

PRIME MINISTER

The situation tonight is that the 1984 Supplementary Budget has been adopted. But the decision incorporates our two conditions viz that we shall not ask Parliament for any money until:

- (a) the Assembly hands over our 1983 refund of 750 m écu
- (b) there is a satisfactory text on budget discipline.

We are taking the line publicly that we have maintained our basic position, that the others have recognised its validity by incorporating our conditions in the text, and that its now up to the Assembly to come up with the 750 m écu.

There will be further discussion of budget discipline tomorrow. Geoffrey Howe will hold out for the point to which the Chancellor attaches importance, as well as for a decision.

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2 October 1984

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PRIME MINISTER

EC Budget

David Williamson telephoned from Luxembourg. The situation is as follows.

2. The Chancellor got a satisfactory text on budget discipline at ECOFIN yesterday, subject to some French and Danish reserves. But its status is undecided, whether a Council decision or just a conclusion. The text has not yet been considered by the Foreign Affairs Council.

3. The other budget issues have been discussed all day in the Foreign Affairs Council.

4. There is agreement to establish the 1985 budget within the 1% ceiling with a declaration that says we will get our 1000m écu refund come what may. But the Germans have remained unyielding on the date of introduction of new own resources, so there is no agreement on what will happen if there is a further over-spend in 1985. It is left open.

5. On the 1984 Supplementary Budget, on the other hand, the others are being very difficult and have reached the point of saying that they will vote it through this evening à neuf if necessary. (This is possible because it is an intergovernmental agreement.) They are refusing an adjournment.

6. If we let that happen, we would not contribute to the Supplementary Budget (saving ourselves 200 m écu). But equally there would be no prospect of getting our 1983 refund (750 m écu) released by the Assembly.

7. Geoffrey Howe is therefore, in the absence of any better way to protect our interests, going to agree to the

1984 Supplementary Budget but make an explicit rider that we shall not go to Parliament for our contribution to the Supplementary Budget until:

- (i) the Assembly have released our 1983 refunds;
- (ii) there is satisfactory agreement on budget discipline.

i.e. we shan't pay anything until we get satisfaction on these points.

8. This is far from ideal, since it means that we do not actually have agreement on budget discipline at the moment when we agree in principle to the Supplementary Budget. But we do still have leverage to get it; and Geoffrey Howe is reasonably optimistic that the text on budget discipline virtually agreed yesterday can be pushed through the Foreign Affairs Council.

2 October 1984