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 FRAME ECONOMIC
 DESKBY 030800Z

FROM LUXEMBOURG 022315Z OCT 84
 TO IMMEDIATE FCO

TELEGRAM NUMBER 271 OF 2 OCTOBER
 AND TO IMMEDIATE UKREP BRUSSELS
 INFO IMMEDIATE BRUSSELS COPENHAGEN THE HAGUE ROME DUBLIN PARIS
 BONN ATHENS PRIORITY LISBON MADRID

FROM UKREP BRUSSELS

FOREIGN AFFAIRS COUNCIL, 2 OCTOBER

BUDGET ISSUES

SUMMARY

1. 1984 SUPPLEMENTARY BUDGET ESTABLISHED ON THE BASIS OF AN INTER-GOVERNMENTAL AGREEMENT SPECIFICALLY PROVIDING THAT THE UK WILL NOT CONTRIBUTE UNTIL THE 1983 REFUNDS ARE RELEASED AND THERE IS AGREEMENT ON BUDGET DISCIPLINE. 1985 BUDGET ESTABLISHED WITHIN ONE PER CENT LIMIT WITH ACCOMPANYING DECLARATION ON SUPPLEMENTARY FINANCING STRONGLY ENDORSING FONTAINEBLEAU CONCLUSIONS ON THE 1984 REFUND. NO AGREEMENT ON THE NEW OWN RESOURCES DECISION OR ON THE METHOD OF FINANCING THE 1985 OVERRUN. BRIEF DISCUSSION OF BUDGET DISCIPLINE WITHOUT CONCLUSION.

DETAIL

2. IN OPEN SESSION IN THE MORNING THE PRESIDENCY INTRODUCED THEIR COMPROMISE PROPOSAL FOR A 1.2 PERCENT TRANSITIONAL VAT RATE IN 1985. ALL BUT THE GERMANS COULD ACCEPT THIS. GENSCHER SAID THAT THE OWN RESOURCES DECISION WAS NOT URGENT AND A DECISION SHOULD BE POSTPONED. THE 1984 SUPPLEMENTARY BUDGET AND THE 1985 BUDGETS SHOULD BE ESTABLISHED STRAIGHT AWAY. THE PRESIDENCY ASKED IF YOU COULD AGREE TO THIS. YOU SAID THAT THE 1985 BUDGET COULD GO FORWARD STRAIGHT AWAY, BUT WITHOUT A DECLARATION PREJUDICING THE MEANS OF FINANCING THE OVERRUN. THE 1984 SUPPLEMENTARY BUDGET WAS LINKED TO THE OTHER ISSUES.

3. BARRY (PRESIDENCY) THEN CALLED A RESTRICTED SESSION (MINISTERS ONLY) WHICH LASTED, ON AND OFF, FROM 11.30 IN THE MORNING UNTIL 8.30 IN THE EVENING. IN THE COURSE OF THIS A NUMBER OF SOLUTIONS WERE CANVASSED. TYGESEN (DENMARK) SUGGESTED THAT THOSE MEMBER STATES WHO COULD AGREE SHOULD COVER THE OVERRUN BY BRINGING FORWARD OWN RESOURCES. THOSE WHO COULD NOT WOULD CONTRIBUTE BY AN INTER-GOVERNMENTAL AGREEMENT. THORN SAID THIS SMACKED OF A TWO-SPEED EUROPE AND OTHERS THOUGHT IT WAS ILLEGAL. BARRY PUT FORWARD A SCHEME FOR A SINGLE INTER-GOVERNMENTAL AGREEMENT TO COVER THE SHORTFALLS IN BOTH 1984 AND 1985. THE UK WOULD NOT

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/ CONTRIBUTE

CONTRIBUTE TO THESE, AND WOULD THEREFORE RECEIVE A CORRECTION OF 465 MECU IN 1984 AND 1985. THE REMAINING 535 MECU WOULD BE DEDUCTED FROM THE UK'S VAT IN 1986 ONCE THE OWN RESOURCES DECISION WAS IN PLACE. YOU SAID THAT AN INTER-GOVERNMENTAL AGREEMENT MIGHT WORK IF IT PROVIDED FOR THE WHOLE 1000 MECU IN 1985. THE ITALIANS AND OTHERS VETOED THAT ON GROUNDS OF THEIR INABILITY TO RATIFY AN INTER-GOVERNMENTAL AGREEMENT WHICH BENEFITTED THE UK IN THIS WAY. LATER IN THE MEETING, THE ITALIANS VETOED THE PRESIDENCY'S PROPOSAL AS WELL WHEN YOU INDICATED THAT YOU MIGHT ON CERTAIN CONDITIONS CONSIDER IT.

4. DUNAS ASKED US IF WE COULD AGREE TO SEND FORWARD THE 1985 BUDGET IF IT WAS ACCOMPANIED BY A STRENGTHENED DECLARATION REITERATING THE UK ENTITLEMENT IN 1985 TO 1000 MECU. VAN EEKELÉN COMMENTED THAT SUCH A DECLARATION WOULD ENTITLE THE UK TO WITHHOLD THE MONEY IF IT WAS NOT PROVIDED IN TIME. THIS FOUND SOME SUPPORT, INCLUDING FROM THE COMMISSION, AND NO-ONE DISSENTED. HOWEVER YOU EXPLAINED THAT THERE WOULD BE NO LEGAL BASE FOR SUCH ACTION.

5. AFTER THIS, THE SITUATION DETERIORATED RAPIDLY AND YOU CAME UNDER INCREASING PRESSURE TO ESTABLISH BOTH THE 1984 SUPPLEMENTARY BUDGET AND THE 1985 BUDGET. SEVERAL MEMBER STATES SAID THAT THE 1984 SUPPLEMENTARY BUDGET COULD BE VOTED THROUGH WITHOUT THE UK. THE INTER-GOVERNMENTAL AGREEMENT COULD BE MADE AMONG THE NINE ONLY. IF WE WISHED TO CONTRIBUTE WE COULD DO SO. OTHERWISE THE NINE WOULD GO AHEAD WITHOUT US, WITH THE IMPLICATION THAT THE EUROPEAN PARLIAMENT WOULD NOT THEN RELEASE OUR 1983 REFUNDS.

6. YOU SAID THAT YOU COULD AGREE TO ESTABLISH THE 1985 BUDGET PROVIDED IT WAS ACCEPTED THAT THE UK WOULD NOT AGREE TO FINANCE THE 1985 OVERRUN OTHER THAN BY OWN RESOURCES AND PROVIDED DECLARATION NO.5 WAS EXPANDED BY THE WORDS QUOTE... INCLUDING THE OBLIGATIONS ENTERED INTO VIS-A-VIS THE UK AS PRESCRIBED IN THE FONTAINEBLEAU AGREEMENT. UNQUOTE. THIS WAS AGREED AND THE 1985 BUDGET WAS ESTABLISHED UNANIMOUSLY. YOU THEN ASKED FOR A PAUSE BEFORE THE 1984 BUDGET WAS DISCUSSED.

7. ON RESUMPTION YOU SAID THAT WE COULD NOT JOIN A MAJORITY OR AGREE TO THE INTER-GOVERNMENTAL AGREEMENT UNLESS THE AGREEMENT SPECIFICALLY RECOGNISED THAT THE UK WOULD NOT CONTRIBUTE UNTIL THE EUROPEAN PARLIAMENT RELEASED OUR 1983 REFUNDS AND UNTIL THERE WAS AGREEMENT ON BUDGET DISCIPLINE.

8. THE FOLLOWING ADDITIONAL WORDING WAS THEN AGREED QUOTE. THEY TAKE NOTE HOWEVER THAT THE BRITISH GOVERNMENT WILL BE IN A POSITION TO COMPLETE ITS NATIONAL PROCEDURES ONLY WHEN THE UK HAS RECEIVED ITS REFUNDS FOR 1983 AND THE COUNCIL HAS REACHED AGREEMENT ON THE MEASURES NECESSARY TO GUARANTEE THE PRINCIPLES OF BUDGET DISCIPLINE APPROVED BY THE EUROPEAN COUNCIL. UNQUOTE. ON THAT BASIS, THE 1984 SUPPLEMENTARY BUDGET WAS ESTABLISHED.

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9. WHEN DISCUSSION RESUMED ON BUDGET DISCIPLINE, SEVEN MEMBER STATES ARGUED IN FAVOUR OF A SIMPLE QUOTE. RESOLUTION UNQUOTE. YOU, VAN EEKELLEN AND GENSCHER (THE LATTER HALF-HEARTEDLY) PRESSED FOR A DECISION. NO CONCLUSION WAS REACHED ON THIS POINT. DUMAS SAID THAT THE BASIS FOR ESTABLISHING THE AGRICULTURAL GUIDELINE MUST BE REAL OUT-TURN EXPENDITURE, NOT ORIGINAL BUDGETS. HE BEGAN ATTEMPTING TO UNPICK OTHER ASPECTS OF THE ECOFIN AGREEMENT (DETAILS TOMORROW). GENSCHER SAID HE WAS NOT SATISFIED WITH THE BUDGET DISCIPLINE ACHIEVED. THERE MUST BE FURTHER DISCUSSION. THE PRESIDENT SAID THAT THIS QUESTION WOULD HAVE TO BE TAKEN UP AT A LATER DATE.

FCO ADVANCE TO:

FCO - PS/SOS PS/MR RIFKIND TICKELL WALL MARSDEN
CAB - STAPLETON LAMBERT
TSY - PS/CHANCELLOR PS/EST UNWIN FITCHEW BOSTOCK
T/SOL - PRESTON
NO.10 - PS/NO 10

UKREP DIST: BUTT/BROUCHER - FULL

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