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CCPC



Sir G. Howe
Reported orally to
the PM on these
lines. NBPM
CDP
4/x.

PM/84/154

PRIME MINISTER

EC Budget Negotiations

1. In the Foreign Affairs Council on 2 October prolonged efforts were made to reach agreement on the text of the new own resources decision on a basis which would permit an intermediate VAT rate to be established next year. Genscher however remained adamant that the Germans would not agree to an increased VAT rate until enlargement, and as a result agreement on that point proved impossible.

2. Discussion then turned to the 1984 supplementary budget and the normal budget for 1985. Under the budgetary timetable the 1985 budget had to be sent to the European Parliament immediately following this Council. I said that it must be sent forward to the Parliament as established within the one per cent ceiling; and that I could not agree to any declaration at this stage on the means of financing any irreducible budget over-run next year. It was agreed that the 1985 budget should be sent forward to the Parliament on that basis. That budget is accompanied by a declaration of the Council stating that funds will be provided for the irreducible over-run and reaffirming that our 1,000 mecus abatement will be made on the revenue side next year.

3. With time running out there was great pressure also to establish the 1984 supplementary budget. Other member states had not previously been prepared to establish the supplementary budget on a conditional basis. I made clear that I would not agree to establish the budget unless it was stated in the inter-governmental agreement approved by all
/member

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member states that we should not be prepared to put any proposal for supplementary finance to the House of Commons until the European Parliament released our 750 mecus and final agreement was reached on the text on budget discipline. This was agreed and the supplementary budget was established conditionally on that basis.

4. On budget discipline, following the progress made by the Chancellor in discussion with this colleagues in the ECOFIN Council on 1 October and the subsequent row within the French Government (with M. Rocard trying to go back on the text as a whole), there was a further brief discussion in the Foreign Affairs Council. The two main outstanding difficulties concern the form of the document (with the French and some others opposing a Council decision); and the arrangements for basing the agricultural guideline from 1986 on original budgets.

5. After difficult discussions, therefore, the Council did finally reach a conclusion which protects our position on supplementary finance until other matters are resolved. It has been reaffirmed in a clear fashion that we are entitled to receive our 1,000 mecus abatement next year on the revenue side; and the supplementary budget this year has been adopted conditionally with very substantial economies in that budget. No proposal for supplementary finance nor any proposal to increase own resources will be put to Parliament until we have reached satisfactory agreement on budget discipline and received the 1983 refunds.

6. If it is wise, the European Parliament will now authorise release of these refunds. But it has not been showing much wisdom of late. It is very agitated that the agreement in Council could affect its budgetary powers and could seek to make difficulties on that account. The Economic

/Secretary

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Secretary will be seeing the EDG spokesman on the Budget Committee (Lord Douro) later this week and we shall be briefing the EDG members of the European Parliament generally before its plenary session next week. We are asking other member governments to take action with their MEPs and will need to review the position in the light of the Parliament's actions.

7. I am sending copies of this minute to the Chancellor of the Exchequer and Sir Robert Armstrong.

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

GEOFFREY HOWE

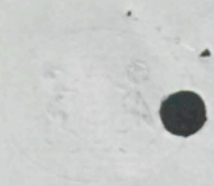
Foreign and Commonwealth Office

4 October 1984

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10 DOWNING STREET

Prime Minister

This does not
add significantly to what
you know. But you
might like to glance
at the line on
pages 3 & 4.

CDP

4/11.

MS