



Ref. A085/1681

PRIME MINISTER

Cabinet: Community Affairs

The Foreign and Commonwealth Secretary will report on the Foreign Affairs Council on 18-19 June, at which the main business was preparation for the Milan European Council. The United Kingdom proposals on practical ways of improving decision taking and for a binding agreement on political co-operation gained a good deal of ground. The discussion also showed considerably more emphasis, both from France and Germany as well as the United Kingdom, on the importance of taking concrete decisions at the European Council rather than on the Presidency's preference for an open-ended intergovernmental conference. At the United Kingdom's request, the Foreign Affairs Council also discussed EC/Japan commercial relations, when the Foreign and Commonwealth Secretary emphasised the need for suitably strong language to be included in the conclusions of the European Council. The draft directive on frontier controls was not agreed.

2. The Foreign and Commonwealth Secretary will also report on Lord Cockfield's launching on 15 June of the Commission's White Paper on the completion of the common market. As OD(E) had agreed, since the White Paper reflected many of our own priorities for the internal market, the United Kingdom generally welcomed it, expressing the hope that the Milan European Council would now be able to agree on an action programme for completing the common market, with priority being given to areas where quick progress was needed and possible. In our view, these include freedom of capital movements, the harmonisation of industrial standards, integrated financial services, and the liberalisation of inland, air and sea transport. They do not include the



proposals for tax approximation or for removing all frontier controls, which we shall aim to shunt off for further detailed study.

3. The Foreign and Commonwealth Secretary will report that, following the European Parliament's approval on 13 June of the Community's 1985 budget providing for the United Kingdom's 1,000 million ecu abatement for 1984, the European Communities (Finance) Bill has received its first reading in the Commons. The Bill covers the revised Own Resources Decision providing for the lasting system of reductions in the United Kingdom's VAT contribution to the Community and for the increase in the VAT own resources limit to 1.4 per cent. It does not seem to have been fully understood by United Kingdom public and Parliamentary opinion that, because of the Fontainebleau agreement, what is being proposed in substance is that other member states should be allowed to increase their VAT contribution to 1.4 per cent; Treasury forecasts show that, even with the new higher limit of 1.4 per cent and for as long as it remains in effect, the United Kingdom's adjusted contribution is unlikely to exceed 0.8 per cent of VAT. This is because the reductions in the United Kingdom's VAT contribution will be substantial. We estimate that, following ratification of the revised Own Resources Decision, the United Kingdom will get between December 1985 and December 1984 reductions of at least £2,300 million (3,800 million ecu) in our contribution to the Community, ie the ad hoc 1,000 million ecu payable in 1985 and at least 1,400 million ecu in 1986 and in 1987. The Bill also covers the ad hoc intergovernmental agreement covering the budget overrun in 1985 (cost to the United Kingdom - about £250 million (gross) or about £40 million (net)). The second reading of the Bill is expected to be on 25 June.

4. The Secretary of State for Employment may report on the Social Affairs Council on 13 June, which reached agreement on the main elements in the draft directive on the protection of workers



from noise in an amended form to take account of our requirements. Mr King confirmed the United Kingdom's opposition to the draft parental leave directive, which was remitted to officials for further work. He also pressed the Commission, with support from the Presidency, to study the burdens imposed on small firms by the Equal Treatment Directive. It was agreed that two other proposals to which the United Kingdom is opposed - the draft directives on consulting employees and on part-time work - should be set aside for the time being.

5. The Energy Council meets on 20 June, the Joint Council of the European Communities and of the African, Caribbean and Pacific (ACP) countries on 21 June, the Transport Council on 24 June and the Environment Council on 25 June. You will be attending the European Council on 28-29 June.

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Approved by
ROBERT ARMSTRONG
and signed in his absence

19 June 1985



10 DOWNING STREET

Prime Minister Mr

You will want to be aware that it is proposed to introduce the Bill on New Own Resources & our contribution to

the 1985 IGA on 14 June - provided

the 1985 Community Budget has been formally agreed by the CDP.