



Treasury Chambers, Parliament Street, SW1P 3AG
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PRIME MINISTER

COMMUNITY CASH POSITION 1984: 1983 REFUNDS

As you know, following the Fontainebleau European Council the Foreign Affairs Council agreed to the regulations governing the payment of our refunds in respect of 1983. ECOFIN on 9 July approved the transfer of the refunds from the reserve chapter 100 to the relevant lines of the Budget and the European Parliament's Budgets Committee also gave its approval to the transfer on 12 July. The Commission are now therefore in a position to authorise the initial payment to the UK (approximately £530 million) and to the Germans (approximately £110 million). They have stated their intention to pay us by the end of July.

2. The Budget Committee of the Council, however, was told last week that the Commission will not have sufficient cash available to pay the refunds without recourse to some supplementary financing. I understand that the Commission's intention is to make a request under Article 10(2) of Regulation 2891/77 from all member States for an advance of one month's non-VAT own resources, though there is at present still some doubt about the timing of this. You will recall that we paid similar advances to the Community from June to October last year.

3. Our legal advice is that this request for an advance would not constitute an obligation in terms of Section 2(3) of the European Community Act 1972 and could not therefore be paid direct from the Consolidated Fund. I therefore

Prime Minister
and other member states
We have to advance

the Community money
so that they can

pay our 1983 refund:
but it does not add

to public expenditure and
we get it back.

Agree to act
Yes not as Chancellor proposes?

CDP 19/7



propose, as last year, to make the payment by means of an advance from the Contingencies Fund, repayable in due course from monies approved by Parliament through the winter supplementary estimate. It is normal practice to announce this to the House before payment is actually made. It is becoming likely that the Commission's request will not arrive before the Recess; to make it possible to act during the Recess, I would propose to answer a PQ before the House rises making our intentions clear.

4. The amount due from the UK would be about £110 million. Although it would, of course, be infinitely preferable not to have to make the advance, I am assured that it is a necessary step towards securing payment of our refunds. In return for the £110 million, we should receive £530 million - a net gain now of £420 million - while the £110 million itself will be "repaid" when the Commission stop "recycling" the advance.

5. There is, however, a further complication of which you should be aware. The advance of own resources may still not provide sufficient cash to pay the refunds and the Commission have said that in that case they will also require an overdraft facility under Article 12(2) of Regulation 2891/77. This, which is regarded as an obligation, could be provided direct from the Consolidated Fund. Provided that they demonstrate that such a facility is necessary to ensure payment of our refunds as soon as possible, I would think that we can agree to one sufficient to guarantee payment of our refunds. There would, of course, be no question of agreeing anything that went beyond the present availability of own resources in 1984.

6. The Commission will probably need to "recycle" the advance for the rest of the year. The total amount of the supplementary estimate to cover these advances might therefore be of the order of £450 million, but neither this nor any overdraft will add to public expenditure since they will be matched by lower payments out of the Consolidated Fund.



7. All this will require very careful presentation. However, I believe that it is the right course, and that we should do all that we can to ensure that we receive the refunds by the earliest possible date. We did, of course, incur some criticism over last year's advances when the Supplementary Estimate came before the House. There were two main reasons for this; first, that Parliament had not been informed in advance that the payments would continue to be made during the Recess and second, that we were making the payments at the same time as the Community was failing to make provision for reducing our budgetary burden. On both counts, the situation now is quite different. I hope, therefore, that you can agree that I should authorise officials to act as soon as we have the Commission's formal request.

8. I am copying this minute to the Foreign Secretary, the Lord President, the Lord Privy Seal, the Chief Whip and to Sir Robert Armstrong.

N.L.

19 July 1984



10 DOWNING STREET

From the Private Secretary

20 July 1984

COMMUNITY CASH POSITION 1984: 1983 REFUNDS

The Prime Minister has considered the Chancellor's minute of 19 July on this subject. She agrees, reluctantly, that there is no alternative but to give the Commission an advance of one month's non-VAT own resources and to announce this to the House before it rises. She is also ready to agree, if absolutely necessary to secure payment of our refunds, to an overdraft facility for the Commission. The Prime Minister notes that the supplementary estimate which will be required in consequence will not add to public expenditure.

I am sending copies of this letter to Colin Budd (Foreign and Commonwealth Office), Janet Lewis-Jones (Lord President's Office), David Morris (Lord Privy Seal's Office), Murdo Maclean (Chief Whip's Office) and Richard Hatfield (Cabinet Office).

(C.D. POWELL)

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HM Treasury

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