



Ref. A085/1979

PRIME MINISTER

Cabinet: Community Affairs

The Foreign and Commonwealth Secretary will report on the Foreign Affairs Council on 22-23 July, at which he was accompanied by the Minister for Trade (Mr Channon). This discussed the follow-up to the Milan European Council and, in particular, the arrangements for the proposed intergovernmental conference. This will take place at Foreign Minister level, the first meeting being on 9 September. Preparatory work will be carried out by Political Directors, as the United Kingdom proposed, for political co-operation matters and by a separate group, probably at official level, for treaty aspects. This arrangement properly reflects the fact that the draft on political co-operation would be a formalisation of existing arrangements outside the Treaty (it is worth noting that, despite their attempt at Milan to hijack the United Kingdom draft and to label it a Treaty on European Union, France and the Federal Republic of Germany agreed at the Foreign Affairs Council to a text which described their own version as a draft "concerning political co-operation"). The Council also adopted the regulation for the integrated Mediterranean programmes, after a conciliation meeting with the European Parliament, and adopted the reference framework for the Community's draft 1986 budget - part of the new budgetary discipline arrangement - without a meeting with the European Parliament which declined to come.

2. There are a number of trade problems, particularly because of further United States restrictions, ahead. The Commission was authorised to make a further effort to resolve the difficulties with the United States over their imports of



certain Community steel products. The United States are seeking to hold these down to 25 per cent below the 1984 levels, while the Commission had offered no more than 1984 minus 10 per cent. If the United States imposes a cut unilaterally, the Community may be forced to retaliate. There is also no assurance that the United States may not extend restrictions later to other products, in particular semi-finished products which would be of even more direct importance to the British Steel Corporation. The outcome of the further negotiations will, if possible, be presented to the Industry Council on 25 July, but the Commission believe that a further special Council on 30 July may also be needed.

3. The Chancellor of the Exchequer may refer to the realignment of European currencies on 20 July following a sharp fall in the value of the Italian lira. The real reason was the state of the Italian economy, in particular the budget and trade deficits, but the immediate cause was the buying of dollars by the Italian state enterprise (ENI) "at any price". The outcome was an effective devaluation of the lira by about 8 per cent, of which 2 per cent was made by a revaluation of other currencies in the exchange rate mechanism.

4. The Industry Council meets on 25 July to consider steel issues. Unless there is a special Steel Council on 30 July, the next Community Ministerial meeting will be the opening session of the intergovernmental conference on 9 September.

RTA

ROBERT ARMSTRONG

24 July 1985