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FM UKREP BRUSSELS  
TO DESKBY 270930Z FCO  
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OF 270700Z NOVEMBER 86  
AND TO DESKBY 270930Z TREASURY  
INFO PRIORITY EUROPEAN COMMUNITY POSTS

*Please file.*

FRAME ECONOMIC

BUDGET COUNCIL : 26/27 NOVEMBER 1986

1986 AND 1987 BUDGETS

## SUMMARY

1. NO QUALIFIED MAJORITY TO ESTABLISH 1986 DRAFT AMENDING BUDGET. COMMISSION WILL IMPLEMENT BUDGET AS IT STANDS AND BRING FORWARD PROPOSAL TO DEAL WITH EVENTUAL DEFICIT (ESTIMATED AT OVER ONE BECU) IN AMENDING BUDGET IN JUNE 1987.

2. COUNCIL CONCLUDED SECOND READING OF 1987 BUDGET BY RE-ESTABLISHING DRAFT BUDGET WITHIN BUDGET DISCIPLINE LIMITS. DNO COMMITMENTS AT MAXIMUM RATE; DNO PAYMENTS 62 MECU BELOW MAXIMUM RATE. REPLY TO EP'S 'MESSAGE' ON AGRICULTURE GIVEN IN A NEW FEOGA LINE FOR MEASURES TO REDUCE SURPLUS PRODUCTION AND STOCKS (WITH A P.M. ENTRY).

3. FURTHER CONFIRMATION FROM EUROPEAN PARLIAMENT OF IMPORTANCE OF PROGRESS ON AGRICULTURAL REFORM FOR NEGOTIATIONS ON 1987 BUDGET IN DECEMBER.

4. MR BROOKE (MINISTER OF STATE TREASURY) CHAIRED THE COUNCIL AND MR STEWART (ECONOMIC SECRETARY TREASURY) REPRESENTED THE UK.

## DETAIL TRILOGUE

5. BEFORE THE COUNCIL MET, MR BROOKE PARTICIPATED IN A TRILOGUE MEETING WITH CHRISTOPHERSEN (COMMISSION) AND PFLIMLIN (PRESIDENT OF EUROPEAN PARLIAMENT) ON CLASSIFICATION OF EXPENDITURE. THE TRILOGUE MADE LITTLE PROGRESS. CHRISTOPHERSEN SUGGESTED THAT A PROVISIONAL CLASSIFICATION MIGHT BE AGREED FOR 1987 AND THE OUTSTANDING PROBLEMS BE ADDRESSED IN THE CONTEXT OF THE EX-NOVO REVIEW. MR BROOKE INDICATED THAT THIS MIGHT BE ACCEPTABLE IF NO CHANGES WERE MADE TO THE 1986 DNO BASE, ANY PROVISIONAL CLASSIFICATION FOR 1987 WAS NOT SUBSEQUENTLY CHANGED, AND ANY PROVISIONAL CLASSIFICATION IN 1987 WAS WITHOUT PREJUDICE TO CLASSIFICATION IN LATER YEARS. THE PARLIAMENTARY DELEGATION REPLIED THAT IT COULD NOT AT THIS STAGE ACCEPT THE COUNCIL'S CONDITIONS BUT THAT THE COMMISSION'S PROPOSAL COULD PROVIDE THE BASIS FOR AN AGREEMENT LATER IN THE BUDGETARY PROCEDURE. (DETAILED ACCOUNT BY HAND OF DONNELLY, HMT). IT IS NOT CLEAR WHAT THE NEXT STEPS WILL BE.

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## MEETING WITH EUROPEAN PARLIAMENT

6. THE EP DELEGATION CONSISTED OF PFLIMLIN, CURRY, COT, CHRISTODOULOU, LANGES, AIGNER, DANKERT, BARBARELLA, SCOT HOPKINS, SCRIVENER AND BONDE.

7. CURRY (1987 BUDGET RAPPORTEUR) INTRODUCED THE PARLIAMENTS'S AMENDMENTS AND MODIFICATIONS WHICH HE DEFENDED AS BALANCED AND MODERATE. THE MOST IMPORTANT ISSUE WAS AGRICULTURE. PARLIAMENT WAS PREPARED TO ACCEPT THE FINANCIAL GUIDELINE FIGURE, THOUGH A 'BUDGETARY FICTION' GIVEN THE POTENTIAL OVERSPEND OF 3.4 BECU IN 1987 AND A 6 BECU OVERVALUATION OF STOCKS. THE EP'S MODIFICATIONS WERE INTENDED TO APPLY THE MAXIMUM BUDGETARY PRESSURE FOR RAPID DECISIONS ON AGRICULTURAL REFORM. ON MILK, THE KEY FEATURE WAS THE NEED TO COMPENSATE PRODUCERS FOR A QUOTA CUT. THE EP HAD LEFT A MARGIN WITHIN THE 1.4 PER CENT AND HAD INDICATED IN ITS AMENDMENTS THE PRIORITY IT ATTACHED TO AID, RESEARCH AND THE STRUCTURAL FUNDS. FOR 1986, THE COUNCIL SHOULD ADOPT THE SUPPLEMENTARY AMENDING BUDGET TO HELP DEAL WITH THE 1.3 BECU REVENUE DEFICIT.

8. MR BROOKE REPLIED THAT THE PARLIAMENT'S POLITICAL MESSAGE ON AGRICULTURE HAD BEEN CLEARLY RECEIVED BY BOTH THE AGRICULTURE AND BUDGET COUNCILS. A SERIOUS AGRICULTURAL DEBATE WAS UNDER WAY, AND IT WAS INTENDED THAT THE 8-9 DECEMBER AGRICULTURE COUNCIL WOULD TAKE DECISIONS ON THE REFORM PROPOSALS FOR MILK AND BEEF. A DE-STOCKING FUND COULD, HOWEVER, PROBABLY NOT BE AGREED. ON DNO, THE COUNCIL WAS SURPRISED AT THE IMBALANCE BETWEEN COMMITMENTS AND PAYMENTS PROPOSED BY THE EP, WHICH WOULD CREATE A NEW 'COST OF THE PAST'. FINALLY, IT WAS ESSENTIAL TO BE CLEAR WHETHER THE PARLIAMENT WAS ASKING FOR CO-DECISION ON A NEW MAXIMUM RATE FOR COMMITMENTS.

9. IN THE ENSUING DISCUSSION, SEVERAL MEPS STRESSED THE IMPORTANCE OF DOING SOMETHING ABOUT AGRICULTURAL STOCKS AND CONFIRMED THAT THE OUTCOME OF THE 8 DECEMBER AGRICULTURE COUNCIL WOULD SUBSTANTIALLY AFFECT THE OUTCOME OF THE EP'S SECOND READING OF THE BUDGET. COT (CHAIRMAN OF EP BUDGETS COMMITTEE) SAID THEIR ANSWER TO MR BROOKE'S QUESTION ON THE MAXIMUM RATE WAS 'MAYBE YES, MAYBE NO': IT DEPENDED ON THE OUTCOME OF DISCUSSIONS ON CLASSIFICATION. TAKING A RATHER DIFFERENT LINE, PFLIMLIN CONCLUDED THAT THE PARLIAMENT DID WANT AGREEMENT ON THE MAXIMUM RATE AND CLASSIFICATION ISSUES BEFORE THE END OF THE BUDGET PROCEDURE. (OVER LUNCH, HE REPEATED HIS DETERMINATION TO DECLARE A 1987 BUDGET ADOPTED BEFORE HE RETIRES AT THE END OF THE YEAR).

## 1986 BUDGET

10. CHRISTOPHERSEN SAID THAT THE COMMISSION'S REVISED REVENUE FORECAST SHOWED A DEFICIT OF SOME 1.3 BECU IN THIS YEAR'S BUDGET. THE AMENDING BUDGET (SAVING 776 MECU) WOULD LIMIT THE DEFICIT TO BE

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COVERED IN 1987. IF NO DECISION WAS TAKEN ON THE 1986 SUPPLEMENTARY THE COMMISSION WOULD EXECUTE THE BUDGET AS IT STOOD. THE 450 MECU FEOGA AND THE 1985 CARRYOVERS WOULD BE UNFROZEN AND USED BEFORE THE END OF THE YEAR UNLESS IT WAS LEGALLY IMPOSSIBLE TO DO SO. THE POTENTIAL SAVING ON 1985 CARRYOVERS (257 MECU) WOULD THEREFORE BE LOST. THE DEFICIT CARRIED OVER TO 1987 WOULD THEN BE AT LEAST ONE BECU, EXCEEDING THE 629 MECU STILL AVAILABLE WITHIN THE 1.4 PER CENT CEILING FOR 1987. THERE MIGHT ALSO BE A SHORTFALL OF OWN RESOURCES IN 1987 ITSELF. THE COMMISSION WOULD IN ANY CASE PRESENT AN AMENDING BUDGET IN JUNE 1987 TO COVER THE EVENTUAL DEFICIT FROM 1986.

11. A TABLE ROUND REVEALED THAT THERE WAS NO CHANCE OF A QUALIFIED MAJORITY FOR AN AMENDING BUDGET: MR BROOKE SUMMED UP ACCORDINGLY. CHRISTOPHERSEN REPEATED THAT THE COMMISSION COULD NOT COMMIT ITSELF TO FIND SAVINGS WITHOUT AN AMENDING BUDGET.

## 1987 BUDGET

12. AN INITIAL TABLE ROUND ADDED LITTLE TO POSITIONS TAKEN IN COREPER. MR BROOKE WAS ABLE TO CONCLUDE THAT NO QUALIFIED MAJORITY EXISTED FOR AN INCREASE IN THE MAXIMUM RATE. THE IDEA OF BUDGETISING NOW PART OF THE EXPECTED 1986 DEFICIT FOUND LITTLE FAVOUR, DELEGATIONS PREFERRING TO AWAIT THE COMMISSION'S 1987 PDAB.

## FIRST COMPROMISE (2245 HOURS)

13. THE PRESIDENCY'S FIRST COMPROMISE (BY HAND OF DONNELLY) PROPOSED A STATEMENT ON THE NEED FOR AGRICULTURAL REFORM AND AGREEMENT ON MODIFICATIONS 681 AND 740 (REDUCING FINANCING COSTS OF AGRICULTURAL STOCKS AND USING THE SAVINGS TO DEPRECIATE STOCKS): ENDORSED COREPER'S POSITION ON DNO, EXCEPT FOR A 51 MECU REDUCTION IN PAYMENTS AND 350 MECU REDUCTION IN COMMITMENTS TO BE FOUND ENTIRELY FROM THE REGIONAL AND SOCIAL FUNDS. THIS WOULD HAVE BROUGHT DNO COMMITMENTS AND PAYMENTS RESPECTIVELY 30 MECU AND 112 MECU BELOW THE MAXIMUM RATE LEVEL.

14. THE DNO PART OF THIS COMPROMISE WAS ROUNDLY DENOUNCED AS INSUFFICIENT BY ITALY, IRELAND, SPAIN, GREECE AND PORTUGAL, AND, IN RESPECT OF COMMITMENTS, CRITICISED AS TOO GENEROUS BY FRANCE AND GERMANY. OTHER SUGGESTED THE REGIONAL AND SOCIAL FUNDS SHOULD NOT BE THE SOLE VICTIMS OF CUTS. THE STATEMENT ON AGRICULTURE ALSO CAME IN FOR CONSIDERABLE CRITICISM.

## SECOND COMPROMISE (0200 HOURS)

15. AFTER FURTHER CONSIDERATION THE PRESIDENCY TABLED A SECOND COMPROMISE (BY HAND OF DONNELLY). THE STATEMENT ON AGRICULTURE WAS ABANDONED AND REPLACED WITH A PROPOSAL FOR A NEW LINE 293, DESCRIBED WITH DELIBERATE MYSTERY AS 'FOR MEASURES TO SECURE REDUCTIONS

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IN AGRICULTURAL STOCKS'', WITH A PM ENTRY. ON DNO IT PROPOSED THE COREPER FIGURES FOR PAYMENTS, THE PDB FIGURES FOR THE SOCIAL AND REGIONAL FUNDS, WITH FURTHER SAVINGS ON ARTICLE 930 (AID TO NON-ASSOCIATES), ARTICLE 580 (TRANSPORT INFRASTRUCTURE) AND ARTICLE 632 (ERASMUS). THESE WOULD LEAVE 62 MECU IN PAYMENTS AND 47 MECU IN COMMITMENTS BELOW THE MAXIMUM RATE LEVEL. AS SWEETENERS FOR THE NEW MEMBER STATES THE COMPROMISE ALSO INCLUDED A PM FOR AID TO PORTUGUESE INDUSTRY (ARTICLE 760) EXTRA PROVISION AND FOR FISH STRUCTURAL MEASURES (ARTICLE 470).

16. THE AGRICULTURAL PART OF THIS COMPROMISE RECEIVED A GENERALLY FAVOURABLE RESPONSE THOUGH ITALY, SPAIN AND GREECE STILL WANTED SOME FORM OF DECLARATION. THE SAME COUNTRIES AND IRELAND, HOWEVER, COULD NOT ACCEPT THE SCALE OF REDUCTIONS PROPOSED FOR DNO. SEVERAL NORTHERN MEMBER STATES DEFENDED THE ERASMUS PROGRAMME.

17. THE COUNCIL THEN WENT INTO RESTRICTED SESSION AT 0300 HOURS.

18. IT TOOK A FURTHER THREE AND A HALF HOURS TO BREAK DOWN THE RESISTANCE OF THE SOUTHERN MEMBER STATES TO A SOLUTION BASED ON THIS COMPROMISE. IN THE EVENT, AGREEMENT WAS FOUND BY UNANIMITY (THOUGH WITHOUT A FORMAL VOTE) BY INCREASING DNO COMMITMENTS TO THE MAXIMUM RATE AND ADDING FURTHER EXPENDITURE FOR FISH STRUCTURES. IN DETAIL THE OUTCOME IS:

A) FEOGA GUARANTEE: NEW LINE 293 FOR ''MEASURES TO BE TAKEN FOLLOWING REVIEW FOR REDUCTION OF SURPLUS PRODUCTION AND AGRICULTURAL STOCKS'': PM ENTRY:

B) DNO PAYMENTS: CONFIRMATION OF POSITION REACHED AT COREPER EXCEPT FOR PM FOR PORTUGUESE INDUSTRIAL DEVELOPMENT PROGRAMME: 62 MECU REMAINS BELOW MAXIMUM RATE:

C) DNO COMMITMENTS: ALL HEADROOM USED UP WITHIN THE MAXIMUM RATE, ERDF AND ESF COMMITMENTS RESPECTIVELY 23 MECU AND 10 MECU ABOVE PRELIMINARY DRAFT BUDGET. ARTICLE 930: 10 MECU ABOVE DRAFT BUDGET. ARTICLE 580: 30 MECU ABOVE DRAFT BUDGET. PORTUGUESE INDUSTRY PM AS FOR PAYMENTS OTHERWISE COREPER RESULTS:

D) FISHERIES: LINE 4701: 30.3 MECU COMMITMENTS: 1.7 MECU PAYMENTS.

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19. THE MINISTER OF STATE WILL PRESENT THE REVISED DRAFT BUDGET TO THE EP'S COMMITTEE ON BUDGETS ON 2 DECEMBER. THE EP'S SECOND READING WILL TAKE PLACE IN THE WEEK OF 8 DECEMBER.

HANNAY

YYYY  
ADVANCE  
RENWICK FCO  
WALL FCO  
BLOOMFIELD FCO  
WILLIAMSON CAB  
JAY CAB  
MERCER CAB  
WINTER ODA  
HADLEY MAFF  
PERRINS MAFF  
PS/MST TSY  
PS/CHANCELLOR TSY  
PS/EST TSY  
LAVELLE TSY  
EDWARDS TSY  
CRABBIE TSY  
BONNEY TSY  
DONNELLY TSY  
BOGAN TSY  
VINCENT D/EN  
LEWIS D/EM  
LAMBERT D/TP  
SAVILLE DES  
MAIN  
FRAME ECONOMIC

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