

Ref. A085/3072

PRIME MINISTER

Cabinet: Community Affairs

If this has not already been covered under the Foreign Affairs item you may wish to report on the Community aspects of your discussions with the Chancellor of the Federal Republic of Germany, Herr Kohl, on 27 November.

2. The Foreign and Commonwealth Secretary will report on the Ministerial session of the Intergovernmental Conference held on 25-26 November which he attended. He continued the United Kingdom's tactics of reducing the scope of the package without committing ourselves to the texts of any Treaty amendment. The maximalists (in particular, Italy and Belgium) are becoming very dissatisfied at the success of the grinding-down process. Revised texts will be issued by the Presidency today and we expect the main points of substance for decision to be included in a Presidency document. The Foreign Ministers will discuss again on 30 November - 1 December before the European Council of 2-3 December. The present situation on the principal points is:

(a) Internal market. There are potential gains for the British economy from opening up the internal market by better decision-making, provided that we protect certain essential interests. The proposed move to qualified majority voting now provides for keeping unanimity on all matters concerning taxation, the free movement of persons (frontier controls etc) and the rights and interests of employees ("social engineering"). These points are won. We shall get the retention of unanimity for our special interests on public, animal and plant health (rabies, foot

and mouth disease etc); we shall need to look at the Presidency's text to see that it satisfies our points but does not block all action;

(b) European Parliament. The latest text is little more than procedural and leaves the last word with the Council. The European Parliament itself is very discontented;

(c) "Cohesion". The text provides no basis for transfers of funds to southern member states. It does little more than put the structural funds into the Treaty (the Regional Fund has no specific Treaty base at present);

(d) Technology and Environment. New articles would provide criteria which could prove better than the present absence of criteria for actions already being taken. Some textual points remain to be settled;

(e) Monetary Provisions. You and the Federal German Chancellor, Herr Kohl, have said that amendments of the Treaty are not required. The French, Italians and Benelux will counter-attack. The procedural solution may be to let the Finance Council go on with its current work of looking at the issues (eg on capital movements) without, of course, any reference to Treaty amendment;

(f) Political Co-operation. There is a wide measure of agreement. The French proposal for a preamble to the whole package needs further examination.

We cannot rule out new problems at the Foreign Ministers' meeting or in the European Council itself. So far co-operation with France and the Federal Republic of Germany has been good, and a very modest package is in prospect. If this remains the

case, it would be in the United Kingdom's interest to finish this unnecessary exercise now and to leave the maximalists with the main problems.

3. The Foreign and Commonwealth Secretary will also report on the Foreign Affairs Council which was held in parallel with the Intergovernmental Conference on 25-26 November. The Minister for Trade (Mr Channon) was also present. The United Kingdom was pressed to accept the recent agreement with the United States on restrictions of steel imports in the light of some easing of the United States' position on the supply of semi-finished slabs from the British Steel Corporation to the Tuscaloosa plant in Alabama. Mr Channon, however, maintained our reserve on the whole package pending clarification from the United States. The Council also heard reports from the Commissioners who had recently discussed the trade imbalance with Japanese Ministers. The Japanese rejected even indicative import targets but we should not allow this question to be stalled off. Otherwise there is no objective way of knowing whether the Japanese measures are having any effect. The Commission will now draw up proposals for further action to put before the Council. The Council made progress on post-enlargement adaptation of Community/Mediterranean agreements.

4. The Chancellor of the Exchequer will report on the Budget Council which met on 26-27 November for its second reading discussion on the draft 1986 Community budget and at which the United Kingdom was represented by the Minister of State, Treasury (Mr Brooke). The Council voted by qualified majority (the United Kingdom and the Republic of Ireland voting against) to establish a revised draft budget some 600 million ecu (about £360 million) higher than the original draft budget. The outcome effectively splits the difference between the original draft budget and the European Parliament's amendments. It may have the effect of deflecting the European Parliament from setting an illegal budget. But, while the revised draft budget

[For different reasons: The Irish thought it was too little]



firmly maintains the agricultural guideline, it weakens overall budget discipline because the maximum rate for non-agricultural expenditure is higher than we considered justified.

6. There is an Environment Council on 28 November. Next week, in addition to the European Council on 2-3 December, there will be a Social Affairs Council on 5 December.

RA

ROBERT ARMSTRONG

27 November 1985



10 DOWNING STREET

Prime Minister

The main points
on the Community from
your meeting with Herr
Kohl were:

(a) he agreed no
monetary amendments. We must
keep him to it;

(b) he also agreed no
harmonization of taxation;

(c) he agreed on
importance of completing
the Internal Market;

(d) he can accept a
minimal text on the
Assembly. C.D.P.

CDP seen

CC CDP
TF
Press
PC.
DJC

**STATEMENT ON FOREIGN AFFAIRS COUNCIL AND THE
INTERGOVERNMENTAL CONFERENCE: 25/26 NOVEMBER**

With permission Mr Speaker, I will make a statement on the Foreign Affairs Council held in Brussels on 25 to 26 November at which I and my rt hon Friend the Minister for Trade represented the UK.

The Council agreed a mandate for negotiations with Mediterranean partners on the adaptation of their Cooperation and Association Agreements to take account of Spanish and Portuguese accession. This covers measures designed to ensure that traditional trade flows from Mediterranean partners are not adversely affected. Agreement was also reached on a mandate for negotiations with Cyprus on a customs union.

The Commission reported to the Council on their recent visit to Tokyo for discussions with the Japanese Government on the Community's trade relations with Japan.

The Council also discussed the Community's trade relations with the United States, including the renegotiation of the 1982 Carbon Steel export restraint Arrangement. The United Kingdom reserved its position on the proposed Arrangement to allow time to consider the information the Commission had received from the

United States about access to the US market for semi-finished products.

The Council discussed the Commission's proposals for the 1986 Generalised Scheme of Preferences.

The Council discussed arrangements for the forthcoming European Council in Luxembourg on 2/3 December, and adopted reports on European Union and People's Europe which will be noted by the European Council without discussion.

A further session of the Intergovernmental Conference on the future development of the EC was held at the same time, at which there was discussion of ways to accelerate progress towards our key objectives on the internal market.

Ministers also considered how to update the Treaty to take account of the Community's role in technology and the environment. A meeting with representatives of the European Parliament was devoted to considering ways in which the Parliament might be able to express its views more fully before decisions are taken by the Council.