



FROM: DAVID PERETZ

DATE: 16 April 1984

cc PS/Chief Secretary
 PS/Economic Secretary
 Sir P Middleton
 Mr Littler
 Mr Unwin
 Mr Fitchew
 Mr Mortimer
 Miss Court

NOTE FOR THE RECORD

EC BUDGET: DISCUSSION WITH VICE PRESIDENT ORTOLI

The Chancellor had a discussion with M. Ortoli, at the latter's request, in the margins of the Interim Committee meeting on 12 April. Ortoli described the Community's likely budgetary situation in 1984 on which, he said, the Commission would be putting forward proposals this week.

2. He said that the expected excess of expenditure over maximum possible revenue in 1984 now looked likely to be around 2½ billion ecu, ½ billion of which arose from income being less than anticipated; and 2 billion from higher spending. Although he personally was in favour of looking for spending cuts as the preferred way of reducing this shortfall, realistically he did not expect to achieve savings of more than a few 100 million ecu; much of the expenditure was already irredeemably committed.

3. He listed the following possible ways of dealing with the shortfall:-

(i) Supplementary national contributions. This he said was permitted under the Treaty of Rome, so long as there was an unanimous vote, but some agreement would be needed on burden sharing.

(ii) Borrowing by the Commission either (a) in the markets or (b) from member states or their central banks.

(iii) Agreement by Member States to forgo the 10 per cent of levies and Customs duties allowed them the recognition of the costs of collection.

Can we contribute? prop due to national income per head.

- And our refunds for '83 would have to be paid.



(iv) Member States paying advances in December 1984 of contributions due in January 1985. He described this as a "trick", and said it would require a unanimous decision.

4. While he did not have direct responsibility of these matters in the Commission he did have "some influence". He would be asking the Commission to present all these alternatives. He had some personal preference for (i), and was against (ii a) (the Chancellor agreed), because of the precedent it would set for deficit financing. His expectation, however, was that the choice would lie between (ii b) and (iv), and probably involve some combination of the two.

5. In reply the Chancellor said:-

(a) His preference was for the maximum possible expenditure cut backs.

(b) Beyond that, the crucial point was to get the budgetary imbalance problem resolved permanently, as soon as possible. While that remained unresolved, and while our 1983 Budget refunds remained blocked, there would be no possibility of securing the approval of the House of Commons for any increase in own resources, and thus would be bound to apply to ways of getting round the own resources limit.

A handwritten signature in cursive script, appearing to read 'D L C Peretz'.

D L C PERETZ

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cc AJC



Prime Minister (2)

To note

AT 18/4

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

ms

17 April 1984

Andrew Turnbull Esq
10 Downing Street

Dear Andrew,

As you know, the Chancellor had a short discussion with Vice President Ortoli, at the latter's request, in the margins of the IMF Interim Committee meeting in Washington last week. You may like to have the attached copy of my note of the discussion.

Copies also go to Roger Bone (FCO) and David Williamson (Cabinet Office).

Yours ever

David

D L C PERETZ



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with AJC

ECL



10 DOWNING STREET

From the Private Secretary

24 April 1984

The Prime Minister has now seen the record of the Chancellor's brief discussion with Vice President Ortoli in the margins of the IMF Committee in Washington recently. She has asked, on the possibility that supplementary national contributions might be made to deal with the budget shortfall, whether such contributions could be proportionate to national income per head. In any event were such supplementary contributions sought our refunds for 1983 would have to be paid.

I am sending a copy of this to Roger Bone (Foreign and Commonwealth Office) and David Williamson (Cabinet Office).

Timothy Flesher

David Peretz, Esq.,
H.M. Treasury.

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