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Foreign and Commonwealth Office

London SW1A 2AH

7 April 1986

Prime Minister

COP  
7/4.

Dear Charles,

Prime Minister's Meeting with the European Reform Group:  
8 April

The Foreign Secretary has seen the notes prepared by David Williamson for the Prime Minister's meeting with the European Reform Group tomorrow. Sir Geoffrey is pleased with the emphasis placed on the need to take a firm line with the Group about the merits of the Fontainebleau agreement, which Mr Taylor and his colleagues opposed at the time. The agreement has delivered very good results for this country (in increasing our returns from £440 million in respect of 1983 to at least £830 million in respect of 1985).

As regards the future of the VAT ceiling, the Foreign Secretary endorses the case for standing by the letter of the Fontainebleau agreement, which provides that "the maximum rate may be increased to 1.6% on 1 January 1988 by unanimous decision of the Council and after agreement has been given in accordance with national procedures". I enclose a copy of the Line to Take which the Prime Minister has had for use in the House of Commons. The Commission's four-year forecast indicates that an increase in the VAT ceiling to 1.6% may become necessary in 1988, but not before, provided sufficiently rigorous decisions are taken in this year's agricultural price fixing. The Prime Minister may wish to make clear that we shall continue to oppose any increase in agricultural prices this year.

I am copying this letter to David Williamson (Cabinet Office).

Yours ever,

Colin Budd

C D Powell Esq  
PS/10 Downing Street

(C R Budd)  
Private Secretary

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