

DD

①



CONFIDENTIAL

Prime Minister

This would not be at all a bad result. Agree that

Qz.03996

MR POWELL

negotiations should continue to try to clinch it?

CDP - 26x

COMMUNITY BUDGET DISCIPLINE

Yes no

You asked how the discussions on Community budget discipline now stand. You will recall that, following the discussions in the Finance Council on 1 October, there were two outstanding points:

(i) the need to ensure that the guideline for agricultural expenditure did not simply drift upwards by the incorporation of all supplementary budget expenditure (even if clawed back later) within the guideline for future years (the so-called base drift above the original budgets). We rejected the French proposal that the guideline should be continuously revised upwards by including all extra increases in expenditure in the base, because this would mean that the guideline followed rather than dictated expenditure. It would make a nonsense of the Fontainebleau conclusions;

(ii) the form in which the results are to be expressed.

2. On point (i) the Fontainebleau conclusion is clear and, just because it is so clear, the French have not been able to sustain their position in the recent bilateral contacts with us. The Fontainebleau text says that the net expenditure relating to agricultural markets "will increase less than the rate of growth of the own resources base". When the French began to create difficulties in the Finance Council on 1 October, the Chancellor of the Exchequer suggested that the simplest way to implement the Fontainebleau conclusion would be to establish the base figure for agricultural guarantee expenditure and then to keep the expenditure below this figure,

CONFIDENTIAL

adjusted each year by X per cent representing the rate of growth of the own resources base. This would avoid any argument in future years about budgets and would correspond exactly to the Fontainebleau conclusion. This idea was not taken up at the time but at our insistence other member states now seem likely to adopt it. The discussions have been difficult; the French - in particular, the Minister of Agriculture, Monsieur Rocard - do not like it but will go along with it because they are committed by the Fontainebleau conclusion. The text contains a revision clause on Fontainebleau lines ie that the method of calculation will continue as long as the 1.4 per cent VAT ceiling is not reached and that a decision will then be taken on the future operation of the guideline in accordance with the conclusions of the Fontainebleau European Council. As expected, there remains a disagreement on the base figure: we argue for the three year average of expenditure in 1983-85, the French want the 1985 figure and the Presidency propose the average of 1984 and 1985. We had foreseen this and believe that, if and when the French are finally hooked on the future method of calculation and provided that the Dutch and Germans are content, we could accept the 1984-85 base. We calculate that on the two year base the maximum increase in agricultural guarantee expenditure in 1986 would be 5-6 per cent - not brilliant but markedly better than the 27.5 per cent increase in 1983 and the 16.2 per cent increase in 1984.

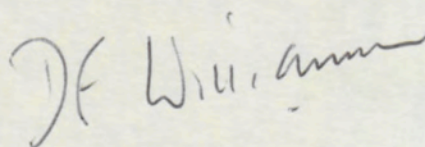
3. On point (ii) we have been pressing for a decision of the Council while probably the majority of member states maintain that the results must be expressed in a resolution. We particularly do not want a resolution because it does not have any binding force. We think that we have now at last shifted the Danes from their strong attachment to a resolution. It seems likely that we could get a text formally described

/as

CONFIDENTIAL

as measures to guarantee the effective application of budgetary discipline and formally included in the conclusions of the Council. They will be discussed with the Commission and the European Parliament and will carry the Council's authority. Subject to the view of the Court on their relevance to a particular case, they could be cited in the European Court.

I am sending a copy to Sir Robert Armstrong.



D F WILLIAMSON

26 October 1984

CONFIDENTIAL



huc

87

10 DOWNING STREET

From the Private Secretary

MR. WILLIAMSON
CABINET OFFICE

COMMUNITY BUDGET DISCIPLINE

Thank you for your minute of 26 October, setting out the position in the Community on budget discipline. I have shown it to the Prime Minister who agrees that negotiations should continue to clinch the solution described in paragraphs 2 and 3 of your minute.

It would be helpful for your minute and mine to be copied to those principally concerned in Whitehall. Please let me know whether you agree to this.

BF |
↑

Mr Williamson
stated no reply necessary
2/11/84

CP

29 October, 1984