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FROM: PETER BROOKE

DATE: 28 November 1986

PRIME MINISTER

EC BUDGET COUNCIL, 26-27 NOVEMBER

As you will now be aware, the Budget Council did succeed yesterday in establishing a second reading budget for 1987 within budget discipline limits. The attached arranged Parliamentary Answer summarises the outcome.

The southern Member States and Ireland held up agreement throughout the night in an attempt to wring concessions on non-obligatory expenditure from the northern Member States but did finally agree to settle within the 'maximum rate' of increase.

The Commission's proposal to budgetise in part the large prospective revenue shortfall this year attracted only limited support. It is virtually certain therefore that there will be a deficit of the order of 1 billion ecu to be carried forward from this year to next, and the Commission will have to bring this to account in a supplementary and amending budget in the middle of next year when firm figures on 1986 are available.

Looking ahead, it is hard to predict how the European Parliament will vote on the Council's 1987 proposals in the second week of December. The Parliament are anxious, however, to make a démarche about the urgency of CAP reform. They want in particular to bring maximum pressure on the Council to reduce milk quotas, with accompanying measures to soften the impact on small producers, and to tackle the problem of excessive stocks, notably of beef and butter. It is clear that key members of the Parliament are thinking seriously about linking adoption of the budget to the outcome of the Agriculture Council on 8-9 December. The vote on the budget is on 10 December or, more probably, 11 December.

In the meantime, the Parliament's growing impatience for CAP reform is likely to enhance the willingness of some at least

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of the Heads of Government at next week's European Council to call for prompt and adequate action on milk and beef.

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

P.B.

PETER BROOKE

CONQUEROR



MR To ask the Chancellor of the Exchequer if he will report on the outcome of the latest meeting of the European Community's Budget Council.

[NB: FIGURES SUBJECT TO CONFIRMATION BY COUNCIL SECRETARIAT]

MR PETER BROOKE

The Budget Council met in Brussels on 26-27 November to consider the European Parliament's amendments and draft modifications to the first reading budget for 1987 established by the Council in September. I chaired the meeting, and my Hon Friend the Economic Secretary represented the United Kingdom.

The Council established by unanimity a second reading budget within the budget discipline limits.

The Council's proposals provide for total expenditure of 37.4 billion ecu in commitment appropriations (£23.5 billion at the budget exchange rate of 1.5939 ecu to the £) and 36.2 billion ecu (£22.7 billion) in payment appropriations. The proposals leave 729 mecu (£457 million) of unused resources within the 1.4 per cent VAT ceiling.

The Council's proposals continue to provide for keeping the growth of agricultural market support expenditure within the budget discipline limit, though the Commission has again warned that on present policies a substantial overrun is likely. In response to wide-ranging modifications proposed by the European Parliament, the Council opened a new budget line for measures resulting from the work now under way in the Community on surplus production and agricultural stocks.

The growth of non-obligatory expenditure between 1986 and 1987 implied by the Council's proposals is 757 mecu (£475 million or 8.09 per cent) for commitment appropriations and 617 mecu (£387 million or 7.37 per cent) for payment appropriations. These increases are within the maximum rate of increase for 1987, as laid down in the Treaty, of 8.1 per cent. Payment appropriations are ~~69~~⁶² mecu (£~~43~~³⁷ million) below the maximum rate.

The Council's proposals continue to make provision of 1,633 mecu (some £1024 million) for the United Kingdom's VAT abatement in respect of 1986.

The Council's proposals for the 1987 budget were influenced by the expectation that a substantial deficit would have to be carried forward from the current year: the Commission is projecting a shortfall of revenue this year, particularly customs duties, of some 1.3 billion ecu (£0.8 billion), which is likely to be offset only in part by shortfalls in expenditure. The Commission re-submitted to the Council its earlier proposal for a 1986 amending budget to budgetise 776 million ecu of the expected deficit. There was, however, no qualified majority in the Council for this, and the Council noted instead that, in accordance with the Community's Financial Regulation, the Commission would propose a supplementary and amending budget next year, when firm figures are available, to take account of the 1986 deficit.

The European Parliament is due to consider the Council's second reading budget for 1987 in the week beginning 8 December.