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24 APR 1985

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RESTRICTED
FRAME ECONOMIC/AGRICULTURE
DESKBY 241030Z
FM LUXEMBOURG 240705Z APR 85
TO IMMEDIATE FCO
TELEGRAM NUMBER 068 OF 24 APRIL 1985
AND TO IMMEDIATE UKREP BRUSSELS
INFO BRUSSELS, COPENHAGEN, THE HAGUE, ROME, DUBLIN, PARIS,
BONN, ATHENS.

FM UKREP BRUSSELS

BUDGET COUNCIL: 23 APRIL 1985
1985 BUDGET

SUMMARY

1. DRAFT FIRST READING BUDGET ESTABLISHED. IGA REDUCED TO 1981 MECUS. UNHELPFUL COMMISSION DECLARATION IN RESPONSE TO FRENCH AND GERMAN PRESSURE THAT THEY WOULD SUBMIT NEW RECTIFYING LETTER IF NECESSARY. 1985 DEFICIT AND REVISION OF 1985 OR TO BE IGNORED. TEXT OF IGA AND PAYMENT ARRANGEMENTS FOR 1000 MECU SETTLED SATISFACTORILY.

DETAIL

2. THE ECONOMIC SECRETARY REPRESENTED THE UK. THE MEETING BEGAN WITH A BRIEF EXCHANGE ON HOW THE MEETING WITH THE DELEGATION FROM THE EUROPEAN PARLIAMENT SHOULD BE HANDLED FOCUSSED ON THE QUESTION WHETHER THE COUNCIL SHOULD START FROM ITS OCTOBER OR NOVEMBER DRAFT BUDGET AND WITH A PREVIEW OF THE MAIN POINTS TO BE MADE LATER IN THE DAY. EMMANUELLI (FRANCE) SAID THAT HE WOULD BE MAKING PROPOSALS TO ENSURE THAT ACCOUNT WAS TAKEN OF THE OUTCOME OF THE PRICE FIXING. TYGESEN (DENMARK) AGREED THAT THE RESULTS OF THE PRICE FIXING SHOULD BE TAKEN INTO ACCOUNT BY MAKING THE INTERGOVERNMENT AGREEMENT FIGURE A PROVISIONAL ONE. MR STEWART SAID THE COUNCIL WOULD HAVE TO ADOPT A RIGOROUS APPROACH TO THE FEOGA FIGURE IF NATIONAL PARLIAMENTS WERE TO APPROVE THE INTERGOVERNMENT AGREEMENT. TIETMEYER (GERMANY) THOUGHT THAT THERE WAS A MARGIN FOR MANOEUVRE IN THE FEOGA BUDGET BUT THE PRICE FIXING HAD YET TO BE AGREED AND ACCOUNT

THOUGHT THAT THERE WAS A MARGIN FOR MANOEUVRE IN THE FEOGA BUDGET BUT THE PRICE FIXING HAD YET TO BE AGREED AND ACCOUNT WOULD HAVE TO BE TAKEN OF THIS.

3. AFTER LUNCH THE COUNCIL MET WITH THE PARLIAMENTARY DELEGATION (PFLIMLIN, COT, AIGNER, DANKERT, FICH, RYAN, BARBARELLA, SCOTT-HOPKINS, FLESCHE). COT SAID THAT THE PARLIAMENT WOULD DO ALL THEY COULD TO SPEED UP THE PROCEDURE AND WOULD NOT SEEK TO OPEN UP DISCUSSION OF ALL THE BUDGET LINES AGREED LAST AUTUMN. AS CHAIRMAN OF THE BUDGETS COMMITTEE HE WAS SEEKING TO PERSUADE THE CHAIRMEN OF ALL THE OTHER PARLIAMENTARY COMMITTEES TO ACCEPT THIS.

4. FICH, DEVELOPING COMMENTS MADE BY PFLIMLIN AND COT, SAID THAT THE PARLIAMENT DELEGATION HAD AGREED ON 5 POINTS. FIRST, THE FEOGA BUDGET SHOULD BE A 12 MONTH ONE. IF THE AGRICULTURE COUNCIL AGREED HIGHER PRICES THE COUNCIL MUST INCREASE THE BUDGETARY PROVISION. THE PARLIAMENT HAD REJECTED A 10 MONTH BUDGET AND WOULD REJECT AN 11 MONTH BUDGET. HOW WOULD THE BUDGET COUNCIL RESPOND IF THE AGRICULTURE COUNCIL TOOK ITS PRICE FIXING DECISION AFTER THE EUROPEAN PARLIAMENT'S FIRST READING? SECOND, THE PARLIAMENT ACCEPTED THE FIGURE OF 1 BECU AS THE UK REFUND BUT COULD NOT AGREE TO IT BEING PAID AS A DEDUCTION OF VAT. IT SHOULD BE PAID THROUGH REGIONAL AND SOCIAL MEASURES. THE NEW OWN RESOURCES DECISION HAD TO BE RATIFIED BY THE MEMBER STATES BEFORE IT COULD TAKE EFFECT. THIRD, THE PARLIAMENT WANTED THE COUNCIL TO TAKE DECISIONS ON IMPS AS PART OF THEIR FIRST READING. FOURTH THE PARLIAMENT ACCEPTED THE COMMISSION'S PROPOSALS ON FOOD AID. FIFTH THE IGA AMOUNT SHOULD NOT BE FIXED UNTIL THE END OF THE BUDGET PROCEDURE.

5. FRACANZANI (PRESIDENCY) SAID IT SEEMED CLEAR THAT PARLIAMENT WANTED TWO READINGS OF THE BUDGET. THE UK ABATEMENT HAD BEEN SETTLED AT THE HIGHEST LEVEL AND THERE WAS NO GOING BACK ON IT. THE FOREIGN AFFAIRS COUNCIL WOULD BE DISCUSSING THE ISSUE WITH THE PARLIAMENT ON 29 APRIL. ON IMPS, THE COUNCIL HAD TO TAKE ACCOUNT OF HOW QUICKLY THE PROGRAMME COULD BE IMPLEMENTED. HE NOTED THE PARLIAMENT'S POSITION ON THE IGA WITHOUT COMMITMENT.

6. FICH THEN MADE A VERY CONFUSED STATEMENT ABOUT THE ABATEMENT SAYING IT SHOULD BE TAKEN IN PARALLEL WITH THE STRUCTURAL FUNDS, BUT WAS CUT SHORT BY PFLIMLIN, WHO SEEMED CONCERNED TO KEEP THE TEMPERATURE DOWN. PFLIMLIN ALSO SAID THAT SCOTT-HOPKINS AND OTHER UK MEPS DID NOT SHARE THE VIEWS ON THE ABATEMENT WHICH HE, FICH AND COT HAD EXPRESSED. FRACANZANI SAID IN CONCLUSION THAT THE PARLIAMENT'S BUDGET COMMITTEE WOULD BE INFORMED AT THEIR MEETING TOMORROW OF THE OUTCOME OF THE COUNCIL. UNHELPFULLY HE SAID HE WAS SURE THE COUNCIL AGREED THAT THE AGRICULTURE FIGURE MIGHT HAVE TO BE REVISED AS A RESULT OF THE PRICE FIXING.

7. FOLLOWING THE MEETING WITH THE PARLIAMENT, CHRISTOPHERSEN
BEBBNDNDW ABREEDMMESION'S AMENDING
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WOTSWRONG

SORRY HAD A HIT PSE START AT PARA 7.

7. FOLLOWING THE MEETING WITH THE PARLIAMENT, CHRISTOPHERSEN PRESENTED THE COMMISSION'S AMENDING LETTER. FONTAINEBLEAU HAD AGREED THE ABATEMENT AND THE MEMBER STATES HAD NOW AGREED THE METHOD OF IMPLEMENTATION. THE COMMISSION WOULD ABIDE BY THIS.

METHOD OF IMPLEMENTATION. THE COMMISSION WOULD ABIDE BY THIS. ON FEOGA, IF PRICES WERE INCREASED BEYOND THE COMMISSION PROPOSAL THEN THE ADDITIONAL EXPENDITURE WOULD HAVE TO BE COVERED.

3

8. FRACANZANI SAID THE COUNCIL SHOULD FIRST TAKE A DECISION ON PROCEDURE. COT HAD ASSURED HIM THAT THE PARLIAMENT WOULD NOT TAKE ADVANTAGE OF THEIR RIGHT TO INCREASE THEIR MARGIN IF THE COUNCIL SENT THEM THEIR NOVEMBER BUDGET AS THE FIRST READING DOCUMENT. O'KEEFFE SUPPORTED THIS PROCEDURE BUT EMMANUELLI AND MR STEWART SAID THAT COT COULD NOT SPEAK FOR THE PLENARY AND THE COUNCIL SHOULD NOT RUN THE RISK ON THE MARGIN. IT WAS AGREED THAT THE COUNCIL WOULD WORK ON THE BASIS OF LAST OCTOBER'S BUDGET.

9. DISCUSSION FOCUSED FIRST ON FEOGA. MR STEWART REHEARSED OUR ARGUMENTS FOR ECONOMIES IN THE FEOGA BUDGET THROUGH BETTER MARKET MANAGEMENT, ESPECIALLY IN BEEF, WINE, OLIVE OIL AND SUGAR, AND A MORE REASONABLE VIEW ON EXCHANGE RATE. DEFINITIVE FIGURES HAD TO BE FIXED BOTH FOR FEOGA GUARANTEE AND FOR THE IGA.

10. TYGESEN SAID THE ONLY OBJECTIONABLE PROPOSAL THE PARLIAMENTARY DELEGATION HAD MADE WAS ON THE UK ABATEMENT. THE COMMISSION'S FEOGA FIGURE SHOULD BE ACCEPTED AS PROVISIONAL TO BE REVIEWED IN THE LIGHT OF THE PRICE FIXING DECISION. HE THOUGHT THAT IMPS EXPENDITURE SHOULD BE COMPULSORY. ON FOOD AID THEY COULD ACCEPT EITHER THE COMMISSION FIGURE OR THE BELGIAN COMPROMISE. THE IGA FIGURE HAD TO BE PROVISIONAL.

11. O'KEEFFE AND EMMANUELLI AGREED WITH TYGESEN THAT THE FIGURE AGREED TODAY SHOULD BE PROVISIONAL. MAYSTADT (BELGIUM) SAID THAT THE BUDGET COUNCIL SHOULD DECIDE IN FINAL, NOT PROVISIONAL FIGURES. VAN EEKELLEN AGREED. NO COMMITMENT SHOULD BE GIVEN AT THIS STAGE TO ACCOMMODATE THE OUTCOME OF THE PRICE FIXING IT WAS DANGEROUS TO LEAVE OPEN THE IGA. TIETMEYER SAID THE COMMISSION'S FEOGA FIGURE WAS ON THE SAFE SIDE; BUT IT SHOULD NOT BE CUT. THE COMMISSION HAD GIVEN ITSELF A MARGIN OF MANOEUVRE FOR OTHER DECISIONS. HE COULD ACCEPT THE COMMISSION FIGURE BUT WOULD WANT TO SEE HOW THE 1985 SURPLUS COULD BE USED TO FINANCE IT. AS FOR THE IGA, IT WOULD BE POSSIBLE TO AGREE A PROVISIONAL FIGURE WHICH COULD BE FINALISED AT SECOND READING OR TO REACH AGREEMENT NOW ON A UPPER LIMIT WHICH MIGHT NOT NECESSARILY BE THE ONE USED IN THE BUDGET. CHRISTOPHERSEN REITERATED THAT THE COMMISSION'S FIGURES WERE A MINIMUM.

12. EMMANUELLI ASKED WHETHER THE COMMISSION WAS READY TO COMMIT ITSELF TO PUT FORWARD A RECTIFYING LETTER FOR FEOGA INCREASES DUE TO CONJUNCTURAL DEVELOPMENTS OR THE PRICE FIXING. CHRISTOPHERSEN SAID HE WOULD BE PREPARED TO SEND A RECTIFYING LETTER IF NECESSARY. VAN EEKELLEN SAID THAT INCREASES BROUGHT ABOUT THROUGH THE PRICE FIXING SHOULD BE OFFSET BY REDUCTIONS IN OTHER BUDGET LINES. THE COUNCIL WOULD NEED TO DELIBERATE FURTHER BEFORE ITS SECOND READING ON HOW TO ACCOMMODATE THE PRICE FIXING. EMMANUELLI'S PROPOSED DECLARATION WAS UNNECESSARY. TIETMEYER AGREED THE COMMISSION SHOULD SEND A LETTER OF AMENDMENT IF NECESSARY AND THE COUNCIL COULD AGREE NOW THAT IF THIS HAPPENED THE DUTCH/FRENCH PROPOSAL OF A 1985 SURPLUS SHOULD BE USED TO FINANCE IT. MAYSTADT AND MR STEWART SAID THAT A PROVISIONAL FIGURE WOULD SEND THE WRONG SIGNAL TO THE AGRICULTURE COUNCIL.

13. IN A TOUR DE TABLE ON THE NON-FEOGA EXPENDITURE ITEMS, THE GREEKS REPEATED THEIR STATEMENT ON IMPS AND THE BELGIANS COMPLAINED ONCE MORE ABOUT THEIR VAT FIGURE. TIETMEYER, MR STEWART, VAN EEKELLEN AND EMMANUELLI SAID THE COUNCIL SHOULD STICK FIRMLY TO THE OCTOBER FIRST READING WITH NO CHANGES. IMPS WOULD HAVE TO BE TAKEN INTO ACCOUNT AT SECOND READING. MR STEWART ASKED WHETHER

4

THE OCTOBER FIRST READING WITH NO CHANGES. IMPS WOULD HAVE TO BE TAKEN INTO ACCOUNT AT SECOND READING. MR STEWART ASKED WHETHER CHRISTOPHERSEN COULD CONFIRM THE COMMISSION'S AGREEMENT IN COREPER TO PAY THE UK'S 1,000 MECU ABATEMENT IN DECEMBER IF RATIFICATIONS WERE COMPLETED THEN. CHRISTOPHERSEN SAID THAT TO ACCOMMODATE THE UK THE COMMISSION WOULD PROPOSE A SMALL CHANGE IN THE TEXT OF THE LETTER OF AMENDMENT TO SAY PAYMENT WOULD BE MADE IMMEDIATELY AFTER THE FINAL RATIFICATION RATHER THAN ON THE FIRST OF THE FOLLOWING MONTH. TIETMEYER SAID HE COULD AGREE TO AN AMENDMENT IF IT PROVIDED THE POSSIBILITY OF SPEEDIER PAYMENT BUT COULD NOT ACCEPT IT IF IT WAS BEING MADE MANDATORY. (THE GERKANS APPEARED TO BE CONCERNED THAT THEY COULD PAY THEIR CONTRIBUTION TO THE 1000 MECU IN JANUARY 1986 WITHOUT ANY INTEREST PENALTY). CHRISTOPHERSEN RECOGNISED THAT THERE MAY BE PRACTICAL PROBLEMS FOR THE MEMBER STATES HAVING TO PAY THE ABATEMENT.

14. TYGESEN SAID THAT THE TEXT OF THE IGA SHOULD REPEAT LAST YEAR'S REFERENCE IN THE FOOTNOTE TO THE NEED FOR DOMESTIC PARLIAMENTARY APPROVAL IN CERTAIN MEMBER STATES. MR STEWART AGREED. THE COUNCIL THEN BROKE FOR THE PRESIDENCY TO PUT TOGETHER A COMPROMISE PROPOSAL.

15. THE PRESIDENCY'S FIRST EFFORTS AT A COMPROMISE INVOLVED SETTING THE IGA AT JUST UNDER 1.8 BECU, ON THE BASIS OF THE COMMISSION'S FIGURES FOR FEOGA GUARANTEE EXPENDITURE, THE 1984 DEFICIT AND THE REVISED FORECAST OF 1985 TRADITIONAL OWN RESOURCES, REDUCED BY AN ENTRY ON THE REVENUE SIDE FOR THE ASSUMED 1985 SURPLUS. BUT THIS REPORTEDLY FOUNDERED ON COMMISSION OPPOSITION TO SUCH A LARGE REDUCTION IN THEIR "REALISTIC" BUDGET. THE PRESIDENCY THEN CHANGED TACK, PROPOSED AN IGA OF 1.998 MECUS, ARRIVED AT BY DISREGARDING BOTH THE REVISED FORECAST OF THIS YEAR'S TRADITIONAL OR AND THE 417 MECU DEFICIT, AND TABLED THE COMPROMISE IN MIFT.

16. THE PRESIDENCY PROPOSALS ON FOOD AID, R AND D, THE COURT OF JUSTICE AND IMPS WERE AGREED WITH LITTLE FURTHER DISCUSSION. IT WAS ALSO AGREED THAT THE 1985 IGA SHOULD INCLUDE A FOOTNOTE ON THE LINES OF THAT FOR 1984.

17. ON THE 1000 MECU, TIETMEYER CLAIMED IT HAD BEEN AGREED AT THE FAC ON 17-20 APRIL THAT GERMANY WOULD NOT HAVE TO MAKE ITS CONTRIBUTION MECU UNTIL JANUARY 1986 AND WAS RESISTANT TO A FORM OF WORDS WHICH COULD BE TAKEN TO COMMIT THEM TO A PAYMENT DURING THE COURSE OF DECEMBER. IN THE END IT WAS AGREED THAT THE DECLARATION ON PAGE 35 OF THE RECTIFYING LETTER SHOULD BE REVISED TO SAY THAT PAYMENT WOULD BE MADE "NO LATER THAN THE FIRST WORKING DAY OF THE MONTH FOLLOWING THE ENTRY INTO FORCE OF THE NEW ORD". MR STEWART MADE CLEAR THAT WE ACCEPTED THAT THE COMMISSION, THE GERHANS AND OTHER DELEGATIONS WOULD DO THEIR BEST TO ENSURE THAT THE LETTER OF THE FONTAINEBLEAU AGREEMENT WAS HONOURED.

18. THE REMAINING POINTS CAUSED MORE DIFFICULTY, AS DID THE RELATED QUESTION OF THE STATUS AND FINALITY OF ANY AGREEMENT REACHED AT THE COUNCIL.

19. ALL DELEGATIONS OTHER THAN THE UNITED KINGDOM CONFIRMED THEIR ACCEPTANCE OF THE COMMISSION'S PROPOSAL FOR GUARANTEE EXPENDITURE, BUT TYGESEN SUPPORTED BY EMMANUELLI CONTINUED TO PRESS THE CASE THAT THE FIGURE MIGHT HAVE TO BE INCREASED TO TAKE ACCOUNT OF THE PRICE-FIXING. CHRISTOPHERSEN CIRCULATED AN UNHELPFUL DECLARATION BY THE COMMISSION (TEXT IN MY SECOND IFT) WITH WHICH TYGESEN SAID THAT THE COUNCIL SHOULD BE ASSOCIATED.

20. MR STEWART ACCEPTED WITH RELUCTANCE THAT THE PRESIDENCY PROPOSAL COULD FORM THE BASIS OF AN AGREEMENT BUT THERE MUST BE

5
20. MR STEWART ACCEPTED WITH RELUCTANCE THAT THE PRESIDENCY PROPOSAL COULD FORM THE BASIS OF AN AGREEMENT. BUT THERE MUST BE NO SUGGESTION THAT THE COUNCIL WAS PREPARED TO GO HIGHER IN THE LIGHT OF THE PRICE FIXING OR BECAUSE OF OTHER FUTURE DEVELOPMENTS. IT WAS DIFFICULT TO RECONCILE CHRISTOPHERSEN'S STATEMENT WITH THE COMMISSION'S LINE IN THE PRICE-FIXING. VAN BEUGEN (NETHERLANDS) AGREED THAT THE COUNCIL SHOULD NOT BE ASSOCIATED WITH THE COMMISSION'S DECLARATION; THIS SOLUTION WAS FINALLY AGREED, THE COUNCIL SECRETARIAT CONFIRMING THAT THE MINUTES WILL NOT RECORD ANY ATTITUDE ON THE PART OF THE COUNCIL TOWARDS THE COMMISSION'S DECLARATION.

21. EMMANUELLI, SUPPORTED FOR A WHILE BY ROUMELIOTIS, OBJECTED TO THE PROPOSED UNDERSTATEMENT OF 1985 OR. PARLIAMENT WOULD OBJECT TO THE COUNCIL'S FIGURE, AMEND IT AND MAKE A CORRESPONDING INCREASE IN DNO. HE SHOUGHT COMMISSION SUPPORT FOR HIS VIEW, BUT OBTAINING ONLY EQUIVOCATION FROM CHRISTOPHERSEN, DID NOT PURSUE THE POINT.

22. HAVING ACCEPTED ALL OTHER POINTS IN THE PRESIDENCY COMPROMISE, THE COUNCIL THEN GROUND TO A HALT OVER THE BELGIAN REQUEST FOR A REDUCTION OF 17 MECY IN THEIR VAT CONTRIBUTION. AFTER AN HALF HOUR DELAY IT WAS FINALLY AGREED THAT THE COUNCIL AND COMMISSION COULD AGREE THAT BEFORE SEPTEMBER THE COMMISSION AND THE MEMBER STATES WILL CARRY OUT A REVIEW OF THE VAT BASES OF ALL THE MEMBER STATES. MEANWHILE THE BELGIAN VAT BASE WOULD REMAIN UNCHANGED, REDUCING THE ICA TO 1981 MECU.

FCO ADVANCE TO:-

FCO - WALL, BLOOMFIELD

CAB - JAY, MERCER

MAFF - ROBERTS, PERRINS

TSY - PS/ECONOMIC SECRETARY, UNWIN, FITCHEW, HOPKINSON, DONNELLY,
MORTIMER

UKREP DIST - LENNON, BOSTOCK / AGR, ECON

BHILES

NNNN