



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

PRIME MINISTER

A handwritten signature in blue ink, appearing to be 'M. G.' or similar.

EUROPEAN COMMUNITY NEGOTIATIONS: BUDGET DISCIPLINE

You may like to have the following summary account of the discussions yesterday at the ECOFIN Council on Budgetary Discipline.

2. After nearly 12 hours of discussion the Council reached agreement on substance, subject to a general Danish reserve and a French reserve on one point; and agreed that the question of legal form, on which there was no agreement, should be referred to the Foreign Affairs Council for consideration in the context of the overall budgetary settlement.

3. I believe that the text largely agreed last night, if confirmed, will represent a satisfactory and defensible outcome for the UK. Although it necessarily, and realistically, contains provisions for flexibility in the implementation of the system, the system itself is largely based on the methodology and principles we have been pressing. I was, moreover, able to secure explicit agreement, enshrined in the text, that the provisions would apply next year so that they govern the preparation of the 1986 Budget. I had to accept that the overall reference framework might not be fixed until the start of the formal annual budgetary procedure, which is somewhat later than we had earlier hoped to achieve. But on my proposal the text now formally endorses the tighter timetable for the agricultural guideline which the Commission have undertaken to implement, in accordance with the methodology accepted by the Council, at the beginning of the year in advance of the agricultural price fixing.

4. The most difficult issue of substance related to the safeguard against building base drift automatically into the calculation of the guideline. The Irish Presidency had helpfully incorporated in the text the formula, referring to "original budgets" as the basis of calculating the guideline in future years, which we had pressed in the official high level group. Although the Danes continued to



oppose this, the French Finance Minister, after firm initial opposition, finally agreed to its inclusion in the ECOFIN text, subject to the reserve that budgetary discipline must be part of a satisfactory wider agreement on the post-Fontainebleau package - a condition that we, of course, subscribe to.

5. As I have indicated to Geoffrey Howe separately, I think that this safeguard against building base drift automatically into the guideline is a vital part of the agreement. I have no doubt that the French will seek at the Foreign Affairs Council to reverse M Beregovoy's agreement to the present text last night, but my strong view is that we should resist any attempt to delete or weaken the reference to "original budgets" that the text contains. Indeed, the present contents of the text, which were settled by ECOFIN subject only to the reserves mentioned above, should not be open for any further discussion or unpicking at the Foreign Affairs Council.

6. So far as the form of the agreement is concerned, the Irish Presidency had again helpfully drafted it as a Council Decision. A majority of ECOFIN were in fact initially prepared to accept this, but at a late stage several Ministers took fright following a statement by the Council Legal Services emphasising the legal aspects of a Decision, and the issue remained unresolved. It was therefore agreed that this issue would be reported to the Foreign Affairs Council for further discussion there.

7. This is regrettable, since a Council Decision in the terms proposed would, while not having the legal force we had originally aimed for, have had presentational advantages. But I regard the substance of the agreement as more important than the form, and I would be prepared to accept a formal Council Conclusion if by so doing this could secure final agreement on the contents, including the provision against base drift. Geoffrey Howe will want to judge whether such a compromise would serve to clinch the agreement in discussion of the wider package at the Foreign Affairs Council, but I should not want to be driven to a Resolution, which several other Member States favour.

8. If we can secure the ECOFIN text, whether as a Council Decision or Conclusion, we shall have achieved as satisfactory an outcome to this chapter of



the post-Fontainebleau package as we could realistically have expected in the circumstances. I believe we could justify it to Parliament and our supporters as an acceptable discharge of the European Council's invitation to the Council to adopt the measures necessary to guarantee the effective application of the budgetary discipline principles to which they agreed at Fontainebleau.

9. I am copying this minute to Geoffrey Howe, Michael Jopling and to Sir Robert Armstrong.

N.L.

2 October 1984

Eino Budejelt



COMPTROLLER

IN

CONFIDENTIAL



10 DOWNING STREET

file MFJAH
cc dir / Crowth

From the Private Secretary

3 October 1984

European Community Negotiations: Budget
Discipline

The Prime Minister has noted the Chancellor's minute of 2 October recording the outcome of the discussion on budgetary discipline at the ECOFIN Council on 1 October.

I am copying this letter to Mr. Budd (Foreign and Commonwealth Office), Mr. Llewellyn (Ministry of Agriculture, Fisheries and Food) and Mr. Hatfield (Cabinet Office).

CHARLES POWELL

David Peretz, Esq.,
HM Treasury.

CONFIDENTIAL

DS

CC NO



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

5 October 1984

C D Powell Esq
10 Downing Street
LONDON
SW1

Dear Charles,

NBPN
C&D
5/11.
(FW agree his
approach).

BUDGETARY DISCIPLINE

Further to the Chancellor's minute to the Prime Minister of 2 October, you may like to have the enclosed copy of the text on budgetary discipline that emerged from the ECOFIN Council on Monday evening.

As the Chancellor's minute explained, the ECOFIN Council did not reach agreement on the status of the text; nor was this subsequently resolved at the Foreign Affairs Council. The text itself, however, retains the key United Kingdom amendments on, for example, the starting date of the arrangements (Article 11) and the provision against building base-drift automatically into calculation of the guideline (Article 4), albeit with a continuing French reservation (expressed more strongly at the Foreign Affairs Council) on the latter.

The Chancellor considers that any further discussion of the text should take place in the ECOFIN Council. We have the tactical advantage there of being able to start from the attached text, which the President of ECOFIN put forward, and there seems less likelihood of the text being unpicked at ECOFIN than in the Foreign Affairs Council. The Chancellor sees no immediate urgency, however, to renew discussion on the text; indeed, he thinks there would be tactical advantage in seeking to defer further discussion at least until we see whether the European Parliament releases our outstanding 1983 refunds next week - though it would not be sensible to make that a condition for resuming discussion. In the meantime we shall consider how best to pursue the outstanding issues bilaterally, particularly with the French.

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

Yours sincerely,

Philip Wynn Owen.

P WYNN OWEN
Private Secretary

Blumwin

Luxembourg, 1 October 1984

*My Recd
this is the
amended text*

*cc M. Lamin
M. Bortol
M. Klopman
M. Kinnick*

COUNCIL DECISION (*) (1) on
ON BUDGETARY DISCIPLINE

*substantially unchanged
as it emerged from ECOFIN
3/0*

THE COUNCIL,

Having regard to the Treaties establishing the European Communities,

Whereas at its meetings on 19 and 20 March and 25 and 26 June 1984 the European Council reached agreement on a series of decisions and guidelines to ensure the relaunch of the Community and establish a solid basis for its further development during the present decade

Whereas principles on budgetary and financial discipline are specifically included;

Whereas the European Council considered it essential that the rigorous rules which at present govern budgetary policy in each Member State shall also apply to the budget of the Communities, and stated that the level of Community expenditure will be fixed as a function of available revenue, and that Budgetary Discipline will apply to all budgetary expenditure ;

Whereas the European Council invited the Council of Ministers to adopt the measures necessary to guarantee the effective application of the principles set out in its conclusions,

HAS DECIDED AS FOLLOWS:

.../...

(*) Decision sui generis
(1) The form of the act is not yet agreed.

Article 1

1. At the beginning of the budgetary procedure each year, the Council shall fix a reference framework, i.e. the maximum level of expenditure which it considers it must adopt to finance Community policies during the following financial year consistently with the provisions of Articles 2 to 5 inclusive and 9.

2. In fixing the reference framework, the Council shall act by the qualified majority defined in Article 148(2), second indent of the EEC Treaty.

3. The relevant provisions of the financial guidelines concerning the Common Agricultural Policy, set out in the Annex to the Commission communication of 6 March 1984, will be implemented ; these provisions are annexed to this Decision.

.../...

Article 2

The Council shall so proceed that the net expenditure relating to agricultural markets calculated on a three-yearly basis, in accordance with Article 4 below, will increase less than the rate of growth of the own resources base. This development will be assessed on comparable bases from one year to the next.

Account shall be taken of exceptional circumstances, in particular in connection with enlargement.

.../...

Article 3

The amounts to be taken into account for the application of Article 2 are :

(a) as regards expenditure :

that chargeable to Section III, Part B, Titles 1 and 2 (EAGGF Guarantee) of the Budget. The calculation of agricultural expenditure for the purposes of the guideline provided for in Article 2 shall be this expenditure, 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;

(b) as regards the own-resources base :

the potential revenues upon which Titles 1 and 2 of the revenue side of the Budget are determined. The calculation of the Community's own resources base for the purposes of the guideline provided for in Article 2 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 as well as the revenues from any future internal agricultural charges.

When the potential revenues from VAT are changed by a change in the VAT ceiling, the guideline provided for in Article 2 shall thereafter be calculated as if the new maximum VAT rate had been applied in all the years relevant to the calculation of the guideline.

.../...

Article 4 (1)

1. The net expenditure relating to agricultural markets shall be calculated, on the basis of the figures corresponding to the expenditure defined in Article 3(a), as follows :
 - (a) the average level of expenditure, as defined in Article 3(a), shall be the average expenditure for the current financial year and the two preceding financial years ;
 - (b) the own-resources factor shall be established by dividing the forecast level of the own-resources base for the following year, as defined in Article 3(b), by the average of the own resources base in the current financial year and the two preceding financial years ;
 - (c) the net expenditure for the following financial year shall be established by multiplying the amounts obtained by the application of paragraphs (a) and (b).

2. For the purposes of paragraph 1, the figures corresponding to the expenditure defined in Article 3(a) shall, subject to the transitional provisions of Article 10, be those entered in the original budgets of the years in question, unless the Council acting by the majority mentioned in Article 1(2) decides otherwise.

.../...

(1) Reserves / - DK
/ - F on par. 2

Article 5

In the event of failure to respect the qualitative guideline provided for in Article 2, the Council shall during the following two financial years ensure that, barring abnormal developments, agricultural expenditure is brought back within the limits imposed by this guideline. In so doing, the Council shall concentrate primarily on the production sectors responsible for the failure to adhere to the guideline.

Article 6

1. The Council shall, when exercising its powers as legislative authority or branch of the budgetary authority, so proceed that the reference framework is respected.

2. At the request of a member of the Council or the Commission, the Council, acting by the majority referred to in article 1(2), may amend the reference framework.

Article 7

1. Except in the case of decisions mentioned in paragraph 4 below, when the Council is on the point of adopting an act which appears likely to increase expenditure for a financial year beyond the reference framework applicable to that year, the adoption of that act shall, at the request of a member of the Council or the Commission, be suspended.
2. Within a period not exceeding one month, the Council, acting by the majority referred to in Article 1(2), shall determine whether the proposed act would, if adopted, lead to the reference framework being exceeded.
3. If the Council concludes that the proposed act would, if adopted, lead to the reference framework being exceeded, it shall reconsider the proposed act with a view to taking appropriate measures.
4. In the case of decisions affecting net expenditure relating to agricultural markets, if, in the opinion of a member of the Council or the Commission, the Council seems likely to take a decision whose cost would exceed that of the original proposals of the Commission, the adoption of the decision shall be suspended. The matter shall be immediately referred to a special session of the Council for a final decision, which shall be taken as soon as possible.

.../...

Article 8

When the Council is on the point of adopting an act which has considerable financial implications for several years, the Council shall, before taking the final decision, formulate an opinion on whether the financial implications of the proposed act are compatible with the principles and guidelines governing the Community's budgetary policy.

Article 9

1. The Council shall comply with the maximum rate provided for in paragraph 9 of art.203 of the EEC Treaty throughout the budgetary procedure.
2. In order to achieve this :
 - when establishing the Draft Budget, the Council shall keep the increase in expenditure other than that necessarily resulting from the Treaties or from acts adopted in accordance therewith to a level no higher than half the maximum rate provided for in paragraph 9 of Article 203 ;
 - at the second reading, the Council shall adopt a position such that the maximum rate is not exceeded.
3. The preceding paragraphs of this Article are without prejudice to the provisions of Article 203 of the EEC Treaty, particularly those of the last subparagraph of paragraph 9.

.../...

Article 10 (1)

For the purpose of calculating the guidelines for net expenditure relating to agricultural markets, applicable to the years shown in Column A below, the figures for the years shown in Column B below shall be those which result from the outturn for those years, including in the case of the guideline applicable to 1986, the best estimate of the outturn for 1985.

<u>A</u>	<u>B</u>
1986	1985, 1984, 1983
1987	1985, 1984
1988	1985

Article 11

On the assumption that the 1986 budget will be prepared on the basis of own resources being increased in that year, the provisions of this decision will first apply to the exercise of the Council's powers in 1985 concerning expenditure in the financial year 1986.

Extract from the Commission Communication of 6 March 1984
referred to in Article 1 par. 3

" 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.

- (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."

(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.

- 1 -

STATEMENTS

to be entered in the Council Minutes

1. Re. Article 1 paragraph 1

"The Council states that the reference to expenditure to finance Council policies includes compulsory expenditure not relating to agricultural markets."

2. Re. Article 2

"The Irish delegation considers that the phrase "exceptional circumstances" used in Article 2 should, as well as enlargement, include the disposal of the present high level of agricultural stocks since this is a requirement which has arisen from previous Council decisions, and can clearly be foreseen at this stage."

3. Re. Articles 2 and 9

"Le Conseil déclare qu'en appliquant la discipline budgétaire il tiendra compte des décisions préalables et autres engagements du Conseil européen y compris ceux qui se réfèrent aux besoins des pays les moins développés de la Communauté."

4. Re Article 3

"The UK Delegation states that it has agreed to the definition of expenditure referred to in Article 3(a) solely for the purposes of the agricultural guideline and on the basis that its use in this context has not implications for the budgetary treatment of FEOGA Guarantee or for other purposes."

.../...

5. Re. Article 3(a) first sentence

"The Council notes that 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-responsability levy, super levy milk)."

6. Re. Article 7(4)

"The Council considers that the special session mentioned in Article 7 paragraph 4 should be attended by Ministers for Finance and Economic Affairs and Ministers for Agriculture."

7. Re. Articles 1(1), 4(2), 6(2), 7(2), 8

"The Council considers that the functions conferred on it by Article 1(1), Article 4(2), Article 6(2), Article 7(2) and Article 8 (second point of the sentence) should be exercised by the Council composed so as to include Ministers for Finance and Economic Affairs, each Government remaining free to designate other Ministers to participate at the meetings in question."

8. Commission statement

The Commission confirms the undertakings it made in the Annex to its communication of 6 March 1984 on "Common Agricultural Policy : Financial Guidelines". As regards the method of measuring the growth rates of agricultural expenditure and the Community's own resources base, the Commission will use the definitions set out in Articles 3, 4 and 10 of the Council's decision.

The Commission will implement these undertakings so that they may apply in respect of the budgetary exercise of 1986 and subsequent budgetary exercises.

The Commission will also draw up at the beginning of each year the figures necessary for the establishment of a reference framework of the kind set out in Article 1 of the Council's decision. These figures will be made available to both branches of the Budget Authority.

9. The Governments of the Member States undertake to provide the necessary data in sufficient time to enable the Commission to present the above-mentioned figures.

 10. 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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Euro PN Pt 27

Budget

15 OCT 1984

