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DESKBY 111730Z

FM UKREP, BRUSSELS 111630 Z FEB 85

TO IMMEDIATE FCO

TELEGRAM NUMBER 481 OF 11 FEBRUARY

*1/ The Commission
is going back to
Fontainebleau -
then no answer
in 20
relates
not*

UKREP TELNO.473 : BUDGETARY CONSEQUENCES OF ENLARGEMENT

1. LORD COCKFIELD RANG ME ABOUT THIS LAST NIGHT. HE SAID THAT NO DECISIONS HAD BEEN TAKEN IN HIS PRESENCE. HIS CABINET HAD RECEIVED SPECIFIC ASSURANCES FROM CHRISTOPHERSEN'S CABINET THAT BY ABATEMENT FOR THE NEW MEMBERS WOULD BE ON THE GREEK MODEL AND WOULD QUALIFY FOR FONTAINEBLEAU RELIEF. NEVERTHELESS HE SUGGESTED THAT THE MATTER WOULD NOW HAVE TO BE ARGUED OUT IN THE COUNCIL. I ENCOURAGED HIM TO CONTEST WHETHER THE ALLEGED COMMISSION DECISION HAD BEEN PROPERLY TAKEN AND TO INSIST ON TAKING THE MATTER BACK TO THE COMMISSION, POINTING OUT THE SERIOUS CONSEQUENCES FOR BOTH THE ENLARGEMENT AND THE OWN RESOURCES NEGOTIATIONS IF THE COMMISSION MADE A PROPOSAL CONTRARY TO WHAT HAD BEEN AGREED AT FONTAINEBLEAU. I ALSO SPOKE TO CAHN (COCKFIELD CABINET) TO MAKE IT CLEAR THAT IT WAS OUT OF THE QUESTION FROM THE UK POINT OF VIEW THAT ANY REBATES TO SPAIN AND PORTUGAL SHOULD BE PAID OUTSIDE THE FONTAINEBLEAU MECHANISM. HE LATER TOLD ME THAT THERE WAS NOTHING IN THE DRAFT MINUTES OF THE COMMISSION MEETING REFLECTING A DECISION ON THIS POINT. THE CLINTON DAVIS CABINET HAVE CONFIRMED LORD COCKFIELD'S ACCOUNT. WE HAVE BRIEFED THEM TO SPEAK APPROPRIATELY AT THE CHEFS' MEETING THIS AFTERNOON.

2. I SPOKE SUBSEQUENTLY TO STRASSER (DG XIX). I REHEARSED WITH HIM WHAT HAD TAKEN PLACE AT FONTAINEBLEAU OVER ENLARGEMENT AND OWN RESOURCES. I READ HIM THE TEXT WHICH THE PRESIDENCY HAD TABLED THERE AND WHICH THE PRIME MINISTER HAD PERSUADED THE EUROPEAN COUNCIL TO REJECT:
"IN THE CASE OF NEW MEMBER STATES BENEFITTING DURING THE PERIOD OF TRANSITION FROM A REDUCTION OF OWN RESOURCES, THE RESULTING COST FOR OTHER MEMBER STATES WILL BE MET OUT OF VAT IN THE NORMAL WAY". IF THE COMMISSION NOW TRIED TO REVERSE THE FONTAINEBLEAU DECISION, THAT WOULD BE UNACCEPTABLE TO THE BRITISH GOVERNMENT. THE MATTER WOULD CERTAINLY GO TO THE EUROPEAN COUNCIL IN BRUSSELS. THERE WOULD BE NO QUESTION OF THE PRIME MINISTER ACCEPTING A REVERSAL OF FONTAINEBLEAU ON THIS POINT. SHE WAS ALWAYS DETERMINED TO ENSURE THAT AGREEMENTS REACHED IN THE COUNCIL WERE RESPECTED. STRASSER COMMENTED THAT PEOPLE WERE TRYING TO MAKE COMPLICATED ISSUES EVEN MORE COMPLICATED. HE TOOK NOTE AND SUGGESTED THAT I SHOULD SPEAK TO NOEL.

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3. I SPOKE ON SIMILAR LINES TO NOEL, ADDING THAT THE COMMISSION WAS RISKING RE-OPENING OLD WOUNDS AND CONTRIBUTING TO DELAY IN THE ENLARGEMENT NEGOTIATIONS AS WELL AS IN THE ADOPTION OF THE OWN RESOURCES DECISION. HE ACKNOWLEDGED THAT THE MATTER HAD BEEN DISCUSSED AT FONTAINEBLEAU AND THAT THE TEXT STATING THAT REPATES TO NEW MEMBER STATES WOULD NOT BE COVERED IN THE FONTAINEBLEAU MECHANISM HAD BEEN KNOCKED OUT OF THE COUNCIL CONCLUSIONS AT THE PRIME MINISTER'S REQUEST. BUT HE ARGUED THAT THIS HAD BEEN DONE ALMOST WITHOUT DISCUSSION RATHER LATE IN THE PROCEEDINGS. HE CONCLUDED THAT THE QUESTION WAS OPEN, AND COMMENTED THAT LOOKED AT LOGICALLY, THERE WAS NO REASON WHY THE UK SHOULD NOT BEAR ITS FULL SHARE OF THE COST OF ANY REDUCTION IN SPAIN'S AND PORTUGAL'S BUDGETARY CONTRIBUTIONS. I MADE IT VERY CLEAR THAT SUCH A LINE OF ARGUMENT WAS UNACCEPTABLE. IF THE COMMISSION MAINTAINED IT, IT WOULD LEAD TO VERY GREAT DIFFICULTIES AT THE EUROPEAN COUNCIL.

4. THE CHANCELLOR OF THE EXCHEQUER LATER RAISED THE QUESTION WITH DELORS (UNWIN WILL RECORD). DELORS UNDERTOOK NOT TO PUT FORWARD ANY PROPOSAL WITHOUT FURTHER CONSULTATION WITH THE UK.

FCD ADVANCE TO:

FCD - RENWICK, SHEPHERD, MISS EVANS, WALL
CAB - WILLIAMSON, MISS LAMBERT
TSY - FITCHEW, MORTIMER, UNWIN

BUTLER

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ECD (I)

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10 DOWNING STREET

From the Private Secretary

13 February 1985

Budgetary Consequences of Enlargement

The Prime Minister has seen UKREP Brussels telegram number 481 on this subject. She has commented that if the Commission attempts to go back on what was agreed at Fontainebleau, there will be no increase in own resources.

I am copying this letter to Rachel Lomax (HM Treasury) and to Richard Hatfield (Cabinet Office).

Charles Powell

Colin Budd, Esq.,
Foreign and Commonwealth Office.

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ck



Foreign and Commonwealth Office

London SW1A 2AH

14 February 1985

Q 14/2

Dear Charles,

Budgetary Consequences of Enlargement

Thank you for your letter of 13 February.

We were alerted some time ago by the Cockfield and Clinton Davis Private Offices to Commissioner Natali's suggestion that rebates to Spain and Portugal should not qualify for our correction under the Fontainebleau mechanism.

Sir Michael Butler and his staff took immediate lobbying action with the above Private Offices, with PS/Delors, with the Director-General for the Budget and with the Secretary-General of the Commission. They were told that any suggestion of this kind would be contrary to what was agreed at Fontainebleau and totally unacceptable. There would be no increase in the own resources if there was any interference with the Fontainebleau agreement. We drew the attention of the Commission to the fact that the unacceptable language on this issue proposed by the French Presidency at Fontainebleau had been deleted on the Prime Minister's insistence.

The Chancellor of the Exchequer also raised the matter with M Delors during this week's ECOFIN. The Chancellor made clear that there would be no increase in own resources if any such proposal were adopted. Delors agreed not to put forward any proposal without further consultation with the UK.

Lord Cockfield has told us that he believes that Delors recognises it would be wrong to proceed along the lines of the advice offered to him by Natali. Delors agreed that any procedure must not go against what was agreed at Fontainebleau. The Prime Minister's comments have been passed to Lord Cockfield.

The Commission have not yet made a formal proposal and Natali will no doubt still try to make trouble. The Commission will continue to be left in no doubt that if they

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were to pursue Natali's ideas, we should not agree to any increase in the own resources. This has been covered in the briefing for the Prime Minister's meeting with Signor Craxi.

I am copying this letter to Rachel Lomax (HM Treasury) and Richard Hatfield (Cabinet Office).

Yours ever,

Colin Budd

(C R Budd)
Private Secretary

C D Powell Esq
No 10 Downing Street

Ewo-Pol: Enlargement A77



4 FEB 1985

