



PM/84/129

PRIME MINISTEREuropean Community: 1984/85 Overrun

1. Ian Stewart minuted to you on 20 July about the deadlock in the Budget Council. The discussion resumed in the General Affairs Council, which I attended, yesterday and today.

2. On the 1984 budget, the Irish President of the Budget Council said that nine delegations were convinced that supplementary financing was needed in 1984 and the Presidency had proposed a sum of 1350 mecu for this. The United Kingdom had not been prepared to agree to supplementary financing. The Commission argued that there was a need for supplementary appropriations in 1984 to meet the Community's obligations, arising from the agriculture price-fixing. Transferring expenditure into next year was not an economy; the Community should meet its obligations in the year they fell due.

3. I said that a solution must be found in line with the principles to which we all subscribed - respect for the Treaty, the own resources system, budgetary discipline, and the need for expenditure to match available resources. The Commission's earlier forecasts of the 1984 overrun had been substantially reduced. The Presidency's 1350 mecu figure could be further reduced. Given the limited resources available, deferring expenditure was a necessary way of tailoring means to ends. Since deferrals would put additional pressure on the 1985 budget, we would be prepared to see new own resources brought forward into 1985, though this could not be retroactive for the whole year.

cc AC
NO (2)

Prime Minister

CDP
24/7.

MS

with CP?



4. The Presidency attempted to bring the discussion to a conclusion, urging us to reflect further on our position before the next meeting of the Budget Council on 6 and 7 September. But Genscher argued that the Fontainebleau agreement was not being honoured. The European Council had instructed the Budget Council to settle the 1984 budget problem. New own resources could not be brought forward into 1985. Other delegations all pressed us to agree to supplementary financing in 1984. The Netherlands joined the Germans in opposing bringing new own resources into 1985, largely because they might not be able to complete their ratification procedures in time; but they were more equivocal in subsequent discussion. The other delegations could agree to bring new own resources forward.

5. I said that Fontainebleau had reached no conclusion on how to deal with 1984. The idea of an inter-governmental agreement was an extraordinary way of seeking to deal with the deficit outside the own resources system and the Treaties themselves. We could not accept this.

6. I had a further word with the Irish Presidench before the discussion resumed, on similar lines, this morning. It concluded with the Presidency saying that one Member State could not agree to any supplementary financing in 1984 and one Member State (FRG) could not agree to new own resources in 1985.

7. I am in no doubt that we should continue to exert pressure on the 1350 mecu figure now advanced by the Irish Presidency, though the reduction from the earlier 2 billion ecu estimate so far has been achieved mainly by deferrals. The opposition of the others to our proposed method of dealing

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with the deficit rests on two points. In the first place they do not want any contribution we make to its financing to be covered by the budget imbalances system. This point was made explicitly by the French in the Council discussion. More fundamentally, however, they will continue to resist the idea that agricultural payments in the last weeks of the year should be funded by national intervention agencies against subsequent reimbursement by the Community. I am not optimistic that other Member States can be brought explicitly to agree to deferral of the whole deficit into 1985.

8. I pointed out that the German resistance to bringing new own resources into 1985 would mean that the Fontainebleau agreement that our 1984 refunds should be deducted on the revenue side from our VAT share in that year could not be implemented; and that their position also meant that there would not be one but two years of extraordinary financing outside the Treaties. The other clearly are worried about this, and the Germans will come under increasing pressure over 1985.

9. On the 1984 overrun our position would of course mean that, with or without the agreement of other Member States, they would have to take over the financing of their own agricultural expenditure, against subsequent reimbursement by the Community, in the last weeks of this year. But we shall have to consider our handling of this problem in relation to our other objectives and in particular the need to secure agreement to the new own resources decision in terms acceptable to us and satisfactory texts on budget discipline. I shall be letting you have some further thoughts on this.

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10. I am sending copies of this minute to the Chancellor of the Exchequer, the Minister of Agriculture and 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
24 July 1984

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24 JUL 1994



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10 DOWNING STREET

From the Private Secretary

26 July 1984

EUROPEAN COMMUNITY: 1984/85 BUDGET OVERRUN

The Prime Minister has noted the Foreign Secretary's minute of 24 July. Paragraph 9 promises some further thoughts on the handling of the problem of the 1984 overrun. Given that the next Budget Council will be in early September, it would be helpful if the Prime Minister could see these before she goes on holiday (probably 8 August), even if discussion is delayed until the end of the month.

BF

I am sending copies of this letter to David Peretz (HM Treasury) Ivor Llewelyn (Ministry of Agriculture, Fisheries and Food) and Richard Hatfield (Cabinet Office).

Charles Powell

Colin Budd, Esq.,
Foreign and Commonwealth Office.