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PRIME MINISTER

Cabinet: Community Affairs

The Foreign and Commonwealth Secretary will give his assessment of the impact of the vote in the Danish Folketing on 21 January on the results of the Intergovernmental Conference. He will also report on his discussions with the Danish Foreign Minister, Mr Elleman-Jensen, in London on 22 January. Against the advice of the minority Government the Folketing voted by 80 votes to 75 to reject the current package of Treaty amendments and to seek to negotiate changes. The Danish Government knows that this is not possible and that Mr Elleman-Jensen will receive the same message in each capital. The next Danish step will probably be the calling of a referendum on the Treaty changes next month. The Government expects to win but such forecasting is hazardous. This delay will take the pressure off the Italians to lift their general reserve, towards which they were moving. The most likely outcome remains that, after the Danish situation is resolved, the present texts (with the amendment necessary to allow us to lift our reserve on the effect on small and medium sized businesses of directives on the working environment) will go forward for ratification.

2. The Foreign and Commonwealth Secretary may also refer to the latest opinion poll (Eurobarometer) which for the first time for five years shows that more people in the Community are optimistic than are pessimistic about the future of the Community and the benefits for Community citizens in 1986. This was also true among those interviewed in the United Kingdom.

3. On the Community's 1986 budget the Chancellor of the Exchequer will report the steps that have been taken following





the Government's decision that the United Kingdom should proceed in parallel with the Council against the European Parliament in the European Court of Justice (ECJ). In taking national action we are being joined by France, the Federal Republic of Germany, the Netherlands and Luxembourg. We are also applying to the Court for an interim order that would suspend implementation of elements of the budget which we regard as illegal. Pending the Court's decision it has been decided for legal and financial reasons that we should pay in full on a without prejudice basis towards the budget adopted by the European Parliament. The first payment is due on 3 February. The Law Officers have advised that those elements of the adopted budget which are regarded as illegal by the United Kingdom cannot be paid from the Consolidated Fund and a Supplementary Estimate will be required initially for some £18 million to cover them. To meet the Parliamentary timetable and the views of the Treasury and Civil Service Committee on the procedures adopted in similar circumstances in 1982 the Supplementary Estimate had to be presented on 22 January. But it was accompanied by a Written Answer which explains that this action is designed to underpin our case before the ECJ and minimise the risk of being liable for interest rate charges.

4. The Chancellor of the Exchequer may also refer to the meeting of the Economic and Finance Council which took place on 20 January. The main outcome was agreement on the terms of reference for the high level working party on fiscal harmonization which is being set up in accordance with the remit from the Milan European Council to study those aspects of the Commission's White Paper on the internal market that relate to the abolition of fiscal frontiers. We have all along been concerned to make sure that this work is carried through under the Economic and Finance Council and that it should analyse the problems inherent in the reduction of fiscal frontiers - social,





economic and political - as well as looking at possible solutions. Both these aims have been achieved and no deadlines have been set for the high level group.

5. The Minister of Agriculture, Fisheries and Food will report on the meeting of the Agriculture Council on 20-21 January. The discussion on the major items - restructuring of the cereals and beef regimes - took place in a high level group and was designed to give the Commission substantive advice on these commodities before their proposals for the 1986 price fixing appear early next month. We were able to give general support to Commission ideas on the weakening of intervention arrangements for both commodities, but expressed misgivings about their current proposals on premiums for beef and on a co-responsibility levy for cereals. The Council itself agreed on the transfer of 300,000 tonnes of feed grain from the United Kingdom to Italy, which will usefully reduce our stocks, and on imports into the Community in 1986 of calves and beef under various special arrangements, one of which, that for frozen beef, is of particular interest to the United Kingdom processors.

6. There will be a Foreign Affairs Council on 27-28 January.

ROBERT ARMSTRONG

22 January 1986