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MR POWELL

Cabinet: Community Affairs

There are two developments since the Prime Minister's brief was submitted yesterday:

(i) Community budget. Agreement has been reached between the Council and the Budget Committee of the European Parliament on the 1986 budget. It is expected that this agreement will be confirmed by the plenary session of the European Parliament this morning. The budget differs little from that put forward by the Council. It respects the 1.4 per cent VAT ceiling but the margin has been whittled down. The European Parliament, however, has not significantly changed the cut-backs in commitments which the Council put forward by comparison with the Commission's proposal. We do not yet have the full details but we are confident that the United Kingdom will be a net beneficiary from the additional elements in this budget by comparison with the budget which was ruled illegal. Consequently the United Kingdom's VAT contribution, after abatement, to this budget will be lower than to the 1986 budget which the European Court of Justice ruled illegal. Mr Brooke's handling of this difficult budget question in Brussels and in Strasbourg has been very favourably commented on;

(ii) on exports of semi-finished steel to the United States the Industry Council, under Mr Morrison's chairmanship, has removed the German objection. There remains a formal Italian reserve but this is expected to fall.

I am sending a copy to Sir Robert Armstrong.

*D F Williamson*

D F WILLIAMSON

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PRIME MINISTER  

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Cabinet: Community Affairs

The Chancellor of the Exchequer will report that the Council has reached agreement on a new Community budget for 1986. We should know this week whether the European Parliament also agrees, but in any event the European Parliament's room for manoeuvre is now limited by the European Court of Justice ruling. The new budget respects the 1.4 per cent VAT ceiling. It will replace the existing budget, which has been ruled illegal by the European Court of Justice, and the supplementary budget proposed by the Commission. On 7 July the Chancellor of the Exchequer himself chaired the Economic and Finance Council and subsequently the Minister of State, Treasury (Mr Brooke), chaired the Budget Council. The Economic and Finance Council agreed that the framework for 1986 should be revised to take account of the exceptional change in the dollar/ecu rate and, on the structural funds, the increased requirements arising from enlargement and some element of the "cost of the past". The Chancellor of the Exchequer pressed the conclusions through by qualified majority, outvoting Italy and the Republic of Ireland who wanted more on the structural funds. The Budget Council then agreed its detailed provisions for 1986. This includes the full extra 500 million ecu (about £320 million) for the United Kingdom's 1985 abatement, making 1,900 million (about £1,220 million) in all. Compared with the Council's second reading budget of November 1985 (ie before the European Parliament added its illegal elements) the budget includes an additional 1.1 billion ecu on agriculture and a similar sum for payments on the structural funds. The Council, however, cut back substantially new commitments on the structural funds. We consider this budget to be too high but it is important to note that the



United Kingdom is a substantial beneficiary from the supplementary element not only because of the abatement but also because we expect to be the biggest recipient of the Social Fund payments. We cannot yet be sure how the European Parliament will react. As Presidency, however, the United Kingdom is aiming for the Council and the European Parliament together formally to adopt the 1986 budget in July. If this occurs it will be seen by other member states as another satisfactory achievement (on top of the Community/United States trade dispute settlement) registered in the opening weeks of our Presidency

2. The Minister of State, Foreign and Commonwealth Office, Baroness Young, will refer to the presentation by the Foreign and Commonwealth Secretary to the European Parliament on 8 July of the United Kingdom's approach to the Presidency. She may also mention the deal which has been concluded between New Zealand and France under the auspices of the Secretary-General of the United Nations over the "Rainbow Warrior" affair. Although we are not party to the agreement, we are seeking in our Presidency role to underpin the agreement by ensuring that the Commission puts forward quickly proposals on butter quotas for New Zealand for 1987 and 1988 of 77,000 and 75,000 tonnes respectively so that the French commitment not to oppose these figures may be honoured. Although the President of the Commission, Monsieur Delors, has been resistant to being used in this way, we are stressing that it is in the wider interest that the dispute between France and New Zealand should be resolved and in the Community interest that the question of access for New Zealand butter should be settled before 1 August. We now expect the Commission proposal to be in line with the UN Secretary-General's adjudication. Our aim is, if possible, to get agreement at the Foreign Affairs Council on 21-22 July after discussion in the Agriculture Council the previous week.



3. The Secretary of State for Trade and Industry may mention the Industry Council on 9 July. We convened this Council at short notice to discuss one item only, the division ("burden-sharing") between member states of the total quota of 800,000 tonnes imposed by the United States on their imports from the Community of semi-finished steel in 1986. The special quota under which British Steel is able to export semi-finished steel to the Tuscaloosa plant in Alabama is fully protected by the agreement which is likely to be reached within the Community.

4. There is an Agriculture Council on 14-15 July and a Budget Council on 16-17 July.

MS

for

ROBERT ARMSTRONG

9 July 1986