

**Confidential**

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FM LUXEMBOURG  
TO IMMEDIATE FCO  
TELNO 292  
OF 271850Z OCT 86  
INFO IMMEDIATE UKREP BRUSSELS  
INFO PRIORITY EUROPEAN COMMUNITY POSTS

FRAME ECONOMIC

FROM UKREP BRUSSELS

FOREIGN AFFAIRS COUNCIL: LUXEMBOURG, 27 OCTOBER 1986 FINANCING  
OF THE COMMUNITY: INCREASE IN OWN RESOURCES  
SUMMARY.

1. DELORS EXPLAINED THAT THE COMMISSION WOULD PRODUCE BY THE END  
OF THE YEAR A REPORT COVERING FINANCIAL OPTIONS FOR 1988-92,  
REORGANISATION OF THE STRUCTURAL FUNDS AND CAP REFORM.  
PANGALOS, SUPPORTED BY SPAIN AND PORTUGAL AND TO SOME EXTENT  
NETHERLANDS, ARGUED FOR DISCUSSION OF THIS SUBJECT BY THE  
EUROPEAN COUNCIL IN DECEMBER OR EARLY NEXT YEAR.

DETAIL.

2. OVER LUNCH, DELORS, INVITED BY YOU TO LEAD OFF, RECALLED THE  
FONTAINEBLEAU COMMITMENT FOR THE COMMISSION TO REPORT TO THE  
COUNCIL A YEAR BEFORE THE 1.4 PERCENT VAT CEILING WAS REACHED.  
THIS WOULD HAVE TO BE DONE BY THE END OF THE YEAR IF OWN RESOURCES  
WERE TO BE RAISED TO 1.6 PERCENT FROM 1 JANUARY 1988. FONTAINEBLEAU  
ALSO CALLED FOR A REVIEW OF BUDGET DISCIPLINE AND THE ADJUSTMENT  
MECHANISM. THE COMMISSION WOULD PRODUCE THIS REPORT ON TIME  
AGAINST THE BACKGROUND OF THREE PROBLEMS:

I) THE BUDGETARY SITUATION WAS VERY DIFFICULT, ESPECIALLY DUE TO  
THE FALL OF THE DOLLAR AND AGRO-MONETARY CHANGES.

II) THE COMMISSION WAS TASKED TO IMPLEMENT THE COHESION ARTICLES  
OF THE SEA, WHICH WERE CLOSELY LINKED TO THE QUESTION OF OWN  
RESOURCES. THE 1987 BUDGET SHOULD BE REGARDED AS TRANSITIONAL  
TO OTHER ARRANGEMENTS, OTHERWISE IT WOULD BE INCONSISTENT WITH  
THE SEA. THE COUNCIL SHOULD TRY TO AVOID CONFLICT WITH THE EP.  
IT WOULD BE BETTER FOR THE EP TO LET THE 1987 BUDGET THROUGH  
AND TO KEEP ITS POWDER DRY FOR THE MAIN NEGOTIATION.

III) THE CAP, WHICH WAS BEING FED BY STEADILY HEAVIER EXPENDITURE  
IN SPAIN AND PORTUGAL, TOOK UP TWO THIRDS OF THE BUDGET AND  
RESTRICTED SPENDING ON RESEARCH, COHESION, ETC. AS A RESULT,  
OF CAP STOCK LOSSES, THE COMMUNITY COULD BE REGARDED AS HAVING  
RUN A DEFICIT FOR SEVERAL YEARS.

3. DELORS SAID THAT THE END OF THIS YEAR WAS IN FACT RATHER  
EARLY FOR THE COMMISSION TO MAKE PROPOSALS. BUT THE COMMISSION  
WOULD PRODUCE A SINGLE PAPER COVERING THREE TOPICS:



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(I) FINANCIAL OPTIONS FOR 1988 - 1992:

(II) PROPOSALS FOR THE DRASTIC REFORM OF THE STRUCTURAL FUNDS. FEOGA PROGRAMMES WERE NECESSARY TO HELP COMPENSATE FOR CAP REFORM AND LOWER FARM PRICES. THE REGIONAL FUND NEEDED TO BE RECAST. THE SOCIAL FUND SHOULD BE BASED ON 2 OR 3 MAJOR HEADINGS, AS IN THE BRITISH EMPLOYMENT STRATEGY.

(III) PROPOSALS TO CARRY CAP REFORM FORWARD FURTHER AND FASTER OVER THE MEDIUM TERM, WHILE MAINTAINING THE BASIC PRINCIPLES.

4. PANGALOS (GREECE) SAID THAT THE COMMUNITY WAS ALREADY AT THE 1.4 PERCENT CEILING IN 1986. THE FALL IN THE DOLLAR HAD COST DOLLARS 3-5 BILLION. THE COMMUNITY WAS MANAGING TO GET BY ON ARTIFICES. BUT THIS COULD NOT CONTINUE BEYOND JANUARY 1988. PROPOSALS WERE NEEDED FOR THE LONG TERM, BUT PROVISION FOR 1988 WAS ESSENTIAL. THE COMMISSION'S REPORT SHOULD BE READY IN TIME FOR AN INITIAL DISCUSSION AT THE LONDON EUROPEAN COUNCIL. OTHER REPORTS (FROM THE EP AND CEPS) WERE ALREADY ON THE TABLE.

5. VAN DEN BROEK (NETHERLANDS) SHARED PANGALOS' CONCERN, BUT ENDORSED THE COMMISSION'S VIEW THAT THE 3 ISSUES WERE INTER-RELATED. THE NEGOTIATION OF A SOLUTION WOULD PROBABLY REQUIRE A YEAR, AND THERE WOULD THEN BE A NEED FOR RATIFICATION. HE WONDERED IF THE PROCESS COULD NOT BE ACCELERATED. HE WAS BAFFLED BY THE FACT THAT THE 1986 BUDGET SHORTFALL CHANGED ALL THE TIME. THIS MEANT THAT THE 1987 BUDGET WAS BEING ESTABLISHED ON AN ARTIFICIAL AND UNREALISTIC BASIS.

6. YOU NOTED THAT THE EUROPEAN COUNCIL WAS NOW ONLY 5 WEEKS AWAY AND ALREADY HAD AN AGENDA OF SUBSTANTIAL ISSUES. DISCUSSION OF BUDGETARY QUESTIONS SHOULD TAKE PLACE ONLY ON THE BASIS OF THE COMMISSIONS OVERALL VIEW, WHICH CLEARLY NEEDED TIME TO PREPARE. ONCE THE COMMISSION'S REPORT WAS AVAILABLE, IT WOULD OF COURSE FIGURE HIGH ON THE COUNCIL'S AGENDA THEREAFTER.

11 7. DELORS DREW ATTENTION TO THE FACT THAT THE COMMUNITY HAD MADE USE OF INTER-GOVERNMENTAL AGREEMENTS AFTER FONTAINBLEAU. THEY WOULD BE NECESSARY AGAIN IN THE NEXT 2 YEARS. TINDEMANS (BELGIUM) WAS VERY WORRIED ABOUT THE FAILURE OF CAP REFORM. THE COMMISSION'S FIGURES ON THE COST OF SURPLUSES WERE TERRIFYING. THERE WAS NO HOPE OF ACHIEVING BETTER BUDGET POLICIES WITHOUT SERIOUS CAP REFORM. SOLBES (SPAIN) AGREED THAT AGRICULTURE WAS THE KEY. HE QUESTIONED WHETHER IT WAS WISE TO DEFER DISCUSSION BEYOND THE EUROPEAN COUNCIL, EVEN IN ADVANCE OF THE COMMISSION PAPERS. MARTINS (PORTUGAL) STRESSED THAT HE COULD NOT AGREE TO DISCUSS FUTURE FINANCING WITHOUT KNOWING WHAT WAS PROPOSED FOR CAP REFORM AND THE STRUCTURAL POLICIES. BUT THE COMMUNITY MUST AVOID THE PRESSURES IN 1987 AND SHOULD START DISCUSSION SOON. THE LONDON EUROPEAN COUNCIL COULD BE THE RIGHT TIME TO BEGIN.



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8. PANGALOS SUGGESTED THAT THE COMMISSION SHOULD INTRODUCE THE SUBJECT BRIEFLY AT THE EUROPEAN COUNCIL IN ADVANCE OF THE REPORT. THE EXCEPTIONAL NATURE OF THE PROBLEM WOULD JUSTIFY HOLDING TWO EUROPEAN COUNCILS IN THE FIRST HALF OF 1987. THE MORE SO IF THE SUBJECT WAS DEFERRED IN DECEMBER FOR ELECTORAL REASONS. YOU REPEATED THAT THERE WAS NO POINT IN IMPROVISING AND DISCUSSING A REPORT WHICH WAS NOT YET AVAILABLE. YOU QUERIED WHETHER IT WAS WISE TO REINTRODUCE TWO EUROPEAN COUNCILS IN THE FIRST HALF OF 1987 HAVING JUST DECIDED TO HOLD ONLY ONE IN EACH PRESIDENCY. VAN DEN BROEK NOTED THAT THE BELGIANS COULD, IF THEY WISHED, HAVE THEIR EUROPEAN COUNCIL IN MARCH RATHER THAN JUNE. TINDEMANS COMMENTED THAT HE WAS NOT KEEN ON DECIDING NOW IN FAVOUR OF 2 EUROPEAN COUNCILS, DURING THE BELGIAN PRESIDENCY BUT THAT A SECOND COULD ALWAYS BE HELD IF NECESSARY.

MILES

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ADVANCE

PS/MRS CHALKER FCO

RENWICK FCO

WALL FCO

FORD FCO

HOLROYD CAB

JAY CAB

HADLEY MAFF

LAVELLE TSY

CRABBIE TSY

MAIN

FRAME ECONOMIC

UKREP DIST: H OF C/OWN RESOURCES DIST/ FULL

LMLNAN 0905

*FRAME ECONOMIC*  
*ECO (1)*

(ADVANCED AS REQUESTED)

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