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FM UKREP BRUSSELS

TO DESKBY 130800Z FCO

TELNO 1571

OF 122020Z MAY 86

INFO ROUTINE COPENHAGEN, THE HAGUE, ROME, DUBLIN, PARIS, BONN

INFO ROUTINE LUXEMBOURG, ATHENS, LISBON, MADRID

INFO SAVING BRUSSELS

FRAME ECONOMIC

FOREIGN AFFAIRS COUNCIL, 12 MAY 1986.

BUDGET AND OWN RESOURCES.

SUMMARY.

1. PREDICTABLE SPEECHES BY COMMISSION, ITALY, IRELAND AND GREECE, PRESIDENCY CONCLUDE FIRMLY THAT THERE WAS NO POSSIBILITY OF AN INCREASE IN THE 1.4 PERCENT VAT LIMIT BEFORE JANUARY 1988 AND THAT ALL DELEGATIONS SHOULD ACCEPT THIS. PRESIDENCY CONFIRMED PRIVATELY THAT PLANS FOR AN 11 JUNE BUDGET COUNCIL HAVE BEEN ABANDONED.

DETAIL.

2. VAN DEN BROEK (PRESIDENCY) SAID THAT SINCE THE APRIL FAC DISCUSSION THERE HAD BEEN SEVERAL DEVELOPMENTS. THE AGRICULTURE COUNCIL HAD SETTLED THE PRICE FIXING, THE COSTS OF WHICH WERE LESS THAN THE COMMISSION'S PROPOSALS. ECOFIN HAD FIXED THE 1987 REFERENCE FRAMEWORK AND TAKEN NOTE OF THE COMMISSION'S INTENTION TO LIVE WITHIN THE 1.4 PERCENT LIMIT IN 1986 AND 1987. THERE WERE NO FORMAL DOCUMENTS YET FOR THE 1986 SUPPLEMENTARY OR THE 1987 PDB. TODAY'S DISCUSSION WAS AT THE REQUEST OF ITALY AND GREECE.

3. CHRISTOPHERSEN (COMMISSION) SAID THEY DREW A CLEAR LINK BETWEEN THE SUPPLEMENTARY AND THE 1987 PDB. IT WAS A PRECONDITION OF LIVING WITHIN THE 1.4 PERCENT LIMIT IN 1987 THAT THE COUNCIL ACCEPT THE 1986 SUPPLEMENTARY RIGHT UP TO THE LIMIT. THE 750 MECU INCREASE IN THE STRUCTURAL FUNDS IN THE SUPPLEMENTARY COVERED TWO THIRDS OF THE ESTIMATED PAYMENT NEEDS IN 1986. THE REMAINING THIRD WOULD BE POSTPONED UNTIL 1987 AND LATER YEARS. THE COMMISSION HAD GIVEN PRIORITY TO THE SOCIAL FUND OVER THE OTHER TWO STRUCTURAL FUNDS MAINLY BECAUSE OF THE ESF REGULATION REQUIREMENTS. THE 915 MECU IN THE SUPPLEMENTARY FOR FEOGA GUARANTEE DID NOT COVER TOTAL REQUIRMENTS GIVEN THE FALL IN THE DOLLAR AND THERE WOULD HAVE TO BE A CARRY OVER TO 1987. IF THE PRESENT DOLLAR ECU RATE CONTINUED THIS WOULD RESULT IN A CARRY OVER OF 1.1 BECU. AT THE HIGHER DOLLAR RATE IN FEBRUARY THE CARRY OVER WOULD BE REDUCED TO 500 MECU. THE UK ABATEMENT TOOK UP AROUND 700 MECU OF THE 2.5 BECU BELOW THE 1.4 PERCENT LIMIT.

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4. HE FORESAW PROBLEMS WITH THE FEOGA FINANCIAL GUIDELINE FOR 1987. THIS WOULD NOT CONTROL AGRICULTURAL EXPENDITURE WHICH WAS DETERMINED BY THE BASIC REGULATIONS. UNLESS THESE WERE AMENDED THE GUIDELINE WOULD BE BREACHED IN 1987 IF THE PRESENT DOLLAR ECU RATE CONTINUED. IF THE REFERENCE FRAMEWORK FIGURES FOR NON-OBLIGATORY EXPENDITURE WERE ADHERED TO IT WOULD MEAN ABOUT 1.7 BECU OF PAYMENT APPROPRIATIONS WOULD BE LACKING AND ABOUT 3 BECU OF NEW COMMITMENTS WOULD BE UNABLE TO BE MADE. THE COMMISSION WAS PREPARED HOWEVER TO LOOK FURTHER AT THESE PROBLEMS WITH THE COUNCIL IN THE BUDGET PROCEDURE.

5. ANDREOTTI (ITALY) SAID THE COMMISSION'S RECENT REPORTS HAD HIGHLIGHTED HOW THE 1 PERCENT LIMIT HAD EFFECTIVELY BEEN REACHED SEVERAL YEARS AGO AND HOW THE 1.4 PERCENT LIMIT HAD BEEN USED UP BEFORE THE NEW ORD HAD ENTERED INTO FORCE. THIS HAD BEEN CONCEALED BY THE IGAS AND THE POSTPONEMENT OF PAYMENTS. HE AGREED THAT THERE WAS A LINK BETWEEN THE TWO BUDGETS. IN 1986 THE MARGIN SHOULD BE USED TO SOAK UP THE BACKLOG OF DMO PAYMENTS AND FEOGA COSTS ARISING FROM SURPLUSES AND THE FALL IN THE DOLLAR. A BALANCE BETWEEN THE TWO ELEMENTS HAD TO BE MAINTAINED. EXPENDITURE SHOULD NOT BE DEFERRED UNTIL 1987. THE FAC SHOULD SEND A MESSAGE TODAY TO ECOFIN AND THE BUDGET COUNCIL TO PROCEED ON THESE LINES.

6. KRANIDIOTIS (GREECE) SPOKE TO THEIR RECENT NOTE ON COHESION. THE SEA WOULD NOT BECOME A REALITY IF THE COMMUNITY WAS NOT PROVIDED WITH MORE MONEY. DISCUSSIONS SHOULD START SOON ON RAISING THE VAT LIMIT AND ON HOW MORE FLEXIBILITY COULD BE INTRODUCED TO COMMUNITY FINANCING. THE SUPPLEMENTARY BUDGET SHOULD BE A BALANCED ONE. THE EUROPEAN COUNCIL AT THE HAGUE SHOULD EXAMINE THE CURRENT FINANCIAL PROBLEMS.

7. BERMINGHAM (IRELAND) WELCOMED THE GREEK INITIATIVE ON COHEASION BUT EXPRESSED CONCERN AT THE COMMISSION'S RECENT STATEMENT THAT THE INCREASE IN THE STRUCTURAL FUNDS OVER THE MEDIUM TERM WOULD BE TAKEN UP BY SPAIN AND PORTUGAL AND IMPS. THE COUNCIL HAD AGREED THAT THE STRUCTURAL FUNDS SHOULD CONTINUE TO OPERATE NORMALLY AND THAT TRANSFERS TO THE OTHER LESS PROSPEROUS MEMBER STATES SHOULD NOT BE AFFECTED BY IMPS OR ENLARGEMENT. THIS HAD BEEN WRITTEN INTO THE IMPS REGULATION. HE RECALLED THEIR DECLARATIONS AT ECOFIN THAT THE COST OF THE PAST SHOULD BE ADDITIONAL TO THE REFERENCE FRAMEOWRK. HE SUPPORTED THE GREEK REQUEST TO BEGIN PROCEDURES SOON FOR INCREASING OWN RESOURCES TO 1.6 PERCENT FROM JANUARY 1988.

8. VAN DEN BROEK CONCLUDED THAT IT MIGHT BE USEFUL TO HAVE SOME DISCUSSION IN THE EUROPEAN COUNCIL ABOUT THE CURRENT BUDGETARY PROBLEMS. BUT THERE WAS NO QUSTION OF INCREASING THE VAT LIMIT BEFORE 1988. MANY DELEGATIONS HAD MADE THIS CLEAR AND IT WAS NOT FRUITFUL TO CONTINUE TO RAISE THIS POSSIBILITY. HE AGREED WITH CHRISTOPHERSEN THAT THERE WAS A LINK BETWEEN THE TWO BUDGETS. THE COMMISSION'S POSITION WAS CLEAR BUT THE COURT OF JUSTICE HAD YET TO PRONOUNCE ON THE 1986 BUDGET AND WERE UNLIKELY TO DO SO BEFORE THE END OF JULY. HE DID NOT THINK THE COUNCIL WOULD BE ABLE TO TAKE A VIEW ON THE BUDGETS UNTIL THE COURT JUDGEMENT HAD BEEN DELIVERED.

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9. FINALLY, FOLLOWING CONSULTATIONS WITH ME EARLIER IN THE DAY ABOUT A POSSIBLE JUNE BUDGET COUNCIL (RECORDED SEPARATELY), VAN EEKELEN (NETHERLANDS) TOLD ME AT THE END OF THE COUNCIL THAT THE PRESIDENCY HAD DECIDED TO ABANDON PLANS FOR AN 11 JUNE BUDGET COUNCIL. I THANKED HIM FOR THIS GOOD NEWS.

HANNAY

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ADVANCE

PS FCO

WALL FCO

BLOOMFIELD FCO

PERRINS MAFF

PS/CHANCELLOR TSY

PS/MINISTER OF STATE TSY

LAVELLE TSY

EDWARDS TSY

CRABBIE TSY

MAIN

FRAME ECONOMIC

UCLNAN 2025

FRAME ECONOMIC

(ADVANCED AS REQUESTED)

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