understanding should be possible on this question.

2. The problem of easing Britain's financial burden is still open. Basically, the legitimacy of the British demand for compensation is generally acknowledged. The United Kingdom has indeed received refunds in the past years. In 1982 the British refund amounted to 1.05 billion ECU*)

The sum of 750 million ECU agreed upon for 1983 has not yet been paid out. At the end of the Brussels meeting the United Kingdom was still insisting on a 1984 repayment amounting to 1.25 billion ECU, the equivalent of some three billion deutsche mark. Even taking Britain's particular circumstances into account, this request seemed unacceptable to the other member countries.

At the close of the Brussels conference I tried to save the negotiations with a proposal of my own. According to this proposal, the United Kingdom was to be granted an annual repayment of one billion ECU for a five-year period.

Thereafter, the corrective mechanism to which I have referred and whose basic elements were agreed upon was to take effect, thus benefiting the United Kingdom.

To facilitate agreement, I combined this proposal with a further concession. I offered to raise the German share of the annual refund of one billion ECU annually to Britain, as prescribed by the contributory scale, from the present 50 percent to 66 percent.

All member states, with the exception of the United Kingdom, found this offer acceptable.

The United Kingdom also rejected a further improvement of the offer which consisted of converting the interim one-billion ECU payments after only three years or even two years into a permanent arrangement involving the corrective mechanism. Because of its flexibility, this solution would have further eased the situation for the United Kingdom from the third or fourth year onwards.

This was the situation late on the evening of March 20. To the disappointment of all participants, a definitive conclusion of the negotiations had become impossible.

THE RESULTS OF BRUSSELS - A GERMAN VIEW

From the German point of view, the result of the Brussels meeting can be summed up as follows:

1. Agreement was reached on most items in the Stuttgart package. This agreement, of course, is subject to the remaining items being settled, we have thus taken a substantial step forward. This was only possible because each member rendered its own contribution and was prepared to set aside its own demands out of regard for the interests of its partners and of the Community. Unfortunately, on two questions an agreement has so far proved impossible.

2. At this meeting of the European Council - as so often over the last 25 years - the German Government was in the forefront of those member states which staunchly defend the future of the Community.

Every German chancellor since Konrad Adenauer has urged that national demands, legitimate though they may be, should not be placed in the way of the existence and development of the Community. I take the same view. In this I am not alone among our partners, which I regard as proof that the solidarity of the Community will continue to support it through difficult situations.

3. All participants felt that they could not leave the meeting without having shown willingness to continue the search for an acceptable answer to the two problems which remained unsolved. What has been achieved so far by strenuous efforts and individual sacrifices must not be jeopardized.

WHAT NEXT?

It is now essential to preserve the agreements reached so far and eventually to develop them into a complete structure. The agricultural ministers and the foreign ministers meeting withing the Council of Ministers in Brussels yesterday and on Monday respectively have reached no further

*) ECU: European Currency Unit; currently valued at 85 cents.

agreement, much to the regret of the Federal Government. In both sessions new efforts were undertaken to solve the problems which remained open: We expressed willingness to let the corrective mechanism for easing the British burden take effect after only one year. Ireland was offered an increase in its milk quota of 200,000 tons.

4. The President of the French Republic declared himself willing to travel again to all the capitals. He intends to seek a solution, together with the other governments, which would satisfy the United Kingdom on the question of compensation and be acceptable to the other member states.

He also expressed his intention to call a special meeting of the European Council before June of this year, if there were sufficiently reliable indications of an agreement. I expressed my readiness to take up such an invitation at any time.

This government will stand by its policy towards Europe. The difficulties which now have to be overcome are the result of years of mistakes. It will take hardship and sacrifice to eliminate them.

At no time during these years must we lose sight of what is at stake. The crux of the matter is whether Europe is capable of reducing the interests of its nation-states to a common denominator and of achieving unity.

This unification of Europe, the economic foundations of which we are striving to build, also requires a political dimension. This too will have to be discussed with our partners. The question is, which of them are ready, like us, to regard their membership of the Community as irreversible, even in bad times. The question is, who is prepared to follow us on the way to European political union with the stated objective of a United States of Europe.

It is our desire and our hope that clear affirmative answers to these questions can be given by all members of the Community. These answers will show us the direction we must follow if we want to advance in Europe at last.

The first sentence of the Preamble to the EEC treaty speaks of determination "to lay the foundation of an ever closer union among the peoples of Europe". It is high time that this determination was reflected in specific action.

* * * * *



BRITISH INFORMATION SERVICES

March 22, 1984

POLICY STATEMENTS

17/84. THE BRUSSELS SUMMIT

Mrs. Margaret Thatcher, the Prime Minister, in the House of Commons on March 21, 1984:

Mrs. Margaret Thatcher, the Prime Minister made a statement to the House of Commons on March 21, 1984 on the European Council meeting in Brussels. She said:

"I attended the European Council in Brussels on March 19 - 20, accompanied by [Sir Geoffrey Howe], the Foreign and Commonwealth Secretary.

"As the House will already know, the Council did not reach agreement on the reform of the Community's finances nor on any of the other matters before it.

"I made clear at the meeting in Stuttgart last year that the United Kingdom would be prepared to consider an increase in the Community's financial resources but only on condition that there was effective control of agricultural and other spending and that there was a fair sharing of the Budget burden.

"We made progress towards securing control of spending by, first, an annual limit on overall expenditure and, second, a strict financial guideline on agricultural expenditure.

"The French Presidency also proposed a lasting system for a fair sharing of the Budget burden. We would have been able to accept this system but some other member states, despite the long discussions over the last nine months, were still unable

/to ...

845 Third Avenue, New York, N.Y., 10022, Telephone: (212) 752-8400

was agreed last year could be removed, but France and Italy blocked these regulations. The Government is considering what action we should now take to safeguard our position.

"The Community is in a difficult situation. We shall however persevere in our efforts to achieve a reform of its finances and to make its internal and external policies more relevant to the needs of today's world. I want to see a more effective Community developing its full potential. That is the Community in which I believe."

E N D

DWpp

A1-6, B4, EEC, P1/2/3/4/5/6/9/10/11/13/14.