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Qz.03752

*S. U. after Economic
summit. AR 7/16.*

MR COLES

EUROPEAN COMMUNITY: BUDGET NEGOTIATIONS AND "OVERRUN"

The Prime Minister has ^{With PM 4/16.} had a copy of the Chancellor of the Exchequer's minute of 4 June to the Foreign and Commonwealth Secretary. The question of the link between the long term reform of the Community's financing, finding the Community cash for the United Kingdom's 1984 refund (ie the ad hoc year) and the budget overrun has been discussed between departments and, in substance, there is now agreement on the Treasury's paper. The Foreign and Commonwealth Secretary, however, will probably disagree with the tactics recommended by the Chancellor of the Exchequer in paragraph 8 of his minute.

Our advice is:-

(1) the United Kingdom's policy is to cut back 1984 expenditure to the budget level. If, however, some budget overrun is unavoidable in 1984, there will be no Community resources to finance it. Any overrun would be financed nationally and reimbursed out of the 1985 budget (this is, of course, more favourable to the United Kingdom than direct Community financing);

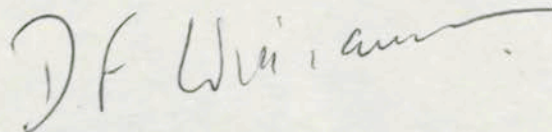
(2) the real problem arises in 1985. On the 1985 budget the United Kingdom has conflicting objectives: we must hold expenditure down but we also want our 1000 million ecu refund in respect of 1984. The Chancellor of the Exchequer (options (i) and (iii) in paragraph 3 of his minute) rightly states that there is a choice: either an increase of the Community's resources in the autumn of 1985 with our 1984 refund of 1000 million ecu obtained in 1985 or no increase in the Community's resources until January 1986 with our 1984 refund of 1000 million ecu obtained at the beginning of 1986. We consider the Chancellor's choice of

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option (iii), with option (i) as a fallback, as conducive to budgetary discipline in 1985 and perfectly reasonable. The Foreign and Commonwealth Office, however, will be advising the Foreign and Commonwealth Secretary to go directly for option (i);

(3) the Cabinet Office has opposed option (ii). If the United Kingdom were to accept that extra Community resources could be raised by a regulation under Article 235 of the Treaty and not by a prior amendment of the Own Resources Decision, we should be hitting at our own position not only in the immediate future but also when the question of the own resources ceiling comes round again in the future. This is, in substance, the same point which the Prime Minister took over the question of the Community's credit rating, when we won the battle.

I am sending a copy to Sir Robert Armstrong.



D F WILLIAMSON

5 June 1984