

Ref.A084/1545

PRIME MINISTER

Cabinet: Community Affairs

The Foreign and Commonwealth Secretary will refer to the opening of the European Parliamentary election campaign both in the United Kingdom and in other member states. There will be no movement by the French Presidency on the reform of the Community's financing and the United Kingdom budget refunds while the election campaign is in progress. The latest French opinion polls (21 per cent Socialist, 13 per cent Communist) underline the French Government's difficulty in this election. German sources, however, have not ruled out secret contacts between France, Germany and the United Kingdom on budget refunds during this period.

2. The Foreign and Commonwealth Secretary may also refer to the meeting between the German Chancellor, Herr Kohl, and the French President, Monsieur Mitterrand, on 20 May. They discussed parameters for a budget settlement. Herr Kohl is said to have taken the view that it was essential that a solution be prepared before the European Council, since otherwise success would be unlikely at Fontainebleau. After the meeting Chancellor Kohl's press spokesman particularly drew the attention of the media to the Chancellor's statement that progress could be achieved only if "all sides moved towards each other". This is the first time in the present stage of negotiations that any of the Nine has publicly expressed a willingness to move towards the United Kingdom's position.

3. The Chancellor of the Exchequer may report on the Commission's expected presentation to the European Parliament today of the Community's preliminary draft budget for 1985. This preliminary draft budget will exceed the 1 per cent VAT ceiling by about 2 billion ecu and be accompanied by a proposal for a legal base for raising extra revenue to balance the budget. This does not change the real world one jot: the ceiling on own resources cannot be raised without United Kingdom agreement. The United Kingdom response should be:



- this is a proposal by the Commission for a preliminary draft budget for 1985. It is not the 1985 budget;
- the Commission is required to respect the ceiling on the Community's own resources which has Treaty force and can only be changed by unanimity. In our view the Commission should revise its proposal within the ceiling on the Community's own resources;
- the Council of Ministers in any event is equally bound by the Treaty and the Acts adopted in accordance with it. If the Commission does not revise its proposal, the Council will have to reduce it.

4. The Chancellor of the Exchequer may also report that the question of the Community's credit rating has been settled satisfactorily. All member states and the Commission have agreed that the Commission can only overdraw unconditionally to meet temporarily a default by a borrower (normally a company or individual person) under an approved Community loan. Otherwise the Commission's initiative on overdrafts is absolutely limited by the obligation to make payments only for amounts inscribed in the budget, which must itself respect the ceiling on the Community's financial resources. This has effectively cut off any risk that member states might have been tempted to use overdrawing by the Commission as a means of by-passing the ceiling on the Community finances.

5. The Secretary of State for Energy will report on the Energy Council on 22 May at which the United Kingdom was represented by the Minister of State (Mr Buchanan Smith). The United Kingdom obtained agreement on coal social measures of 60 million ecu (about £35.4 million) which was one of our objectives. As Cabinet noted when it last discussed this on 8 March 1984 (CC(84) 9th Conclusions, Minute 4), the United Kingdom is expected to be the major beneficiary of these measures. The Council also agreed 50 million ecu for energy demonstration

FLAGA.





projects on coal liquefaction from which we shall benefit. Work is to continue on proposals for investment aid for economic coal production, in which the United Kingdom has a major interest, and the Commission and Presidency gave a commitment to work for decisions this year.

6. The Fish Council meets on 24 May, and there are informal meetings of Foreign Ministers on 25-27 May and of Agriculture Ministers on 28-30 May. The Education and Finance Councils meet on 4 June, the Agriculture Council on 4-5 June, the Development and Consumer Affairs Councils on 5 June and the Social Affairs Council on 7 June.

*R*

Approved by  
ROBERT ARMSTRONG  
and signed in his absence.

CONQUEROR

23 May 1984