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*Prime Minister*

*Agree not to intervene*

MR. ALEXANDER

*Will need short discussion*

*Print 2/5*

European Community Budget: Additional Twelfths for FEOGA

The Prime Minister might like to have this note on the issues raised in the letter dated 14th May from the Financial Secretary, Treasury to the Foreign and Commonwealth Secretary.

2. The background is as follows. In the absence of an agreed Budget the Treaty of Rome limits Community expenditure each month under each section of the Budget to one-twelfth of the corresponding figures in either the approved Budget for 1979 or the draft Budget for 1980, whichever is the lower.

3. The same rules allow the Council, acting by a qualified majority, to authorise the expenditure of additional twelfths in any month. The Parliament, the Commission and we are agreed that this dispensation is subject to a cumulative maximum of 12 twelfths for the year as a whole. The Parliament and we also agree that transfers between sections of the Budget are not permissible. The Council has not taken a formal position on either of these points but has rejected individual proposals for transfers between sections of the Budget put forward by the Commission.

4. Current problems arise because the cost of the CAP is rising. So there is probably a need for additional "twelfths" for expenditure under the FEOGA guarantee section of the Budget to enable member states to meet their obligations to make payments to farmers through their intervention agencies in June and the succeeding months. The Commission have asked for additional "twelfths" sufficient to keep agricultural guarantees in funds until the end of August. They also propose some transfers within the FEOGA section of the Budget. The request is to be discussed in Brussels this week.

5. It would be open to us to seek to block this measure as a means of bringing further pressure to bear for an acceptable settlement of our budget problem. But the Financial Secretary's objections to this course are strong. The decision will be taken by majority voting, which is a well-established practice in the Budget context. The other member states will almost certainly



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support the Commission proposal. We could thus only seek to block it by invoking the Luxembourg compromise. But it would be difficult to sustain the argument that a vital United Kingdom interest was at stake and, if the other member states refused to accept the use of the Luxembourg compromise on this issue, our chances of deploying it successfully later to veto the Budget as a whole could be seriously weakened.

6. The Financial Secretary accordingly proposes that we should try to get agreement to additional twelfths sufficient to cover agricultural guarantee expenditure until the end of June only, leaving any requirements for later months to be dealt with separately as they emerge. He also proposes that we should continue to resist the Commission's proposals for transfers between sections of the Budget. He believes that this line, which would give the Commission a continuing incentive to contain expenditure, should attract the support of other member states as being consistent with an earlier Council decision affecting FEOGA payments for May. However, if this assessment proves to be wrong, it would follow from paragraph 5 that we should have to bow to the majority view.

7. If the Prime Minister is content with the Financial Secretary's proposed objectives, which are likely to be acceptable to the Foreign and Commonwealth Office and the Ministry of Agriculture, Fisheries and Food, there would seem to be no need for her to intervene in the correspondence.

(D. J. Wright)

20th May 1980