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Prime Minister

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PRIME MINISTER

28 November 1985

EC BUDGET COUNCIL, 26-27 NOVEMBER

The Budget Council went predictably unsatisfactorily. The attached Written Answer summarises the outcome.

2. My officials had gone to considerable lengths to co-ordinate positions informally in advance with French, German and Dutch colleagues. But we found as soon as we arrived that more foolish counsels had prevailed. All three governments were concerned above all to avoid a row with the Parliament, especially with the Inter-governmental Conference and the European Council meetings in the offing. Contrary to the informal understandings reached between officials, all three were prepared to make specific (and substantial) provision for the so-called 'cost of the past' commitments overhang problem and to commit themselves irrevocably to proposing to the European Parliament a new 'maximum rate' at a considerably higher level.

3. I argued strongly in the Council for our preferred approach, but no-one supported. It quickly became clear that the discussion would focus on levels of non-obligatory expenditure which were barely reconcilable with budget discipline.

4. Agreement was reached accordingly in exchanges between the Chancellor, Treasury officials, your office and myself that we should stick to our guns and be outvoted unless we found ourselves in a situation where a favourable UK vote would clinch a qualified majority for an outcome which



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could be defended as being clearly compatible with budget discipline. In the event, such a situation never arose, and we were outvoted. The Irish opposed as well; but their complaint was that the increases in expenditure proposed by the Council were too low.

4. So far as the outcome is concerned, the Council has, I fear, taken a wrong turning on the cost of the past. It has encouraged the Commission in a Council Minutes entry to propose still further provision for the cost of the past in a supplementary budget next year. It has established a starting point for negotiations next month with the European Parliament which is higher than it need have been and is barely reconcilable with budget discipline. The Parliament will almost certainly reject the Council's proposals as being inadequate, and the Council may well have to meet again next month in Strasbourg in an effort to reach an agreement with the Parliament, as provided in the Treaty. If the Council does not make further concessions then, there are some indications that the Parliament may illegally adopt their own version of the budget. This has troublesome possibilities.

5. On a more positive note, the provision for agricultural guarantee expenditure remains within the budget discipline guideline; the extra provision for enlargement is relatively restrained and the Council's additions to non-obligatory expenditure, though excessive, are far below the European Parliament's proposals and are likely to bring a small net benefit to the UK in the shorter term.

6. As I see it, the Government needs to present the outcome of the Council as being disappointing and as posing a threat to one area of budget discipline. We must also be careful, however, given the emphasis which Ministers have placed on budget discipline in the context of raising the VAT ceiling, to avoid any suggestion that budget discipline in general is in ruins.

7. I am copying this minute as before.

MUM

for PETER BROOKE

(Approved  
by the  
Minister  
of State &  
signed in  
his absence)



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

**MR PETER BROOKE**

The Budget Council met in Brussels on 26-7 November to consider the European Parliament's amendments and modifications to the draft budget for 1986 which the Council established in September.

The Council established by qualified majority a revised draft budget amounting in total to some 34.6 billion ecus (some £21.6 billion at the budget exchange rate of 1.61 ecu to the £) in commitment appropriations and some 32.7 billion ecus (some £20.3 billion) in payment appropriations.

The revised draft budget, like the September version, provides for limiting the growth of agricultural market support expenditure in the existing 10 member states within the budget discipline guideline and for 567 mecu (some £350 million) of agricultural guarantee expenditure in Spain and Portugal. It includes 1400 mecu (some £870 million) for the United Kingdom's VAT abatement.

The European Parliament's proposals called for additions of some 1.8 billion ecu to the payment appropriations for non-obligatory expenditure in the Council's September draft budget. The Council decided to respond by proposing to limit these additions to



821 mecu, comprising 321 mecu on account of enlargement, 400 mecu for the so-called 'cost of the past' overhang of past commitments in the Regional Development and Social Funds, and 100 mecu in other budget lines.

The growth of non-obligatory expenditure compared with 1985 implied by these proposals is 1210 mecu (some £750 million) for commitment appropriations and 1200 mecu (some £745 million) for payment appropriations. The implied new 'maximum rate' increases are some 14.6 per cent for commitment appropriations and some 20.5 per cent for payment appropriations.

Two members states, the United Kingdom and Ireland, for different reasons, opposed the revised draft budget, but were outvoted. I argued that, while it was axiomatic that the understandings on budgetary matters reached with Spain and Portugal during the accession negotiations must be fully respected, the Council should not propose special extra provision for the 'cost of the past' problem, which should be solved by reducing new commitments rather than increasing payments. The increase in non-obligatory expenditure proposed for this purpose represented a threat to budget discipline.

On food aid, the Council accepted the Parliament's proposal for establishing a new budget line for emergency food aid relief within the food aid chapter of the budget and reaffirmed its commitment to review the Community's food aid arrangements in the light of need.

The European Parliament will consider the Council's revised draft budget in the week beginning 9 December.