c c [illegible].

WBPM
CDP 22/4.

FCS/85/104

ECONOMIC SECRETARY

Budget Council

1. Thank you for your letter of 18 att. April.

2. I agree with the approach you outline. It was in our interests to see the revenue deficit of 500 mecus from 1984 pushed into this year, as our contribution to last year's over-run was not covered by the Fontainebleau mechanism. But we shall not be able to push significant amounts of expenditure into next year. We must do our utmost to reduce the Commission's forecasts for FEOGA spending, though the Commission's estimate of the likely dollar/ecu exchange rate now looks more realistic than it did at an earlier stage.

3. As you note, we can count on no effective support from the Germans or, probably, others. Nevertheless, we must seek savings and aim for agreement on the lowest figure we can. It may be that, for different reasons, others will not be ready finally to settle at this Budget Council, in which case we can press for the search for savings to go on. If a figure is settled there could of course be no question of any further supplementary finance.

4. Although the overall amount to be financed is certain to be higher than last year our own net contribution, as a result of the Fontainebleau mechanism, will be significantly smaller.

5. I am copying this minute to the Prime Minister, the Minister of Agriculture and the Secretary to the Cabinet.

GEOFFREY HOWE

Foreign and Commonwealth Office
22 April, 1985

CONFIDENTIAL

K16

15

10 DOWNING STREET

From the Private Secretary

19 April 1985

BUDGET COUNCIL

The Prime Minister has noted the Economic Secretary's letter of 18 April to the Foreign and Commonwealth Secretary about the Commission's request for an additional 2.3 billion ecu for the 1985 Budget. Her understanding is that there is a prospect of getting the figure down to something like 1.8 million ecu; and that the United Kingdom's contribution to this would, because of the Fontainebleau mechanism, be rather less than the supplementary finance which we had to provide in]984. Perhaps you could confirm this.

The Prime Minister has not otherwise commented.

I am copying this letter to Colin Budd (Foreign and Commonwealth Office), Ivor Llewelyn (Ministry of Agriculture, Fisheries and Food) and David Williamson Cabinet Office).

CHARLES POWELL

Adrian Ellis, Esq.,
Economic Secretary's Office,
H.M. Treasury.

CONFIDENTIAL

251/042

CONFIDENTIAL

CCPC

Prime Minister
The implication of this is that the Treasury think that we shall have to settle for a 1985 Supplementary Budget for the Community at 1.8 billion ecu, rather than the 1.3 originally envisaged.
But with the Fontainebleau mechanism our contribution will be "only" 60/70million ecu, less than the extra 100million we had to find last year.
CDP 19/4

Treasury Chambers, Parliament Street, SWIP 3AG

Rt Hon Sir Geoffrey Howe
Secretary of State for Foreign and Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
LONDON SW1

18 April 1985

Dear Geoffrey,

BUDGET COUNCIL

As you will know, the Budget Council will next week consider the Commission's request for an additional 2.3 becu for the 1985 Budget, over and above what is available within the 1% VAT ceiling, to be provided through a second Intergovernmental Agreement (IGA).

This figure is, of course, much higher than the 1.315 becu figure envisaged at last November's Budget Council. Inevitably, the main cause of the problem is agriculture.

The Commission's request for an extra 2.3 becu certainly looks excessive. In particular, their assumptions about the dollar/ecu exchange rate seem highly questionable, even after the recent fall in the dollar, and their proposed destocking programme looks overambitious. I will therefore be pressing hard for savings under these headings. That said, the current rate of spending from FEOGA Guarantee is much higher than was foreseen at the November Budget Council. Moreover, it is clear from the official level discussions in Brussels and from our contacts with other Finance Ministries that we will have little or no help from other Member States in cutting the Commissions proposals. Our usual allies, the Germans, will not support us because of their current preoccupation with their farm sector. For all these reasons, I am afraid there is no prospect of getting back to the November 1.315 becu figure or even very close to it.

Reductions in non-obligatory expenditure will also be difficult. In the first place I think that the general posture should be to maintain the figures agreed with the Council last November - ruling out upward movements. On the other hand, we now have the revenue deficit of over 500 mecu from 1984 to accommodate, though unused appropriations of about 1000 mecu were also carried forward and some partial offset may be negotiable. I do not believe that we should attempt, artificially, to manipulate the 1985 revenue figures, as we did for 1984 in order to throw the cost forward so that it would qualify for Fontainebleau abatement. I intend, however, to press for savings on account of the prospective underspending in the Structural Funds, which, as last year, looks likely to be substantial. In doing that I shall, of course, have to bear in mind that we are net beneficiaries from the Social and Regional Funds and that any substantial reductions could be to our overall disadvantage.

All in all, my aim is to get agreement to something below 2 billion ecu for additional finance, in other words, little if any more than the provisional figure of 1.3 becu plus the 1984 revenue deficit. If I can achieve that I would be prepared to settle at this Council. If no movement is offered by anyone else to get below 2 billion ecu I shall have to consider very seriously whether I should not insist on a prolongation of the search for savings - running on to another Council if need be. But that can only be decided in the tactical circumstances of the time.

If the Budget Council reaches agreement on the budgetary figures it can also proceed to deal with the IGA. As you know, we are proposing to insert in the draft produced by the FAC an appropriate safeguard for the position of national Parliaments.

Copies of this letter go to the Prime Minister, Michael Jopling, and Sir Robert Armstrong.

Yours

Ian

IAN STEWART

253/03

CONFIDENTIAL

CDP

CDP
22/4.

Treasury Chambers, Parliament Street, SW1P 3AG

22 April 1985

Charles Powell Esq
No 10 Downing Street
LONDON SW1

Dear Charles

BUDGET COUNCIL

/ with CDP.

Thank you for your letter of 19 April. The Economic Secretary will be pressing hard to get the additional finance below 2bn - but the signs are not propitious. We are without support from any other Member States in arguing for reductions in FEOGA spending, which is the main cause of the problem.

However even on the figure of 2.2 billion ecu for which the Commission are now asking, following a reduction of 100 mecu in the 1984 deficit, our net contributions would be less than under the 1984 IGA (about 70 mecu rather than 90 mecu). The arithmetic is broadly as follows, on conservative assumptions about the likely level of UK receipts:

1984

UK share of 1984 IGA of 1 billion ecu	201 mecu
Estimated UK receipts	110 mecu
Net costs	**91 mecu**

1985

UK share of 1985 IGA of 2.2 billion ecu	**461 mecu**
Estimated UK receipts	**244 mecu**
Net UK share	**217 mecu**
Less Fontainbleau abatement of $^2/_3$	**145 mecu**
Net costs	**72 mecu**

Yours ever,

Adrian Ellis

ADRIAN ELLIS
Private Secretary