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FINANCIAL IMPLICATIONS
15 March 1984

REFERENCE A
General Cash
ACPP
in 1984

Brief by the Ministry of Agriculture, Fisheries and Food

OBJECTIVE

1. To ensure that the Agriculture Council take all necessary steps to keep agricultural spending within the 1984 budget provision; and to avoid any commitment to find additional funds.

POINTS TO MAKE

General

2. No extra money is available this year above the budget provision. Any decisions for the future cannot add to own resources for 1984, which have been completely used up by the budget.

3. The settlement on agricultural prices must not rely on revenue-raising devices such as the proposed oils and fats tax. Additional taxation which is equivalent to an increase in own resources is not acceptable.

4. It is for Agriculture Ministers to agree a package of policy decisions which will respect the budget provision of 16.5 billion ecu. As the Commission's note on budgetary discipline recognises, it is the price fixing decisions that primarily determine expenditure. We are dealing not with a temporary problem but with the need for a permanent slowing down of the growth of agricultural expenditure.

5. The Community needs to identify savings in expenditure in order to avoid running out of funds later in the year. The milk supplementary levy does not reduce the need for savings; it was taken into account in the Budget arithmetic and the agreement reached would moreover save less than has been provided for. The outline text on MCAs is a costly alternative to what the Commission proposed.

1500 - 2000 m more than
16 1/2 b.

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① Price fixing unjustified
② Don't know world prices
③ Still financial guidelines due
④ P.O. on 1984 expenditure into it

ALL-BACK

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in the context of a satisfactory overall budgetary settlement)
Agriculture Ministers need to complete their negotiations by agreeing a package of policy changes which make no greater demands on the Budget than the Commission's proposals. They must not assume that more funds will be available than those in the Budget. Steps must be taken to deal with the prospective overspend by making the maximum possible management economies. We could agree that expenditure in 1984 and the prospects for 1985 should be reviewed in, say, July, in the light of developments in the meantime, on the basis of a full report from the Commission.]

BACKGROUND

7. The Commission's price-fixing proposals were claimed to yield nearly 900 mecu net "savings" in 1984 to match a similar prospective overspending compared with the 16.5 bn ecu in the budget. All these particular "savings" will not be achieved (the supplementary levy agreement would save less than the Commission proposal, we are rejecting the oils and fats tax and the Germans have not accepted the proposal on the green DM). Given the outline agreements on milk and MCAs, there now seems no realistic way in which the Agriculture Ministers can agree a settlement which achieves savings equivalent to those implied by the Commission proposals. Meanwhile, forecasts of spending for January-April point to an overspend of 2-2.5 bn ecu this year before allowing for the price settlement (the Commission say 1.5-2 bn ecu).

8. The French Chairman of the Agriculture Council has suggested that, if agreement can be reached on the price settlement except how to find the money, this issue could be sent to the European Council.

9. The Commission has mentioned several ways by which extra money might be found:

- (a) national contributions based on Article 200 of the Treaty of Rome. *This procedure preceded* the Own Resources Decision taken under Article 201. Article 200 has, in our view, expired;

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(b) national contributions based on Article 235; this can be used only when there is no specific provision in the Treaty - as there is in Article 201;

(c) a period of national financing reimbursed by the Community next year after Own Resources have been increased; since most Community action is based on reimbursement in arrears rather than advance funding, which was indeed introduced for the Guarantee Section only in 1971, this is legally possible; in our view, this would require a unanimous Council regulation under Articles 43 and 209.

10. A further possibility would be a period in which Member States financed their own agricultural expenditure without subsequent reimbursement. It would however be extremely difficult to secure this objective; others, including the Commission, would seek every way of avoiding it. The practical effects might be much less attractive to the UK in financial terms than might at first seem likely because of the diversions of trade that could take place.

11. Any proposal to make extra money available for agriculture this year is objectionable on policy grounds. It would circumvent the 1% ceiling, run contrary to our aim of limiting the growth of guarantee spending and put off unpalatable decisions to control surplus production. We cannot, however, see how a 2 bn ecu excess might be eliminated. We have put forward specific proposals for savings to offset those likely that could be achieved in the prices settlement. Further economy measures will be needed later, largely on matters within the competence of the Commission. These would almost certainly need to include a postponement of expenditure until 1985 or a build-up of intervention stocks, even though both of these store up trouble for the future. Whatever the decisions taken, there remains the prospect that funds will run out in late November or December so that payments have to be suspended. This will have to be faced later. The outturn for the year remains very uncertain and market development could yet move the other way.

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12. Against this background two scenarios have to be considered.

a)

13. If no overall budget settlement can be reached, we should need to continue to insist on keeping expenditure within 16.5 bn ecu and resist any ideas of extra financing. This is the general line under "points to make".

b)

14. The only circumstance in which some hint of flexibility might be given is if other Member States make a solution to the "temporary" problem of agricultural spending in 1984 a condition of their agreeing to an otherwise satisfactory post-Stuttgart settlement. The problem is to find a way of showing some flexibility while ensuring that any modification of the UK line -

(a) does not simply throw away the benefit of the budgetary settlement;

(b) does not remove the pressure on the Agriculture Council to find savings; and

(c) is consistent with whatever is agreed on a financial guideline.

15. Nevertheless, in order to secure an overall settlement, it may be necessary to go as far as paragraph 6, above, which would indicate willingness to consider the position again when it has been clarified by the price-fixing decisions and further market developments, while avoiding any commitments as to how excess spending this year (and next) might be handled.