

GRS 2000

Restricted

*Think the same as Delors said at the European Council. But an appalling prospect nonetheless.*

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FM UKREP BRUSSELS  
TO IMMEDIATE FCO  
TELNO 4665  
OF 191905Z DECEMBER 86  
INFO IMMEDIATE EUROPEAN COMMUNITY POSTS

FRAME ECONOMIC  
SECTION 1 OF 2  
EX NOVO : COREPER BRAINSTORMING : 19 DECEMBER 1986

SUMMARY

1. NO SURPRISES. DELORS' TOUR OF CAPITALS TO START 9 JANUARY, END 13 FEBRUARY. GYMNICH' MEETING IN BRUSSELS 22 FEBRUARY. DELORS CONFIRMS WISH FOR DISCUSSION TO RANGE WIDE: 'GDP BOX' FOR COMMUNITY FINANCING, CAP REFORM, INTERNAL MARKET AND COHESION. PREFERENCE AMONG AMBASSADORS FOR NEGOTIATION DIRECTED TO INCREASE TO 1.6 PERCENT IN VAT CEILING. NO DISCUSSION OF BUDGET IMBALANCES.

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21/12*

DETAIL

2. AMBASSADORS TODAY HELD THEIR 'BRAINSTORMING' SESSION WITH DELORS, WHO WAS IN CONFIDENT AND AT TIMES VISIONARY MOOD.

PROCEDURE

3. DELORS ANNOUNCED THAT HE INTENDED TO BEGIN HIS TOUR OF CAPITALS ON 9 JANUARY AND END ON 13 FEBRUARY. THE COMMISSION WOULD CONSIDER THE RESULTS ON 14 OR 15 FEBRUARY, AND HE WOULD DESCRIBE THE COMMISSION'S PLANS TO THE EP ON 17 AND 18 FEBRUARY. HE WOULD START WITH BELGIUM (OUT OF RESPECT FOR THE PRESIDENCY) AND END WITH GERMANY (TO ALLOW THE DUST TO SETTLE AFTER THE ELECTION). LAMY (DELORS CABINET WOULD ARRANGE DATES WITH FOREIGN MINISTRIES OR PRS. HIS INTENTION WAS TO SEEK THE VIEWS OF GOVERNMENTS NOT TO DO DEALS. HE WANTED TO ROLL UP HIS SLEEVES AND GET DOWN TO SERIOUS WORK WITH THE MINISTERS CONCERNED: HE WAS NOT BOTHERED ABOUT PROTOCOL. IF IT WAS APPROPRIATE FOR HIM TO SEE A NUMBER OF MINISTERS AT ONCE, HE MIGHT TAKE OTHER COMMISSIONERS WITH HIM.

4. THERE WAS SOME DISCUSSION OF WHETHER ARRANGEMENTS SHOULD BE MADE FOR DELORS TO PRESENT THE RESULTS OF HIS TOUR TO FOREIGN MINISTERS ON SUNDAY 15 FEBRUARY, BEFORE HE SPOKE TO THE EP. THE CONSENSUS WAS HOWEVER THAT SO LONG AS NO MAJOR SURPRISES WERE SPRUNG BEFORE THE EP IT WOULD BE MORE SATISFACTORY TO DELAY PRESENTATION TO MINISTERS UNTIL THE FOLLOWING WEEKEND. NATERDAEME (BELGIUM) INDICATED THAT A 'GYMNICH' STYLE MEETING WOULD BE ORGANISED FOR THIS PURPOSE IN BRUSSELS ON THE AFTERNOON ON 22 FEBRUARY.

5. ERSBOELL (COUNCIL SECRETARIAT) PLEADED THAT THERE SHOULD BE NO REPEAT OF THE JUMBO SPECIAL COUNCILS OF 1983. DISCUSSION SHOULD TO THE GREATEST EXTENT POSSIBLE TAKE PLACE IN A SINGLE FORUM. SINCE NOTERDAEME WAS NOT PRESENT AT THIS STAGE WE DID NOT HEAR WHETHER THIS IS THE BELGIANS INTENTION.

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6. DELORS, (WHO WAS ACCOMPANIED ONLY BY LAMY AND KRENZLER (COMMISSION SECRETARIAT GENERAL), FREELY ADMITTED THAT HIS DECISION TO VISIT CAPITALS HAD MET WITH MUCH CRITICISM IN THE COMMISSION. BUT HE THOUGHT THE COMMUNITY'S INTERESTS WOULD BE BEST SERVED, THE BALANCE AMONG INSTITUTIONS IN NO WAY ENDANGERED, IF THE COMMISSION'S PROPOSALS TOOK ACCOUNT OF GOVERNMENTS' VIEWS AND EXPECTATIONS. ALL AMBASSADORS APPLAUDED HIS INITIATION, THOUGH SCHEER (FRANCE) WARNED THAT THE COMMISSION WOULD NEED TO DISPLAY POLITICAL COURAGE IF, AS DELOR'S PRESENTATION SUGGESTED, IT WAS TO SUGGEST SIGNIFICANT CHANGES IN THE CAP.

## DELORS'S PRESENTATION

7. DELORS SAID THAT THERE WAS A NEED TO TAKE AN OVERALL VIEW OF THE WORKING OF THE COMMUNITY WHICH WENT BEYOND THE PRECISE AGENDA LAID DOWN BY THE FONTAINEBLEAU CONCLUSIONS AND ARTICLE 130 OF THE SINGLE EUROPEAN ACT. HE PROCEEDED TO REVIEW IN TURN COMMUNITY FINANCES: THE CAP: COHESION AND THE INTERNAL MARKET: AND THE CONDUCT OF MACRO-ECONOMIC POLICY IN THE EC.

8. DELORS REPEATED HIS FAMILIAR ANALYSIS OF THE COMMUNITY'S FINANCIAL PROBLEMS. THE COMMUNITY BUDGET HAD IN FACT BEEN IN DEFICIT FOR SEVERAL YEARS. A VAT RATE OF SLIGHTLY MORE THAN 1.6 PERCENT WOULD BE NEEDED TO FINANCE THE 1987 BUDGET ON A REALISTIC BASIS. THE COMMUNITY HAD PUT OFF THE DAY OF RECKONING BY EXPEDIENTS SUCH AS BUILDING UP AGRICULTURAL STOCKS AND UNLIQUIDATED COMMITMENT APPROPRIATIONS AND BY CARRYING OVER THE 1986 BUDGET DEFICIT. THE COMMUNITY COULD NOT GO ON LIKE THIS. A FINANCIAL SYSTEM MUST BE FOUND WHICH PROVIDED SUFFICIENT FINANCE, WHICH WAS STABLE, AND WHICH GAVE A GUARANTEE TO MEMBER STATES THAT THEY WOULD NOT NEED REPEATEDLY TO GO BACK TO NATIONAL PARLIAMENTS WITH A REQUEST TO AGREE FURTHER INCREASES IN OWN RESOURCES. THE COMMUNITY NEEDED REVENUE EQUIVALENT TO 1.4 PERCENT OF GDP TO MEET FORESEEABLE NEEDS UP UNTIL 1992. THE OWN RESOURCE CEILING SHOULD MOREOVER BE EXPRESSED IN THIS WAY: AS A CEILING ON TOTAL OWN RESOURCES AS A PERCENTAGE OF GDP. VAT, OR PERHAPS A NEW FORM OF OWN RESOURCES, COULD THEN BE INCREASED TO TAKE ACCOUNT OF THE DOWNWARD SECULAR TREND IN CUSTOMS DUTIES AND AGRICULTURAL LEVIES AND THE DECLINE IN THE PROPORTION WHICH THE HARMONISED VAT BASE BORE TO NATIONAL INCOME. IF MEMBER STATES COULD AGREE TO INCREASE OWN RESOURCES TO THIS LEVEL THE COMMISSION COULD GUARANTEE NOT TO MAKE ANY ADDITIONAL DEMAND FOR REVENUE FOR MORE THAN HALF A DECADE. THE COUNCIL MUST MAKE A STRATEGIC CHOICE. DID IT WISH MERELY TO BUY A COUPLE OF YEARS' TIME BY INCREASING THE VAT CEILING TO 1.6 PERCENT, AS HAD BEEN ENVISAGED AT FONTAINEBLEAU: OR WAS IT PREPARED TO UNDERTAKE A LARGER AND MORE FAR REACHING REFORM OF COMMUNITY FINANCE WHICH WOULD SEE THE COMMUNITY THROUGH UNTIL 1992?

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9. SERIOUS STEPS HAD BEEN TAKEN TO REFORM THE CAP SINCE 1984. BUT MUCH REMAINED TO BE DONE BOTH FOR BUDGETARY REASONS AND BECAUSE OF THE NEED TO ADAPT EUROPEAN AGRICULTURE TO WORLD ECONOMIC REALITIES AND THE WORLD'S EXPECTATIONS OF EUROPE. IT WAS NOT POSSIBLE SUBSTANTIALLY TO INCREASE THE EC'S SHARE OF WORLD MARKETS FOR AGRICULTURAL PRODUCE: NOR WAS A SUBSIDY WAR WITH THE UNITED STATES AND OTHER DEVELOPED AGRICULTURAL PRODUCERS CONSISTENT WITH THE COMMUNITY'S RESPONSIBILITIES TOWARDS THE DEVELOPING WORLD. THE COMMUNITY MUST:

- (A) GET RID OF EXCESSIVE STOCKS:
- (B) PURSUE A REALISTIC PRICING POLICY (AGRICULTURAL MARKETS COULD NOT BE TREATED IN THE SAME WAY AS THE MARKET FOR INDUSTRIAL PRODUCTS, BUT PRICE SUPPORT REGIMES IN WHICH MARKET SIGNALS COULD PLAY NO PART WERE AN ABSURDITY):
- (C) DEVELOP POLICIES TO MAINTAIN THE INCOMES OF SMALL FARMERS OTHER THAN THROUGH PRICE SUPPORT (MAINTAINING THE FABRIC OF RURAL SOCIETY WAS ESSENTIAL FOR EUROPE):
- (D) MAINTAIN A FIRM POLICY TOWARDS THE OUTSIDE WORLD. (ASKED WHAT THIS MEANT AND HOW IT WAS TO BE RECONCILED WITH PUNTA DEL ESTE, DELORS REPLIED THAT OTHERS MUST ALSO SWEEP OUT THE STABLES OF THEIR AGRICULTURAL POLICY: AND QUESTIONED WHETHER IT MADE SENSE FOR A COMMUNITY AWASH WITH SURPLUS GRAIN TO IMPORT LIVESTOCK FEED FROM ACROSS THE ATLANTIC).

10. TURNING TO THE INTERNAL MARKET AND COHESION. DELORS SUGGESTED THAT EUROPE MIGHT TAKE ONE OF THREE FORMS AS THE DEVELOPMENTS ENVISAGED IN THE SINGLE EUROPEAN ACT CAME INTO EFFECT.

- (A) A 'FALSE INTERNAL MARKET', IN WHICH MUCH COVERT PROTECTIONISM REMAINED.
- (B) A 'TRUE INTERNAL MARKET' WHERE GOODS AND FACTORS OF PRODUCTION MOVED FREELY AND IN WHICH THERE WAS SOME BUDGETARY COMPENSATION TO DISADVANTAGED REGIONS. BUT THIS DEGREE OF DEVELOPMENT OF THE COMMUNITY WOULD NOT MARK A SUBSTANTIAL STEP TOWARDS THE GOAL OF EUROPEAN UNION, AND WOULD DO LITTLE TO REDUCE DISPARITIES AMONG REGIONS OR TO SOLVE THE PARTICULAR DIFFICULTIES FACED BY GREECE, SPAIN AND PORTUGAL.
- (C) AN 'ESPACE ECONOMIQUE COMMUN' CHARACTERISED BY THE COMPLETION OF THE INTERNAL MARKET: THE SPREAD OF TECHNICAL ADVANCES: ACTION TO STIMULATE INNOVATION, PARTICULARLY INNOVATION BY SMES IN AREAS WITH A WEAK ECONOMIC STRUCTURE: A CAP DESIGNED TO MAINTAIN THE STRUCTURE OF RURAL SOCIETY: INTEGRATED PROGRAMMES TO DEVELOP THOSE REGIONS WHERE INCOME PER HEAD WAS LESS THAN 50 PERCENT OF THE COMMUNITY AVERAGE: AND SIMILAR ACTION FOR AREAS OF INDUSTRIAL DECLINE.

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11. COMPLETING HIS ANALYSIS, DELORS OBSERVED THAT FOR THE FORESEEABLE FUTURE DECISION MAKING ON ECONOMIC POLICY WOULD REMAIN PRINCIPALLY WITH THE MEMBER STATES. BUT THE COMMUNITY HAD A SIGNIFICANT CONTRIBUTION TO MAKE TO THE ACHIEVEMENT OF THE GOALS OF STABILISATION, EFFICIENT RESOURCE ALLOCATION AND APPROPRIATE DISTRIBUTION THROUGH THE EUROPEAN MONETARY SYSTEM, BUDGETARY TRANSFERS, THE PROVISION OF EIB FINANCE FOR LARGE SCALE INVESTMENT PROJECTS, INTEGRATED DEVELOPMENT PROGRAMMES, AND AN IMAGINATIVE USE OF COMMUNITY LENDING INSTRUMENTS.

## COMMENTS BY AMBASSADORS

12. THERE WAS A CERTAIN AMOUNT OF LOGROLLING IN THE TABLE ROUND WHICH FOLLOWED. CALAMIA (ITALY) RESPONDED TO DELORS'S COMMENTS ON THE SOCIAL PROBLEMS OF GREECE, SPAIN AND PORTUGAL WITH A REMINDER OF THE DIFFICULTIES OF THE MEZZOGIONIO, AND CLAIMED THAT MEDITERRANEAN PRODUCTS HAD NOT BEEN ISOLATED FROM MARKET REALITIES IN THE SAME WAY AS HAD NORTHERN PRODUCTS: SUPPORT WAS OPERATED FLEXIBLY, CONSUMERS BROUGHT AT WORLD PRICES. LYBEROPOULOS (GREECE) MADE THE USUAL SPEECH ABOUT COHESION. CAMPBELL (IRELAND) REFERRED TO THE ROLE OF AGRICULTURE IN THE IRISH ECONOMY AND THE PROBLEMS OF PERIPHERAL AREAS.

13. A NUMBER OF MY COLLEAGUES EXPRESSED POLITE INTEREST IN DELORS'S IDEA OF INCREASING THE OR CEILING TO 1.4 PERCENT OF GDP: BUT ONLY LYBEROPOULOS EXPRESSED ANY PREFERENCE FOR THIS APPROACH. NIEMAN (NETHERLANDS), ESPER LARSEN (DENMARK) AND CALAMIA ARGUED THAT A SOLUTION TO THE COMMUNITY'S URGENT PROBLEMS COULD MORE EASILY BE FOUND IF DISCUSSION FOCUSED ON AN INCREASE IN THE VAT CEILING TO 1.6 PERCENT AS FORESEEN AT FONTAINEBLEAU. THERE WAS A GENERAL WISH TO KNOW WHAT THE POSSIBLE NEW OWN RESOURCE WAS TO WHICH DELORS HAD REFERRED. SCHEER ASKED WHETHER THE COMMISSION ENVISAGED SEPARATE BUDGETS FOR THE CAP AND THE REST, AS RECOMMENDED IN THE RECENT CEPS REPORT.

HANNAY

FRAME ECONOMIC

FINAL SECTION OF 2

14. UNGERER (GERMANY) ENDORSED DELORS'S VIEW THAT THE COMMUNITY BUDGET WAS NOT BASED ON REALITY, BUT ARGUED THAT THIS UNDERLINED THE NEED FOR BUDGETARY DISCIPLINE. RELATING COMMUNITY REVENUE TO GDP RATHER THAN THE VT BASE WOULD EVOLVE RELYING HEAVILY ON DUBIOUS STATISTICS AND PENALISE COUNTRIES WHICH WERE NET EXPORTERS. ON THE CAP, THE DISTINCTION DELORS DREW BETWEEN SMALL AND LARGE FARMERS WAS NOT REFLECTED IN FARMERS' OWN NATIONAL ASSOCIATIONS.

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15. SPEAKING ON BEHALF OF THE UK, I SAID THAT NOONE COULD DENY THE COMMISSION'S RIGHT TO ADD TO THE AGENDA SET OUT IN THE FONTAINEBLEAU CONCLUSIONS AND THE SCA. BUT THAT AGENDA MUST BE COVERED. BUDGET DISCIPLINE WAS A POINT OF MAJOR IMPORTANCE. THE TERMS INTERPRETED IN WIDELY DIFFERING WAYS IN DIFFERENT MEMBER STATES. BUT ALMOST ALL MEMBER STATES WERE ONE IN TRYING TO RESTRICT THE LEVEL OF THEIR DOMESTIC PUBLIC EXPENDITURE. SUCH DISCIPLINE MUST ALSO BE ENFORCED AT COMMUNITY LEVEL. MOST OF THE LAST INCREASE IN OWN RESOURCES HAD BEEN SWALLOWED UP BY THE CAP. WHAT PROPOSALS COULD WE EXPECT FROM THE COMMISSION TO AVOID FURTHER AGRICULTURAL OVERRUNS? THERE MUST BE SOME MECHANISM TO ENSURE THAT IF EXPENDITURE OR PRODUCTION EXCEEDED A PRE-DETERMINED LIMIT THERE WOULD BE AN AUTOMATIC REDUCTION IN THE SUPPORT PROVIDED. MEASURES TO REFORM MARKET REGIMES MUST ACCOMPANY EFFORTS TO REDUCE STOCKS. NIEMAN ECHOED MY REMARKS ABOUT THE PRIMACY OF REFORMING THE CAP.

16. WESTENDORP (SPAIN) EXPRESSED CONCERN THAT THE PRESENT NORTH/SOUTH SPLIT IN THE COMMUNITY ON THE CAP STRUCTURAL FUNDS AND COHESION SHOULD NOT CONTINUE. DELORS'S IDEAS FOR A 'COMMON ECONOMIC SPACE' MIGHT PROVIDE SOME HELP IN THIS CONTEXT. HE ACCEPTED THE CASE FOR TRYING TO SEEK A SETTLEMENT WITHIN THE SPIRIT OF THE FONTAINEBLEAU AGREEMENT: BUT IT WAS APPROPRIATE ALSO TO LOOK FORWARD TO 1992. CALAMIA WAS RIGHT TO STRESS THE DIFFERENCE BETWEEN MEDITERRANEAN AND NORTHERN PRODUCT REGIMES IN THE CAP: BUT THE CORRECT POLICY WAS TO INTRODUCE SOME OF THE FLEXIBILITY OF THE FORMER INTO THE LATTER, NOT TO INCREASE THE DEGREE OF MARKET SUPPORT UNDER SOUTHERN PRODUCT REGIMES.

## DELORS'S REPLY

### 17. DELORS REPLIED AS FOLLOWS:

- (A) SIMPLY TO INCREASE THE VAT CEILING TO 1.6 PERCENT WOULD NOT DO.
- (B) THE CHOICE OF ANY NEW FORM OF OWN RESOURCES DEPENDED ON ONE'S VIEW OF NATURE OF THE COMMUNITY. ONE COULD CONCEIVE OF PROGRESSIVE IN TAXES RELATED TO GDP OR NATURAL INCOME TAX, OR TO PROPORTIONATE TAXES ON TRANSFER OF CAPITAL OR BUSINESS PROFITS.
- (C) HE WAS AGAINST THE BUDGET SEGMENTATION ADVOCATED BY THE CEPS. IT WAS POLITICALLY IMPOSSIBLE THUS TO ISOLATE THE CAP.
- (D) BUDGET DISCIPLINE COULD NOT BE ACCOMPLISHED IN THE COMMUNITY UNLESS THE EP WERE INVOLVED AND A WAY FOUND TO RECONCILE AND ARBITRATE BETWEEN THE DECISIONS OF DIFFERENT COUNCILS.
- (E) IT WAS NOT REASONABLE TO APPLY THE BUDGETARY POLICY APPROPRIATE TO MATURE MEMBER STATES TO A COMMUNITY WHOSE FUNCTIONS WERE DEVELOPING.

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/BUDGET

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## BUDGET IMBALANCES

18. THIS DOG DID NOT BARK. THE ONLY REFERENCE TO THE SUBJECT WAS A COMMENT BY DELORS THAT HE WAS PERSONALLY OPPOSED TO THE CONCEPT OF NET BALANCES.

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ADVANCE

RENWICK FCO

WALL FCO

BLOOMFIELD FCO

WILLIAMSON CAB

JAY CAB

HADLEY MAFF

HOLLIS MAFF

PERRINS MAFF

EDWARDS TSY

MORTIMER TSY

CRABBIE TSY

BONNEY TSY

MAIN

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COPIES TO:  
ADVANCE ADDRESSEES.

(ADVANCED AS REQUESTED)

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