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Ref. Qz.05463

PRIME MINISTER

Cabinet: Community Affairs

1. The Chancellor of the Exchequer will report on the Economic and Finance Council which met under his chairmanship on 17 November and at which the United Kingdom was represented by the Minister of State, Treasury (Mr Brooke). This was a productive meeting. It agreed two measures which are in the internal market rolling programme: the directive on capital movements and the 13th VAT Directive. The directive on capital movements will liberalise transactions in securities and has always been a United Kingdom objective: agreement has been welcomed by British business and press. The 13th VAT Directive deals with tax refunds to third country nationals: we had identified this as a VAT directive on which we could safely make progress and for which we could claim credit (on some other VAT directives our - unannounced - policy is exactly the opposite). The Council also reached agreement on 1500 million ecu of new lending for wider use of new technology in small and medium enterprises from funds raised by the Commission (NIC 1V) and the European Investment Bank. This will be very helpful in the discussion on small and medium enterprises at the European Council. The Council also made progress on a separate measure into which we are inserting provision for duty-free shops on the Channel Fixed Link in order to maintain its competitive position vis à vis the ferries. At the instigation of the Germans, French and United Kingdom the Council in its role as guardian of budget discipline also passed two resolutions designed to bring pressure to bear on the Research Council to consider a R&D Framework Programme substantially less than that proposed by the Commission (7.735 becu) and to put the brakes on over-ambitious plans in the Fisheries Council for measures on fish structures. The conclusions



were not as tough as we had aimed for but should nonetheless be useful.

2. The Minister of Agriculture, Fisheries and Food will report on the meeting of the Agriculture Council on 17-18 November at which he took the chair and at which the United Kingdom was represented by the Minister of State, Ministry of Agriculture, Fisheries and Food (Mr Gummer). This was a long Council which should have dealt with major Commission proposals to get the Community's dairy and beef markets under control. It largely failed to do so. The beef proposals, which involve a major reduction in intervention and a restructuring of premiums, have been pushed forward in a high level group of senior officials and as a result the Council was able to make a little progress, especially on the reduction of intervention. The high level group will continue with its work in the hope that agreement on beef may be reached at the Agriculture Council's next meeting on 8-9 December. On milk the Commission's original proposals for emergency action have now been supplemented by further proposals for quota cuts which together would have the effect of reducing production by $9\frac{1}{2}$ million tonnes over two years, with a substantial cut falling in the first year. Because the dairy sector is the most costly part of the Community budget a cut of this extent (10 per cent) would produce significant savings. But a reduction in dairy support affects the widest range of farmers across the Community and national difficulties were such that almost no progress was made. Discussion will resume at the December Council. There was also a discussion of green pound and green franc devaluations. At the beginning of the Council the Commission resisted pressure from us and the French to propose devaluations



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of the green pound and the green franc. After a late volte-face the Commission tabled proposals near the end of the Council for devaluing the green pound by 6 percentage points for beef and 2 points for sheep - the changes we had requested - and devaluing the green franc by 3.3 points for beef and 3.2 points for sheep. The franc changes were designed to help restrain the pressures from French sheep producers for illegal action; but the Commission did not propose the imposition of monetary compensatory amounts on sheepmeat exports from the United Kingdom as the French had wanted. Both the United Kingdom and France were prepared to support the Commission's proposal and, though there was simple majority in favour, Mr Jopling was forced by the attitudes of other member states, including Germany, Belgium, the Netherlands and Spain, to remit the matter for further official discussion in the hope of early agreement before the December Council. In view of Monsieur Chirac's very strong concern, which will no doubt be expressed at the Anglo-French summit on 21 November, to get some alleviation of the pressure from French sheep farmers, it was at least helpful that the United Kingdom and France were in broad agreement. But the failure to get a result is likely to leave British beef farmers and French sheep farmers very discontented unless the matter can be settled quickly at official level. The Council agreed on one further item from the internal market rolling programme and made some progress paving the way for agreement on two further items.

3. The Secretary of State for Trade and Industry may mention the meeting of the Industry Council on 18 November at which the Minister of State, Department of Trade and Industry (Mr Shaw) took



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the chair. The Council agreed on some further steps to liberalise the Community's steel production regime, including removing quotas from galvanised sheet steel. The Council also agreed on common standards for a Community-wide advanced telecommunication system, the Integrated Services Digital Network. It made progress towards agreement on a new regime for shipbuilding subsidies which will replace the regime that expires at the end of this year. Agreement should be possible at a meeting of the Industry Council in December on a basis which must allow us to maintain an adequate level of support to British Shipbuilders and Harland and Wolff.

Lower ceilings

4. There are meetings of the Foreign Affairs Council and the Environment Council on 24 November; the Energy Council will meet on 26 November; and the Budget Council meets on 26-27 November.

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19 November 1986