

ADVANCE COPY

E C BUDGET ADVANCE COPIES 16 <sup>22</sup>  
HD/ECD(I) (2)  
SIR J BULLARD  
SIR C TICKELL  
MR ~~RENNICK~~  
RESIDENT CLERK

RS (2)  
RS/MR RICKING  
RS/AUS

RS/CHANCELLOR  
LINDA  
FITCHES  
PEET  
MISS J COURT  
MR LENNON  
MR PEARSON  
WILLIAMSON  
STRALETON  
SIRIE

HMT.  
H M TREASURY  
CABINET OFFICE  
CAS OFF

Mr Turnbull

~~Box 24; No. 10. 9/11~~



CONFIDENTIAL

To see.

DESKBY 261800Z

Dms  
26/6

FM UKDEL FONTAINEBLEAU 261630Z JUN 84  
TO IMMEDIATE F C O  
TELEGRAM NUMBER 4 OF 26 JUNE  
INFO IMMEDIATE EC POSTS  
INFO ROUTINE WASHINGTON, UKDEL STRASBOURG, MADRID, LISBON.

EUROPEAN COUNCIL FONTAINEBLEAU, 25 - 26 JUNE  
SECOND SESSION: BUDGETARY IMBALANCES

SUMMARY

1. AGREEMENT AFTER 5 HOURS DISCUSSION ON SOLUTION PROVIDING FOR LUMP-SUM PAYMENT TO UK OF 1,000 MECU NET IN 1984 AND UK THEREAFTER BEING RELIEVED OF 66 PERCENT OF VAT (PAYMENTS) SHARE/EXPENDITURE SHARE GAP FOR AS LONG AS DECISION ON INCREASE IN OWN RESOURCES CEILING TO 1.4 PERCENT VAT LASTS. GERMANS TO PAY TWO THIRDS OF THEIR SHARE OF ADDITIONAL BURDEN FOR OTHER MEMBER STATES.

DETAIL

2. DISCUSSION OPENED WITH CHEYSSON REPORTING THAT AFTER THE FOREIGN MINISTERS' DISCUSSION THE PREVIOUS NIGHT, THREE ISSUES REMAIN TO BE RESOLVED:

- A) WHETHER OR NOT THERE SHOULD BE 2 AD HOC YEARS,
- B) WHETHER TO COMPENSATE A PERCENTAGE OF THE WHOLE VAT EXPENDITURE GAP OR A PART ADDED TO A FIXED SUM, AND
- C) THE PERCENTAGE, WHERE THE UK WANTED MORE THAN 70 PERCENT AND THE REST COULD NOT GO ABOVE 60 PERCENT.

WITH SOME HELP FROM GENSCHER AND LUBBERS, THE PRIME MINISTER ARGUED FOR ONE AD HOC YEAR. SHE SUCCESSFULLY REJECTED LUBBERS' SUGGESTION THAT THE SOLUTION BE LIMITED IN TIME. DISCUSSION THEN CONCENTRATED ON THE PERCENTAGE, WITH MITTERRAND ARGUING THAT THERE SHOULD BE A TRADE-OFF BETWEEN THE PERCENTAGE AND THE SECOND AD HOC YEAR.

3. AT 11.15 MITTERRAND INTERRUPTED THE SESSION FOR BILATERAL CONSULTATIONS. IN A FIRST MEETING BETWEEN MITTERRAND, DUMAS, THE PRIME MINISTER AND YOURSELF, MITTERRAND WOULD NOT BE DRAWN BEYOND 60 PERCENT OF THE GAP. YOU AND THE PRIME MINISTER THEN SAW KOHL AND GENSCHER. KOHL INDICATED THAT 65 PERCENT WAS HIS LIMIT

THE PRIME MINISTER AND YOURSELF, MITTERRAND WOULD NOT BE DRAWN BEYOND 60 PERCENT OF THE GAP. YOU AND THE PRIME MINISTER THEN SAW KOHL AND GENSCHER. KOHL INDICATED THAT 65 PERCENT WAS HIS LIMIT. DUMAS MADE IT CLEAR TO YOU THAT MITTERRAND WOULD NOT GO UP TO THE 70 PERCENT THE PRIME MINISTER WAS SEEKING. IN THE CIRCUMSTANCES THE PRIME MINISTER DECIDED TO INFORM THE PRESIDENCY THAT IF THEY PROPOSED TWO-THIRDS SHE WOULD ACCEPT THAT.

4. THE GERMANS HOWEVER MAINTAINED THEIR FIGURE OF 65 PERCENT, AND THAT WAS THE FIGURE IN THE TEXT WHICH THE PRESIDENCY CIRCULATED AFTER THE SESSION RESUMED AT 1235. DISCUSSION WAS INTERRUPTED BY A LONG ARGUMENT OVER COMPENSATION FOR GERMAN FARMERS (ON WHICH GERMAN DEMANDS WERE MET).

5. THE PRIME MINISTER SUCCEEDED IN ESTABLISHING 66 PERCENT AS THE PERCENTAGE INSTEAD OF 65 PERCENT. THE TEXT AS FINALLY AGREED AT 1500 (WHEN THE COUNCIL BROKE FOR LUNCH) IS IN MIFT.

6. THE PRIME MINISTER ELIMINATED PROPOSALS WHICH WOULD HAVE HAD THE EFFECT OF MAKING THE UK CONTRIBUTE TO THE GERMAN REFUND OR TO TRANSITIONAL 'OWN RESOURCES' RELIEF FOR SPAIN AND PORTUGAL AT OUR FULL RATE.

7. THE KEY ESSENTIALS OF THE BRUSSELS EUROPEAN COUNCIL DRAFT TEXT WERE MAINTAINED.

8. FCO PLEASE ADVANCE:

FCO: PS PS/MR RIFKIND PS/PUS TICKELL RENWICK WALL

CAB: WILLIAMSON STAPLETON DURIE

TSY: PS/CHANCELLOR UNWIN FITCHEW PEET

NO 10: POWELL

HOWE

NNNN