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PRIME MINISTER

E.C. BUDGET

There are voluminous papers on this for your meeting on Monday. It seems to me to boil down to this.

Our main interest is to get the Fontainebleau agreement signed and sealed in a form acceptable to Parliament. This means that there must be something adequate on budget discipline. And we must have an absolute assurance that our 1983 refunds will finally be released.

To obtain all this we are going to have to offer a concession. This will be to contribute to the financing of the 1984 overspend once we have pared it to a minimum (probably 1000 million ecus). There is no way to escape this in the end. But what we must do is tie up as many loose ends as possible at the same time - budget discipline, 1983 refunds - so that the concession is part of a final package. The Treasury idea of bringing forward payment of our 1984 refund can be tossed into the pot, but not as a substitute for getting an adequate arrangement for budget discipline. What we must avoid is making a concession on the 1984 overspend, with only vague promises on budget discipline and 1983 refunds.

There is not much chance that matters will be settled at this next Budget Council. But Mr. Stewart is going to need to be able to hold out the prospect of some flexibility on the 1984 problem if he is to make progress on paring the overspend and establishing the link with budget discipline. Otherwise it just becomes a kamikaze mission. He needs to be enabled to report back on what is likely to be the best obtainable package. You will then need to decide whether it

is within the bounds of what is acceptable; or whether we have to revert to thoughts of withholding.

In practice this means that Mr. Stewart's instructions from Monday's meeting should be:

- to insist on further economies in 1984
- to make clear that we cannot contemplate contributing to financing the residual overspend unless arrangements on budget discipline and the regulation implementing the Fontainebleau agreement are also agreed and our 1983 refunds released as an overall package;
- but to let it be known that if all these issues can be settled simultaneously and satisfactorily - but only if - we would be ready to pay our share of the 1984 over-run.

C.D.P.
31 August 1984

DSGABF

PRIME MINISTER

Meeting on Community Budget:
Monday 3 September at 1030

The meeting is to settle the UK line for the Budget Council on 6 September. Also what you should say to Dr. FitzGerald later on Monday morning.

Geoffrey Howe, Michael Jopling, Chief Whip, Economic Secretary, Sir M. Butler and David Williamson will attend.

Papers are:-

- A Mr. Williamson's note
- B FCS' minute
- C Economic Secretary's letter.

C.D.P.

30 August 1984



Prime Minister

Treasury Chambers, Parliament Street, SW1P 3AG

An ingenious idea from the Treasury. But I think it would be a mistake not to go all

30 August 1984

I agree
not

out for satisfactory arrangements on budget discipline as to price of agreeing any supplementary funds for 1984. C.D.P. 20/8

C Powell Esq
10 Downing Street
LONDON SW1

Dear Charles.

1984 COMMUNITY SUPPLEMENTARY BUDGET

The Economic Secretary has discussed with officials here the options for next week's Budget Council and has asked me to let you have some comments before next Monday's meeting. In addition to the substance, he is particularly concerned about the presentation of the outcome to the House of Commons.

He agrees that the options which will need to be discussed at the meeting are the three identified at paragraph 6 of Mr Williamson's note. Option (i) - standing firm on our present position - would ensure that the 1 per cent ceiling was not evaded and would almost certainly drive the other Member States into national pre-financing before the end of the year. However, apart from universal antagonism, the corollary would be that the European Parliament would continue its refusal to release our 1983 refund of 750 mecu.

Either option (ii) or (iii) would involve significant concessions on our part. Although limited sterilisation would enable us to claim that the 1 per cent ceiling had been respected and might be defensible to Parliament in those terms, the Economic Secretary agrees with Mr Williamson that it is questionable whether sterilisation would be sufficient to get agreement from other Member States and is anxious about the potential dangers of the precedent. If we are to consider option (iii), involving supplementary finance this year, the Economic Secretary's view is that we would need elements in the deal sufficiently satisfactory to sell it to our own Parliament. In particular, we would have to:-

- (i) reduce the supplementary financing requirements to the minimum;
- (ii) continue to press for the strictest possible budget discipline arrangements;

(iii) insist that we only pay over our share of the supplementary budget on receipt of our 1983 refund. If the German proposal, which is supported by the other Member States, for finance through an inter-governmental agreement is adopted (and this seems preferable to an Article 235 Regulation), then the Government could hardly ask the House to approve the supplementary payment until the 1983 refunds had been released by the European Parliament.

As regards budget discipline, although the Economic Secretary agrees that there would be advantage vis-a-vis Parliament if we could get the strict financial guideline for agricultural expenditure in a regulation, he has commented that the Government's domestic position would be made more difficult, both with regard to the 1984-5 budget problem and in securing ratification of the Fontainebleau agreement, if it became publicly committed to securing a binding Regulation for the agricultural guideline as a condition of agreement to a supplementary budget and then failed to deliver it. Until now not only the French but several other Member States have been most strongly opposed to a Regulation. There is also a timing problem since the budget discipline discussions are unlikely to be resolved before the October ECOFIN and Foreign Affairs Councils whereas the other Member States will want agreement on the supplementary budget next week or as soon as possible thereafter.

In view of these difficulties the Economic Secretary thinks it would be worth considering at Monday's meeting whether ^{there} is any other quid pro quo that could be sought in the context of reaching a compromise at the Budget Council.

One possibility could be to propose to our partners that our 1000 million ecu refund in respect of 1984 should be brought forward, say to 1 January 1985, and financed outside the EC budget as part of the same inter-governmental agreement as the Germans have proposed should be used to provide the supplementary finance for 1984. The interest saved by bringing forward our refund in this way from October 1985 (or even 1986) would be not far short of our net share of the supplementary finance for 1984. A more detailed note setting out the mechanics of this arrangement and its pros and cons is annexed.

Early payment of the 1000 mecu would also no doubt be difficult to negotiate with other Member States and the European Parliament could still be difficult over the 1983 refund. But the Economic Secretary believes it is worth considering an option along these lines either as an addition or as an alternative to progress on budgetary discipline.

I am copying this to the Private Secretaries to the Foreign Secretary, Government Chief Whip and Minister of Agriculture.

Yours Sincerely

T.M. Stubbington

T M Stubbington
Assistant Private Secretary

ANNEX

EARLY PAYMENT OF UK'S 1000 MECU REFUND IN RESPECT OF 1984

If it is judged necessary to concede some supplementary finance to cover the agricultural overrun in 1984, a possible quid pro quo which the Government might seek would be to bring forward to 1 January 1985 the date for payment of our 1000 mecu refund in respect of 1984. At present the Commission has proposed that this payment should be made as a deduction from our VAT payments when the new Own Resources Decision comes into effect. On the Commission's own proposal this would not be until October 1985 and could be later if the Germans refuse to agree to new Own Resources before 1986. If the refund were paid instead on 1 January 1985, HMG would have the benefit of 9 or 10 months' interest on the money. At likely Government short-term borrowing rates this would be worth some £45-50m. The interest gain would not constitute a saving on planned public expenditure totals, but there would be a below-the-line saving in interest costs which would represent a genuine economic gain. The PSBR for 1984-5 would be reduced by the full 1000 mecu (£590m), though the present PSBR for 1985-6 would be increased pro tanto.

It would be essential that the early payment of the 1000 mecu should form part and parcel of the agreement on supplementary finance for the 1984 Budget and be implemented in the same way. The German proposal at present before the Budget Council is that supplementary finance for 1984 should be made available outside the EC Treaty in the form of "advances" by means of an inter-governmental agreement between the Member States. Such an agreement would have to be endorsed by all the national Parliaments, (including the House of Commons) and the necessary money voted by them. The "advances" would subsequently be repaid from the Community Budget beginning in 1986 under an Article 235 Regulation.

It is suggested that a provision to pay the 1000 mecu on 1 January 1985 could be written into the same inter-governmental agreement and be subject to the same process of endorsement by national Parliaments. The payment of the 1000 mecu to the UK would not, however, have to be entered into the 1984 or 1985 budgets or be agreed by the European Parliament. The money would be paid over to the UK by the other nine Member States either directly or through a "clearing account" held by the Commission. It would be for decision whether, as in the case of the 1984

supplementary finance, the payment to the UK would be subsequently "reimbursed" from the Community Budget in a later year. If this were to be done, it would be essential to ensure that the UK should not contribute towards the reimbursement.

Apart from the interest-saving the main advantages of this option are, first, that the inter-governmental agreement would be easier to sell to the House of Commons if it also contained provision for the 1000 mecu refund as well. (The converse would hold in other Member States). Second, the European Parliament would have no means of interfering. The main risk is that we would have to pay over our contribution to the 1984 Supplementary Budget, before we received the 1000 mecu. If one or more Member States then failed to deliver their share of the 1000 mecu on 1 January 1985, we would have no means of proceeding against them within the Community. A minor objection is that this arrangement is not fully consistent with the terms of the Fontainebleau conclusions, which provides for the 1000 mecu to be paid by deduction from our normal VAT payments. But there seems no reason why a special ad hoc method for payment of the 1000 mecu should prejudice the arrangements for the 66 per cent rebate in later years; the Fontainebleau conclusions are explicit that the latter should form part of the new Own Resources Decision.

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10 DOWNING STREET

Prime Minister

I don't think
that you had time
to read David
Williamson's note. You
might like to
have it by you.

CJP

29/8.

Williamson

PRIME MINISTER

COMMUNITY BUDGET : EXPENDITURE IN 1984

There is a meeting of Ministers next Monday to decide the line to take on this with Dr FitzGerald and at the Budget Council on 4 September.

You will want to see and reflect before then on Mr Williamson's thoughtful piece attached. (Flag A).

You saw Geoffrey Howe's minute on the subject (Flag B) before the holidays and were sceptical.

C.D.P.

C D POWELL

28 August 1984

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MR POWELL

COMMUNITY BUDGET: EXPENDITURE IN 1984

The Prime Minister is holding a meeting with the Foreign and Commonwealth Secretary and the Economic Secretary, Treasury, at 10.30 am on 3 September in order to discuss the next steps on the proposed Community supplementary budget for 1984. This meeting will immediately precede the Prime Minister's discussion with Dr FitzGerald and will determine the United Kingdom's position for the Council of Ministers (Budget) on 6-7 September. Your letter of 6 August to Mr Budd records the Prime Minister's doubts that we should simply seek a solution (the so-called "sterilisation") by agreeing that 1984 expenditure pushed into 1985 would not qualify for United Kingdom rebate. I think that there is more than one option open to us and it may be helpful therefore to have these comments before the meeting on 3 September.

2. The present dispute on the 1984 and 1985 budgets is about three things: savings, the timing of expenditure and not giving in to the European Parliament's blackmail. We cannot accept any link whatever between the 1984/1985 budgets on the one hand and the United Kingdom's 1983 refund on the other. Our approach should remain that in any event the Council of Ministers (Budget) ought to reach some understanding about the handling of the 1984 overrun. This would be consistent with the Prime Minister's statement to President Mitterrand at Fontainebleau that there was a will to settle this point, without any commitment on the means. There is no refusal to deal with the problem. The question at issue is how it is to be dealt with.

3. On savings and the timing of expenditure the situation now is -

(i) savings. The Economic Secretary has clearly done a good job in chopping away at the Commission's original request for an additional 2.3 billion ecu of additional finance in 1984. From personal experience I am very surprised that the Commission has not been able to hold down agricultural expenditure better in 1984, since a number of external factors (principally the strong dollar) have been favourable. Nonetheless, it will be very difficult for the Economic Secretary on 6-7 September to get the agreement of other member states to any figure below the Presidency's suggestion of 1350 million ecu. What we are seeking is genuine savings because agricultural expenditure is simply too high. Any solution, however, which forces some deferral of expenditure into 1985 would - at least under options 1 and 3 below - also benefit the United Kingdom because the favourable rebate system begins to operate in 1985. It is important to keep in mind that our agreed negotiating position is to go for the maximum savings but to recognise that an "irreducible minimum" of 1984 overrun may remain, which we are willing to see financed nationally with reimbursement from the Community budget in 1985;

(ii) timing. Subject to our intention to maximise the savings, the issue is more about timing than substance. The irreducible minimum 1984 overrun will either be pushed into Community financing in 1985 when some new own resources could be made available (United Kingdom suggestion) or will be financed by a supplementary budget in 1984 (other member states' suggestion). On the 1985 budget there is already agreement in the Council of Ministers (Budget) that it must be within the 1 per cent VAT ceiling and there is a wide measure of agreement (Germany at present dissenting) that extra own resources should become available later in 1985.

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4. The solutions on the table now are -

(i) temporary financing with reimbursement (United Kingdom proposal). The United Kingdom proposal is that, after the maximum savings have been agreed upon, any irreducible minimum 1984 overrun would be financed nationally, with reimbursement from the Community budget in 1985. The arguments in favour of this proposal are, first, that it would allow all legitimate Community policies to go ahead and, secondly, that it would respect the Treaty and the system of own resources. There would be no supplementary Community budget in 1984 above the 1 per cent VAT ceiling. Other member states have not given this proposal any serious consideration because it would be favourable to the United Kingdom (all additional expenditure being on the 1985 budget when the United Kingdom will receive the benefits of the new favourable refund system) and because they have a strong theological objection to even temporary national financing. The political importance of this second argument to other member states should not be underrated, although its application to the United Kingdom proposal is marginal because provision would already have been made in the 1985 budget ^{reimbursing} for any national payments in the last few weeks of 1984. In fact, a number of Community actions are already not pre-financed by the Community. An example is the basic agricultural support mechanism of purchase of produce by intervention agencies; this is financed nationally in the first instance, the Community bearing the storage and other costs and reimbursing any losses on resale;

(ii) supplementary budget in 1984 on basis of a Community regulation (Commission and eight member states, Germany against). In our view the Treaty and the Own Resources Decision already provide fully for the system, mechanism and limits on the Community's financing. This proposal

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would be contrary to the Community's own resources system and a bad precedent when the 1.4 per cent VAT ceiling is reached. So long as Germany stands by its present position, the other eight member states rally to solution (iii);

(iii) supplementary budget in 1984 on basis of an agreement between member states (German proposal supported by eight other member states). This has been proposed by the Germans because they do not want the precedent of a Community regulation being used to bypass the own resources ceiling. The German proposal is being presented in the Council of Ministers and in the European Parliament as the right approach and we have been attacked for our present position. In fact, the German proposal is bizarre and uncommunautaire but it is not illegal.

Options

5. The 1984 budget problem is not going to go away. In my view it is a case for surgery, not for a prolonged course of treatment. The quicker we can tackle it, the more likely we are to take up the Fontainebleau package quickly and to get it into a good final legal form. I very much hope that the Economic Secretary, Treasury will be given the necessary authority to settle at the Budget Council on 6-7 September.

6. There are three main options for us -

(i) no change. In view of the reactions of other member states, however ill-considered, we shall not now get their agreement to this course. In the absence of agreement on Community financing in 1984, however, the practical result will be similar to our proposal. In the climate of confrontation the negotiation of the text of the revised Own Resources Decision to implement the Fontainebleau agreement will be difficult; other member states will be even more obstinate on budget discipline for the future; and the European Parliament will continue to disregard previous agreements;

/(ii)

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(ii) "sterilisation". This is the proposal, referred to in the Foreign and Commonwealth Secretary's minute of 3 August, under which we would agree that 1984 expenditure pushed into Community financing in 1985 would not count towards the United Kingdom rebate. There is a certain element of equity in this proposal, since the expenditure being made in 1985 would identifiably relate to 1984. It would reduce some of the criticism of the United Kingdom position. There would be a net cost to the United Kingdom by comparison with course (i) but there would be no supplementary budget in 1984. It is, however, far from certain that other member states will agree. The element of national financing during 1984, to which other member states take objection, remains. Furthermore, as there will be no supplementary budget, the European Parliament may continue to block the 1983 refund. It is also doubtful whether it will get us much more than we currently have on budget discipline for the future;

(iii) legally binding budget discipline for the future in exchange for a 1984 settlement. Under this option also our basic intention to get the maximum savings (and, if necessary, deferrals) remains, so that the 1984 budget overrun would be cut to the irreducible minimum. We would then be willing to finance this by a supplementary budget in 1984 (for example, on the lines of the German proposal above) on condition that the Brussels and Fontainebleau agreements on budget discipline are genuinely incorporated in the Community's budgetary procedures. It would be a real advantage for us if we could get the strict financial guideline for agricultural expenditure in a formal regulation, both in substance and in relation to the United Kingdom Parliament when the Fontainebleau package is presented for ratification.

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7. I would recommend that
- it is in the United Kingdom's interest to resolve the handling of the 1984 budget overrun quickly;
 - we should not tie ourselves to a single solution but that the Foreign and Commonwealth Secretary and the Economic Secretary, Treasury in the contacts before and in the Council of Ministers (Budget) should indicate that, subject to the conditions on savings and budgetary discipline set out above, we would be prepared to adopt course (ii) or course (iii) in paragraph 6.
8. I am sending a copy to Sir Robert Armstrong.

D.F. Williamson
D F WILLIAMSON

15 August 1984

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SS

10 DOWNING STREET

From the Private Secretary

MR WILLIAMSON
CABINET OFFICE

Community Budget Negotiations

I am afraid that we have had to move the Meeting of Ministers arranged for 4 September on EC Budget Negotiations, so that it can precede the Prime Minister's meeting with Dr Fitzgerald. The new time is 10.30 am on Monday 3 September - I hope this is convenient for you.

David Barclay

7 August 1984

SS



10 DOWNING STREET

MR. ~~BARCLAY~~

We shall need to fix this meeting before the Prime Minister sees Dr. FitzGerald, probably on 3 September. Can you look at the possibilities in the diary please.

Sir NB
will now
come
OK.

CDP

~~Mr Powell~~ (ok)

Now at 10-30
on 3 Sep. But we
have a problem with
Sir M Butler, who
cannot come.

Noted by CR
29/8

JMB
7/8

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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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Part 27.888

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10 DOWNING STREET

From the Private Secretary

1 August 1984

Dear Colin,

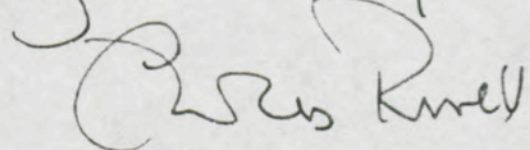
EUROPEAN COMMUNITY: 1984 BUDGET OVERRUN: MEETING WITH DR. FITZGERALD

We have had a message from the Taoiseach's office that he believes it essential to have a meeting with the Prime Minister to discuss European Community business before the Budget Council in early September. This would be part of a series of meetings he will hold with other Community Heads of Government in the days immediately before the Budget Council, with the aim of trying to obtain an early solution of the 1984 Budget problem.

The Prime Minister would have preferred to see Dr. Fitzgerald somewhat later, for instance between the Budget Council and the September Foreign Affairs Council, but does not feel it is possible to refuse the pressing request for an earlier meeting. Since a reply was requested before the Taoiseach's departure on holiday on 2 August, a message is being sent to his office, offering a meeting at 1200 on 3 September, followed by lunch. I should be grateful if this arrangement can be confirmed by HM Ambassador at Dublin. It will be difficult for the Prime Minister to offer alternative dates in this period. The Ambassador might also say that, to avoid speculation, we shall want to make clear that the visit is concerned with Community affairs and is part of a pattern of meetings with other Member States. He might also say that the Prime Minister would prefer it if participation could be kept small on both sides.

We shall probably need to bring forward the internal meeting planned for 4 September to discuss the 1984 Budget overrun. I shall be in touch with you separately about that.

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).

Yours sincerely,


Charles Powell

Colin Budd, Esq.,
 Foreign and Commonwealth Office.

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