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MR. POWELL

EUROPEAN COMMUNITY BUDGET: COUNCIL v EUROPEAN PARLIAMENT IN
THE EUROPEAN COURT OF JUSTICE

Although we have not yet seen the full text, it is clear that in its judgement this morning on the Council's challenge to the legality of the 1986 budget adopted by the European Parliament, the Court of Justice has, as expected, followed in substance the satisfactory Opinion delivered by the Advocate General last month.

The Court has ruled that the adoption of the 1986 budget by the European Parliament is not legal, being contrary to the letter and to the spirit of Article 203 of the EEC Treaty; that the declaration by the President of the European Parliament adopting the budget is therefore void; and that the budgetary procedure should be taken up again.

The Court's judgement supports our contention that the European Parliament does not have the right unilaterally to increase the provision for non-obligatory expenditure by more than the maximum rate as defined in the Treaty. In so doing, it establishes a very important point of principle of long term importance for the proper conduct of the budgetary procedure.

It is a priority task for the United Kingdom Presidency, working with the European Parliament within the provisions of the EEC Treaty, to ensure the adoption of the 1986 budget as soon as possible. Arrangements have been made for a Budget Council to be held on Monday 7 July, immediately following an ECOFIN Council on the same day, in order to start the process which we hope will be completed by the end of July. The budget will need to take account of the supplementary budget proposed by



the Commission, which includes an additional 500 mecu on the United Kingdom's 1985 abatement (bringing it up to 1900 mecu or about £1200 million) and extra provision partly reflecting the decline in the value of the dollar. It will therefore be larger in total than the budget adopted by the European Parliament last December. It will, of course, respect the 1.4 per cent VAT ceiling.

We recommend that, in reacting to the European Court's favourable judgement, we should particularly stress the important point of budgetary law that has been established. The Treasury are preparing a press line and a line for the Prime Minister to take at question time in the House of Commons this afternoon.

I am sending copies to Colin Budd (FCO), Rachel Lomax (Treasury) and to Sir Robert Armstrong.

D F WILLIAMSON

3 July 1986