



PM/84/139

PRIME MINISTER

Prime Minister
 You don't have to decide this
 now. There's no-one much about
 in the Community in August: and
 anyway we don't want to
 show our hand too soon.
 Discuss with Ministers
 concerned for your return from
 Community Budget Negotiations
 leave?
 Yes no
 CDP
 3/P
 M

1. In my minute of 24 July I reported on the discussions in Brussels on the 1984 budget overrun. Since then the European Parliament has blocked the transfer of our 1983 refunds, stating that it would re-examine this on the occasion of the submission of a supplementary budget. When we met yesterday afternoon, I promised you a further note about all this.

2. The Parliament's action is irresponsible and indefensible. If they maintained their refusal to release the refunds until budgetary provision for them lapses at the end of the year, a serious situation would arise. In this respect our quarrel is with the Parliament and not other Member States, but there is clear evidence that some of them were more than ready to encourage their Parliamentary representatives. There is no doubt, therefore, that we face a general difficulty in relation to the 1984 budget. This is because the others realise that we wrested from them a good agreement on budget imbalances at Fontainebleau, while they failed to get from us any specific commitment to any supplementary finance this year.

3. I have discussed the way forward with the Chancellor, the Minister of Agriculture and Ian Stewart. We agreed that the handling of this problem in September needs to be considered in relation to the negotiations on budget discipline and the new own resources decision. Our aim must be to devise a strategy which would enable us to complete the Fontainebleau negotiations by October by securing:

- (a) satisfactory texts on budget discipline;
- (b) embodiment of the new own resources decision in a form acceptable to us (including German acceptance of



the need to bring new own resources forward into the latter part of 1985, providing for our refunds to be paid on the revenue side in 1985 and the avoidance of further difficulties of the kind we are now experiencing with the Parliament).

4. We had some success at last month's Budget Council in reducing the agreed estimate of the amount of the overrun for which supplementary finance was being requested. It has come down from the Commission's initial estimate of 2.3 billion € to the Irish Presidency's nominal figure of 1350 mecus (though the latter was an arbitrary figure not based on agreed savings and probably underestimates the real shortfall by 3-400 mecus). But deadlock was reached over the method and timing of any financing. The Chancellor pointed out at our meeting today that our stand of principle on the need to remain consistent with the Treaties and the own resources system is contested by other Member States in part because they think our real motive is to defer the overrun into 1985 so that it will count towards our abatements.

5. We considered whether it would be feasible to stick to this position but concluded that this could result in the continued blockage of our 1983 refunds, putting at risk implementation of the Fontainebleau agreement and forcing us to consider again the issue of withholding. Nor would the rest of the Community stand still in the meantime. Michael Jopling reported renewed signs, as a result of the budget deadlock, that the Commission are trying to bring forward their consideration of FEOGA accounts for 1980 with a view to pressing a claim against us for milk disallowance which could be very costly.

6. We agreed therefore that simply sticking to our present position will not suffice to secure our overall objectives:



- (a) because other Member States will continue to contend that we are concerned to push the overrun into 1985 so that our contribution would then be covered by the Fontainebleau agreement; but also
- (b) because they are determined to try to avoid national pre-financing of the overrun.

7. If we continue to insist that no additional finance should be provided, other Member States could of course be pushed into pre-financing as FEOGA money runs out, probably in October. But they realise that they do not have to agree to anything for that to happen (since if nothing is agreed it will happen anyway); and once they are pushed into that position we shall lose some of our leverage over them for the rest of this year. Other Member States need our agreement to the increase in own resources, and that remains a powerful lever in our hands; but, since Fontainebleau, they know that we also need to bring that decision into effect in order to provide for the automatic correction of our budget contribution and the avoidance of the kind of difficulties we are experiencing now.

8. The Chancellor and I agreed that it would strengthen our position in relation to the general handling of the overrun if we were to indicate that if the shortfall is pushed into 1985, we should be prepared to agree that our contribution to financing it should not count for the sixty six per cent abatement under the Fontainebleau agreement. We should of course seek to minimise the amount involved. At the least we should limit it to the Presidency figure of 1350. The Presidency figure would mean a contribution by us of 270 mecu gross. Since we should expect to get just over half of that back on the expenditure side by way of agricultural receipts, the net cost to us of waiving the reliefs would thus be of the order of 80-90 mecu (some £50 million). If we could secure such an arrangement it would avoid the need for any supplementary finance this year, with obvious advantage vis-a-vis Parliament and in other respects.



9. We agreed, therefore, that we should take soundings of the key Member States, whose support would be crucial to success at the Budget Council, namely France, Germany, the Netherlands (all of whom have an interest in budget discipline) and the Irish as Presidency. Your meeting with Dr Fitzgerald on 3 September would be extremely important in this respect. At those meetings we should emphasise the importance we attach to trying further to reduce the estimated figure for the overrun. We should let it be known that if an acceptable figure were agreed and that expenditure were deferred into 1985, we should be prepared to consider agreeing that it should not count towards our reliefs. We should make clear that this would only be feasible if the increased own resources came into effect in 1985 to pay for both our 1984 refund and any irreducible amount of overrun expenditure for 1985. We should also stress the link with implementation of the Fontainebleau text on budget discipline, ie that measures must be adopted which would guarantee effective budget discipline. It would be useful if you could in due course emphasise this point in your talks with Dr Fitzgerald.

10. However, even if we strain every sinew it will be very difficult to secure general agreement to a solution on this basis. As I said in my minute of 24 July it will, in particular, be difficult to get the other Member States to agree that all the overrun should be pushed into 1985, as a primary concern of theirs is to avoid national pre-financing. This would be necessary if all the overrun were pushed into 1985 since, as Michael Jopling has pointed out, there is limited scope for real savings in relation to 1984/85, given that the rate of agricultural expenditure was agreed in this year's price-fixing. Meanwhile the Parliament is liable to go on trying to block the 1983 refunds in the absence of a supplementary budget raising additional finance this year.

11. Nevertheless, our preferred course would avoid the need for finance outside the own resources system and should therefore



be the line to follow so long as we can thereby be sure of securing our overall objectives - completion of the budget negotiations and implementation of the Fontainebleau agreement. We should review the position in the light of our soundings of the key Member States. Our aim must be to get these matters settled together, on terms acceptable to us, and to seek to complete the Fontainebleau negotiations by the time Parliament resumes in late October.

12. I am copying this minute to the Chancellor of the Exchequer, the Minister of Agriculture, the Economic Secretary, and Sir Robert Armstrong.

A handwritten signature in black ink, appearing to be 'G. Howe', written in a cursive style.

GEOFFREY HOWE

Foreign and Commonwealth Office
3 August, 1984

CONFIDENTIAL

JKRADH



bc P.C.
DB

10 DOWNING STREET

From the Private Secretary

6 August 1984

COMMUNITY BUDGET NEGOTIATIONS

The Prime Minister has considered the Foreign and Commonwealth Secretary's minute of 3 August about the way forward on the Community's 1984 Budget.

The Prime Minister is dubious of the proposal that we should agree to "sterilise" our share of the 1984 Budget overrun if it is pushed into 1985, so that it does not count for the sixty-six per cent abatement under the Fontainebleau agreement. Nor is she convinced by the conclusion that there is only limited scope for real savings in 1984/85. However, she wishes to reflect on the issues and discuss them with her colleagues on her return from holiday and before she meets Dr. FitzGerald. I shall be in touch to set a time for such a meeting.

I am sending a copy of this letter to David Peretz (HM Treasury), Ivor Llewelyn (MAFF), Andrew Hudson (HM Treasury) and to Richard Hatfield (Cabinet Office).

(CHARLES POWELL)

C. Budd, Esq.,
Foreign and Commonwealth Office.

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MS

10 DOWNING STREET

Prime Minister

This is the solution
which I mentioned to
you: 'sterilising' our
share of the 1984 over-run.

It's far from a happy
solution: but probably in
the end a worthwhile
price to pay if it
settles the 1984 problem
and gets agreement to bring
forward new own resources
to 1 October 1985 and gets an
acceptable text on budget
discipline. We must go for
a package. C.D.P 3/8