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FM UKREP BRUSSELS 041655Z SEP 84
TO IMMEDIATE F C O

TELEGRAM NUMBER 2699 OF 4 SEPTEMBER,
INFO PRIORITY BRUSSELS COPENHAGEN THE HAGUE ROME DUBLIN PARIS
BONN LUXEMBOURG ATHENS.

E.C BUDGET NEGOTIATIONS

1. I HAVE GIVEN TUGENDHAT AN ACCOUNT OF THE PRIME MINISTER'S DISCUSSION WITH FITZGERALD AND URGED HIM TO TRY TO GET THE COMMISSION (AND THE PRESIDENCY) TO MAKE A MORE HELPFUL CONTRIBUTION, PARTICULARLY ABOUT BUDGET DISCIPLINE. HE (AND LEVER WHO WAS PRESENT) SAID THAT THE COMMISSION WERE PRONE TO ARGUE THAT IT WAS UP TO THE COUNCIL TO DECIDE HOW IT WANTED TO MAKE ITSELF EXERT BUDGET DISCIPLINE. I SAID THAT THE COMMISSION TOO MUST PLAY ITS ROLE, BOTH IN THE BUDGET PROCEDURE EACH YEAR AND, IN THE IMMEDIATE FUTURE, IN HELPING TO GET AGREEMENT ON A REGULATION. I HOPED THAT HE WOULD GET STRASSER TO CONTRIBUTE MORE CONSTRUCTIVELY IN THE RUN-UP TO THE INFORMAL ECOFIN MINISTERS MEETING IN 10 DAYS' TIME.

2. AS REGARDS THE 1984 OVERRUN, LEVER SAID THAT THEIR PRESENT ASSESSMENT WAS THAT THE REAL OVERRUN THIS YEAR WOULD STILL BE ABOUT 1800 OR 1900 MILLION ECUS. I SAID THAT IF THEY WANTED TO CONTRIBUTE TO AN AGREEMENT THEY SHOULD HELP US TO GET THE FIGURE DOWN WELL BELOW 1350 MILLION ECUS.

3. THEY WERE VERY CONCERNED ABOUT THE TIMING IF THE 1984/85 BUDGET PROBLEM WAS LINKED WITH BUDGET DISCIPLINE AND IF THERE WERE FURTHER DELAYS WHILE NATIONAL PARLIAMENTS CONSIDERED ANY POSSIBLE INTER-GOVERNMENTAL AGREEMENT. I SAID THAT:-

(A) WE WERE NOT ASKING FOR SUCH AN INTER-GOVERNMENTAL AGREEMENT: ON THE CONTRARY WE HAD PROPOSED A PERFECTLY VALID WAY OF DEALING WITH THE PROBLEM WITHIN THE OWN RESOURCES SYSTEM:

(B) THE OTHER EIGHT HAD RALLIED TO THE GERMAN PROPOSAL FOR AN INTER-GOVERNMENTAL AGREEMENT AND IT WOULD BE UP TO THEM TO MAKE ANY AGREEMENT WORK:

(C) THE PRIME MINISTER WAS QUITE CLEAR THAT AN ARTICLE 235 APPROACH WOULD UNDERMINE THE TREATY AND BUDGET DISCIPLINE: THERE WOULD BE NO STOPPING PEOPLE FROM GOING FOR AN ARTICLE 235 REGULATION TO FINANCE A 1985 OVERRUN OR FROM BEING RELAXED ABOUT AN OVERRUN ARISING WHEN THE 1.4% CEILING WAS REACHED. AN ARRANGEMENT ENTIRELY OUTSIDE THE TREATIES FOR 1984, WHICH

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COULD CERTAINLY NOT BE REPEATED, MIGHT BE POSSIBLE IF THE CONDITIONS WERE RIGHT BUT NOT AN ARTICLE 235 REGULATION.

4. AFTER SOME DISCUSSION BETWEEN THEMSELVES THEY SAID THAT THE INTER-GOVERNMENTAL APPROACH MIGHT PERHAPS JUST FIT IN WITH THE NEEDS OF THE TIMETABLE IF IT WAS AGREED, ONCE THE PACKAGE AS A WHOLE HAD BEEN SETTLED, THAT THE PRESIDENT OF THE COUNCIL SHOULD WRITE TO THE PRESIDENT OF THE PARLIAMENT SAYING THAT ALL MEMBER STATES NOW WERE READY TO HAVE A SUPPLEMENTARY 1984 BUDGET FOR 'X' HUNDRED MILLION ECUS. BUT THAT A DRAFT SUPPLEMENTARY BUDGET COULD NOT FORMALLY BE ESTABLISHED UNTIL MEMBER STATES HAD COMPLETED THEIR NATIONAL PROCEDURES FOR APPROVAL. THE COUNCIL WERE THEREFORE, IN VIEW OF THE URGENCY, SENDING THE DRAFT OF THE SUPPLEMENTARY BUDGET TO THE PARLIAMENT SO THAT THE PARLIAMENT COULD BEGIN ITS EXAMINATION OF IT AND SO THAT BOTH HALVES OF THE BUDGETARY AUTHORITY COULD MAKE THEMSELVES READY TO APPROVE IT AS SOON AS NATIONAL PROCEDURES FOR FINANCING IT WERE COMPLETED. TUGENDHAT THOUGHT THAT, EVEN IF THE COUNCIL PROCEEDED ON THESE LINES, THERE WAS A SERIOUS RISK OF FAILING TO GET THE SUPPLEMENTARY BUDGET APPROVED IN TIME AND OF DIFFICULTIES WITH THE PARLIAMENT. HE HANKERED AFTER GETTING BACK TO THE COMMISSION PROPOSAL FOR AN ARTICLE 235 REGULATION. I SAID THAT THE PRIME MINISTER WAS VERY FIRM ON THIS POINT AND HE WOULD BE DOING THE CAUSE OF AGREEMENT A DIS-SERVICE IF HE TRIED TO SWING THINGS BACK THAT WAY.

5. AS REGARDS OUR 1984 REBATE I SAID THAT THE PRESENT GERMAN ATTITUDE WAS INCONSISTENT WITH A PROPER IMPLEMENTATION OF THE FONTAINEBLEAU AGREEMENT. DEFINITE ARRANGEMENTS FOR OUR 1984 REBATE MUST BE MADE WHICH EXCLUDED THE EUROPEAN PARLIAMENT FROM MONKEYING ABOUT WITH IT. IT WOULD BE REASONABLE FOR ALL MEMBER GOVERNMENTS TO ACCEPT AS AN ALTERNATIVE TO THE FONTAINEBLEAU SOLUTION OF FINANCING OUT OF OWN RESOURCES IN 1985 THAT THE THOUSAND MILLION ECUS SHOULD BE FINANCED OUTSIDE THE BUDGET IN AN INTER-GOVERNMENTAL AGREEMENT AND PAID AT THE BEGINNING OF 1984 TO COMPENSATE US FOR THE VERY LATE PAYMENT OF THE 1983 REFUND. TUGENDHAT SAID THAT NEITHER THE PARLIAMENT NOR THE MEMBER GOVERNMENTS WOULD LIKE THAT. I SAID THAT THERE COULD BE NO QUESTION OF ALLOWING THE EUROPEAN PARLIAMENT A ROLE. HE SAID THAT THEY WOULD ARGUE STRONGLY FOR THE FONTAINEBLEAU AGREEMENT TO BE CHANGED TO PROVIDE FOR IMPLEMENTATION ON THE EXPENDITURE SIDE. I SAID THAT WAS OUT OF THE QUESTION.

6. TUGENDHAT AS USUAL COULD SEE ALL THE DIFFICULTIES. BUT HE IS CLEARLY ANXIOUS LEST, FAILING AGREEMENT, HE COMES UNDER

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PRESSURE IN THE COMMISSION BEFORE NOVEMBER TO PROPOSE A TRANSFER OF THE MONEY FOR THE U.K AND GERMAN REFUNDS TO THE AGRICULTURE LINE. HE SAYS THE COMMISSION WILL BE CERTAIN TO WANT TO DO THAT IF NO AGREEMENT IS REACHED BY NOVEMBER.

I SAID THAT WE SHOULD IN ANY CASE EXPECT THE PARLIAMENT TO RELEASE THE 1983 REFUNDS BEFORE WE SOUGHT OUR OWN PARLIAMENT'S APPROVAL OF ANY BUDGET PACKAGE. HE SAID THAT OUR JOINT TASK MUST BE TO GET A SETTLEMENT QUICKLY WHICH AVOIDED THIS SORT OF CONFRONTATION.

FCO ADVANCE TO :-

FCO - TICKELL RENWICK FAIRWEATHER.
CAB - WILLIAMSON STAPLETON LAMBERT.
MAFF- ANDREWS.
TSY - PS/EST UNWIN FITCHEW HOPKINSON.
T/SOL- GODWIN.

BUTLER

FRAME ECONOMIC
ECD (I)

(ADVANCED AS REQUESTED)

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