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FM UKREP BRUSSELS 201745Z SEP 84

TO IMMEDIATE F C O

TELEGRAM NUMBER 2970 OF 20 SEPTEMBER

INFO PRIORITY COPENHAGEN, THE HAGUE, ROME, DUBLIN, PARIS, BONN,  
LUXEMBOURG, ATHENS

INFO SAVING BRUSSELS.

HIGH LEVEL GROUP ON BUDGET DISCIPLINE: 20 SEPTEMBER.

SUMMARY

1. STRIDENT OBJECTIONS FROM DANES AND GREEKS TO PRESIDENCY  
CONCLUSION FROM DROMOLAND. FRENCH AND ITALIANS MORE RESTRAINED.  
USEFUL DISCUSSION OF CLAWBACK AND BASE DRIFT, IN WHICH OUR  
PROPOSALS GAINED GROUND. FIRST DISCUSSION OF PRESIDENCY DRAFT  
OF COUNCIL DECISION.

DETAIL

DROMOLAND GUIDELINES

2. BEFORE THE MEETING THE PRESIDENCY HAD CIRCULATED A REVISED  
VERSION OF THE DROMOLAND 'GUIDELINES'. DENMARK AND GREECE,  
WITH RESTRAINED SUPPORT FROM FRANCE AND ITALY, CHALLENGED THE  
CONCLUSIONS IN THIS DOCUMENT, AND THE DANES CIRCULATED A LETTER  
TO THE PRESIDENCY CONTAINING AMENDMENTS. WITH REMARKABLE  
FIRMNESS, THE PRESIDENCY INSISTED THAT THE DOCUMENT HAD BEEN  
ENDORSED IN DROMOLAND AND THAT THE MEETING SHOULD MOVE ON TO  
ADDRESS THE TASKS REMITTED TO IT: TO CONSIDER BASE DRIFT AND  
CLAWBACK AND TO PREPARE THE TEXT OF A COUNCIL DECISION. THEY  
PROCEEDED TO DO THIS, DESPITE CONSTANT COMPLAINTS FROM THE DANES.

BASE DRIFT/CLAWBACK

3. THE COMMISSION CIRCULATED TWO PAPERS ILLUSTRATING A METHOD  
OF PREVENTING BASE DRIFT AND A WAY OF OPERATING CLAWBACK.  
WITH DUTCH AND GERMAN SUPPORT, UNWIN (UK) WELCOMED THIS AND  
SAID THAT WE COULD ENDORSE THE COMMISSION METHODOLOGY ON BASE  
DRIFT. ON CLAWBACK, THE COMMISSION DID NOT GO FAR ENOUGH.  
WE DID NOT ACCEPT FLUCTUATIONS CAUSED BY CYCLICAL FACTORS WOULD  
BE SELF CANCELLING. WE BELIEVED IT WAS NECESSARY TO OPERATE ON  
THE ASSUMPTION THAT ANY OVERSPEND WOULD BE CLAWED BACK, THOUGH  
THE FINAL JUDGEMENT WOULD HAVE TO BE TAKEN IN THE LIGHT OF  
CIRCUMSTANCES.

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4. IN THE FOLLOWING DISCUSSION, THE DANES, IRISH AND ITALIANS, WITH COMMISSION SUPPORT, SAID THAT 'MATHEMATICAL' CLAWBACK SHOULD BE AVOIDED, BUT BY IMPLICATION DID NOT DISPUTE THAT THE CASE FOR SOME FORM OF CLAWBACK AND FOR THE AVOIDANCE OF BASE DRIFT HAD BEEN MADE. THE FRENCH TRIED HALF HEARTEDLY TO ARGUE FOR A METHODOLOGY BASED ON OUTTURN EXPENDITURE, WHICH THEY SAID COULD GO UP AS WELL AS DOWN.

#### STARTING DATE

5. UNWIN SAID THAT IF THE GUIDELINE WAS TO TAKE EFFECT IN 1986 IT MUST APPLY TO THE 1985 PRICE FIXING. THE DUTCH AND GERMANS SUPPORTED AND THE BELGIANS SAID IT SHOULD TAKE EFFECT AS SOON AS POSSIBLE. THE REST ARGUED THAT NOTHING SHOULD HAPPEN BEFORE 1986.

#### TRANSITIONAL ARRANGEMENTS

6. UNWIN SAID THAT THE SYSTEM COULD START ON THE BASIS OF ACTUAL FIGURES FOR 1983 AND 1984 AND POSSIBLY 1985. HE ACKNOWLEDGED THE NEED TO AVOID UNREALISTIC STARTING FIGURES.

#### DRAFT COUNCIL DECISION

7. THE PRESIDENCY CIRCULATED THE TEXT OF A DRAFT DECISION OF THE COUNCIL BASED ON THE DROMOLAND GUIDELINES. THEY SAID THAT THE APPROPRIATE SECTORS DEALING WITH BASE DRIFT, CLAWBACK AND ENTRY INTO FORCE, WOULD BE AMENDED IN THE LIGHT OF THE PREVIOUS DISCUSSION. THEY INVITED COMMENTS ON THE REST OF THE TEXT. UNWIN WELCOMED THE DRAFT AND SAID THAT SUBJECT TO SATISFACTORY RESOLUTION OF THE POINTS THE PRESIDENCY HAD MENTIONED, PLUS THE AVOIDANCE OF A STEP CHANGE ON THE RAISING OF THE VAT CEILING, IT WAS BROADLY ACCEPTABLE. NETHERLANDS, IRELAND, BELGIUM AND LUXEMBOURG ALL COMMENTED IN A RESTRAINED AND POSITIVE FASHION ON THE TEXT.

8. DENMARK AND GREECE, WITH SOME SUPPORT FROM FRANCE AND ITALY, CHALLENGED THE CONCEPT OF A COUNCIL 'DECISION'. THE GREEKS DEMANDED A FORMAL OPINION FROM THE LEGAL SERVICES ABOUT WHAT IT MEANT AND REFUSED TO COMMENT ON THE TEXT MEANWHILE. THE DANES SUPPORTED. THE PRESIDENCY PROMISED 'AN APPROPRIATE REACTION IN DUE COURSE'. DENMARK, ITALY AND FRANCE CLAIMED THAT THE DRAFT DID NOT STICK CLOSELY ENOUGH TO THE EUROPEAN COUNCIL TEXT. THEY ADVANCED MANY OF THE POINTS FAMILIAR FROM PREVIOUS DISCUSSIONS, E.G. THE INDIVISIBILITY OF THE COUNCIL, THE DIFFICULTY OF FIXING THE REFERENCE FRAMEWORK BEFORE APRIL, THE IMPORTANCE OF NEW POLICIES, ETC.

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9. STRASSER (COMMISSION) HAD NO OBJECTIONS TO A COUNCIL DECISION WHICH ONLY BOUND THE COUNCIL. BUT SAID THAT IT SHOULD NOT IMPOSE OBLIGATIONS ON THE COMMISSION. IT WAS ILLUSORY TO SUPPOSE THAT THE REFERENCE FRAMEWORK COULD BE DECIDED BY 1 MARCH. HE WARNED AGAINST PROCEEDING WITHOUT CONSULTING THE PARLIAMENT AND SAID THAT THE PART OF THE DRAFT DEALING WITH THE MAXIMUM RATE CONFLICTED WITH THE TREATY.

10. THE PRESIDENCY CONCLUDED THAT PROGRESS HAD BEEN MADE. A REVISED TEXT WOULD BE CIRCULATED FOR A FURTHER MEETING NEXT TUESDAY, THE LAST BEFORE THE ECOFIN COUNCIL ON 1 OCTOBER.

11. ALL TEXTS FOLLOW BY BAG.

FCO ADVANCE TO:

FCO - RENWICK, WALL, MARSDEN.

CAB - WILLIAMSON, LAMBERT.

MAFF - ATTRIDGE, PACKER.

TSY - UNWIN, FITCHEW, HOPKINSON, BOSTOCK, PEET.

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