



Prime Minister

CDP 13/XI

Treasury Chambers, Parliament Street, SW1P 3AG

Charles Powell Esq
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13 November 1984

Dear Charles

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ECOFIN COUNCIL, 12 NOVEMBER: BUDGETARY DISCIPLINE

As agreed at last Thursday's Cabinet the Economic Secretary attended the meeting of the ECOFIN Council on 12 November for the item on budgetary discipline.

The outcome of the meeting was that, after further discussion, the Council was able to agree "a common position" on the substance of the budgetary discipline text. Subsequently, at the Foreign Affairs Council the Greeks, who had continued to argue that the text should be a Resolution of the Council, finally accepted that it should be entitled "Conclusions of the Council of Ministers". Although the Economic Secretary had to return to London for the Autumn Statement before discussion on the budgetary discipline item had been completed, he was able to approve the final version of the text before Sir Michael Butler gave our agreement to it in the Council. I am enclosing with this letter the final version of the text agreed by ECOFIN, which will be made available to Parliament shortly. I am also enclosing the draft of an Answer to an arranged PQ to report the outcome of the Council to the House. I should be glad to know that you and other recipients of this letter are content with the draft in time for it to be answered tomorrow.

The final discussions at ECOFIN centred on Article 4 of the text, which lays down the method for calculating the guideline for agricultural expenditure. The outcome was a satisfactory one. The text agreed follows the method proposed by the Chancellor at the 1 October ECOFIN Council and thus ensures the avoidance of base drift. As foreshadowed in David Williamson's minute to you of 26 October, the French were prepared to agree to this, provided the starting point for the calculations was the average of the agricultural expenditure outturn figures for 1984 and 1985. Our current

estimate is that this will probably permit a maximum increase in total agricultural spending in 1986 of some 6% compared with 1985. Given the current high level of agricultural stocks this will be a tight constraint.

There was some dispute between the French and the Germans over the text of the clause and the question of whether the method of calculation would automatically continue to apply even after the 1.4% VAT ceiling was reached. The compromise eventually agreed consisted of reproducing the commitment to the review of budgetary discipline already contained in the Fontainebleau European Council conclusions. The Economic Secretary accepted this on the basis of a general consensus in the Council, reflected in the Presidency's summing up, that the present method of calculation will continue to be applied for as long as the 1.4% ceiling remains in force.

The Economic Secretary's view, which the Chancellor endorses, is that the text on budgetary discipline achieves our essential negotiating aims. In particular, it:

- achieves the objective stated by the Prime Minister after the Fontainebleau European Council, of incorporating the budget discipline guidelines into the Community's budgetary procedures through the annual fixing of a "reference framework", and non-agricultural expenditure;
- establishes the rule that agricultural expenditure should increase less than the rate of growth of the own resources base and provides a precise and satisfactory method for calculating that guideline;
- gives a new and leading role to ECOFIN Ministers in monitoring both expenditure decisions (including the agricultural price fixing) and their subsequent execution, so as to ensure consistency with the budgetary discipline rules;
- embodies a firm undertaking to contain the growth of non-agricultural expenditure within the maximum rate.

As noted above, the text is at present a "common position" of the Council. The text cannot finally be adopted until after a "dialogue" meeting has taken place between the ECOFIN Council and a delegation from the European Parliament planned for 21 November. Our objective at that meeting will, of course, be to ensure that there is no backsliding on the part of other members of the Council in the face of the criticisms of the European Parliament delegation and that no changes are made in the essential substance of the present text.

There may well, however, be a majority in the Council ready to agree that the European Parliament should be consulted before the ECOFIN Council sets the budgetary reference framework each year. This would not affect the operation of the agricultural guideline and provided the procedure

was purely consultative, if necessary the Chancellor would be willing to accept this if the Council is minded to do so.

Once the discussion with the European Parliament has taken place, the text will be definitively adopted as Conclusions of the Council. The Economic Secretary considers that, when this has been done, the Government will be in a position to seek Parliament's approval to the provision of supplementary finance for 1984 under the Inter-Governmental Agreement.

I am sending copies of this letter to the Private Secretaries to the Foreign Secretary and Minister of Agriculture and to Sir Robert Armstrong.

Yours ever,
A M Ellis.

A M ELLIS

DRAFT

SUGGESTED ANSWER TO ARRANGED PQ ON OUTCOME
OF 12 NOVEMBER ECOFIN COUNCIL

Q. To ask Mr Chancellor of the Exchequer to report the outcome of the ECOFIN Council on 12 November and if he will make a statement.

Economic Secretary : I represented the United Kingdom at the meeting of the Council of Economic and Finance Ministers in Brussels on 12 November.

2. The Council reached agreement on a common position on measures to guarantee the effective application of the guidelines on budgetary discipline adopted by the Brussels and Fontainebleau European Councils. ⁷The intention is that a final text will be formally adopted as Conclusions of the Council of Ministers after a meeting with a delegation from the European Parliament to be held on 21 November.

3. The text agreed by the ECOFIN Council incorporates the European Council guidelines into the Community's budgetary procedures and contains provisions to ensure that in future the rate of growth of net expenditure relating to agricultural markets will be less than the rate of growth of the own resources base. The

agreement thus achieves the Government's essential aims on budgetary discipline. The text of the Council's common position will be made available to Parliament as soon as possible.

4. The Council also discussed the position to be adopted by the Community in discussion in the OECD on export credits for aircraft and mixed credits. These issues were referred to COREPER for further consideration.

5. The Council had a preliminary discussion of the setting of a new multi-annual ceiling for FEOGA Guidance expenditure.

6. The Council invited COREPER ~~and the~~ ~~Permanent Representatives~~ to prepare a report on a Commission proposal to harmonise the income tax regime applicable to Community residents living in one Member State and working in another.

Conclusions of the Council on the measures necessary to guarantee the effective implementation of the conclusions of the European Council on Budgetary Discipline.

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 CONCLUDED AS FOLLOWS:

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hip/HM/mcs

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 these Conclusions.

.../...

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.

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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 3, 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

The level of net expenditure relating to agricultural markets for a given year shall be calculated as follows :

(a) the level of expenditure, as defined in Article 3(a), shall be the average of the actual outturn expenditure for 1984, and the best estimate of the outturn for 1985;

(b) the own resources factor will be established by dividing the forecast level of the own resources base for the year in question, as defined in Article 3(b), by the average own resources base for 1984 and 1985,

(c) the level of expenditure for the financial year in question shall be established by multiplying the amounts obtained by the application of paragraphs (a) and (b), unless the Council acting by the majority mentioned in Article 1(2) decides otherwise;

(d) the method of calculation shall be re-examined in accordance with the Fontainebleau conclusions under the heading Budgetary Imbalances on the basis of the report to be presented by the Commission one year before the 1.4 percent VAT ceiling is reached.

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, the procedures laid down in paragraphs 5(c) and 6(b) of the Annex to the Commission's communication of 6 March 1984 shall apply.

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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 3 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

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

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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.

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-responsibility levy, super levy milk)."

6. Re. Article 7(4)

"A Member State may seek the opinion of the Commission on whether the circumstances referred to in paragraph 5(c) of the Annex to the Commission's communication of 6 March 1984 arise."

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

"The Council considers that the functions conferred on it by Article 1(1), Article 4(c), Article 6(2), Article 7(2) and Article 8 should be exercised by the Council composed so as to include Ministers for Finance and Economic Affairs and, as appropriate, Ministers for Foreign 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 and "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 and 4 of the Council's conclusions.

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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 conclusions. 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.

11. The agricultural guideline will be implemented with respect being paid to the principles developed by the Court of Justice concerning acquired rights and the legitimate expectation of individuals and financial and economic agents in relation to Community legislation.



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10 DOWNING STREET

From the Private Secretary

14 November 1984

Ecofin Council: Budgetary Discipline

The Prime Minister was grateful for the Economic Secretary's minute of 13 November summarising the outcome of discussions at the Ecofin and Foreign Affairs Council on Budgetary Discipline. She has no comment to make on the draft answer to the arranged PQ reporting the outcome of the Council to the House.

I am copying this letter to Colin Budd (Foreign and Commonwealth Office), Ivor Llewelyn (Ministry of Agriculture, Fisheries and Food) and David Williamson (Cabinet Office).

C D Powell

A M Ellis, Esq.,

Economic Secretary's Office
H M Treasury



C.P.P.
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9 November 1984

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Private Secretary to the
Foreign and Commonwealth Secretary
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Dear Len

ECOFIN: 12 NOVEMBER

I think the Foreign Secretary had a word with the Chancellor yesterday about UK representation at ECOFIN on Monday for the discussion on budgetary discipline. As you know, for obvious reasons the Chancellor himself cannot attend. Since it is now clear that there will be a substantive discussion about budgetary discipline on Monday, the Chancellor has arranged for the Economic Secretary to represent him.

I am sending a copy of this letter to Charles Powell (No 10).

*Yours ever,
David*

D L C PERETZ
Principal Private Secretary