



PM/84/96

PRIME MINISTER

Prime Minister  
 Agree?  
 C.D.  
 13/6

Community Budget Negotiations and the 1984/85 Budget Overrun

- with CP
1. Nigel Lawson and I have discussed the points raised in my minute of 7 June about the handling of the 1984/85 budget overrun.
  2. Other Member States are unlikely to agree to a solution on budget imbalances at Fontainebleau in a fortnight's time unless a way is found to deal with the problem of the overrun. We must go on pressing for savings; but a substantial deficit is certain to remain.
  3. Since my minute was written President Mitterrand has made clear to you that the French - and no doubt other Member States - will be fighting hard to secure a second ad hoc year in 1985. What matters most to us will be the system and the basis on which it is established. But because, for technical reasons, the VAT share/expenditure share gap is likely to be unusually high in 1985, it is liable to be costly for us to agree to a second ad hoc year at a fixed sum and we must maintain our insistence that the system should come in to operation in the second year (ie in respect of 1984).
  4. We also have to make sure that this complex of issues is dealt with in a manner which guarantees payment of our 1984 refunds. It was agreed at Stuttgart that these should not increase Community expenditure, in other words, the correction must be made on the revenue side.
  5. The Chancellor and I agreed that to deal with the pressures on us to agree to some form of financing of the 1984/85 overrun, if we consider that some additional financing is unavoidable, you would need to be in a position at the European





Council to say, if necessary, that we could agree to bring the own resources decision forward to 1 October 1985, provided there was a satisfactory imbalances settlement, and if others agreed to do so. This idea may very well be put forward by others and we shall have to respond.

6. Only the Germans would be likely to oppose such a solution. It remains to be seen whether they would do so in isolation. I agree with the Chancellor that if we made this concession we should need to keep up the pressure on the 1985 budget to ensure that call-up of additional own resources in 1985 was limited so far as possible to covering our 1984 refunds and exceptional and unforeseen needs from autumn 1985 onwards. This approach would secure payment of the 1984 refunds, while increasing our leverage in the main negotiations.

7. On the second ad hoc year, we shall continue to point out to the French that since the correction for 1985 would operate in 1986, when new own resources would be available, there is no case for further ad hoc refunds. This approach, however, should also strengthen our hand in resisting new ad hoc arrangements.

8. I explained to Nigel Lawson that if <sup>we</sup> were to make progress in preparation for Fontainebleau, I should probably need to tell Dumas privately that we might agree to an arrangement of this kind. If I am pressed on our attitude on this matter at the Foreign Affairs Council in Luxembourg next Monday, I might have to take a similar line with one or two of the others, but would hope to avoid doing so, so that this card can be kept so far as possible for you to play at Fontainebleau.

9. I am sending copies of this minute to the Chancellor of the Exchequer, members of OD(E) and to Sir Robert Armstrong.

GEOFFREY HOWE

Foreign and Commonwealth Office

12 June, 1984