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10 DOWNING STREET

*From the Private Secretary*

16 July 1984

EUROPEAN COMMUNITY BUDGET

The Prime Minister held a meeting at 6.30 pm on Friday 13 July in order to discuss the United Kingdom's approach to the Commission's proposals for a Community supplementary budget for 1984 and for the Community preliminary draft budget for 1985. The Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Minister of Agriculture, Fisheries and Food, the Economic Secretary, HM Treasury, Sir Michael Butler and Mr. Williamson were present.

The Chancellor of the Exchequer said that he had set out his proposals in his minute of 11 July to the Prime Minister. The Council of Ministers (Budget) on 18/19 July would be examining how to deal with the Community budget overrun. Since both the proposals of the Commission involved expenditure above the level of the resources available under the 1 per cent VAT ceiling, the Council would be difficult. While setting out his basic position in paragraph 8 of his minute, therefore, he had concluded that the Economic Secretary, Treasury ought to be given some flexibility on the lines of paragraph 9 of his minute. The Foreign and Commonwealth Secretary said that, if the United Kingdom was to achieve the objective of pushing the irreducible minimum of the 1984 budget overrun into 1985, it would in his view be necessary to let it be known in the Community that we were prepared to see the level of the Community's own resources increased in 1985. Sir Michael Butler said that, in addition to avoiding an article 235 regulation and pushing into 1985 the 1984 overrun remaining after the maximum savings had been obtained, it was also in the United Kingdom's interest to ensure that the 1984 refund was obtained in 1985 by deduction from our VAT contribution. This would take up, with the German adjustment, almost 0.1 per cent of Community VAT. It was most unlikely that we

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could negotiate an arrangement under which both the 1984 and 1985 overruns were pushed into 1986 nor was this to the United Kingdom's advantage in two respects: it would defer the 1984 refund into 1986 and it would overload the 1986 budget, thus probably triggering a review of the refund arrangements.

In discussion it was pointed out that it would be very difficult to get agreement to our proposed action (temporary financing with reimbursement) for dealing with the 1984 overrun and that we would be strongly pressed to agree to funding this expenditure in 1984. Mr. Tugendhat had advised that in any event other member states would insist that the 1984 overrun should not be so handled as to give the United Kingdom a substantial refund of its share of the expenditure under the new United Kingdom refund arrangements applicable from 1985. Other member states might seek to argue that it had been agreed at the European Council at Fontainebleau that the 1984 budget overrun should be financed by advances during 1984 but that was not the case.

If we were able to obtain our proposed solution for the 1984 overrun, with an increase in the Community's own resources in 1985, it would be necessary to circumscribe the extra amount of these resources available in 1985. This could be done either by setting an interim figure for the VAT veiling in 1985 (whether that should be 1.1 per cent or a little higher depended on the amount required for the United Kingdom's refund and on the irreducible minimum overrun) or by bringing in the new VAT ceiling of 1.4 per cent in 1985 a month after the last completed ratification but without retroactive effect. In any event the United Kingdom would be seeking the maximum negotiable savings. The composition of the savings either on agriculture or on other policies would depend on the negotiating circumstances in the Budget Council and, in particular, on the German position. We should not exclude some further savings on non-obligatory expenditure, if this were necessary to meet our other objectives.

The Prime Minister said that the discussion had confirmed that the United Kingdom's approach in the Council of Ministers (Budget) on 18/19 July should be to try to reduce the 1984 overrun by savings and deferment (para 8(a) of the Chancellor of the Exchequer's minute); to finance the irreducible minimum 1984 overrun by temporary financing with reimbursement, as recommended in para 8(b) of the Chancellor of the Exchequer's minute; to bring the 1985 draft preliminary budget back within the 1 per cent VAT ceiling (para 8(c) of the Chancellor of the Exchequer's minute); and to accept, if necessary, that the increase in the Community's own resources should come into force in 1985 (para 9 of the Chancellor of the Exchequer's minute) but to

/ circumscribe

circumscribe its application in 1985 in one of the two ways discussed.

I am sending copies of this letter to David Peretz and Adrian Ellis (HM Treasury), Ivor Llewelyn (Ministry of Agriculture, Fisheries and Food) and to Sir Robert Armstrong.

C.D. POWELL

Colin Budd, Esq.,
Foreign and Commonwealth Office

X 03823

MR POWELL - 10 Downing Street

EUROPEAN COMMUNITY BUDGET

1. I attach a draft record of the meeting which the Prime Minister had at 6.30 pm today.

D F Williamson

D F WILLIAMSON

13 July 1984

Encl.

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To issue.
CH.

DRAFT LETTER FOR MR POWELL TO SEND TO MR APPLEYARD

EUROPEAN COMMUNITY BUDGET

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2. The Chancellor of the Exchequer said that he had set out his proposals in his minute of 11 July to the Prime Minister. The Council of Ministers (Budget) on 18-19 July would be examining how to deal with the Community budget overrun. Since both the proposals of the Commission involved expenditure above the level of the resources available under the 1 per cent VAT ceiling, the Council would be difficult. While setting out his basic position in paragraph 8 of his minute, therefore, he had concluded that the Economic Secretary, Treasury ought to be given some flexibility on the lines of paragraph 9 of his minute. The Foreign and Commonwealth Secretary said that, if the United Kingdom was to achieve

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3. In discussion it was pointed out that it would be very difficult to get agreement to our proposed action (temporary financing with reimbursement) for dealing with the 1984 overrun and that we would be strongly pressed to agree to funding this expenditure in 1984. Mr Tugendhat had advised that in any event other member states would insist that the 1984 overrun should not be

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4. If we were able to obtain our proposed solution for the 1984 overrun, with an increase in the Community's own resources in 1985, it would be necessary to circumscribe the extra amount of these resources available in 1985. This could be done either by setting an interim figure for the VAT ceiling in 1985 (whether that should be 1.1 per cent or a little higher depended on the amount required for the United Kingdom's refund and on the irreducible minimum overrun) or by bringing in the new VAT ceiling of 1.4 per cent in 1985 a month after the last completed ratification but without retroactive effect. In any event the United Kingdom would be seeking the maximum negotiable savings. The composition of the savings either on agriculture or on other policies would depend on the negotiating circumstances in the Budget Council and, in particular, on the German position. We should not exclude some further savings on non-obligatory expenditure, if this were necessary to meet our other objectives.

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5. The Prime Minister said that the discussion had confirmed that the United Kingdom's approach in the Council of Ministers (Budget) on 18-19 July should be to try to reduce the 1984 overrun by savings and deferment (para 8(a) of the Chancellor of the Exchequer's minute); to finance the irreducible minimum 1984 overrun by temporary financing with reimbursement, as recommended in para 8(b) of the Chancellor of the Exchequer's minute; to bring the 1985 draft preliminary budget back within the 1 per cent VAT ceiling (para 8(c) of the Chancellor of the Exchequer's minute); and to accept, if necessary, that the increase in the Community's own resources should come into force in 1985 (para 9 of the Chancellor of the Exchequer's minute) but to circumscribe its application in 1985 in one of the two ways discussed.

6. I am sending copies to David Peretz and A M Ellis (Treasury), Ivor Llewelyn (Ministry of Agriculture, Fisheries and Food) and to Sir Robert Armstrong.

CM.