

Ref. A086/912

PRIME MINISTER

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Cabinet: Community Affairs

The Chancellor of the Exchequer will report on the welcome success of the United Kingdom's application to the European Court of Justice against the European Parliament on the Community's 1986 budget. This was an application for interim measures; and the effect of the judgment is to authorise the United Kingdom to make its monthly contributions to the Community on the basis of the draft budget established by the Council on 27 November 1985, rather than the higher level subsequently adopted by the European Parliament in December 1985, which we regard as illegal. The United Kingdom's share of the difference between the budget agreed by the Council and the budget adopted by the European Parliament is about £76 million. As a result of the Court's decision the Commission is now obliged to reduce the amount which it claims from the United Kingdom by about £6½ million a month. The terms of the European Court's decision are also clearly favourable to the United Kingdom's view on the issue of law and this could help in the substantive case on the 1986 budget which the Council and five member states, including the United Kingdom, have brought against the European Parliament. This should be decided in June or July. Despite some carping criticism in the press, we consider that the European Court's decision this week is wholly good news.

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2. The Secretary of State for Transport may refer to the Transport Council on 14 March. The Presidency, with Mr Ridley's support, attempted to make further progress on liberalisation of air, sea and road transport. This is one of the key areas in which both we and the Dutch are seeking progress during our



successive presidencies. On road transport progress is in prospect on increasing lorry quotas in the period up to their abolition. An agreement may also be possible on axle weights (perhaps at 11.5 tonnes), on which we have a derogation and will need to maintain a lower figure in the United Kingdom. On shipping the dispute continued on the liberalisation of cabotage, ie the reservation to a country's carriers of the right to carry that country's coastal traffic. As a way of bringing pressure to bear Mr Ridley made it clear that, if illiberal member states were not prepared to open up their trade to the same extent as the United Kingdom has traditionally done, he might be forced to restrict our cabotage trade to United Kingdom vessels.

3. The Secretary of State for Trade and Industry may report on the meeting of the Internal Market Council on 18 March, at which the United Kingdom was represented by the Minister for Trade, Mr Clark. The Council discussed a number of technical issues on which agreement will contribute towards the completion of the internal market. On the rolling Action Programme the Dutch are concerned that progress in their Presidency has so far been slow, partly because the Commission has not brought forward all the proposals which it promised in its White Paper. It looks as if it will fall to the United Kingdom in the second half of the year to steer home many of the items in the 1986 rolling programme and we are determined to do so.

4. There is an Energy Council on 20 March and an Agriculture Council on 24-25 (and possibly 26) March.

ROBERT ARMSTRONG

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