



Ref. A085/493

PRIME MINISTER

Cabinet: Community Affairs

The Chancellor of the Exchequer may report on the Finance Council on 11 February. No agreement was reached on the financing of agricultural structures including the integrated Mediterranean programmes. Our allies were somewhat firmer than before; the Netherlands, Belgium and Germany stayed within the limit of 5.5 billion ecu including integrated Mediterranean programmes and the French also argued in favour of restrictive finance. The Finance Council decided to come back to the point at its next meeting on 11 March. The failure to agree on the financial framework for agricultural structures could make the Agriculture Council on 25-26 February difficult.

2. No report is required on the Internal Market Council on 11 February, at which the United Kingdom was represented by the Minister for Trade. This discussed a range of useful questions including product standards, on which agreement may be possible at the next Council in May.

3. The Secretary of State for Employment attended an informal meeting of Social Affairs Ministers in Venice on 8 February, but this reached no decisions requiring a report to Cabinet.

4. You are having talks with the Italian Prime Minister on 14 February. The Foreign Affairs Council meets on 18-20 February, when the enlargement negotiations will again be the main business.

ROBERT ARMSTRONG

13 February 1985

CONFIDENTIAL

BRIAAO

The Community's 1985 budget and the United Kingdom's 1000 million ecu abatement for 1984

Present situation: (1) no 1985 budget, as rejected by European Parliament; "provisional twelfths" in effect; in practice, this keeps expenditure not at but below 1% VAT ceiling; satisfactory for Britain but only a temporary solution; Budget Council agreed last year that 1.3 billion ecu ("the 1985 budget overrun") needed;

(2) Fontainebleau commitment that UK will get 1000 million ecu in 1985 (in respect of 1984) by abating our VAT contribution.

3 solutions  
being discussed

Best

(1) Limited amount of new own resources in 1985 to finance budget overrun and UK abatement. Full 1.4% VAT still not to come into effect until 1 January 1986. 9 member states can accept.  
Against: Germany.

"Mixed":  
acceptable

(2) 1.4% VAT from 1 January 1986 but UK abatement on ratification of new Own Resources Decision ie in 1985. Budget overrun financed by intergovernmental agreement. Probably 9 member states could accept.  
Against: Germany.

IGA: acceptable  
only if all agree  
to offer this to  
UK.

(3) 1.4% VAT from 1 January 1986. 1000 million ecu for UK and budget overrun in intergovernmental agreement. Not the letter of Fontainebleau. Therefore UK holds fire. If all 9 agreed, would be acceptable. At present, against: France and possibly Italy.

UK in strong position and going to win, because pressure increasing on others to have a 1985 budget. We can block any solution which does not deliver our 1000 million ecu.