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D. U. on 12 June

CHANCELLOR OF THE EXCHEQUER

A.S.C. 7/6

EC Budget Negotiations

1. Thank you for your minute of 4 June.
2. If we cannot get a satisfactory resolution on budget imbalances, and that includes agreement to release our 1983 refunds, then there will be no increase in own resources; and we should not be prepared to consider ways of financing the budget overrun. But I agree with you that other Member States will expect us to discuss how the overrun might be handled in the context of an agreement. Otherwise, we should diminish the chances of a satisfactory agreement on budget imbalances and intensify the pressures on us to agree to a second ad hoc year. This would be very expensive, given your revised estimate (2740 mecu) for the VAT share/expenditure share gap in 1985. As you point out, an arrangement on financing the overrun is also necessary to secure the release of the 1000 mecu refunds for 1984.
3. The difficulty with option (iii) is that I am not clear that this would in fact succeed in securing the release of the 1984 refunds or in heading off pressure for the second ad hoc year.
4. Option (i) seems to me to have the great advantage of (a) securing the 1984 refunds, and (b) maximising our leverage in the general negotiation. It is in accordance with the line the Prime Minister took at the Stuttgart European Council. We should not of course agree to any bringing forward of new own resources to October 1985 except on the basis of a satisfactory settlement on imbalances. I share your reservations about option (ii).
5. This will require careful handling, particularly vis a vis the Germans. I agree with the approach set out in your minute, subject to the points above. The matter is likely to come up at or just before Fontainebleau and we shall need to be able to



deploy the options at that stage in such a way as to maximise our negotiating leverage.

6. I am copying this minute to the Prime Minister, 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  
7 June, 1984

Euro R11

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Budget

07 JUN 1984

