



Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

17 October 1983

John Coles Esq
Private Secretary
No 10 Downing Street
LONDON SW1

Dear John,

EUROPEAN CASH REQUIREMENTS

As you know, since June we have been advancing the payment of traditional own resources by one month to help ease the Commission's cash squeeze. (As I mentioned in my letter of 8 September, only the June payment was a true 'advance'; the rest has been a recycling.) We have now received a formal request for payments in respect of September to be made on 20 October. The amount involved will once again be about £110 million.

2. The Chancellor proposes to agree. The advance would be made from the Contingencies Fund, followed by provision in a Winter Supplementary. He does not think it is in our interests in the run up to Athens to add to the Commission's difficulties. He is sure, moreover, as I said in my letter of 8 September, that holding back the advance would be ineffectual and could make it easier for others, who are all paying their advances, to be difficult over our 1983 refunds. The Commission's immediate cash flow problems will be relieved when the European Parliament adopts the supplementary and amending budget for 1983, which could happen in the week beginning 24 October. There should therefore be no question of the Commission requiring any advance after this month.

3. The Prime Minister will also wish to be aware that the Commission have also informed member states that there may be a further cash deficit between now and the end of October. They have therefore given advance warning that member states may be asked to provide "overdraft" facilities under Article 12(2) of the Own Resources Regulation. The present Foreign Secretary foresaw the possible use of this Article in his minute to the Prime Minister of 12 May. The Treasury Solicitor's advice is that provided certain conditions are fulfilled, the wording of Article 12 of the Own Resources Regulation means that we will be legally obliged to comply with this request. It would therefore be possible to make the payment from the Consolidated Fund under the European Communities Act 1972.

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4. The Commission hope to avoid recourse to the overdraft by careful phasing of payments consistent with their legal obligations. The position will be clearer at the end of this week, but the Chancellor proposes, if the request is made and provided the Commission have provided satisfactory evidence that the conditions in Article 12(2) are met, to agree to the overdraft for the reasons advanced above. The amount is likely to be relatively small - the Commission are talking about a maximum overdraft of 300 million ecus (£175 million) for all member states and the UK share would be around 20 per cent. The overdraft would be repaid as soon as the 1982 Supplementary Budget had been adopted by the Parliament.

5. These cash flow problems are distinct from the actions which the Commission have been contemplating this week; to defer until January 1984 certain advance payments to farmers and traders, including advance payments to British sheep farmers, and which have been widely reported in the press. The Commission's motives in that case are to hold total expenditure this year within the level which would be permitted by the Supplementary Budget, and within the 1 per cent VAT ceiling.

6. I am sending a copy of this letter to John Holmes (FCO), Robert Lawson (MAFF) and Richard Hatfield (Cabinet Office).

Yours,

Judith Simpson

MISS J C SIMPSON
Private Secretary

Also for Budget
Pr 21

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10 DOWNING STREET

From the Private Secretary

19 October, 1983

European Cash Requirements

Thank you for your letter of 17 October.

The Prime Minister reluctantly agrees that we should make a further advance of about £110 million to the European Commission on 20 October and also that, if necessary, we should make available "overdraft" facilities as proposed in paragraph 4 of your letter.

The Prime Minister has enquired, in this connection, how we propose to secure the refund of £42 million which is due to us.

I am copying this letter to John Holmes (Foreign and Commonwealth Office), Robert Lowson (Ministry of Agriculture, Fisheries and Food) and Richard Hatfield (Cabinet Office).

A. J. COLES

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Miss Judith Simpson,
H.M. Treasury