



NSPM  
 (Chancellor has  
 helped her  
 orally)

Treasury Chambers, Parliament Street, SW1P 3AG  
 01-233 3000

CDP  
 17/9

17 September 1984

Charles Powell Esq  
 Private Secretary  
 10 Downing Street  
 LONDON  
 SW1

*Dear Charles,*

**INFORMAL ECOFIN ON 15-16 SEPTEMBER: BUDGETARY DISCIPLINE**

The Chancellor has asked me to let you have the following summary report on the discussions on budgetary discipline at the Informal ECOFIN at Dromoland Castle this last weekend.

Discussions centered on a text prepared by the Irish Presidency, following the work of the High Level Official Group. The two main issues were form and content.

On form, the Chancellor made it clear that our strong preference remains for a legally binding form, both for the overall "reference framework" and for the agricultural guideline. As expected, he received no worthwhile support for this, and the question of form was left open.

The Chancellor's view remains that we are most unlikely to be able to secure agreement to a legally binding form. It may well be possible, however, to secure agreement to some form of (non legally binding) Council "decision" which would represent a firm commitment by the Council itself and could be presented as an integral part of the budgetary procedures. This could then be explicitly endorsed by the European Council in December.

On content, the Chancellor believes that, with particular support from the Dutch, he secured a good deal of progress, especially on the agricultural guideline. In the light of the discussion, the Irish Finance Minister, Mr Dukes, will present a revised text to the Foreign Affairs Council today as a report on progress. Finance Ministers were insistent, however, that the ECOFIN Council should meet again to settle the final text, and a special meeting of ECOFIN has been arranged for 1 October for this purpose. This will be in time to meet the Commission's budgetary timetable and was acceptable to Tugendhat and Ortoli. In the meantime the High Level Group of Officials will be convened to finalise the technical details of the text.

The Chancellor spoke to Sir Geoffrey Howe yesterday afternoon to brief him on the above developments. So far as tactics at the Foreign Affairs Council are concerned, the Chancellor's view is that, even if satisfactory progress on the other elements of the package is made, it would not be right to give our final agreement to establishing the 1984 Supplementary Budget in advance of



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satisfactory conclusion of the budgetary discipline discussion at the 1 October ECOFIN. To do so would, in the Chancellor's view, seriously undermine his negotiating position at that meeting. If, however, good progress is made on the other issues at the Foreign Affairs Council, the Foreign Secretary would be able to indicate that we would hope to be able to finalise the package in the light of a satisfactory outcome on the budgetary discipline chapter at the 1 October meeting.

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

*Yours ac,*

*Richard Simpson*

MISS J C SIMPSON  
Private Secretary



A. enter these pp  
in the EC Budget file  
CDP 7/9

Guidelines for a Council [Decision] on Budgetary Discipline  
(as amended in the light of the discussion at the Informal  
ECO/FIN Council at Dromoland Castle, 15 September 1984)

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In order to ensure that the rigorous rules agreed on by the European Council are applied to the budget of the Communities, the Council will undertake to apply certain internal rules and adopt the procedures necessary to that end.

In the final text the Preamble will include a reference to the relevant conclusions of the European Council reached at Fontainbleau and Brussels.

The following orientations should be implemented;

1. Maximum rate

At the first reading the Council will keep the increase in Non-Compulsory Expenditure to a level no higher than half the maximum rate. At the second reading the Council will adopt a position such that the maximum rate is not exceeded.

2.1 Reference framework

At the beginning of each year, the Commission will provide the Council with the essential elements for a reference framework to be fixed for the following financial year.

[These will include: .....]

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2.2. Before 1 March each year, the Council, constituted of the Ministers for Economic Affairs and Finance, will determine, on the basis of the information provided by the Commission (see point 2.1.) and in accordance with the majority rules applicable when drawing up the draft budget (second indent of Article 143(2)) the reference framework for the following financial year's budget and for any Council act generating expenditure to be carried out under that budget <sup>(1)</sup>. Among other things, the reference framework will specify the maximum amounts of compulsory and non-compulsory expenditure which the Council will have to comply with in its capacity as legislator or budget authority and the corresponding total revenue to be taken into account during the next financial year. At the request of one delegation or the Commission, the Council, constituted as above and using the same rules of procedure, may amend the reference framework.

2.3. When the Council - however constituted - is on the point of adopting a legislative or budgetary act liable to increase expenditure beyond the above-mentioned reference framework, that decision shall, at the request of one delegation or the Commission, be suspended.

2.4. The Council, constituted of the Ministers for Economic Affairs and Finance, will be required to examine, as soon as possible, the situation that would arise if the act in question were adopted. If agreement cannot be reached, the Council - constituted of the Ministers for Foreign Affairs - will be requested to take a decision as rapidly as possible. (2) The majority rules laid down in the Treaty will apply in the event of the adoption of the act in question.

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(1) An interim provision could be considered in the case of the generation of expenditure chargeable to the budget of the first year of application of this agreement.

(2) The Presidency having noted that some delegations have reservations, an appropriate solution will be proposed.



3. Agricultural financial guidelines

The High Level Group on Budgetary Discipline has considered the European Council conclusions on the agricultural guidelines and has made considerable progress in establishing a method of implementing those conclusions. The elements of that progress are, in particular, as follows:

- 3.1. The Council will undertake so to proceed that the net expenditure relating to agricultural markets calculated on a three-yearly basis according to method "C" (Annex II to C312/84) will increase less than the rate of growth of the own resources base.
- 3.2. The expenditure and revenue to be taken into account are those proposed by the Commission in its communication of 6 March 1984 (4972/1/84, footnotes 1 and 2 on page 1 of the Annex).
- 3.3. Account will be taken of exceptional circumstances, in particular in connection with enlargement. A contingency reserve will not be provided.
- 3.4. In the event of derogation from the guideline in 3.1., the Council will so proceed that during the following two financial years, unless abnormal developments occur, agricultural expenditure is brought back within the limits imposed by that guideline.



The High Level Group as a matter of urgency will meet with a view to preparing the text of a Council [decision] incorporating the principles set out above.

In the matter of the agricultural financial guidelines, the Group will address itself specifically to the question of base-drift and clawback.

The ECO/FIN Council will agree to the final text at its next meeting in early October.

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Once the above provisions are adopted, the Council will invite both the Commission and the Parliament to examine with it ways of securing the co-operation necessary for a budgetary discipline common to all three Institutions.



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AUTOMATIC OUTPUT - DO NOT INTERRUPT

TELEX FOR THE ATTENTION OF :  
- M. PALLE SIMONSEN, FINTO DK  
- M. STOLTENBERG, BMF D  
- M. ARSENIS, YOIK GR  
- M. RUDING, MIFI NL  
- M. LAWSON, TRSY G  
- M. TUGENDHAT, COMEU B

BRUSSELS 13 SEPTEMBER 1984  
TELEX 2834

TRES URGENT  
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CH/EXCHEQUER	
REC.	13SEP1984
ACTION	MR FITCHEW
COPIES TO	EST, SIR P. MIDDLETON
	MR LITTLE
	MR UNWIN
	MR MORTIMER
	MR HOPKINSON ←

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13 cc Mr Peet

→ Mr Renwick,  
Fro.

EN VUE REUNION INFORMELLE ECOFIN DROMOLAND CASTLE DES 15/16 SEPTEMBRE, PRESIDENCE M'A PRIE DE VOUS ADRESSER PAR TELEX COPIE DE LA LETTRE QU'ELLE VOUS ENVOIE CE JOUR, ACCOMPAGNEE D'UN DOCUMENT RELATIF A LA DISCIPLINE BUDGETAIRE :

DEAR COLLEAGUE

FURTHER TO MY LETTER OF 30 AUGUST SUGGESTING A TIMETABLE AND MAIN ISSUES FOR DISCUSSION AT THE INFORMAL ECO/FIN MEETING ON 15/16 SEPTEMBER, I NOW ENCLOSE A PRELIMINARY DRAFT SCHEME ON BUDGETARY DISCIPLINE WHICH I PROPOSE WOULD SERVE AS A BASIS FOR OUR DISCUSSIONS ON THE SUBJECT AT DROMOLAND CASTLE.

I SHOULD MENTION THAT THE DRAFT SCHEME IS NOT INTENDED TO BE DEFINITIVE BUT RATHER IS AN ATTEMPT TO SET OUT THE MAIN PRINCIPLES THAT MIGHT BE GIVEN PRECISE EXPRESSION LATER. MY INTENTION IS THAT THE DRAFT SCHEMA WOULD ENABLE MINISTERS TO GIVER BROAD POLITICAL GUIDANCE AT DROMOLAND CASTLE ON THESE PRINCIPLES SO THAT THE HIGH LEVEL GROUP WOULD BE IN A POSITION, AND COULD BE ASKED, TO PREPARE A TEXT FOR THE MEETING OF THE ECO/FIN COUNCIL ON 15 OCTOBER.

YOURS SINCERELY  
ALAN M. DUKES, MINISTER FOR FINANCE

NIELS ERSBOELL, SECRETAIRE GENERAL

EXTREMELY CONFIDENTIAL  
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PRELIMINARY DRAFT  
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SUBJECT : BUDGETARY DISCIPLINE  
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IN ORDER TO ENSURE THAT THE RIGOROUS RULES AGREED ON BY THE EUROPEAN COUNCIL ARE APPLIED TO THE BUDGET OF THE COMMUNITIES, THE FOLLOWING ACTION SHOULD BE TAKEN :

- THE COUNCIL WILL UNDERTAKE TO APPLY CERTAIN INTERNAL RULES AND ADOPT THE PROCEDURES NECESSARY TO THAT END., AND,



THE COMMISSION AND THE PARLIAMENT WILL BE APPROACHED WITH A VIEW TO THEIR AGREEING THAT APPLICATION OF THE RULES THE COUNCIL HAS THUS ADOPTED SHOULD BE AN INTEGRAL PART OF AN APPROACH COMMON TO THE INSTITUTIONS RESPONSIBLE FOR COMMUNITY LEGISLATION AND THE BUDGET.

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WITH REGARD TO THE UNDERTAKINGS TO BE MADE IN THE COUNCIL, THE FOLLOWING ORIENTATIONS SHOULD BE IMPLEMENTED :

1. MAXIMUM RATE

SUBJECT TO PARAGRAPH 2.2. BELOW, THE MAXIMUM RATE PROVIDED FOR IN ARTICLE 203 OF THE TREATY OF ROME WILL BE COMPLIED WITH BY THE COUNCIL THROUGHOUT THE BUDGETARY PROCEDURE, WITH ANY INCREASE IN NON-COMPULSORY EXPENDITURE OVER AND ABOVE HALF THE MAXIMUM RATE BEING EXCLUDED AT THE FIRST READING.

2. 1. REFERENCE FRAMEWORK

AT THE BEGINNING OF EACH YEAR, THE COMMISSION WILL PROVIDE THE COUNCIL WITH THE ESSENTIAL ELEMENTS FOR A REFERENCE FRAMEWORK TO BE FIXED FOR THE FOLLOWING FINANCIAL YEAR.

(THESE WILL INCLUDE : .....)

2.2. BEFORE (1 MARCH) EACH YEAR, THE COUNCIL, CONSTITUTED OF THE MINISTERS FOR ECONOMIC AFFAIRS AND FINANCE, WILL DETERMINE, ON THE BASIS OF THE INFORMATION PROVIDED BY THE COMMISSION (SEE POINT 2.1.) AND IN ACCORDANCE WITH THE MAJORITY RULES APPLICABLE WHEN DRAWING UP THE DRAFT BUDGET (SECOND INDENT OF ARTICLE 148 (2)) THE REFERENCE FRAMEWORK FOR THE FOLLOWING FINANCIAL YEAR'S BUDGET AND FOR ANY COUNCIL ACT GENERATING EXPENDITURE TO BE CARRIED OUT UNDER THAT BUDGET (1). AMONG OTHER THINGS, THE REFERENCE FRAMEWORK WILL SPECIFY THE MAXIMUM AMOUNTS OF COMPULSORY AND NON-COMPULSORY EXPENDITURE WHICH THE COUNCIL WILL HAVE TO COMPLY WITH IN ITS CAPACITY AS LEGISLATOR OR BUDGET AUTHORITY AND THE CORRESPONDING TOTAL REVENUE TO BE TAKEN INTO ACCOUNT DURING THE NEXT FINANCIAL YEAR. AT THE REQUEST OF ONE DELEGATION OR THE COMMISSION, THE COUNCIL, CONSTITUTED AS ABOVE AND USING THE SAME RULES OF PROCEDURES, MAY AMEND THE REFERENCE FRAMEWORK.

2.3. WHEN THE COUNCIL - HOWEVER CONSTITUTED - IS ON THE POINT OF ADOPTING A LEGISLATIVE OR BUDGETARY ACT LIABLE TO INCREASE EXPENDITURE BEYOND THE ABOVE-MENTIONED REFERENCE FRAMEWORK, THAT DECISION SHALL, AT THE REQUEST OF ONE DELEGATION OR THE COMMISSION, BE SUSPENDED.

2.4. THE COUNCIL, CONSTITUTED OF THE MINISTERS OF ECONOMIC AFFAIRS AND FINANCE, WILL BE REQUIRED TO EXAMINE, AS SOON AS POSSIBLE, THE SITUATION THAT WOULD ARISE IF THE ACT IN QUESTION WERE ADOPTED. IF AGREEMENT CANNOT BE REACHED, THE COUNCIL - CONSTITUTED OF THE MINISTERS FOR FOREIGN AFFAIRS - WILL BE REQUESTED TO TAKE A DECISION AS RAPIDLY AS POSSIBLE. THE MAJORITY RULES LAID DOWN IN THE TREATY WILL APPLY IN THE EVENT OF THE ADOPTION OF THE ACT IN QUESTION.

3. AGRICULTURAL FINANCIAL GUIDELINES

3.1. THE COUNCIL WILL UNDERTAKE SO TO PROCEED THAT THE NET EXPENDITURE RELATING TO AGRICULTURAL MARKETS CALCULATED ON A THREE-YEARLY BASIS ACCORDING TO METHOD "C" (ANNEX II TO 8812/84) WILL INCREASE LESS THAN THE RATE OF GROWTH OF THE OWN RESOURCES BASE.

3.2. THE EXPENDITURE AND REVENUE TO BE TAKEN INTO ACCOUNT ARE THOSE PROPOSED BY THE COMMISSION IN ITS COMMUNICATION OF 6 MARCH 1984 (4972/1/84, FOOTNOTES 1 AND 2 ON PAGE 1 OF THE ANNEX).

3.3. ACCOUNT WILL BE TAKEN OF EXCEPTIONAL CIRCUMSTANCES, IN PARTICULAR IN CONNECTION WITH ENLARGEMENT, WITHOUT THIS IMPLYING A CONTINGENCY RESERVE.

3.4. IN THE EVENT OF DEROGATION FROM THE GUIDELINE IN 3.1., THE COUNCIL WILL SO PROCEED THAT DURING THE FOLLOWING TWO FINANCIAL YEARS,



BROUGHT BACK WITHIN THE LIMITS IMPOSED BY THAT GUIDELINE.

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1. BETWEEN NOW AND ... OCTOBER 1984, THE HIGH-LEVEL WORKING PARTY WILL DRAW UP THE TEXT OF A COUNCIL DECISION INCORPORATING THE PRINCIPLES SET OUT ABOVE.
2. ONCE THE ABOVE PROVISIONS ARE ADOPTED, THE COUNCIL WILL INVITE BOTH THE COMMISSION AND THE PARLIAMENT TO EXAMINE WITH IT WAYS OF SECURING THE CO-OPERATION NECESSARY FOR A BUDGETARY DISCIPLINE COMMON TO ALL THREE INSTITUTIONS.

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(1) AN INTERIM PROVISION COULD BE CONSIDERED IN THE CASE OF THE GENERATION OF EXPENDITURE CHARGEABLE TO THE BUDGET OF THE FIRST YEAR OF APPLICATION OF THIS AGREEMENT.  
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COMMON AGRICULTURAL POLICY: FINANCIAL GUIDELINES.

1. The amendments which the Commission has proposed to the rules governing the various common agricultural market organisations will, if implemented, ensure control of agricultural expenditure and act as a brake on its future growth. It is on the assumption that the Council will endorse all these measures that the Commission now submits the following financial guidelines.

2. The Commission will give the European Council an undertaking to adopt a qualitative guideline with respect to its own management, namely that the rate of growth of agricultural expenditure (1), as an average calculated over several years, is to remain below the rate of growth of the Community's own resource base (2) calculated on a similar basis. The average in each case shall be that of the current year and the two preceding years (3).

3. The Commission suggests that the European Council expressly request the Council to adopt the same qualitative guideline in the decisions falling within its competence.

4. The Commission requests the Council to adopt special procedural rules in order better to ensure strict budget discipline in the management of the Common Agricultural Policy.

.../...

- (1) The amounts to be taken into account are the expenditure chargeable to Section III, Part B, Titles 1 and 2 (EAGGF Guarantee) of the Budget. This expenditure is currently presented in the Budget in a manner which includes "negative expenditure", i.e. is already reduced by the incidence of the financial contribution by milk producers (co-responsibility levy). The calculation of agricultural expenditure for the purposes of the guideline shall be this expenditure, further reduced by the sum of amounts corresponding to the marketing of ACP sugar and refunds in connection with food aid, the payments by producers in respect of the sugar and isoglucose levies as well as the revenues from any future internal agricultural charges.
- (2) The amounts to be taken into account are the potential revenues upon which Titles 1 and 2 of Section III, Revenue, of the Budget are determined. The calculation of the Community's own resource base for the purposes of the guideline shall be the total VAT base upon which the VAT rate of the year in question is calculated, the amount of financial contributions (if any) included in the budget of the year together with the own resources, other than those derived from VAT, set out in Revenue Title 1 less the sugar and isoglucose levies. For the purpose of calculating the VAT base, account shall not be taken of any abatements on the VAT payments of individual Member States.
- (3) In calculating the rates of growth in the own resource base and in agricultural expenditure, due account will need to be taken of:



5. As regards the decisions which have a determinant effect on the volume of agricultural expenditure, that is the decision on agricultural prices which the Council of Agriculture Ministers must take each year on a proposal from the Commission, the Commission proposes the following rules:

- (a) When submitting its agricultural proposals the Commission will supply a quantified estimate of their budget impact in relation to the movement in the growth of the Community's own resource base calculated according to a common and constant formula, namely the sliding average of the growth rates for the current year, the year immediately preceding and the year ahead. These figures will allow a judgement to be made of the compatibility of the proposals with the guideline referred to in §2.
- (b) The Commission will draw up its proposals on prices (and related measures) in the light of the guideline referred to in §2. To this end the Commission confirms that it intends in the coming years to pursue a restrictive price policy for sectors in surplus and for those where a rapid growth in expenditure is coupled with limited outlets for disposal.
- (c) On this basis the Commission suggests that the European Council request the Council to adopt the following rule: if in the Commission's opinion the Council of Agriculture Ministers seems likely to take decisions whose cost would exceed that of the original proposals of the Commission, the final decision must be referred to a special Council session attended by both Finance and Agriculture Ministers and can be taken only by that special session.

6. As regards the preparation and implementation of the budget the Commission proposes the following rules:

- (a) In submitting its budget proposals in the context of its preliminary draft budget the Commission will take account of all foreseeable expenditure in the budget year concerned, including that stemming from its price proposals.

The aim of the Commission and the Council will thus be to keep EAGGF Guarantee expenditure within the appropriations for the year.

.../...

(3) cont.

- changes in the own resource base, e.g. as a result of an increase in the VAT ceiling.
- any discrepancy in timing between the full availability to the Community of the additional own resources derived in the two new Member States and changes in agricultural expenditure occasioned by their accession. (One possible solution would be the neutralisation, for the purposes of the calculation of this guideline, of the effects of enlargement during the first years of the transitional period.)



- (b) The Commission will institute an early-warning procedure enabling it to detect promptly any risk during the year of budgetary over-runs and report to the Council and Parliament forthwith(4).

It will in any event report to the Council and Parliament each month on the trend of agricultural expenditure.

After making use of all the opportunities afforded by the routine management of the CAP it will if need be propose to the Council and Parliament measures designed, without detriment to the principles of the CAP, to restrict increases in agricultural expenditure. It will be incumbent on those institutions to take the necessary decisions as speedily as possible so that these measures can achieve their purpose. Where appropriate the Council's decisions could be taken at a special session of the kind referred to in §5(c).

The Commission will not introduce a supplementary budget until it has exhausted all the opportunities for savings afforded by the routine management of the CAP and by any additional Council decisions.

- (c) In the event of failure to respect the qualitative guideline referred to in §2 (by reason either of a special Council decision (§5(c)) or of a supplementary budget), adherence thereto will mean both the Council and the Commission must during the following two financial years ensure that, barring aberrant developments, agricultural expenditure is brought back within the limits imposed by the qualitative guideline. In so doing they must concentrate primarily on the production sectors responsible for the failure to adhere to the guideline.

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(4) Apart from a Council decision on prices in excess of the Commission's proposals (when the special decision-making procedure in §5(c) would apply), such "over-runs" could only occur as a result of compelling economic developments which could not have been foreseen when the budget was adopted.