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TO IMMEDIATE FCO

TELEGRAM NUMBER 124 OF 22 APRIL

INFO IMMEDIATE UKREP BRUSSELS, AND ALL OTHER EC POSTS.

FOLLOWING FROM UKREP BRUSSELS.

*Read in full.
Very depressing.*

FOREIGN AFFAIRS COUNCIL: 22 APRIL : CONVERGENCE
AND BUDGETARY QUESTIONS

SUMMARY

1. DRAFT PRESIDENCY REPORT SETTING OUT ISSUES FOR EUROPEAN COUNCIL DISCUSSED. SUBSTANTIVE POSITIONS REMAIN AS AT FINANCE COUNCIL. AN AWKWARD BUT INCONCLUSIVE DISCUSSION ON PROCEDURES FOR APPROVING SUPPLEMENTARY EXPENDITURES IN THE UK WILL BE RESUMED AT COREPER TOMORROW. SOME USEFUL PROGRESS ON REAFFIRMING COMMUNITY PRINCIPLES; BUT AN ALTERNATIVE FRENCH TEXT (DESPITE ITALIAN RESISTENCE) LIKELY TO BE ON AGENDA FOR COREPER TOMORROW.

DETAIL

2. COLOMBO (ITALIAN PRESIDENCY) INVITED COMMENTS ON THE DRAFT REPORT DRAWN UP BY THE CHAIRMAN OF COREPER FOLLOWING THE ECO/FIN COUNCIL (TEXT BY HAND OF FRANKLIN). HE NOTED THAT THE LAST SENTENCE ON PAGE 4 OF THIS TEXT SHOULD BE DELETED.

3. COMMUNITY PRINCIPLES

COLOMBO INVITED COMMENTS ON THE REAFFIRMATION OF BASIC COMMUNITY PRINCIPLES, WITH WHICH THE SOLUTION TO THE UK'S PROBLEM SHOULD BE CONSISTENT.

4. FRANCOIS PONCET (FRANCE) CIRCULATED A FRENCH DRAFT OF EUROPEAN COUNCIL CONCLUSIONS ON THE PRINCIPLES OF THE OWN RESOURCES SYSTEM, THE ROLE OF THE COMMUNITY BUDGET AND THE CAP (TEXT BY HAND OF FRANKLIN). YOU AGREED THAT COMMUNITY PRINCIPLES SHOULD BE RECONFIRMED. THE UK HAD NO INTENTION OF OVERTURNING THE TREATY, THE CAP OR THE OWN RESOURCES SYSTEM. WE WANTED ONLY TO END A POLITICALLY AND ECONOMICALLY UNACCEPTABLE SITUATION. THE PRESIDENCY SHOULD BE RESPONSIBLE FOR PRODUCING THE DRAFT CONCLUSIONS. THESE SHOULD TAKE INTO ACCOUNT THE 1975 AGREEMENT THAT THE COMMUNITY SHOULD NOT PLACE UNDUE BURDENS ON COUNTRIES WITH BELOW AVERAGE GDP PER HEAD.

5. COLOMBO RESISTED FRENCH ATTEMPTS TO GET THEIR TEXT DISCUSSED. HE SUCCESSIVELY OBTAINED THE COUNCIL'S AGREEMENT (IN TERMS SIMILAR TO THOSE OF THE RUGGIERO GROUP-TEXT) THAT, AS WELL AS COVERING THE CAP AND OWN RESOURCES, THE STATEMENT OF PRINCIPLES SHOULD:-

TEXT) THAT, AS WELL AS COVERING THE CAP AND OWN RESOURCES, THE STATEMENT OF PRINCIPLES SHOULD:--

● REAFFIRM THE COMMITMENT TO CONVERGENCE IN ARTICLE 2 OF THE TREATY:

B) REFER TO THE DYNAMIC AND EVOLUTIONARY CHARACTER OF THE COMMUNITY, AND THE NEED TO REDUCE ECONOMIC DISPARITIES AND SECURE ECONOMIC GROWTH:

C) REAFFIRM THE CONCLUSIONS OF THE PARIS DECEMBER 1974 EUROPEAN COUNCIL THAT THE COMMUNITY INSTITUTIONS SHOULD AVOID 'SITUATIONS WHICH WERE UNACCEPTABLE FOR A MEMBER STATE AND INCOMPATIBLE WITH THE PROPER FUNCTIONING OF THE COMMUNITY DURING THE PROCESS OF CONVERGENCE'.

6. HE ALSO SECURED AGREEMENT THAT THE UK PROBLEM WAS CAUSED BY THREE FACTORS:--

- THE RELATIVELY LOW LEVEL OF UK'S PARTICIPATION IN INTRA-COMMUNITY TRADE --
- EXCESSIVE GROWTH OF FEOGA GUARANTEE EXPENDITURE
- INADEQUATE DEVELOPMENT OF OTHER COMMUNITY POLICIES.

- No
Z

7. AT THE END OF THE DISCUSSION OF THE PRESIDENCY'S REPORT FRANCOIS PONCET RETURNED TO THE QUESTION OF PRINCIPLES. IT WAS NOT SUFFICIENT TO TAKE THE FRENCH TEXT INTO ACCOUNT AS A CONTRIBUTION TO A PRESIDENCY DRAFT. PRESIDENT CISCARD WOULD INSIST THAT THE FRENCH TEXT WAS DISCUSSED AT THE OUTSET OF THE EUROPEAN COUNCIL. IT MUST THEREFORE BE EXAMINED AT THIS WEEK'S COREPER. IRELAND AND DENMARK SUPPORTED THIS REQUEST. COLOMBO REPLIED THAT THE PRESIDENCY WOULD NOW PRODUCE ITS OWN DRAFT CONCLUSIONS (AS WAS ITS RESPONSIBILITY) IN THE LIGHT OF TODAY'S DISCUSSION WHICH HAD PRODUCED AGREEMENT ON A NUMBER OF POINTS. THE FRENCH TEXT WOULD OCCUPY AN IMPORTANT PLACE IN THIS PROCESS. HE NOTED THE FRENCH INTENTION TO MAINTAIN THEIR TEXT AS A SEPARATE DOCUMENT. BUT IT WAS FOR THE PRESIDENCY TO WORK FOR A COMMON TEXT AS FAR AS POSSIBLE. BOTH COREPER AND THE PRESIDENCY WOULD PLAY THEIR PART IN THE REMAINING PREPARATIONS FOR THE EUROPEAN COUNCIL.

8. SIZE OF THE UK NET CONTRIBUTION

COLOMBO WARNED AGAINST THE RISK OF CONFRONTING THE

COLOMBO WARNED AGAINST THE RISK OF CONFRONTING THE EUROPEAN COUNCIL WITH AN UNRESOLVED DISPUTE OVER THE FIGURES.

9. ORTOLI (COMMISSION) SAID THE COMMISSION STUCK TO ITS ESTIMATE OF 1633 MEUA WHICH WAS THE STARTING POINT FOR OTHER MEMBER STATES' COMMENTS. NO MEMBER STATE WAS INSISTING THAT ITS OWN FIGURE WAS THE RIGHT ONE. THE COMMISSION'S FIGURE WAS AT THE CENTRE OF THE RANGE AND THEREFORE GAVE A GOOD GUIDE TO THE BROAD ORDER OF MAGNITUDE. IT WAS A MISTAKE TO BE OVERPRECISE.

10. HE WAS SUPPORTED BY VON DOHNANYI AND YOURSELF. BUT, DESPITE FURTHER PRESSURE FROM THE CHAIR, FRANCOIS PONCET INSISTED THAT THE COMMENTS AND ALTERNATIVE FIGURES CIRCULATED BY HIS AND OTHER DELEGATIONS SHOULD ALSO GO FORWARD TO THE EUROPEAN COUNCIL. COLOMBO SUMMED UP ACCORDINGLY. (NOTE FOR BRIEFING: THE LATEST COMMISSION TABLE ON 1979 CARRY-OVERS NOW ALSO SHOWS MEMBER STATES' CONTRIBUTION TO THEIR FINANCING, APPARENTLY USING THE 1980 FINANCING KEY. FOR THE UK THE NET EFFECT IS A GAIN OF 24 MEUA ONLY RATHER THAN THE FULL 217 MEUA CLAIMED BY THE FRENCH.

11. FINANCIAL MECHANISM

FRANCOIS PONCET REPEATED THE FRENCH POSITION THAT, GIVEN FUTURE UNCERTAINTIES, A FIXED CEILING ON THE FINANCIAL MECHANISM REFUND WAS INDISPENSABLE. YOU POINTED OUT THAT THE EXISTING MECHANISM ALREADY LIMITED ANY REFUND TO THE SIZE OF THE UK'S VAT CONTRIBUTION. IT WOULD BE UNWISE TO HAVE A MORE INFLEXIBLE CEILING. ORTOLI SUGGESTED THAT THIS ISSUE COULD BE MORE EASILY RESOLVED AT THE EUROPEAN COUNCIL IN THE CONTEXT OF A WIDER AGREEMENT. NO ONE ELSE SPOKE.

12. SUPPLEMENTARY MEASURES UNDER ARTICLE 235.

COLOMBO INITIATED DISCUSSION ON THE PROCEDURE FOR APPROVING EXPENDITURE PROGRAMMES IN THE UK.

13. YOU SAID THE PROCEDURE SHOULD ACHIEVE AN ADEQUATE BALANCE BETWEEN FLEXIBILITY OF OPERATION AND ENSURING THAT PROGRAMMES WERE IN LINE WITH COMMUNITY INTERESTS. IT SHOULD BE NOT TOO BUREAUCRATIC. FRANCOIS PONCET ADDED THAT BOTH THE FLEXIBILITY CRITERIA AND THE

ARGUED THAT BOTH THE ELIGIBILITY CRITERIA AND THE PROGRAMMES THEMSELVES SHOULD BE SUBJECT TO COUNCIL APPROVAL. THIS WAS AN EXCEPTIONAL PROCEDURE APPROPRIATE TO THE EXCEPTIONAL UK SITUATION.

14. CRTOLI EXPLAINED THAT THE ELIGIBILITY CRITERIA WOULD FORM PART OF A FRAMEWORK REGULATION TO BE APPROVED BY THE COUNCIL. THE COMMISSION WOULD THEN TAKE RESPONSIBILITY FOR APPROVING THE PROGRAMMES IN CONSULTATION WITH MEMBER STATES AS UNDER THE FIRST PART OF THE REGIONAL FUND PROCEDURES. A CUMBERSOME PROCEDURE SHOULD BE AVOIDED SO AS TO ENSURE RAPID DISBURSEMENT OF THE FUNDS.

15. COLOMBO THEN UNHELPFULLY PUT FORWARD A PRESIDENCY COMPROMISE UNDER WHICH BOTH THE REGIONAL POLICY COMMITTEE AND MANAGEMENT COMMITTEE OF THE RDF WOULD BE CONSULTED. WHERE THERE WAS A ANEGATIVE OPINION BY QUALIFIED MAJORITY AGAINST A PROGRAMME IT WOULD BE SUBMITTED TO THE COUNCIL. THIS PROPOSAL WAS ACCEPTED BY BELGIUM, NETHERLANDS, GERMANY AND (PROVISIONALLY) FRANCE. YOU SAID IT WAS TOO CUMBERSOME. A PROCEDURE ANALAGOUS TO THAT USED FOR EMS INTEREST RATE SUBSIDIES SHOULD BE ADOPTED. COLOMBO REMITTED THE QUESTION TO THIS WEEK'S COREPER.

16. DURATION.

MEMBER STATES REPEATED POSITIONS TAKEN UP AT ECO/FIN COUNCIL. FRANCE, BELGIUM, DENMARK, THE NETHERLANDS AND GERMANY FAVOURED 3 YEARS FOR BOTH THE FINANCIAL MECHANISM AND SUPPLEMENTARY MEASURES, THOUGH GERMANY DESCRIBED 3 YEARS AS "A REALISTIC STARTING POINT". THE UK SAID THE FINANCIAL MECHANISM SHOULD BE EXTENDED FOR A FURTHER SIX YEARS TO RUN CONCURRENTLY WITH THE SUPPLEMENTARY MEASURES. EITHER A 3 YEAR PERIOD OR A FIXED ANNUAL SUM WOULD RISK THE REEMERGENCE OF THE UK PROBLEM BY 1982. THE UK HAD SUGGESTED WAYS OF HANDLING THIS DOUBLE PROBLEM IN EARLIER DISCUSSIONS. THE PRESIDENCY PAPER SHOULD BE AMENDED TO BRING OUT THIS ISSUE CLEARLY.

17. COLOMBO SUGGESTED THAT THE DURATION SHOULD BE LINKED WITH THE MEDIUM TERM DEVELOPMENT OF THE BUDGET, AS PROPOSED BY THE COMMISSION. DRAWING ON THE RUGGIERO GROUP TEXT, HE SUGGESTED THAT THE COMMISSION SHOULD PRESENT PROPOSALS ON THE FUTURE DEVELOPMENT OF THE BUDGET BY THE END OF 1981.

THE RUGGERS GROUP TEXT, HE SUGGESTED THAT THE COMMISSION SHOULD PRESENT PROPOSALS ON THE FUTURE DEVELOPMENT OF THE BUDGET BY THE END OF 1981.

18. CONVERGENCE AND MEASURES TO HELP ITALY AND IRELAND.

FRANCE, DENMARK, THE NETHERLANDS AND BELGIUM SAID THE GENERAL PROBLEM OF CONVERGENCE WAS SEPARATE FROM THE TEMPORARY BRITISH PROBLEM. ACCORDINGLY IRELAND AND ITALY SHOULD NOT BENEFIT FROM THE SPECIAL SUPPLEMENTARY MEASURES FOR THE UK, AS HAD BEEN SUGGESTED IN (D) ON PAGE 4 OF THE PRESIDENCY TEXT. ITALY ARGUED THAT THIS POSSIBILITY SHOULD BE KEPT OPEN FOR THE EUROPEAN COUNCIL, BUT LENTHAN (IRELAND) COULD ACCEPT THE DELETION OF THIS SUGGESTION, PROVIDED PARAGRAPH 3 IN THE SECTION ON CONVERGENCE WAS RETAINED.

19. THERE WAS AN INCONCLUSIVE DISCUSSION OF THE ONE PER CENT VAT LIMIT. GERMANY, BELGIUM AND THE NETHERLANDS ARGUED THAT AGREEMENT TO MAINTAIN THE ONE PER CENT LIMIT SHOULD BE RECORDED IN PARAGRAPH 2 OF THE CONVERGENCE SECTION. BUT IRELAND AND ITALY ARGUED THAT AT DUBLIN THE ONE PER CENT LIMIT HAD BEEN LINKED SOLELY WITH THE SOLUTION TO THE UK'S PROBLEM. ZAMBERLETTI (IN THE CHAIR) TOOK NOTE, BUT SAID THAT THE PRESIDENCY TEXT COULD NOT CONTRADICT EARLIER EUROPEAN COUNCIL CONCLUSIONS.

20. THE UK DREW ATTENTION TO THE NEED TO SET A MEDIUM TERM TARGET FOR THE PROPORTION OF THE BUDGET TO GO ON AGRICULTURE. A BETTER BALANCE IN THE COMMUNITY BUDGET WAS AN ESSENTIAL THIRD COMPONENT OF THE SOLUTION TO THE UK'S PROBLEM. WE ASKED THAT THESE POINTS SHOULD FIGURE IN THE PRESIDENCY DOCUMENT.

21. OTHER PROBLEMS (LINKAGE ITEMS)

FOR THE UK YOU SAID THAT THE PRESIDENCY SUGGESTION THAT THE EUROPEAN COUNCIL SHOULD AGREE TO GUIDELINES ON FISH WAS TOO AMBITIOUS, THOUGH IT SHOULD CALL FOR PROGRESS AND ESTABLISH A REALISTIC CALENDAR. FRANCE AND DENMARK ARGUED THAT 'GUIDELINES' WAS TOO WEAK A FORMULATION.

22. CONCLUSION.