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Qz.03464

PRIME MINISTER

Cabinet: Community Affairs

The Foreign and Commonwealth Secretary will report on the Special Council on 28 November at which he and the Chancellor of the Exchequer represented the United Kingdom. This was its final meeting before the European Council on 4-6 December. The Presidency's draft conclusions were examined in detail and will now be submitted in a revised form to the European Council.

2. On the budget inequity the Foreign and Commonwealth Secretary identified five points of consensus which were not contested: the acknowledgement that a real problem exists; the need for a lasting solution; implementation of the relief on the revenue side (ie by reducing the amount of VAT which we pay over to the Community); setting the limit which takes account of ability to pay (ie as a percentage of gross domestic product); and application in respect of 1984 and later years. He tabled draft conclusions on the safety net for the European Council. There is a fair prospect that other member states will now agree to relief related to the payments share / GDP (or VAT) share gap, ie in the United Kingdom's case compensation for the disproportionately small amount which we get from the Community budget. This is good but not good enough. They are not so far willing to agree to relief for our excess share of contributions of own resources to the Community budget. It was agreed that the question of any increase in own resources would have to be the last point in the negotiations. The French Finance Minister tabled proposals for a new budgetary system imposing discipline on all Community expenditure: the Council would fix a sum for total expenditure each year below the resources available from the VAT call-up; the Council would also fix a limit for agricultural expenditure on a three year moving average. The Chancellor welcomed the French proposals which certainly improve our chance of getting more effective control of agricultural and other spending.



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3. On agriculture the Foreign and Commonwealth Secretary made clear the United Kingdom's preference for action on milk by price reductions and underlined the conditions (including accompanying price restraint) which would have to be met if the European Council were to opt for a super-levy. He also refused unilateral action on cereal substitutes but, supported by some member states, did not rule out further Community/US discussions on a voluntary system. The Franco/German disagreement on monetary compensatory amounts is not resolved and alternative texts will go to the European Council. A large number of less important agricultural items have been dropped from the texts which are likely to be submitted to the European Council.

4. On new policies there are a lot of words and a limited number of clear cut disagreements. This is not all to our disadvantage. In some cases (eg liberalising lorry transport, air fares, insurance etc) we want action and other member states are defending. On enlargement there was support for the United Kingdom's proposal that the European Council should give a positive signal to Spain and Portugal by setting a date for the conclusion of the negotiations. The Foreign and Commonwealth Secretary gave notice that the United Kingdom would raise the 1982 risk-sharing element in our budget refunds at the European Council.

5. The Foreign and Commonwealth Secretary will also report briefly on the Foreign Affairs Council on 29 November at which he and the Minister for Trade represented the United Kingdom. It reached a number of useful agreements. The mandate for negotiating steel voluntary restraint agreements and the generalised scheme of preferences for next year were agreed, as were a Japanese export restraint package and an increase in the duty on digital audio discs.

6. The Secretary of State for Trade and Industry may report separately the meeting of Steel Ministers which took place as part of the Foreign Affairs Council, where he and the Minister of State (Mr Lamont) represented the United Kingdom. Ministers accepted the Commission's idea of setting minimum prices, though



there was concern about the level, but a generally favourable attitude towards deposits and monitoring revealed some legal and other problems. On the dispute between the Community and the United States on special steels the Ministers agreed that unless there was a real improvement in the United States' offer of compensation for its controls by 14 January the Community should take retaliatory action.

7. The Foreign and Commonwealth Secretary may further report that the Commission has now approved the regulations giving effect to the United Kingdom's 1983 budget refunds. These are expected to issue shortly before the next session of the European Parliament in December.

8. The Chancellor of the Exchequer may report on the Budget Council on 22 November, at which the United Kingdom was represented by the Economic Secretary. The European Parliament's attempt to put all the United Kingdom and German refunds into the reserve Chapter 100 was rejected and the refunds put back on to specific lines in the budget.

9. The Secretary of State for Trade and Industry may report on the productive Internal Market Council on 25 November at which the Minister for Trade represented the United Kingdom. The Council adopted a directive for easing arrangements at frontiers; accepted a package of 15 directives abolishing technical barriers to trade subject to French and Danish reserves (which will probably be lifted later); and reached a consensus of principle on the single administrative document for customs purposes and on the principles of Community policy for technical standards.

10. The Secretary of State for the Environment may report that the Environment Council on 28 November at which the United Kingdom was represented by the Parliamentary Under-Secretary of State (Mr Waldegrave) did not make significant progress.



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11. Other meetings during this period have included the informal meetings of Tourism Ministers on 20 November and of Culture Ministers on 28 November as well as the Standing Employment Committee on 22 November. None of these call for a report to Cabinet.

12. Immediately after Cabinet E(A) will meet to discuss the Chief Secretary's proposal that certain types of Community expenditure programmes should be paid for by spending Departments from their PESC allocations or matched by offsetting savings in their budgets. Later in the day you are holding a meeting to prepare for the European Council on 4-6 December. Over the next seven days, apart from the European Council itself, the Transport Council will meet on 1 December and the Labour and Social Affairs Council on 8 December.

*D F Williamson*

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30 November 1983