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From the Private Secretary

26 November 1986

BUDGET COUNCIL, 26-27 NOVEMBER

The Prime Minister has seen your Minister of State's minute of 25 November about the forthcoming meeting of the Budget Council.

She has indicated that the Commission proposal to budgetise in part the prospective revenue shortfall in the current year is completely unacceptable. I understand that in fact there is no prospect of this proposal being adopted.

I am copying this letter to the Private Secretaries to the Foreign and Commonwealth Secretary, the Minister of Agriculture, Fisheries and Food, the Employment Secretary, the Trade and Industry Secretary and Sir Robert Armstrong.

(C. D. POWELL)

Michael Norgrove, Esq.,
Office of Mr. Peter Brooke,
HM Treasury.

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FROM: Minister of State

DATE: 25 November 1986

PRIME MINISTER

BUDGET COUNCIL, 26-27 NOVEMBER

No

The Budget Council meets again this week to try to reach agreement on a second reading of the Community budget for 1987. Also on the agenda will be a proposal by the Commission to budgetise in part a prospective revenue shortfall of some 1.3 or 1.4 billion ecu in the current year. I shall again be in the chair and Ian Stewart will again represent the United Kingdom.

2. The prospective revenue shortfall this year, which reflects amongst other things a sharp fall in customs duties following the dollar depreciation, is a matter for concern. Although there will technically be no breach of the 1.4 per cent VAT ceiling, the fact is that the Community will this year spend beyond its means as defined by the 1.4 per cent ceiling, and there will be a deficit, possibly of the order of 900 mecu after allowing for expenditure shortfalls, to be carried forward to 1987. There is no realistic prospect of obtaining savings on the scale required this year, but we will do all we can to ensure that the Council deals responsibly with this problem.

3. Perhaps the most positive aspect of the prospective deficit for 1986 is that it will strengthen the case of those, like the Germans, the French, the Dutch and ourselves, who remain determined that the 1987 budget should respect budget discipline. The position on the 1987 budget is, briefly, that:

- the Council's first reading budget in September respected budget discipline both for agriculture and for non-obligatory expenditure, which the Council proposed should grow at half the maximum rate;
- the Parliament's first reading budget proposes several changes in agricultural spending, some quite sensible in

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themselves but including a proposal that Member States should provide special financing of 2.5 billion ecu outside the budget towards reducing agricultural stocks. On non-obligatory expenditure, the Parliament proposes that budget discipline and the maximum rate should be exceeded by 598 mecu for commitments and 174 mecu for payments, leaving a margin of unallocated resources within the 1.4 per cent ceiling of just under 500 mecu (ignoring the Parliament's suggestions on agricultural spending);

- the Commission have warned throughout the budgetary procedure that, in the absence of appropriate policy decisions by the Council, the budget discipline figure for agriculture now incorporated in the 1987 budget will be overspent by perhaps 3 billion ecu.

4. Ian Stewart will argue strongly at this week's Council for establishing a second reading budget within the budget discipline limits, both on agriculture and on non-obligatory expenditure, and for a statement responding favourably to the Parliament's general thesis about the need for CAP reforms. I think we have a reasonable chance of reaching agreement on such an outcome in the Council. Certainly there will on present indications be no qualified majority for raising the maximum rate of increase in non-obligatory expenditure. The southern Member States and Ireland may, however, try to use their blocking minority power to prevent agreement on line by line changes in the budget to give effect to the reductions needed to bring the Parliament's figures in aggregate back within the maximum rate. If so, we could end up with an inconsistent conclusion from the Council - no agreement to raise the maximum rate, but no agreement either on what savings should be made to bring this about. We shall however do everything in our power to avoid this and to obtain agreement to a consistent budget which respects budget discipline.

5. The Parliament will be meeting in the second week of December, after the European Council, to consider the Council's second

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reading budget. We hope that it may be possible for the Council and the Parliament to reach agreement then on a budget which respects budget discipline; but some factions in the Parliament will be tempted to muddy the waters by reclassifying expenditure to their own advantage, as well as making a démarche about CAP reform, and the goal of agreement before Christmas may well prove elusive.

6. I hope that you will be content with an approach along the lines set out above, which is of course fully consistent with the objectives defined in Charles Powell's letter of 18 July.

7. I am copying this minute to Geoffrey Howe, Michael Jopling, David Young, Paul Channon and Sir Robert Armstrong.

P.B.

PETER BROOKE

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