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PRIME MINISTER

Cabinet: Community Affairs

The Foreign and Commonwealth Secretary and the Chancellor of the Exchequer will report on the discussions on the Community's draft supplementary budget for 1984 and draft budget for 1985 and on budget discipline in the Finance Council on 1 October and in the Foreign Affairs Council on 2 October. The Finance Council reached agreement on a greatly improved text on budget discipline, subject to a general Danish reserve and a French reserve on whether the guideline should be based on original budget or outturn expenditure figures (the remaining eight member states can accept "original budgets" and we attach a lot of importance to it). The form in which the conclusions should be incorporated in the budgetary procedures - we want a binding Council decision - was not resolved. This also is an important point for us and we ought to keep pressing for it.

2. In the Foreign Affairs Council the 1985 draft budget was established within the 1 per cent VAT limit and was sent forward to the European Parliament. Although we and eight other member states could have accepted a Presidency compromise for a transitional VAT rate in 1985, which would have enabled any supplementary expenditure late in 1985 to be financed by the proper procedures through the own resources system, the Germans would not do so. The Foreign and Commonwealth Secretary told the Council that the United Kingdom would not agree to finance any overrun later in 1985 other than by own resources. The 1985 draft budget was accompanied by a declaration which endorsed the Fontainebleau conclusion on the 1,000 million ecu (about £580 million) which is to be deducted from our VAT contribution.

3. The 1984 draft supplementary budget of 1,003 million ecu was sent forward to the European Parliament on the basis that finance would be provided by an intergovernmental agreement. The agreement itself makes clear that the United Kingdom will not provide its share of the finance until the European Parliament has released



our refund for 1983 and there is satisfactory agreement on budget discipline. It is now up to the European Parliament to release the 1983 refund.

4. The Foreign and Commonwealth Secretary will report on the remaining points discussed in the Foreign Affairs Council. The main subject was the enlargement negotiations in preparation for Ministerial meetings with Spain and Portugal on 3 October. The Council also agreed a declaration against the protectionist provisions in the Trade Bill currently before the United States Congress.

5. The Foreign and Commonwealth Secretary may also report on the first meeting on 28 September of the Committee on Institutions set up by the Fontainebleau European Council, on which your representative is the Minister of State (Mr Rifkind). The United Kingdom's paper "Europe - The Future" was circulated to the Committee. Individual members will prepare working papers on the principal subjects, Mr Rifkind offering to present that on the internal market. The Committee aims to submit an interim report to the Dublin European Council in December.

6. The Minister of Agriculture, Fisheries and Food may report that the Agriculture Council on 1-2 October was prevented from making progress with measures to deal with the wine surplus by Italy's refusal to accept a compromise by the Irish Presidency as a basis for discussion. The Council will return to the subject on 22 October.

7. The Internal Market Council will meet on 9 October and there will be an EC/ACP Ministerial Negotiating Conference on the 3rd Lome Convention on 9-10 October.



ROBERT ARMSTRONG

3 October 1984