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Trench-Warfare in the British Budgetary Question

The afterlife of the Mandate of May and the run-up to Fontainebleau

The previous article detailed the contradictions of the British accession, the renegotiation of the terms of entry, the first attempts to handle the British Budgetary Question (BBQ) and finally the temporary agreement of Brussels. This article analyses the interim period of 1980-84, when finally one of the most arduous diplomatic fight within the EC was settled.

Trench-Warfare and an Interim Solution

This period of the BBQ was somewhat similar to the trench-warfare of the First World War, where both sides invested a lot in the struggle but the frontline did not want to move in either direction. This period embraces first of all the fight for the rebate of 1982 promised by the Mandate of May, secondly the battle for a permanent solution. As a result of the 'Mandate of May' the European Council's meetings were almost relieved of the desperate quarrels surrounding the BBQ for the years of 1980 and 1981, as payments agreed in Brussels meant a definite solution for those years. Although, Luxembourg offered the UK the possibility of a rebate for 1982, which was confirmed in Brussels, it was not quantified. The simple fact that the payments of 1982 and 1983 had to be negotiated effectively meant the failure of the May Mandate. The Commission gradually realised that it was impossible to develop further Community policies leaving intact the CAP without the increase of the own resources. Consequently it put forward different proposals to rearrange the whole structure of the Community budget including the increase of the VAT factor and the reform of the CAP. In the interim it proposed that the British rebate would be paid by those Member States whose receipts from the EAGGF (FEOGA) are significant.[1] The reduction of agricultural prices was the crucial point of this document and those that accompanied it. The meeting of the European Council in London in November 1981 admitted the failure of the Mandate of 1980.

There were two possible solutions. One concerned the increase of the VAT ceiling and was supported by France and other net recipients of the EC. The second was backed by the UK and Germany and would have meant the restructuring within the existing financial frame of the Community, and it was against the increase of the own resources at all costs.

As Thatcher considered the scope of the May Mandate extending to 1982 as well, she demanded 1,400 million ECU for that year. A new corrective mechanism was envisaged by Gaston Thorn, the new president of the Commission and Lev Tindemans, the president of the Council to ensure a rebate for Britain for the next five years at around 850 million ECU per year. France opposed strongly this formula.[2] On 15 March 1982 Thorn, Tindemans and Mitterrand had their meeting in Paris to prepare for the Council

[1] de la Serre, 1987
[2] Politique etrangere, 1982

Meeting the following week. The main topic of the negotiation was the BBQ. While the president of the Commission reported on the British demand (1,400 million ECU), Mitterrand did not want to go over 600 million in any case. At the meeting of the Agricultural Ministers in Brussels[3] the British Prime Minister vetoed the annual farm price increases through the UK Agriculture Minister, Peter Walker.[4] The participants had firm and contradictory positions. The Commission proposed 9 per cent, the British rejected to go above 7 per cent, while the French were not disposed to go under 12 per cent. In Paris ten thousand farmers were demonstrating; Mitterrand was keen to have a better deal than Giscard had in Brussels, so it was impossible for the French Agricultural Minister to give in to the British request. [Attali, 1993, p 195] It represented an important step in the BBQ and in the history of the Community as the Compromise of Luxembourg was cited to justify the veto. The rise of the veto was badly perceived by the other Member States, which was due to two main reasons. First, because the Community had backed the Thatcher government in the Falkland War, secondly, because the UK got back more in 1980 and 1981 than it was intended previously due to the increase in world agricultural prices. While Mrs Thatcher argued in 'Downing Streets Years' that her experts had examined in the early stage of the BBQ the different means of pressures of which the veto of the annual price increase was one, she does not mention the weakness and failure of this secret weapon. Her veto provoked lively reactions from the Community, mainly from France, and was overridden later in May[5]. The following day Robert Armstrong, Thatcher's senior advisor and Jacques Attali, Mitterrand's special advisor, met in London to prepare for the forthcoming European Council. Armstrong offered a deal to Attali, namely if Mitterrand did not raise the question of agricultural prices, Thatcher would not raise the BBQ[6] at the Council in Brussels[7]. Not surprisingly the summit of Brussels passed off without raising the above-mentioned issues.

The uncertainty surrounding the rebate of 1982 came to an end with the agreement reached at the meeting of the Foreign Affairs Ministers in Brussels on 24 May 1982. The final figure was 850 million ECU, which was the result of a long discussion. The French Foreign Minister, Cheysson, sent a telegram on the morning of the meeting saying:

'We finished the painful negotiation with the British late in the night in Brussels. … Based on the figure of 1981 agreed in 1980 the British demanded 400 million more for 1982 (1300 million ECU). Following your meeting with the British Prime Minister the demand was reduced to 1008 million ECU. … We have decreased this amount even further firstly to 875 then to 850 million that will be paid from the budget of 1983.'[8] Attali adds that Cheysson omitted to mention to his president that he agreed to pay half of the German part of the British rebate in return for German support in bringing pressure on the British. Otherwise, Genscher wanted to pay only the third, as they originally expressed it in June 1981[9] and informed Cheysson that Germany would only pay a quarter in the future. Cheysson also misjudged the French overall part (which

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[3] On 23 March 1982
[4] Young, 1993
[5] The veto was raised on the Council of Agricultural Ministers of 18 May 1982.
[6] Attali, 1993
[7] The Brussels European Council took place on 29-30 March 1982
[8] Attali, 1993
[9] Agence Europe, 13 June 1981

included half of the German payment) arguing that it was 290 million while in reality it came to 400 million ECU.[10]

Tower of Babel – Stuttgart

The European Council of Stuttgart was postponed[11] due to the British general elections. There is no evidence in primary or secondary sources or any other reason to suppose that Mrs Thatcher's European partners speculated on her defeat, however she claims in her autobiography that they probably hoped 'to extract a few more concessions from a newly re-elected government than from one under the domestic pressures that elections pose.'[12]

Before the European Council of Stuttgart the advisors of the respective leaders of France and Great Britain met to prepare for the summit, where Attali confirmed to Armstrong that the British rebate could not be settled without the complete analysis of the Community finances and it could not take place before Athens. He added that it was very improbable that France would agree to give anything to the British for 1983 because of the overpayments that occurred in the previous years and because the French public opinion would hardly accept paying any subsidies to the UK whose balance of trade was in surplus due to its oil, while France did not possess such a natural resource.[13]

It was clear that after the failure of Mrs Thatcher's secret weapon[14] Mitterrand's new linkage policy, linking the BBQ settlement to a broader review of the EC financial mechanism, came as a delaying tactic from France. As the Community arrived at a stage near bankruptcy, Thatcher worked out and used another policy linkage, which was not in breach of the Treaty of Rome, in opposition to the increase of own resources.[15] She wanted to use this new means to urge settlement and to neutralise the French delaying tactics.

As the European Council was presided over by Kohl, Germany had an important role at that time. Furthermore, as it was his first presidency Kohl was keen that Stuttgart should be a success. According to the view of the British Prime Minister, the interests of German farmers were overruled by those of the German taxpayers at that time resulting to the opposition of the Kohl government to any further increase in the VAT ceiling.[16] While the future financing of the EC was sent to the Foreign and Finance Ministers, a refund of 750 million ECU for 1983 was provisionally agreed for Britain.

In contrast to the British, French sources underline a palpable difference between the interpretations of the two sides concerning the result of Stuttgart. This was reflected in the letters written by the French and in reaction by the British to Helmut Kohl.[17] The misunderstanding appeared when Thatcher announced at the Press Conference after the

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[10] Attali, 1993
[11] From 6-7 June to 17-18 June 1983
[12] Thatcher, 1995
[13] Attali, 1993
[14] Vetoing the annual farm price increase
[15] The increase of the 1 per cent VAT ceiling had to be approved by each Parliament.
[16] Thatcher, 1995
[17] The copies of both letters was sent to the other participants of the Stuttgart Council

summit that the difference of 500 million ECU between her initial demand of 1250 million ECU and the agreed 750 million of Stuttgart was to arrange the over-receipts of 1980 and 1981. Mitterrand was shocked to hear it and told to Attali: 'Elle n'a encore rien obtenue, et le trop-perçu reste a rembourser.' ('She even did not receive anything and the over-receipts are still to be reimbursed.')[18] Avoiding the misunderstanding Mitterrand had Cheysson prepared a draft letter to Kohl. In this letter Mitterrand clarified that 'the over-receipts of 1980 and 1981 will not be arranged with the conditional refund of 1983, because in any case its nature is different from the previous. The corrections concerning 1980 and 1981 were not taken into consideration and must be examined based on real figures.'[19] The French President's letter was based on the French position as shown in the minutes of the Stuttgart Summit, while Thatcher's letter that followed Mitterrand's was relied on the conclusion of the summit. It argues that the summit's conclusion supports without any doubt the British position. She claims Mitterrand's interpretation to be a unilateral one, which does not affect in any case the validity of the unanimously approved conclusion.[20] This summit was a perfect example of how the participants of the BBQ made their contradictory own interpretations on a unanimously-agreed text. This scene could to some extent be a modern adaptation of the story of Tower of Babel.

Run-up to Fontainebleau

The period between the Summit of Brussels (19-20 March 1984) and Athens (4-5 December 1983) was a turning point in the French attitude toward the BBQ. Their main concern became the wish to find a permanent solution at the cheapest price and not to waste more time and energy renegotiating the rebate each year. The ever closer, financial crisis of the Community added another new element to this period.

Mitterrand mentioned to Thatcher in the course of their private meeting preparing the meeting for Athens that he could not see any chance to resolve the contentious issues in March, which would remain unresolved in Athens in December. Also to prepare for Athens the British outlined a threshold or 'safety net' system. It meant that those Member States whose GDP per head was below 90 per cent of the Community average should not be net contributors at all, while those who are wealthier than the Community average should gradually become net contributors.[21] However, Athens was a pure fiasco, Mitterrand refused all concession to Thatcher and the Council could not even agree on a communiqué.[22] There were two noteworthy phenomena. First, which is witnessed in the memoir of Attali, on Monday when the blockage and chaos were complete the French president was briefed by the four highest ranked French civil servants. The notice said that the failure of Athens would have meant the withdrawal of the UK refund of 750 million for 1983 resulting in the withholding of their contribution. This situation could escalate into the insolvency of the FEOGA that contributes 40 per

[18] Attali, 1993
[19] ibidem
[20] ibidem
[21] Thatcher, 1995
[22] Young, 1993

cent to the French agricultural exports.[23] According to Attali's report Mitterrand stopped reading it and treated it as a means of blackmail to make a compromise with Thatcher.[24] The second phenomenon was the sudden change in the French position concerning the BBQ, reported by Thatcher[25]: France ceased to support a permanent solution regarding the BBQ. Thatcher perceived this change as part of Mitterrand's tactic 'to delay the settlement until he could take credit for it in his own presidency.'

On the 1st of January 1984, France took over the presidency from Greece. Mitterrand has decided to settle the BBQ at last making use of the huge diplomatic machinery of his country but without making too many concessions to Thatcher.[26] The above-mentioned views of Thatcher can be backed-up by the report of Mitterrand's chief advisor on the preparatory meeting of the French presidency on 9 January 1984. It shows that Mitterrand had a clear view on the programmes and objectives of his presidency. Among other things he mentioned as a primary objective the increase of the VAT ceiling to 1.4 per cent for March. After having dealt with the issues of the VAT ceiling, the milk quotas, and the compensation payments, he intended to settle the BBQ and to open the way to the enlargement.[27]

At the beginning of 1984, the figures were badly modified. Thatcher was stuck at the amount of 1.5 billion ECU, while her French counterpart's basis of negotiation was 600 million and his ceiling was 1 billion that could not be exceeded.[28] The same amounts were discussed at the Thatcher-Mitterrand working breakfast[29] at Marly, where Mitterrand ensured the Iron Lady that he intended to find a permanent solution but she had to be content with a two-thirds rebate. Thatcher tried to evade the restrictive French offer saying that she did not care about the proportions, she was only interested in the final outcome, which must be around a net British contribution in the range of 500 million ECU.[30] It was also clear from that meeting that she was opposed to accepting Athens as a basis of calculation for a permanent solution. At the other meeting of the three (Mitterrand-Kohl) the German Chancellor ensured that Mitterrand settled the BBQ under the French presidency. Mitterrand offered a French undertaking to shoulder financial burden from Germany. At the last Mitterrand-Thatcher meeting she accepted to reduce her demand to the two-third (1333 million ECU) of the initial 2000 million net contribution.[31]

At the European Council of Brussels there were three different proposals concerning the VAT ceiling increase. The Commission and France proposed 1.6, Ireland 1.8, and Germany and the UK would have accepted maximum 1.4 per cent. Following a

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[23] In 1982, the 40 per cent of the 100 billion FRF exports was due to the 9 billion FEOGA payments. According to the report, this fact would have made the French trade balance incredibly sensible to the bankruptcy of the Community.

[24] Attali, 1993

[25] Thatcher, 1995

[26] Young, 1993

[27] Attali, 1993

[28] These figures was discussed between the two side's advisors at the meeting of 19 January 1984

[29] On 23 January 1984

[30] It practically meant 1500 million refund but formulated from another way. It was obvious for Mitterrand as well who rather changed the topic as it was clear for him that they could not have a common denominator that day.

[31] Attali, 1993

desperate, but lively discussion on the BBQ Kohl put forward a new offer of 1000 million ECU for five years. While British primary sources seem uncertain whether it was a result of a Franco-German deal, French sources support this hypothesis and give a detailed report on the Mitterrand-Kohl agreement. It went without saying that Thatcher rejected the offer one more time (though, of course, this is a different offer from those previously available). Brussels was another fiasco in the long series of European Councils trying to deal with the BBQ. It failed to advance in the area of the BBQ or on the VAT ceiling bargaining.

The failure of Brussels led the British Government to re-examine the possibility of the withholding of the UK contribution. While this possible measure seemed to be a viable means of political threat in Thatcher's eyes, her experts warned her that the UK would lose the case before the Court (ECJ). The immediate French reaction was the consideration of excluding Britain from the new EC initiatives in the future, thus threatening a 'two-tier Europe'[32] Taking into consideration the different possibilities and impacts, she decided 'not to go down the path of withholding contributions.'[33]

The Diplomatic Triumph - Fontainebleau June 1984

Two important preparatory events seemed to be important before the Fontainebleau summit. The first was a telephone conversation between Kohl and Mitterrand[34], where Kohl told Mitterrand that he doubted whether they could offer less to the UK than the Commission did. According to the testimony of Attali, Mitterrand feared letting loose his German ally and permitting the creation of an Anglo-German agreement.[35] The other important event was the personal meeting of the two leaders itself[36]. The only obstacle before the enlargement was the unsolved BBQ at that time. It was vital to Mitterrand to ensure that if the British block the situation the Nine (Ten without the UK) could go on in the building of the Community. He had to ensure strong German support for it. Although Mitterrand did not want to go over 1066 million, two-thirds of the British net contribution, Kohl was convinced that Thatcher would not give her consent to an amount less than 1100 million ECU.[37] Finally they came to an agreement to put joint pressure on Thatcher at Fontainebleau.

A triple motivation influenced Thatcher before and during the summit. First, it seemed harder to secure a settlement under subsequent Presidencies when France, no longer constrained by its role as President could actually press its own case. Secondly, Britain's refund for 1983 (750 million ECU) was being withheld, and she did not have any arrangement either for the current or for the following years.[38] Thirdly, according to Attali she must have known that France managed to arrange everything in order to evade the British blockade.[39] Thus, Thatcher was prepared to accept a different method

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[32] Young, 1993
[33] Thatcher, 1995
[34] On 11 May 1984
[35] Attali, 1993
[36] On 26 May 1984
[37] Attali, 1993
[38] Thatcher, 1995
[39] Attali, 1993

of calculation but she was keen on the amount of the refund and the permanency of the system.

The question of UK's contribution was sent to the Foreign Ministers who put forward a new method to calculate the refund instead of the British threshold system. This new system[40], forced by the French, represented a simple percentage of the British net contribution leaving out the factor of wealth of the country instead of a complex computation that was required to the threshold system.

Another French proposal came to modify the outcome of the BBQ: they argued that the British refunds had to be calculated on the basis of the VAT payments only. This calculation omitted that part of the British contribution that the UK paid under the two other (own) resources: the custom duties and the levies.

Since, the French-proposed a basic system (simple percentage of the net contribution) and the French also proposed basis of calculation (VAT payments only) seemed to be accepted by all participants, in the second half of the summit the bargaining went on to consider the pure percentage. Basically Thatcher intended to reach more than 70 per cent, but according to the meeting of the Foreign ministers it was probable that the offer would not exceed 60 per cent.[41]

At the Mitterrand-Kohl breakfast of the second day they fixed the percentage at 65 per cent. Later in the discussion Thatcher became isolated and after the German Chancellor took the French position '...she was on the verge of tears. She was about to agree on everything', Attali remarked.42 While this 'astonishing spectacle' is not mentioned in the 'Downing Street Years', the triumphant finale is described as follows: ''I was determined to get the full 66 per cent….. I said that it would be absurd to deny me my 1 percentage point. The French President smiled and said: "Of course, Madame Prime Minister, you must have it.' And so the agreement was reached.'[43]

Results of Fontainebleau

Britain's 1983 budget rebate of 750 million ecus (£440 million) was unfrozen leaving the British net payment for 1983 of 1200 million ecus.
Britain received a rebate of 1066 million ecus in 1984.
It's rebate for the subsequent years has been 66 per cent of the gap between its VAT payments to the Community and EEC expenditure in Britain.
The limit of the EEC's VAT revenues was raised from 1 per cent to 1.4 per cent of Member States' VAT income from the beginning of 1986.
British rebates were guaranteed as long as the 1.4 per cent VAT ceiling would not be renegotiated and increased within the EC. Such an increase requires unanimous agreement, thus the British claimed to have a cast-iron guarantee that the rebates cannot be stopped or amended without their consent.

[40] The Economist, 1984
[41] Thatcher, 1995
[42] Attali, 1993
[43] Thatcher, 1995

After the arduous negotiations Fontainebleau resulted in a rebate of £600 million (1000 million ECUs)[44] in 1984 and a regular rebate of 66 per cent of the British net contribution calculated on the basis of its VAT payments. At the same time, the British Prime Minister agreed to increase the VAT ceiling from 1 to 1.4 per cent, representing a 25 per cent increase in the total revenues[45] of the EC budget and thus made it possible to avoid the bankruptcy of the Community. The charge coming from the refunds given to the UK was distributed among the Member States according to their VAT share, taking into consideration the special reduction of Germany's contribution to the British refund. Facing criticism from the House of Commons, Thatcher argued that the agreement would be permanent in the sense that the refund would last as long as the VAT ceiling remains unchanged. According to her views even if the moment of a future renegotiation would arrive: 'I would be in just as strong a position as I had been in Fontainebleau to veto any extra 'own resources' unless I had a satisfactory deal on Britain's budget contributions.'[46] Throughout the BBQ the British argued that it was not a strictly British question and other Member States could and should be involved as well, France and the Community argued completely the opposite. This dispute had a certain after-life in the agreement since the agreement states that '…any Member State sustaining a budgetary burden which is excessive in relation to its relative prosperity may benefit from a correction at the appropriate time.' However, in the last 24 years no other Member State could make use of Fontainebleau. Though Mitterrand estimated that the arrangements of the Agreement would end when the increased Community resources were exhausted, Thatcher argued at the Press Conference of Fontainebleau and in the House of Commons that the permanency of the refund is guaranteed because a further increase of the VAT ceiling would require unanimity.[47]

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[44] Lawson, 1992
[45] Denton, 1984
[46] Thatcher, 1995
[47] de la Serre, 1987

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