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TO IMMEDIATE UKMIS NEW YORK (FOR SECRETARY OF STATE'S PARTY)  
TELEGRAM NUMBER 512 OF 26 SEPTEMBER  
INFO IMMEDIATE BONN, UKREP BRUSSELS, PARIS, WASHINGTON, (FOR  
CHANCELLOR'S PARTY), THE HAGUE.

COMMUNITY BUDGET NEGOTIATIONS

1. WILLIAMSON AND RENWICK HAD A REASONABLY CONSTRUCTIVE MEETING WITH UNGERER (AUSWARTIGES AMT) AND THIELE (FROM THE CHANCELLOR'S OFFICE) IN BONN YESTERDAY.
2. WE SAID THAT WE UNDERSTOOD THE GERMANS' DETERMINATION VIS A VIS THE BUNDESTAG TO MAINTAIN THE LINK BETWEEN THE ENTRY INTO FORCE OF THE NEW OWN RESOURCES DECISION AND ENLARGEMENT. BUT THE GERMANS' CONCERN SHOULD BE MET ONCE THE ACCESSION NEGOTIATIONS HAD BEEN COMPLETED. IF THE GERMANS COULD NOT ENVISAGE THE ENTRY INTO FORCE OF NEW OWN RESOURCES BEFORE 1 JANUARY 1986, IT WAS VIRTUALLY IMPOSSIBLE TO SEE HOW THE 1000 MECU ABATEMENT OF OUR VAT CONTRIBUTION COULD BE FINANCED IN 1985. THERE WAS GOING TO BE AN IRREDUCIBLE BUDGET OVERRUN NEXT YEAR WHICH ALSO HAD TO BE FINANCED.
3. WE ADDED THAT THE COMMISSION HAD PUT FORWARD THE IDEA IN BRUSSELS THIS WEEK OF A TRANSITIONAL ARRANGEMENT WHEREBY IT WOULD BE POSSIBLE TO STICK TO THE 1 JANUARY 1986 DATE FOR THE COMING INTO EFFECT OF THE 1.4 PER CENT VAT RATE, WHILE MAKING PROVISION FOR AN INTERMEDIATE RATE NEXT YEAR TO FINANCE OUR ABATEMENT AND THE IRREDUCIBLE OVERRUN. THE ADVANTAGE OF THIS ARRANGEMENT WAS THAT IT WOULD ENSURE IMPLEMENTATION OF THE FONTAINEBLEAU CONCLUSIONS IN RESPECT OF 1985, WHILE ENSURING THAT THE 1985 OVERRUN WAS LIMITED.
4. UNGERER CLEARLY HAD BEEN REFLECTING ON THIS IDEA AND SAW SOME ATTRACTION IN THE CONCEPT OF A TRANSITIONAL ARRANGEMENT IN TERMS OF PRESENTATION VIS A VIS THE BUNDESTAG. HE ACKNOWLEDGED

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THAT THERE WOULD NEED TO BE TRANSITIONAL MEASURES ANYWAY TO DEAL WITH OUR ABATEMENT AND THE OVERRUN NEXT YEAR AND THAT THERE WERE ADVANTAGES VIS A VIS THE EUROPEAN PARLIAMENT AND IN TERMS OF BUDGET DISCIPLINE IN SETTING AN EFFECTIVE LIMIT NOW THROUGH A LIMITED CALL-UP OF OWN RESOURCES. THE GERMANS SUGGESTED THAT THIS MIGHT BE DONE EITHER BY SETTING , IN THE NEW OWN RESOURCES DECISION, A SPECIFIC INTERMEDIATE RATE FOR 1985 OR BY ARRANGING ENTRY INTO EFFECT OF THE 1.4 PER CENT VAT RATE FROM 1 OCTOBER 1985. ON THE WHOLE THEY SEEMED MORE ATTRACTED BY THE CONCEPT OF AN INTERMEDIATE RATE.

5. UNGERER ALSO PRODUCED A DRAFT ON WHICH THE GERMANS HAD BEEN WORKING BEFORE THEY HAD STARTED FOCUSING ON THE TRANSITIONAL IDEA. THIS WOULD WRITE INTO THE PREAMBLE OF THE OWN RESOURCES DECISION PASSAGES FROM THE EUROPEAN COUNCIL CONCLUSIONS ON THE LINKAGE BETWEEN ENLARGEMENT AND NEW OWN RESOURCES: AND INTO ARTICLE 8 OF THE DECISION THE PROVISION THAT IT SHOULD ENTER INTO FORCE FOLLOWING RATIFICATION BY ALL MEMBER STATES, PROVIDED, HOWEVER, THE ACCESSION TREATIES HAD ALSO BEEN RATIFIED. ON THIS BASIS THERE WOULD BE NO REFERENCE TO THE 1 JANUARY 1986 DATE, LEAVING IT OPEN FOR NEW OWN RESOURCES TO BE BROUGHT IN EARLIER IF THE ACCESSION TREATIES WERE RATIFIED IN TIME. UNGERER EMPHASIZED THAT THE BUNDESTAG WOULD NOT APPROVE THE FULL NEW OWN RESOURCES UNLESS AND UNTIL THE ACCESSION TREATIES HAD BEEN RATIFIED.

6. WE POINTED OUT THAT WHILE THIS TEXT DID OPEN UP THE POSSIBILITY OF BRINGING FORWARD NEW OWN RESOURCES INTO 1985, IT ALSO RAISED THE POSSIBILITY THAT, IF RATIFICATION OF THE ACCESSION TREATIES WERE DELAYED, THE DATE MIGHT SLIP INTO 1986. AFTER SOME DISCUSSION UNGERER ACKNOWLEDGED THAT THIS IDEA WOULD HAVE LITTLE MERIT UNLESS IT WERE ACCOMPANIED BY A TRANSITIONAL ARRANGEMENT IN THE MEANTIME. WE SAID THAT, IN OUR VIEW, THE BEST WAY FORWARD WAS TO CONSIDER AN INTERMEDIATE VAT RATE AS A TRANSITIONAL ARRANGEMENT NEXT YEAR WHILE STICKING TO 1 JANUARY 1986 FOR THE COMING INTO EFFECT OF THE NEW OWN RESOURCES AT THE FULL 1.4 PER CENT VAT RATE.

7. AT EVERY POINT WE MADE CLEAR THAT THE FONTAINEBLEAU CONCLUSIONS MUST BE IMPLEMENTED IN THE MANNER AGREED BY THE HEADS

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OF GOVERNMENT. ON THE PROPOSAL MADE BY THE GERMAN PERMANENT REPRESENTATIVE IN BRUSSELS FOR THE FINANCING OF OUR ABATEMENT BY AN INTER-GOVERNMENTAL AGREEMENT, WE POINTED OUT THAT THIS WOULD NOT BE COMPATIBLE WITH THE FONTAINEBLEAU AGREEMENT.

8. UNGERER AND THIELE EMPHASIZED THAT THEY HAD BEEN DISCUSSING THESE IDEAS WITH US ON THEIR PERSONAL AUTHORITY. THE POSITION OF THE CHANCELLOR, GENSCHER AND STOLTENBERG STILL WAS THAT THERE COULD BE NO INCREASE IN THE VAT RATE UNTIL 1 JANUARY 1986. THEY UNDERTOOK, HOWEVER, TO PUT TO THEIR MINISTERS THE IDEA OF A TRANSITIONAL ARRANGEMENT NEXT YEAR. THEY COULD NOT REPEAT NOT JUDGE WHAT THEIR REACTIONS WOULD BE.

9. IT IS IMPORTANT THAT UNGERER'S CONFIDENCE SHOULD BE RESPECTED (AND THAT THESE EXCHANGES SHOULD NOT BE REFERRED TO IN DISCUSSION WITH OTHER GERMAN OFFICIALS). THE SECRETARY OF STATE WILL NOT WISH TO GO INTO DETAIL WITH GENSCHER, TO WHOM UNGERER WILL BE REPORTING ONLY ON HIS RETURN. SIR JULIAN BULLARD THINKS IT WOULD BE HELPFUL, HOWEVER, IF THE SECRETARY OF STATE WERE TO MENTION TO GENSCHER IN NEW YORK THAT, AS AGREED WITH HIM, WE HAVE HAD A GOOD DISCUSSION AT OFFICIAL LEVEL OF POSSIBLE WAYS FORWARD ON THE 1985 BUDGET PROBLEMS AND THE NEW OWN RESOURCES DECISION, WITHOUT COMMITMENT ON EITHER SIDE: AND THAT WE HOPE THAT HE MIGHT CONSIDER CAREFULLY ON HIS RETURN THE IDEA OF A TRANSITIONAL ARRANGEMENT WHICH WILL BE NEEDED ANYWAY IN 1985, BUT WHICH WOULD LEAVE THE FULL NEW OWN RESOURCES TO COME IN ON 1 JANUARY 1986. PROVIDED THE FRENCH CAN BE HELD TO A SATISFACTORY TEXT ON BUDGET DISCIPLINE (ON WHICH WE HAVE BEEN GRATEFUL FOR GERMAN SUPPORT), THIS WOULD OPEN THE WAY FOR A GENERAL RESOLUTION OF THE BUDGET ISSUES IN LUXEMBOURG WHILE MAXIMISING ALSO GERMAN LEVERAGE OVER COMPLETION OF THE SPANISH AND PORTUGUESE ACCESSION NEGOTIATIONS. (WE STRESSED THAT WE WERE NO LESS DETERMINED THAN THE GERMANS TO BRING THOSE NEGOTIATIONS TO A SUCCESSFUL CONCLUSIONS.)

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