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CONFIDENTIAL

FRAME ECONOMIC

DESKBY 220830Z

FM LUXEMBOURG 211900Z APRIL 80

TO IMMEDIATE FCO

TELEGRAM NUMBER 99 OF 21 APR

INFO IMMEDIATE UKREP BRUSSELS, BRUSSELS, COPENHAGEN, THE HAGUE,
ROME, DUBLIN, PARIS, BONN.

FOLLOWING FROM UKREP BRUSSELS.

ECO/FIN COUNCIL, 21 APRIL.

CONVERGENCE AND BUDGETARY QUESTIONS

PREPARATION FOR THE EUROPEAN COUNCIL

SUMMARY.

1. THE COUNCIL EXCHANGED VIEWS INCONCLUSIVELY ON
THE 1980 FIGURES; BUT THE COMMISSION STUCK TO THEIR
ESTIMATES OF 20 MARCH.

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2. ON THE FINANCIAL MECHANISM FRANCE, SUPPORTED BY BELGIUM, NETHERLANDS AND DENMARK FAVOURED A CEILING (UNSPECIFIED) AND EXPIRY AT THE END OF 1982.

3. ALL MEMBER STATES ACCEPTED THE ARTICLE 235 APPROACH FOR SUPPLEMENTARY EXPENDITURE IN THE UK TO LAST AS LONG AS THE FINANCIAL MECHANISM.

DETAIL.

4. PANDOLFI (ITALIAN PRESIDENCY) SAID THAT THE FINANCE COUNCIL SHOULD EXAMINE FOUR POINTS:

(A) THE NEW COMMISSION FIGURES FOR THE UK NET CONTRIBUTION IN 1980:

(B) THE FINANCIAL MECHANISM AND THE EFFECT OF REMOVING THE THREE BRAKES FROM IT:

(C) THE ARTICLE 235 SUPPLEMENTARY MEASURES:

(D) OTHER MEASURES TO HELP THE LESS PROSPEROUS ECONOMIES ACHIEVE CONVERGENCE.

THE COUNCIL SHOULD CONCENTRATE ON THE FIRST TWO POINTS, BUT MIGHT ALSO DISCUSS (C) AND (D). IT SHOULD NOT DISCUSS THE QUESTION OF REAFFIRMING GENERAL COMMUNITY PRINCIPLES, WHICH WAS FOR THE FOREIGN AFFAIRS COUNCIL, OR THE LINKED ITEMS.

5. 1980 FIGURES.

TUGENDHAT (COMMISSION) IN A HELPFUL STATEMENT SAID THAT THE COMMISSION STOOD BY THE FIGURES IT HAD CIRCULATED FOR THE 1979 OUTTURN AND THE 1980 ESTIMATES ON 20 MARCH. THESE FIGURES FOLLOWED THE SAME METHODOLOGY AS THE SEPTEMBER REFERENCE PAPER, WHICH HAD BEEN ACCEPTED AS THE BASIS FOR DISCUSSION BY THE DUBLIN EUROPEAN COUNCIL. THE SEPARATE TABLES PRODUCED BY THE COMMISSION LAST WEEK HAD BEEN BY WAY OF TECHNICAL ASSISTANCE TO HELP DELEGATIONS, BUT DID NOT REPRESENT THE COMMISSION'S OWN VIEW. ON ADMINISTRATIVE EXPENDITURES IT WAS TECHNICALLY FEASIBLE TO DIVIDE THEM UP IN DIFFERENT PROPORTIONS THAN THE COMMISSION

EXPENDITURES IT WAS TECHNICALLY FEASIBLE TO DIVIDE THEM UP IN DIFFERENT PROPORTIONS THAN THE COMMISSION HAD DONE. THIS WAS A POLITICAL DECISION FOR THE COUNCIL TO TAKE. ON THE 1979-1980 CARRY-OVERS, IT WOULD BE WISE TO INCORPORATE THEM IN EITHER THE 1979 OR 1980 TABLES, SINCE THE ACCOUNTS WOULD NOT THEN BE IN BALANCE. IN REALITY THE CARRY-OVERS WOULD BE FINANCED FROM THE COMMISSION'S CASH ACCOUNTS AS FOLLOWS:-

	MEUA
BELGIUM	56
DENMARK	22
GERMANY	273
FRANCE	174
IRELAND	8
ITALY	109
LUXEMBOURG	1
NETHERLANDS	80
UNITED KINGDOM	193

THIS SHOWED THAT THE CARRY-OVERS COULD BE IGNORED, AS QUITE MARGINAL TO THE BROAD PICTURE. MORE GENERALLY MEMBER STATES SHOULD NOT PURSUE AN EXCESSIVE DEGREE OF PRECISION. OTHER FACTORS SUCH AS EXCHANGE RATE MOVEMENTS OR NEW DECISIONS ON AGRICULTURE COULD CHANGE THE FIGURES TO A MUCH GREATER EXTENT THAN THE FACTORS DISCUSSED IN COREPER.

6. MONROY (FRANCE) ARGUED THAT ADMINISTRATIVE EXPENDITURE SHOULD BE SPLIT 50:50 AND THAT THE CARRY-OVERS SHOULD BE ADDED IN TO THE 1980 FIGURES. HE CIRCULATED A TABLE SHOWING THE EFFECTS OF THESE CHANGES. (COPY BY HAND TO LONDON).

7. FOR THE UK THE CHANCELLOR SAID THAT CONFUSION WOULD BE AVOIDED IF ALL COULD AGREE TO USE THE 20 MARCH COMMISSION FIGURES, WHICH FOLLOW THE METHODOLOGY PREVIOUSLY ACCEPTED. DISCUSSION AT DUBLIN HAD BEEN BASED ON A FIGURE OF 1552 MEUA. DISCUSSION NOW SHOULD BE BASED ON THE UP-DATED FIGURE OF 1683 MEUA. IF THIS FIGURE WAS TO BE REOPENED, THE UK WOULD HAVE TO QUESTION THE ASSUMPTIONS ON MCAS, WHICH WOULD POINT TO A FIGURE AS HIGH AS 1813 MEUA. ON CARRY-OVERS HE SUPPORTED TUGENDHAT; THE COMMISSION'S 1979 AND 1980 TABLES WERE IN BALANCE. TO INCLUDE THE CARRY-OVERS WITHOUT FINANCING WOULD BE GRAVELY MISLEADING.

TUGENDHAT: THE COMMISSION'S 1979 AND 1980 TABLES WERE IN BALANCE. TO INCLUDE THE CARRY-OVERS WITHOUT FINANCING WOULD BE GRAVELY MISLEADING. ADMINISTRATIVE EXPENDITURES SHOULD BE INCLUDED BECAUSE THEY WERE AN ELEMENT IN THE UK'S EXCESSIVE CONTRIBUTIONS.

8. THE POSITION OF OTHER DELEGATIONS WAS AS FOLLOWS:--

BELGIUM: THE ADMINISTRATIVE COSTS SHOULD BE FULLY EXCLUDED. ON CARRY-OVERS THE SAME METHOD SHOULD BE APPLIED TO 1980 AS TO 1979.

DENMARK: THE COMMISSION'S FIGURES WERE A REASONABLE BASIS FOR DISCUSSION. THERE WAS NO NEED TO SEEK FURTHER MATHEMATICAL PRECISION.

LUXEMBOURG: ADMINISTRATIVE COSTS SHOULD BE EXCLUDED OR NEUTRALISED. BUT THE COUNCIL SHOULD NOT BECOME OBSESSED WITH A BATTLE OVER THE FIGURES.

NETHERLANDS AND IRELAND: AGREED THAT THE COUNCIL SHOULD NOT BE OBSESSED WITH THE FIGURES. THE EUROPEAN COUNCIL WOULD TAKE A POLITICAL NOT A STATISTICAL DECISION. FOR THESE COUNTRIES WHAT THEY COULD AFFORD IN THEIR NATIONAL BUDGETS WAS THE CRUCIAL FACTOR AND THE ROOM FOR MANOEUVRE WAS VERY LIMITED.

GERMANY: ADMINISTRATIVE COST SHOULD BE TREATED AS A SEPARATE CATEGORY. MORE GENERALLY, SAW NOTHING NEW IN THE DISCUSSION. THE COMMISSION'S ESTIMATES WERE OBJECTIVE, BUT THE COUNCIL SHOULD AVOID ENDORSEMENT OF A PARTICULAR SET OF FIGURES.

9. IN SECOND INTERVENTIONS TUGENDHAT SAID THAT THE FRENCH PROPOSAL TO ADD THE 1979 CARRY-OVERS GROSS TO THE 1980 FIGURES WAS SIMPLY WRONG. MONORY SAID HE DID NOT WANT TO FIGHT OVER THE COMMISSION'S FIGURES, BUT SIMPLY TO SHOW THEIR FRAGILITY. THE FRENCH TABLE SHOULD HOWEVER BE INCLUDED IN MINISTERS DOSSIERS. SUMMING UP THIS PART OF THE DISCUSSION PANDOLFI SAID THE EUROPEAN COUNCIL SHOULD BE SENT THE COMMISSION'S CALCULATIONS PLUS THE ADDITIONAL INFORMATION REQUESTED BY DELEGATIONS. THE CHANCELLOR INTERVENED TO CONFIRM THAT THE ADDITIONAL INFORMATION WOULD INCLUDE THE FINANCING OF THE CARRY-OVERS AND THE UK NOTE ON MCAS.

10. SOLUTIONS TO UK PROBLEM.

MURRY SAID THE EUROPEAN COUNCIL SHOULD GET A REPORT SETTING OUT THE ISSUES FOR DECISION. AS WELL AS THE FIGURES, THIS SHOULD REAFFIRM THE PRINCIPLES UNDERLYING THE OWN RESOURCES SYSTEM AND THE CAP. RESPECT FOR THE OWN RESOURCE SYSTEM IMPLIED THAT ANY SOLUTION TO THE UK PROBLEM SHOULD BE "REASONABLE, MEASURED AND LIMITED IN TIME". FRANCE WAS READY TO CONTRIBUTE TO IMPROVEMENTS IN THE FINANCIAL MECHANISM AND OTHER SUPPLEMENTARY MEASURES. AS REGARDS THE FINANCIAL MECHANISM THE BALANCE OF PAYMENTS CLAUSE AND THE TRANCHE SYSTEM SHOULD BE AMENDED (EXCLUSIVELY FOR THE BENEFIT OF THE UK) BUT A FINANCIAL CEILING SHOULD BE RETAINED, GIVEN THE VOLATILITY OF STERLING AND THE 1 PER CENT VAT LIMIT. AS REGARDS SUPPLEMENTARY EXPENDITURE HE ACCEPTED THE ARTICLE 235 APPROACH. HERE THERE MUST BE A FIXED GLOBAL AMOUNT DIVIDED INTO ANNUAL TRANCHES. THE EXPENDITURES MUST HAVE A COMMUNITY INTEREST AND THE SECTORS OF EXPENDITURE AND ELIGIBILITY CRITERIA BE APPROVED BY THE COUNCIL. THE FIGURES COULD ONLY BE SETTLED BY THE EUROPEAN COUNCIL. ON DURATION FRANCE COULD ONLY ACCEPT THREE YEARS TO THE END OF 1982 FOR BOTH THE FINANCIAL MECHANISM AND THE SUPPLEMENTARY EXPENDITURE. ANY LONGER PERIOD WOULD INVOLVE FUNDAMENTAL CHANGE IN THE OWN RESOURCES SYSTEM REQUIRING TREATY AMENDMENT.

11. TUGENDHAT RECALLED THAT THE COMMISSION HAD RECOMMENDED THAT THREE RESTRAINTS SHOULD BE TAKEN OFF THE FINANCIAL MECHANISM, BUT THAT OTHERS SHOULD REMAIN EG THAT THE REFUND SHOULD NOT EXCEED THE VAT TRANCHE. THE COMMISSION FAVOURED THREE TO FOUR YEARS DURATION.

12. THE CHANCELLOR SAID THAT WITH ONE LAST EFFORT THE PROBLEM COULD BE SOLVED AT THE EUROPEAN COUNCIL, CONSISTENTLY WITH COMMUNITY PRINCIPLES. THE UK HOPED THAT AGREEMENT COULD BE REACHED TODAY ON THE PRINCIPLE OF A TWO-PART SOLUTION, TO BE FOLLOWED BY RESTRUCTURING THE BUDGET. THIS APPEARED TO BE COMMON GROUND. ON THE FINANCIAL MECHANISM THE COUNCIL SHOULD NOT DEPART FROM THE CONSENSUS WHICH HAD EMERGED AT DUBLIN TO REMOVE THE BALANCE OF PAYMENTS CONSTRAINT, THE TRANCHE SYSTEM AND THE 3 PER CENT LIMIT. THERE SHOULD BE

REMOVE THE BALANCE OF PAYMENTS CONSTRAINT, THE TRANCHE SYSTEM AND THE 3 PER CENT LIMIT. THERE SHOULD BE NO FURTHER LIMIT OTHER THAN THAT SET BY THE VAT LIMITATION. THESE CHANGES CONSTITUTED THE REVIEW OF THE DUBLIN MECHANISM REQUIRED BEFORE THE END OF 1981. THE MECHANISM SHOULD THEREFORE BE EXTENDED FOR A FURTHER PERIOD OF SIX YEARS WITH PROVISION FOR ANOTHER REVIEW. THE SUPPLEMENTARY MEASURES SHOULD HAVE THE SAME DURATION, AND SHOULD BE DYNAMIC SO AS TO ENSURE THAT THE UK'S PROBLEM WOULD NOT RECUR, WHILE RESTRUCTURING THE BUDGET TOOK PLACE.

13. THE POSITIONS OF OTHER DELEGATIONS WAS AS FOLLOWS:--

BELGIUM: AGREED WITH THE FRENCH ON DURATION. MORE GENERALLY, SOLUTIONS MUST BE WITHIN THE 1 PER CENT CEILING. WHAT ALTERNATIVE WERE THE FRENCH PROPOSING TO THE 3 PER CENT LIMIT ON RETURN IN THE FINANCIAL MECHANISM?

DENMARK: AGREED THERE SHOULD BE A TWO PART SOLUTION TO THE PROBLEM. AGREED WITH THE FRENCH ON DURATION AND ON A CEILING TO THE FINANCIAL MECHANISM.

LUXEMBOURG: SOLUTION SHOULD BE WITHIN THE 1 PER CENT VAT CEILING AND SHOULD RESPECT THE PRINCIPLES OF COMMUNITY FINANCING.

NETHERLANDS: SOLUTION WITHIN THE 1 PER CENT VAT CEILING. THIS IMPLIED A NEW CEILING IN THE FINANCIAL MECHANISM AND A FIXED AMOUNT FOR THE ARTICLE 235 EXPENDITURES. A CLEAR TIME LIMIT WOULD BE NEEDED.

GERMANY: SOLUTIONS MUST BE WITHIN THE 1 PER CENT VAT LIMIT. THIS ALSO APPLIED TO OTHER DECISIONS, EG ON AGRICULTURE. GERMANY COULD NOT GO BEYOND THREE YEARS FOR EITHER THE FINANCIAL MECHANISM OR ARTICLE 235, PRECISELY BECAUSE OF THE UNCERTAINTIES OF THE FUTURE. COMPENSATION FOR ITALY AND IRELAND WOULD BE SUBJECT TO THE SAME NARROW LIMITS ON AMOUNT AND DURATION AS FOR THE UK. COMMUNITY SOLIDARITY SHOULD GO WIDER THAN THE BUDGET (EG IRAN).

IRELAND: AGREED TO ADAPTATION OF THE FINANCIAL MECHANISM. NOTED WITH CONCERN EXPRESSED OVER DURATION FOR BOTH THE FINANCIAL MECHANISM AND ARTICLE 235. THE SOLUTIONS SHOULD NOT PREJUDICE THE COMMUNITY'S AID OF CONVERGENCE.

SHOULD NOT PREJUDICE THE COMMUNITY'S AID OF CONVERGENCE.

14. PANDOLFI SUMMING UP SAID THAT (AS WELL AS A SEPARATE PRESIDENCY DOCUMENT FOR THE EUROPEAN COUNCIL), THE CHAIRMAN OF COREPER WOULD DRAW UP A REPORT SUMMARISING THE DISCUSSION. APART FROM THE FIGURES THIS WOULD:-

(A) REAFFIRM THE COMMUNITY PRINCIPLES INHERENT IN ARTICLES 2 AND 39 OF THE TREATY OF ROME AND THE OWN RESOURCES DECISION OF 1970:

(B) ON THE FINANCIAL MECHANISM, NOTE THE PROPOSAL TO REMOVE THE THREE BRAKES: NOTE THE QUESTION OF DURATION. STATE THAT THE COUNCIL HAD EXAMINED THE QUESTION OF RETAINING A FINANCIAL LIMIT AND THAT THE EXISTING MECHANISM ALREADY CONTAINED A REASONABLE MAXIMUM LIMIT. (THE CHANCELLOR INTERVENED TO CONFIRM THAT THIS WAS A REFERENCE TO THE VAT PROVISION IN THE MECHANISM).

(C) NOTE THE GENERAL AGREEMENT THAT ARTICLE 235 COULD BE THE BASIS FOR SUPPLEMENTARY EXPENDITURE IN THE UK.