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PRIME MINISTER

Cabinet: Community Affairs

The Foreign and Commonwealth Secretary will report on the meeting of the Council of Ministers (Foreign Affairs) on 9-10 April. The discussion on the reform of the financing system for the Community was brief and unproductive. The Chairman (Monsieur Cheyssou) gave the impression of a total blockage, caused by the United Kingdom's unwillingness to move from the position taken at the European Council. The Foreign and Commonwealth Secretary made clear that the Commission should take the opportunity to help to find agreement on the threshold and rate of compensation which would result from the base figure. Monsieur Thorn, for the Commission, was not helpful but we know that Mr Davignon is in any event intending to discuss ideas again with the French, and possibly others, this week. The discussion which the Foreign and Commonwealth Secretary had with Monsieur Dumas, the French Minister for European Affairs, showed that the French reaction is now extremely guarded and that they are moving away from the system included in the Presidency text. He did undertake, however, to consider Mr Davignon's ideas. The Foreign and Commonwealth Secretary will indicate to the Cabinet that he now has two principal concerns: how to get the negotiations moving again (the key to this lies with the French Presidency) and how to convince other member states that we are not being as obstinate and obstructive as is being suggested.

2. The Commission also made a statement in the Council that expenditure in 1984 was now forecast to be running about 2,500 million ecu above the budget provision. The budget provision cannot be increased because of the 1 per cent VAT ceiling. The Commission will be considering next week what proposals they might make. Their proposals will be discussed at the next Foreign Affairs Council on 14-15 May. The United Kingdom will need to decide before then how to respond. The main ideas which the Commission are considering are:

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- (a) national contributions;
- (b) borrowing from one or more of the central banks of member states; or
- (c) delaying repayments to member states of the 10 per cent administrative refund of levies and duties.

None of these proposals appears acceptable to us and in our view they would all require the unanimous agreement of member states. The most likely result in practice is that expenditure will simply be pushed off into 1985 and subsequently into 1986.

3. The Council of Ministers reached agreement on the common commercial policy regulation, which the Secretary of State for Trade and Industry will welcome, and on the linked package of harmonisation directives. It also adopted a fairly innocuous declaration on the Greek memorandum. In the margins of the Council there was a Ministerial meeting with the EFTA countries to mark 10 years of EC/EFTA trade collaboration (complete industrial free trade has now been achieved); a Ministerial negotiating session with Spain at which the United Kingdom position on patents was accepted; and a Ministerial co-operation meeting with Egypt. The Ten also agreed to keep one another informed about, and to attempt to co-ordinate, national measures to prevent the export to Iran and Iraq of chemicals which might be used to make chemical weapons.

4. On 5 April there was an informal meeting of Social Affairs Ministers which the Minister for Social Security (Dr Boyson) attended. There was a general discussion of the problems of financing social security benefits.

5. On 9 April The Queen formally opened the joint European Torus (JET) fusion project at Culham, at which President Mitterrand was also present.

6. With the approach to Easter, no Ministerial meetings have been planned for the next week.

RTA

ROBERT ARMSTRONG

11 April 1984

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