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FCS/84/133

CHANCELLOR OF THE EXCHEQUER

N. B. P. R.

ARL W/S

Community Budget 1984: Commission Proposals for Additional  
Financing in Excess of 1% VAT Ceiling

1. Thank you for your minute of 1 May, covering the Treasury paper on the Commission proposals.
2. I agree with the objectives set out in the Treasury paper. As the Prime Minister told the House on 26 April there is no question of our agreeing to additional financing for 1984 while other matters remain unresolved. You also made this clear to Ortoli on 12 April.
3. I have the following more detailed comments. The paper is right to bring out that the best option for us, genuine national financing without subsequent reimbursement (para 14), is unlikely to be achievable. If no additional finance were agreed and funds for FEOGA payments ran out in November, Governments would almost certainly be obliged to take over those payments themselves. If that happened all other Member States would expect reimbursement in 1985 and the likelihood is that the Commission would take the view that this was essential to maintain the CAP. We could question the legality of this proceeding, but could not rely on successful legal challenge. My difficulty is therefore more with the substance of the option than with the presentational aspect identified in Michael Jopling's letter to you of 3 May.
4. I agree that we should continue to press for savings and deferments in agricultural spending where these are feasible. As Michael Jopling points out, it is unlikely to be possible to find

/genuine



genuine savings on the scale required to close the gap. We should also try to establish the extent to which the option of deferring expenditure is likely to be pre-empted by agricultural traders exercising to the maximum their ability to use prefixed subsidy levels which the Commission is then obliged to honour. If we wish to keep open deferral as a major option we should explore what scope we would have for asking the Commission to curb prefixing. As officials have agreed, there will be tactical advantage in putting much of the emphasis on the wider arguments - questioning the propriety of financing current expenditure by borrowing and the legality of action based on Article 235. In preliminary discussion of the Commission's proposal we have been in good company in expressing doubts about the wider implications. The Italians have difficulties with the legal aspects of the proposal as do the Germans; both the Germans and the French are no less anxious than we are to see a thorough examination of the Commission's estimates. The Dutch share many of our concerns. The more we can encourage other Member States to make the running, the better.

5. We should be able to pursue these arguments successfully for some time. If there is no agreement on budget imbalances, we shall wish to maintain a very tough line. We must meanwhile look very carefully at the ways in which others might seek to raise some additional finance by qualified majority voting, e.g. through waiving the 10% collection rebate. Work is in hand on this.

6. If we get agreement on budget imbalances, it will still be in our interest to see as much expenditure as possible deferred until 1985, when we should be protected by the system. In the event or context of an agreement, however, we might very well find ourselves under strong pressure to agree to some limited financing of the current deficit.



7. No decisions need to be taken about this now but it obviously would be prudent for your officials to start giving some thought as to how, if it seemed an indispensable element in the context of a generally satisfactory agreement, this might be achieved in the least expensive way.

8. It would seem the more important to do so as, following further examination of the figures and the scope for savings, the French may start trying to bring forward proposals to deal with the residual deficit in June. They are strongly opposed to the kind of loan envisaged by the Commission as, I think, are the Germans. They appear to be thinking in terms of agreement on some form of advance.

9. I am copying this minute to the Prime Minister, the Lord President and the Lord Privy Seal, to members of OD(E) and to Sir Robert Armstrong.

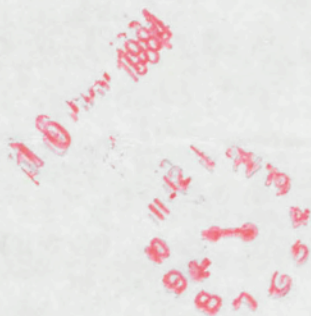
A handwritten signature in dark ink, appearing to be 'G. Howe', written in a cursive style.

(GEOFFREY HOWE)

Foreign and Commonwealth Office  
10 May 1984

EURO POE : budget

pt 24



CONFIDENTIAL

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD  
WHITEHALL PLACE, LONDON SW1A 2HH



From the Minister

The Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer  
Treasury Chambers  
Parliament Street  
SW1 P3AG

A.S.C. 3/5

r.a.

3 May 1984

COMMUNITY BUDGET 1984: COMMISSION PROPOSAL FOR ADDITIONAL  
FINANCE IN EXCESS OF THE 1 PER CENT VAT CEILING

I am broadly content with the tactics suggested in your minute  
to Geoffrey Howe. *will request if required.*

There are however two points which I would like to make. The first is that, while tactically we will wish to argue for examination of savings and deferrals, I believe that it would be counter-productive for us to seek to reopen the outcome of this year's price fixing. I fear that the identification of "genuine savings", as opposed to deferrals, will yield small amounts only. While my Department will look again at the scope for savings and deferrals, I think that we have to consider carefully how we handle this. My statement in the Council minutes made it clear that we expect the Commission to take the lead in keeping within the financial provision and this remains our view. Secondly, while national financing may be to our budgetary advantage we will, as the paper indicates, need to examine the problems that it would raise. But, more fundamentally, if the UK were to advocate national financing it would be seen by other Member States to be an attack on one of the main principles, financial solidarity, on which the Common Agricultural Policy rests. Open advocacy of such a course would risk the French using this against us in the run up to the June Summit and we could antagonise

/other countries, ...

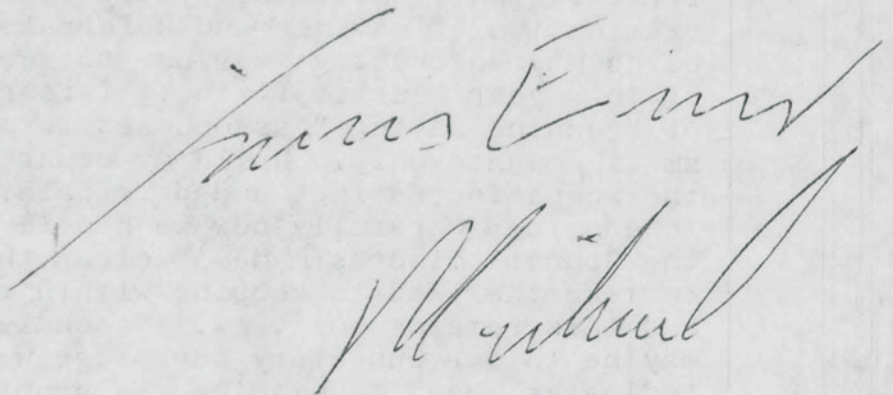
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other countries, including the Federal Republic of Germany whose continued support is important in opposing an oils and fats tax and other methods of raising revenue by the back door.

Subject to these points, I am content with the line proposed.

Copies of my letter go to members of OD(E), the Lord President, the Lord Privy Seal and to Mr Coles (No 10) and Mr Williamson (Cabinet Office).



MICHAEL JOPLING