

PRIME MINISTER

EC BUDGET

The outcome of the discussion at the Foreign Affairs Council is reasonably satisfactory. The package is still firmly together, we have made no concessions, our proposal on the introduction of new own resources in 1985 has been adopted virtually unchanged as a presidency compromise which the Germans are isolated in opposing.

The whole package is now to be considered at a special Foreign Affairs Council on 2 October, after ECOFIN have had another go at budget discipline on 1 October. It means going right down to the wire, but maximises our leverage.

Meanwhile we shall need bilateral discussions with the Germans.

C.D.P.

18 September 1984

GR 1900

C O N F I D E N T I A L

FRAME ECONOMIC

DESKBY 190730Z

FM UKREP BRUSSELS 181745Z SEP 84

TO IMMEDIATE F C O

TELEGRAM NUMBER 2918 OF 18 SEPTEMBER,

INFO IMMEDIATE BONN,

ROUTINE BRUSSELS COPENHAGEN THE HAGUE ROME DUBLIN PARIS
LUXEMBOURG ATHENS.

FOREIGN AFFAIRS COUNCIL 18 SEPTEMBER.

BUDGETARY ISSUES.

SUMMARY

1. FURTHER BRIEF DISCUSSION TODAY PRODUCED NO PROGRESS ON THE MAJOR OUTSTANDING QUESTION OF THE TIMING OF THE INTRODUCTION OF NEW OWN RESOURCES. THE PRESIDENCY, AFTER A HALF-HEARTED ATTEMPT TO PERSUADE THE U.K TO AGREE TODAY TO SEND THE 1984 AND 1985 BUDGETS TO THE PARLIAMENT, CONCLUDED THAT DISCUSSION OF ALL THE RELATED BUDGETARY ISSUES WOULD HAVE TO BE RESUMED AT THE ECOFIN AND FOREIGN AFFAIRS COUNCILS ON 1-2 OCTOBER.

DETAIL

2. DISCUSSION RESUMED AT 1400 HOURS AND LASTED A LITTLE OVER AN HOUR. BARRY INVITED DELEGATIONS TO COMMENT ON THE PRESIDENCY COMPROMISE WHICH HAD BEEN TABLED AT THE END OF YESTERDAY MORNING.
3. O'KEEFFE (IRELAND) SAID HE COULD WEAR THE COMPROMISE. ANDREOTTI (ITALY) SAID THAT IT COVERED THEIR MAJOR CONCERNS, THOUGH HE NOTED THAT CONSEQUENTIAL AMENDMENTS WOULD BE NEEDED TO ARTICLE 8.
4. POOS (LUXEMBOURG) COULD ACCEPT EITHER THE PRESIDENCY COMPROMISE OR THE ORIGINAL COMMISSION PROPOSAL. HE THEN MADE A STATEMENT ABOUT THE TREATMENT OF ADMINISTRATIVE EXPENDITURE IN THE ALLOCATED BUDGET. THEY WISHED TO SEE THE EXISTING METHOD OF ALLOCATION CHANGED AND WOULD MAINTAIN A RESERVE ON THE DRAFT OWN RESOURCES DECISION UNTIL THIS MATTER HAD BEEN SETTLED DEFINITELY. HE RECALLED THAT THE COMMISSION IN THEIR DOCUMENT OF 4 NOVEMBER 1983 HAD PROPOSED A CHANGE IN THE EXISTING METHOD. HE WAS NOT ASKING FOR THE MATTER TO BE SETTLED IN THE COUNCIL BUT IT SHOULD BE PURSUED IN THE APPROPRIATE FORUM AND THEIR RESERVATION NOTED IN THE COUNCIL MINUTES.

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5. VAN EEKELLEN (NETHERLANDS) SAID HE HAD GRAVE DIFFICULTIES WITH THE COMPROMISE. THEY COULD ACCEPT (A) OF THE U.K AMENDMENT TO ARTICLE 3.4 BUT (B) WAS MUCH MORE DIFFICULT BECAUSE IT REQUIRED OTHER MEMBER STATES TO HAVE VAT RATES IN 1985 ABOVE 1 PER CENT IN ORDER TO FINANCE ABATEMENTS FOR THE U.K. TO AVOID THIS THE LAST TWO SENTENCES OF (B) SHOULD BE DELETED. HE ENDORSED THE TEXT OF THE PROPOSED NETHERLANDS/GERMAN DECLARATION LINKING THE IMPLEMENTATION OF OWN RESOURCES TO THE IMPLEMENTATION OF ENLARGEMENT BUT POINTED OUT THAT THIS CAST SERIOUS DOUBT ON THE VIABILITY OF THE PROPOSED U.K SOLUTION. REGARDING THE PRESIDENCY'S PROPOSED RE-DRAFT OF THE DECLARATION TO ACCOMPANY THE 1985 BUDGET, HE QUESTIONED THE REFERENCE TO THE POSSIBILITY OF PROVISION ABOVE 1314 MECU.

6. YOU BEGAN BY REMINDING THE COUNCIL THAT OUR APPROACH WAS DESIGNED TO SOLVE THE TWIN PROBLEMS OF FINANCING AN IRREDUCIBLE OVERRUN IN 1985 AND OF IMPLEMENTING THE FONTAINEBLEAU COMMITMENT THAT THE U.K'S COMPENSATION FOR 1984 SHOULD BE IMPLEMENTED IN 1985 BY ABATEMENT OF VAT. THE U.K WAS NOT SEEKING PRIORITY FOR ONE OBJECTIVE OVER THE OTHER: THEY HAD TO BE DEALT WITH TOGETHER BY BRINGING FORWARD OWN RESOURCES. TWO DELEGATIONS HAD DIFFICULTIES WITH THIS SOLUTION BUT THE U.K AMENDMENT PROTECTED THEIR POSITION WHILST PERMITTING THE SOLUTION PREFERRED BY THE OTHER EIGHT DELEGATIONS. YOU NOTED TIETMEYER AND RUHFUS'S ACCEPTANCE THAT THE U.K'S VAT PAYMENTS SHOULD BE ABATED IN 1985, BUT ASKED HOW THIS COULD BE DONE UNLESS THE NEW OWN RESOURCES DECISION WAS IN PLACE TO PROVIDE A LEGAL BASE.

7. TURNING TO THE PRESIDENCY COMPROMISE, YOU AGREED WITH ITALY THAT CONSEQUENTIAL AMENDMENTS TO ARTICLE 8 WOULD BE NEEDED. TO LUXEMBOURG YOU SAID THAT THE POINT ABOUT ADMINISTRATIVE EXPENDITURE HAD BEEN RAISED AT FONTAINEBLEAU BUT THAT THE TEXT WHICH HAD PERMITTED A CHANGE IN THE ALLOCATION OF THIS EXPENDITURE HAD BEEN WITHDRAWN AND THE POINT HAD FALLEN. THE FONTAINEBLEAU CONCLUSIONS MADE IT QUITE CLEAR THAT EXPENDITURE WAS TO BE ALLOCATED "IN ACCORDANCE WITH THE EXISTING CRITERIA". ON THE SPECIFIC POINTS IN THE REVISED PRESIDENCY AMENDMENT TO ARTICLE 3.4 YOU SAID THAT YOU COULD ACCEPT THE DELETION OF THE WORD "IMMEDIATE" PROVIDED THAT IT WAS CLEARLY UNDERSTOOD THAT THE ABATEMENT OF OUR CONTRIBUTION IN 1985 SHOULD BE MADE IN ACCORDANCE WITH THE NORMAL BUDGETARY RULES APPLYING TO A MID-YEAR CHANGE IN VAT RATES, I.E WITH RETROSPECTIVE EFFECT FROM THE BEGINNING OF THE FINANCIAL YEAR. AS TO THE PROPOSED DELETION OF THE LAST SENTENCE OF (B) OF OUR TEXT, THERE MUST BE LEGAL CERTAINTY THAT, AS EXPRESSLY AGREED AT FONTAINEBLEAU, THE 1000 MECU CORRECTION FOR 1985 WOULD BE DEDUCTED FROM OUR VAT CONTRIBUTION IN 1985. SUBJECT TO SATISFACTORY ASSURANCES ON THAT POINT, YOU COULD ACCEPT THE PRESIDENCY'S PROPOSED AMENDMENT. CONCERNING VAN EEKELLEN'S OBJECTION TO THE SECOND SENTENCE OF (B), YOU WERE WILLING TO EXAMINE THIS BUT YOU BELIEVED THAT IT REFLECTED WHAT HAD BEEN AGREED AT FONTAINEBLEAU.

8. TURNING TO THE DRAFT GERMAN AND DUTCH DECLARATION FOR THE COUNCIL MINUTES, YOU SAID THAT THE U.K WOULD ALSO WISH TO MAKE A DECLARATION THAT THE 1985 BUDGET SHOULD BE FINANCED ONLY THROUGH OWN RESOURCES. WHILST IT WAS FOR THEM TO DECIDE ON THE TEXT OF THEIR DECLARATION, YOU POINTED OUT THAT THE LAST PHRASE "THUS PERMITTING THE ENTRY INTO FORCE SIMULTANEOUSLY OF THE OWN RESOURCES DECISION AND ENLARGEMENT" SEEMED INCONSISTENT BOTH WITH THE EARLIER PART OF THE DECLARATION AND WITH WHAT HAD BEEN AGREED AT STUTTGART AND FONTAINEBLEAU. YOU INVITED THEM TO CONSIDER DROPPING THIS PHRASE.

9. REGARDING THE PRESIDENCY'S DRAFT DECLARATION ON THE 1985 BUDGET, YOU POINTED OUT THAT IT PREJUDGED THE SUPPLEMENTARY PROVISION THAT WOULD BE NEEDED IN 1985. THE U.K HAD TABLED AN ALTERNATIVE DECLARATION YESTERDAY WHICH THE DUTCH AND SOME OTHERS HAD SEEMED TO FIND ACCEPTABLE. YOU SUGGESTED THAT THIS DRAFT WOULD BE A BETTER BASIS ON WHICH TO WORK.

10. YOU THEN REFERRED TO THE SEPARATE PRESIDENCY COMPROMISE COVERING 5 OTHER OUTSTANDING POINTS ON THE OWN RESOURCES DECISION. YOU COMMENTED THAT THE PRESIDENCY'S PROPOSAL FOR DEALING WITH THE PROBLEM OF THE PARLIAMENT'S MARGIN WOULD NOT BE NEEDED IF OUR AMENDMENT TO ARTICLE 3.4 WAS ACCEPTED. SUBJECT TO THIS POINT, YOU COULD ACCEPT THE PRESIDENCY'S COMPROMISE PROPOSAL IF OTHER DELEGATIONS COULD DO SO.

11. BARRY COMMENTED THAT YOU WERE RIGHT ABOUT THE TREATMENT OF ADMINISTRATIVE EXPENDITURE. THE EUROPEAN COUNCIL HAD DECIDED TO STICK TO "EXISTING CRITERIA". POOS RETORTED THAT FONTAINEBLEAU HAD NOT SETTLED THE MATTER: THE MEANING OF EXISTING CRITERIA HAD TO BE INTERPRETED. HE APPEALED TO THE U.K'S SENSE OF FAIRNESS. WAS IT FAIR THAT THE AIR FARES OF THE U.K'S MEPS TRAVELLING TO LUXEMBOURG SHOULD BE ALLOCATED TO THAT MEMBER STATE ? BARRY REITERATED THAT THERE HAD BEEN A POLITICAL AGREEMENT AT FONTAINEBLEAU. POOS DENIED THAT HE WAS QUESTIONING THE POLITICAL FRAMEWORK OF THE SETTLEMENT.

12. TINDEMANS (BELGIUM) BEGAN BY STATING HIS SUPPORT FOR LUXEMBOURG ON ADMINISTRATIVE EXPENDITURE. HE THEN TURNED TO THE "U.K PROPOSAL SUPPORTED BY THE PRESIDENCY". HE QUESTIONED THE NEED FOR (A) OF OUR AMENDMENT. HE PROPOSED INSTEAD AMENDING ARTICLE 3, PARAGRAPH 4 TO READ "THE PRESENT DECISION WILL TAKE EFFECT ON 1 JANUARY 1986 UNLESS THERE IS A UNANIMOUS COUNCIL DECISION ON AN EARLIER DATE". IN (B) OF OUR AMENDMENT THE WORDS "THIS DECISION" SHOULD BE REPLACED BY "THE DECISION PROVIDED FOR IN PARAGRAPH 4 OF ARTICLE 3".

13. TYGESEN (DENMARK) OPPOSED (A) OF OUR AMENDMENT AS CONTRARY TO THE DRAFT COUNCIL DECLARATION ON THE 1985 BUDGET. HE THEN PROPOSED THAT THE U.K SHOULD AGREE TODAY TO SEND THE 1984 AND 1985 BUDGETS TO THE PARLIAMENT ON A 'PROVISIONAL AND HYPOTHETICAL' BASIS. OUTSTANDING POINTS ON THE OWN RESOURCES DECISION AND BUDGET DISCIPLINE COULD BE SETTLED AT SUBSEQUENT COUNCIL MEETINGS. HE ASKED WHICH COUNCIL WOULD SEW UP THE PACKAGE AFTER THE ECOFIN COUNCIL HAD DISCUSSED BUDGET DISCIPLINE ON 1 OCTOBER. BARRY REPLIED THAT THE FOREIGN AFFAIRS COUNCIL PLANNED FOR 1-2 OCTOBER SHOULD DO THIS. HE INVITED DELEGATIONS TO CONSIDER THE DANISH SUGGESTION OF ESTABLISHING THE TWO BUDGETS PROVISIONALLY.

14. RUHFUS (GERMANY) SAID THAT THEY COULD AGREE TO ESTABLISH THE TWO BUDGETS PROVISIONALLY, TO THE DECLARATION NUMBER 5 ON THE 1985 BUDGET AND TO THE GUIDELINES ON BUDGET DISCIPLINE. THEY COULD ALSO AGREE TO THE PRESIDENCY'S COMPROMISE ON THE OUTSTANDING MINOR POINTS ON THE OWN RESOURCES DECISION. ON THE MAJOR QUESTION OF THE TIMING OF THE INTRODUCTION OF NEW OWN RESOURCES THEY INSISTED ON 1 JANUARY 1986 AS IN THE FONTAINEBLEAU TEXT. HE RECOGNISED THAT THIS CAUSED PROBLEMS FOR THE U.K BUT THEY HAD SAID THEY WERE READY TO AGREE TO TRANSITIONAL ARRANGEMENTS FOR IMPLEMENTING OUR 1984 COMPENSATION NEXT YEAR. HE DOUBTED WHETHER DISCUSSION COULD BE TAKEN MUCH FURTHER TODAY. REGARDING THE DRAFT GERMAN AND DUTCH ENTRY IN THE MINUTES HE POINTED OUT THAT THIS WOULD HAVE NO LEGAL FORCE. ARTICLE 8 SHOULD BE AMENDED TO SAY THAT THE DECISION WOULD COME INTO FORCE ON THE FIRST DAY OF THE MONTH FOLLOWING THE LAST RATIFICATION. REGARDING THE DECLARATION TO ACCOMPANY THE 1985 BUDGET, THEY WOULD PREFER TO AVOID SPECIFYING THE AMOUNT TO BE ADDED TO THE 1985 BUDGET. FINALLY, HE SUGGESTED THAT THE FOREIGN AFFAIRS COUNCIL SHOULD DEAL WITH THESE ISSUES AGAIN ON 2 OCTOBER.

15. PANAGLOS (GREECE) AGREED WITH TINDEMANS. THE U.K'S COMPENSATION FOR 1984 WAS A POLITICAL COMMITMENT BUT THERE WERE OTHERS TOO. HE WANTED BUDGET DISCIPLINE DISCUSSED IN THE FOREIGN AFFAIRS COUNCIL IN OCTOBER.

16. DUMAS (FRANCE) SAID THEY COULD ACCEPT THE TWO BUDGETS AS PREPARED BY THE BUDGET COUNCIL AND THE DRAFT DECLARATION ON THE 1985 BUDGET AS PROPOSED BY THE PRESIDENCY. HE NOTED THAT GERMANY WAS REFUSING TO FINANCE THE 1985 OVERRUN BY OWN RESOURCES AND THE U.K WAS REFUSING TO FINANCE IT BY ANY OTHER MEANS. THE U.K WAS INSISTING THAT IT SHOULD RECEIVE ITS COMPENSATION NEXT YEAR REGARDLESS OF HOW THE PROBLEMS ON THE OVERRUN WAS RESOLVED. THIS WAS UNREASONABLE AND (A) OF OUR AMENDMENT SHOULD BE DELETED. HE SUPPORTED THE BELGIAN COUNTER-PROPOSAL.

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17. BARRY CONCLUDED THAT THERE HAD BEEN NO MOVEMENT AND SO THERE WAS NO CHANCE OF REACHING AGREEMENT ON THE PRESIDENCY COMPROMISE TODAY. HE INVITED YOU TO COMMENT ON THE DANISH PROPOSAL THAT THE TWO BUDGETS SHOULD BE ESTABLISHED PROVISIONALLY. YOU SUGGESTED THAT HIS SUMMING UP WAS OVER-SIMPLIFIED. THE U.K WANTED TO SEE RAPID PROGRESS BUT ALL THE ISSUES UNDER CONSIDERATION WERE CLOSELY INTER-RELATED. ONLY IN THE CONTEXT OF PROGRESS ON THE WHOLE PACKAGE COULD THE TWO BUDGETS BE ESTABLISHED.

18. BARRY SOUGHT CONFIRMATION THAT THE PRESIDENCY'S COMPROMISE ON THE OTHER OUTSTANDING POINTS ON THE OWN RESOURCES DECISION WAS ACCEPTABLE. YOU REPEATED THAT THEIR PROPOSAL ABOUT THE PARLIAMENT'S MARGIN WOULD BE REDUNDANT IF AN ALTERNATIVE SOLUTION WAS FOUND. TUGESEN COULD ACCEPT THE FOURTH POINT ABOUT THE 1.6 PER CENT CEILING PROVIDED THE PRECISE WORDING OF THE FONTAINEBLEUA CONCLUSIONS WERE QUOTED. HE ALSO SOUGHT CONFIRMATION THAT EXPENDITURE IN THE 1985 BUDGET RESULTING FROM THE AGREEMENT WITH GREENLAND WOULD NOT BE CUT. BARRY CONCLUDED THAT THERE WAS AGREEMENT ON THE GREENLAND POINT AND ON THE PRESIDENCY COMPROMISE ON MINOR POINTS. HE INVITED COREPER TO PREPARE THE DOCUMENTS FOR THE MEETING OF THE COUNCILS ON 1-2 OCTOBER.

FCO ADVANCE TO:-

FCO - RENWICK, FAIRWEATHER, WALL.

CAB - WILLIAMSON, LAMBERT.

TSY - PS/CHANCELLOR, UNWIN, FITCHEW, MORTIMER, PEET.

T/SOL- PRESTON.

BUTLER

[ADVANCED AS REQUESTED]

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