

Part - C

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Begins : 14/6/81
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PART C

Chancellor's (Howe) Papers:

FINANCE COUNCIL 1981

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PART C

Dispose Directions: 25 Ye

John

26/7/95

EIB GOVERNORS MEETING : 15 JUNE 1981

INCREASE IN THE BANK'S CAPITAL

Objective

1. To secure agreement to the proposals before the Board.

Points to Make

2. Endorse the proposals as a whole.
3. HMG would not now expect to be asked to agree any further capital increase before 1986, unless further enlargement of the Community should make this unavoidable. Attach particular importance to the proposal that the Board of Directors should review the Bank's lending and borrowing activities at regular intervals. This should help to ensure that the Bank's affairs are managed satisfactorily within the revised limits.
4. Have accepted the proposal that 7½% of the capital increase should be paid in over 4 years, starting in 1984. But should stress that not convinced that the 7½% is properly justified in banking terms. Whether 7½% is right or not seems a matter of subjective judgment. Indeed the possibility of a smaller paid-in proportion on the next occasion should not be excluded.

Background

- 5 The proposals before the Board involve:
 - a) a doubling of the Bank's subscribed capital as from end 1981 (from 7200 ecus to 14,400 ecus);
 - b) paying in 7½% of the increase over 4 years, beginning 1984 when payments under the last increase will have been completed;
 - c) agreement that the Board of Directors should review the Bank's lending and borrowing at regular intervals (minimum once a year).
 - d) endorsement of a Working Party made up from the Board of Directors to examine aspects of the bank's financing, lending and borrowing activities.

6. The proposals represent a compromise reached after several discussions in the Board of Directors. They seem to be a good result for the UK and you have already approved the $7\frac{1}{2}$ per cent "paying in" figure earlier this year. It should be noted however that it will involve public expenditure of about £15 million a year.

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SUBSIDIES AND TAX EXEMPTIONS FOR ENERGY CONSUMPTION

(Working Paper by the Commission Services)

Objectives

To reinforce the UK commitment to economic energy pricing, and UK support for Commission work on comparisons between Member States;

2. To maintain national freedom of action on levels of energy taxation, but accepting readiness to discuss harmonisation of principles.

Background

3. This paper has been prepared by the Commission in response to a request by the German Finance Minister earlier this year. Apparently the Germans are in the process of abolishing a number of energy subsidies, and they would find it helpful in domestic political terms if the Council could discuss the use of such subsidies and agree that they were undesirable.

4. At Coreper on 10 June, the general view was that the paper should be presented to the Council by the Commission; delegations would be free to comment if they wished (presumably the Germans would do so) but it is unlikely that firm Council decisions will be called for. It was generally agreed that the paper might be referred for further study to Coreper.

5. The paper draws together two strands of work in the Commission: on comparative energy pricing, and on energy taxation. On the former, the UK are keen to see an active Commission role, in view of the difficulty we have had domestically on industrial price comparisons with certain Community countries - especially large consumers of electricity in France and Germany. We hope

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that the Commission's work may help to bring pressure on any pricing practices which are not in line with declared Community policy, as set out in paragraph 3 of the paper. The paper's broad analysis of the position on energy pricing is acceptable to the UK, though there would doubtless be specific points which Energy Ministers would wish to discuss in greater detail.

6. There is more scope for difference of opinion on taxation. The paper's approach is that exemption from taxation is equivalent to subsidy. While anomalies in principles of taxation can evidently be unhelpful in terms of intra-community comparisons, national Administrations must preserve considerable freedom in the application of fiscal policy, and absolute freedom in tax levels. The question of harmonisation of energy taxation principles has been on the table within the Community for a long time, and the ball is currently in the Commission's court. Until progress is made with this initiative, it would be wrong to endorse some of the sweeping generalisations in the taxation part of the Commission's paper.

7. There are two particular points where the UK may be criticised: an unhelpful reference to a UK fuel subsidy for horticulture (at the end of paragraph 5); and the fact that the UK does not levy VAT on domestic fuels (paragraph 10 (b)).

Points to Make

8. The paper provides a useful outline of the energy pricing situation. The pursuit of economic pricing principles within the Community is a matter to which the UK accords high importance. You understand that there is to be a discussion of the way in which ^{the Commission's work} should be carried forward at the Energy Council on 24 June; and there should be substantive discussion at the next Energy Council, under the UK Presidency.

9. On taxation, you could not accept that the exemption of certain classes of consumer from tax amounts to a subsidy of those consumers. The principles of tax harmonisation in the energy

field are under consideration in the Commission and you will be interested to see the work rising out of the study mentioned at paragraph 12 (a) of the paper.

10. (If it is suggested that this paper, or the fuller papers outlined in paragraph 12 should be on the July Finance Council Agenda;). It is perhaps doubtful whether there need be substantive discussion of the current paper at the next Finance Council - though you would not rule it out if others were strongly in favour. The more detailed work on energy pricing should, of course, come before Energy Ministers in the first instance. If the study on energy taxation is ready in time, you see no reason why it might not be discussed at the next Council, provided delegations have ample time to consider the Commission's thinking on this important subject. But this will evidently need to be seen alongside the work on the harmonisation of energy tax principles, which has to date been proceeding at a slower pace.

(Defensive)

11. The UK Permanent Representative notified the Commission of the scheme for assisting horticulture in a letter of 6 May. This set out our view that the scheme is compatible with the guidelines for fuel oil adaptation aids for heated horticultural production, which were laid down by the Commission in March 1980.

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BRIEFING FOR BILATERAL WITH M. DELORS

LUXEMBOURG, MONDAY 15 JUNE, 10.45 - 11.30

OBJECTIVES

1. To strike up a good personal relationship with M. Delors with a view to future cooperation.
2. To emphasise HMG's desire to enhance UK/French relations, bilaterally and within the Community.
3. To sound out the thinking of the new French Governemnt on a range of economic issues, particularly those of immediate interest to the UK.

Points to make

4. HMG looks forward to working closely with new French Government. Personally looking forward to cooperating with M. Delors. [/If atmosphere suitably warm./ France and UK have quarrelled far too much in past. Have many common interests and should settle differences as between friends and Community partners.
5. [/If raised/ US Interest rates. Vital for USA to succeed in fight against inflation and for world's major reserve currency to be strong and stable. Serious consequences for all if USA fails. Monetary policy an essential tool. Must therefore allow high inflation countries to have high interest rates. But tight fiscal policy also essential to prevent rates becoming unnecessarily high. This should be stressed to US Government particularly where difficulties are created for its allies by monetary techniques causing highly volative rates. This is probably best achieved by private influence and persuasion rather than a hostile Community demarche.
6. French economic policy. What sort of timescale is envisaged for implementation of the Socialist programme? For its part HMG determined to persevere with its anti-inflation policy.

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7. /If raised/ UK doing a great deal to help the Third World. But development of our aid programme, in particular, has to take account of the reality of need to cut public expenditure. Does M. Delors consider he is faced with conflict of priorities in this area? If so, how does he think the industrialised countries can persuade ldc s to be realistic in their expectations.
 8. Export credits. Will budgetary priorities force French Government to review the cost of supporting French exports, as we have done in the UK? Competition in this area is expensive and self-defeating. Will the new French Government be less reluctant than its predecessor to consider larger increases in consensus minimum interest rates on export credit? If so we (EC and US) could then turn jointly to the problem of low Japanese interest rates.
 9. French proposals to nationalise their banks. The French Government proposals have obviously aroused interest in London. How wide would be the scope of the measures? Over what time-scale is the programme likely to be implemented? Would foreign-owned banks be affected at all?
 10. Budget restructuring. HMG respect French Government's desire for reasonable settling-in period before committing themselves on the substance of the Commission's proposals. Nevertheless hope that M. Delors would agree on importance of not allowing negotiations to drag on too long. HMG certainly expect progress to be made at European Council fixed for November. Does M. Delors see any difficulty about that?
 11. If time permits. Does M. Delors agree that we should shift the emphasis away from official development aid, and the 0.7 per cent target, and towards the encouragement of private investment flows? How far can governments help in this process eg by more co-financing? Does he see a role here for the international institutes? Can we now look for French support, especially within the Community,

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in formulating a common front among the industrialised countries? (The first chance will be at Ottawa.)

Background

12. The British Embassy in Paris has particularly stressed the warmth with which M. Delors has accepted the invitation to meet the Chancellor.

13. M. Delors is very likely to raise the subject of US interest rates, even if the Chancellor does not. M. Delors is known to be in favour of the EC making a joint Community move to persuade the US to lower its rates.

14. M. Delors' comments on the French Government's ability to fulfil the Socialists' programme will doubtless be coloured by the results of the first stage of the French elections held the day before. In general we would expect M. Delors to emphasise that the programme will be implemented gradually and responsibly. The reflation will be controlled and subject to strict monetary control.

15. M. Delors is likely to emphasise that the new government will show much more interest than its predecessor in third world questions.

16. Export credits are on the Council agenda, in general terms, and will probably be discussed over lunch. There are a few signals that the French may be reviewing the cost of support for exports. Last year France held out against an automatic increase in consensus minimum interest rates on export credit, but agreed to a smallish increase (which has not however been implemented).

17. Our Paris Embassy advise that there has been no public statement of policy on how far the banking nationalisation programme will go. The general assumption seems to be that it will be confined to French domestic banks. It is highly unlikely that the branches of foreign-owned banks will be affected but there is a possibility of an effect on foreign-owned banks registered in France. The British banking community in France is however showing no signs of alarm.

18. Since his appointment M. Delors has announced two sets of economic measures. The first involved increases in minimum wages, family allowances, pensions and rent allowances. The increased wage costs have been offset partly by a reduction in social security charges payable by employers. The second package involved a £600 million increase in expenditure on jobs, housing and industrial investment financed by extra taxes on the wealthy and windfall taxes on banks and oil companies.

19. M. Delors' public statements have been aimed towards reassuring domestic and international opinion. In a recent press interview he listed his economic objectives as:

- i. tight control of public expenditure;
- ii. wages and price moderation;
- iii. an active employment policy; and
- iv. strict monetary control.

20. A personality note is attached.

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EXPORT CREDITS

OBJECTIVES

- 1. To gain general agreement that the Community should press ahead with the preparation of a constructive package of proposals which might provide the basis for agreement with the US and Japan when negotiations on changes in the Consensus are resumed in the Autumn.
- 2. To encourage the new French Minister of Finance to take a more flexible line, particularly as regards increases in minimum interest rates and improved notification procedures for "credits mixtes".

LINE TO TAKE

3. General

- a. The Consensus is a valuable means of controlling export credit competition but changes are necessary if its collapse is to be avoided.
- b. A substantial increase in interest rates in October is of critical importance so as to bring Consensus minimum rates nearer to market levels.
- c. It is also essential to find a way to overcome the Japanese problem and to improve transparency on "credits mixtes".

4. Interest Rate Increase

The UK could accept a 2-2½% increase (because of prior commitments, an increase agreed in the Autumn would not in practice be fully implemented until 1982). We would prefer a flat rate increase for all categories of recipient, though, for the sake of EC unanimity, we would be prepared to consider a slightly smaller increase for relatively poor countries.

5. Japanese Problem

We could not accept that the Japanese be accorded a privileged position under the Consensus, but some compromise should be offered. If the Japanese want to offer officially supported export finance at lower than

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Consensus rates then they must pay some penalty for being allowed to do so. Various ideas on this are being studied by the Policy Co-ordination Group on Export Credits and these should be pursued.

6. Credits Mixtes

Given the spread of mixed credit systems the need for improved transparency is greater than before. We hope that the French can now accept the Commission proposals for prior notification of such credits.

BACKGROUND

Current State of Negotiations

Little progress was made at the May meeting of Consensus participants in Paris. The Community did not have any new proposals to put forward because of French unwillingness to move before their Presidential Election, and the EC proposal already on the table for a small increase in minimum rates (1% for rich and intermediate countries, 0.8% for poor countries) was again unacceptable to the Japanese without a concession to allow them to offer lower rates.

2. The US, whose position was closely allied with Japan, did however put forward a possible package of proposals which would have involved an immediate increase in rates of the size proposed by the Community; further staged increases towards the SDR-weighted average of world market rates; and agreement that, for a trial period, low interest rate countries (notably Japan) should be allowed to charge their market rates, on the basis that other countries could also finance in those currencies at market rates. The Americans also made it clear that they intended to apply pressure on various fronts (eg. derogations on credit length, action in GATT) to encourage progress on Consensus reform.

3. The Commission undertook to consider the US proposals and there is to be a further full meeting of the OECD Consensus group in early October, at which the Community will be expected to make a constructive response. A meeting was also tentatively arranged for mid-July, depending on the progress of EC discussions. This may take the form of exploratory talks between the Commission, the US and Japan to prepare the way for substantive negotiations in October.

EC Position

4. Since the May meeting the Commission have sought to put greater impetus into the preparation of a Community position which might provide the basis for compromise agreement. The purpose of the ECOFIN discussion, which is expected to take place over lunch, is not to attempt to agree detailed solutions, but to consider the basic problems and the general direction that the Community should take, and to encourage the momentum which is now starting to develop. It will provide an opportunity to sound out the position of the new French Administration. (There have been some indications that the French may now be prepared to

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show some movement on the size of the increase in minimum interest rates and credits mixtes.) If reasonable progress is made in Community discussions this month, it will then be for the Commission to work up in consultation with member states a possible package which can be considered at the meeting of ECOFIN on 17 September.

5. Two main problems are likely to be discussed:-
- i. What increase in the interest rate guidelines should be offered?
 - ii. the problem of low interest rate countries, notably Japan.

The opportunity should also be taken to press the French to accept the Commission's proposals for improved notification procedures on "credits mixtes".

Interest Rates

6. US pressure to bring Consensus rates more in line with the current level of world market rates is now such as to seriously endanger the continued existence of the Consensus. Only a significant increase will satisfy the US and others that the Consensus can respond to changing world trading conditions and not remain an artificial and uncontrollably expensive mechanism for standardising export credit terms. An increase would of course be very welcome to us in relieving the budgetary burden of these subsidies, and one would expect that the French would also welcome such relief.

7. Any proposed increases should strike a balance between satisfying the US demand for a move towards current market rates and the need to avoid exacerbating the Japanese problem. A 2-2½% increase would not be unrealistic, given that - because of prior commitments - there is now no effective possibility of full implementation of any increase this year. The table annexed shows the effect of an increase of 2½% for rich and intermediate countries and 2% for poor countries. For comparison, the OECD's latest calculation of average market interest rates, on an SDR-weighted basis, gives a figure of 11¼%.

Japanese Problem

8. The Consensus applies to officially supported export credits. In the past Japan, through its official ExIm Bank, has adhered to the Consensus interest rates by ensuring that the resultant blended rate between the 60-70% ExIm Bank share and the 40-30% commercial bank share respect the Consensus minimum. Japanese rates are now dropping and would be below the Consensus if any increase was agreed. They have stated they would not be prepared to apply the rules as in the past and would want to be able to offer ExIm Bank finance at lower than Consensus rates.

9. We are not convinced that the participation of the Japanese ExIm Bank has no effect on export interest rates or that UK exporters will be allowed access to yen financing to enable them to match Japanese credit offers. For this reason, the recent US proposals, whilst acceptable in part, do not appear to answer all the problems, particularly on the question of access to yen in sufficient quantities and at comparable interest rates. But various compromise ideas (including some which we have floated) are under consideration in the Policy Co-ordination Group (the official level EC Group on export credits on which ECGD and ourselves are represented) and it is intended that these should be actively pursued when the Group meets again later this month.

AEF3 Divison
11 June 1981

CONSENSUS ON EXPORT CREDITS

(1) Summary of Guidelines

(Possible changes that may be proposed by EC in October 1981 shown in brackets)

<u>Country Classification</u>	<u>Terms of Payment</u>		<u>Minimum Interest Rates</u>	
	Minimum Cash Payments %	Maximum Credit Period (Years)	Credits 2-5 years	Credits over 5 years
I Relatively rich:	15 (20)	8½* (5)	8.5% (11.0%)	8.75% (11.25%)
II Intermediate:	15	8½	8.0% (10.5%)	8.5% (11.0%)
III Relatively poor:	15	10	7.5% (9.5%)	7.75% (9.75%)

*Note At present credits of over 5 years for sales to rich countries are subject to prior notification (except for goods - eg aircraft, ships - covered by sector agreements allowing longer terms).

Other changes carried forward from the December 1980 Mandate

a Cash payments for trade with "rich" countries to be increased from 15 to 20% (except where otherwise provided for goods the subject of specific Sector Agreements).

b a strict maximum of 5 years/credit for sales to "rich" countries should be applied, (except for goods covered by Sector Agreements),

c the maximum terms for agricultural commodities should be 2 years' credit,

d the maximum terms for conventional/nuclear power stations should be 10 years' credit,

e official finance for local costs in intermediate countries should be withdrawn (pure credit insurance cover may still be given).

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ECONOMIC ASSISTANCE TO POLAND

(Not on the agenda: may be raised by France)

POINTS TO MAKE

1. Poland's economic problems of her own making, and may now be insoluble.
2. In the wider political context, economic assistance might be of marginal help to a liberal regime in Poland but will not be decisive.
3. Community governments, under very constructive French leadership, have done their best to ease the burden of debt by an unprecedentedly generous rescheduling operation.
4. Governments can also help through the provision of new credit, and are doing so. Community has helped collectively by making sales of food from intervention stocks at favourable prices.
5. Unfortunately banks have been much slower to reschedule their debts, and many have actually reduced their short-term facilities. Community governments should use what influence they have to remind banks of the need to avoid an untidy default if at all possible. But banks cannot be coerced.
6. Latest moves by US banks postpone any bank rescheduling agreement and make prospect of default rather more likely.
7. But see no chance of any further concerted action, whether in Paris Club or within Community. Banking system will be able to sustain shock of a default.
8. If pressed. UK would of course be prepared to join in any further discussions but not optimistic of outcome. To save time probably better to use existing French-led creditors' group, not to set up separate Community machinery.

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Essential Facts

1. France has taken the lead in organising meetings of the 15 creditor countries to whom Poland owes about \$26 billion. A multilateral agreement has now been reached which reschedules 90% of the principal and interest of official and officially-guaranteed debt falling due in the last eight months of 1981. Bilateral agreements to give effect to this are now being negotiated. The United Kingdom was among the first to do a deal.

2. A parallel agreement with the commercial banks is being negotiated but it is going very closely. At a meeting in New York on 10 June, the US banks rejected proposals for a concerted rescheduling of all non-guaranteed bank debt. They are now likely to seek a separate agreement with Poland. This will probably impose a further delay, and increases the danger that Poland will be forced to impose a moratorium on all debt payment. (For political reasons some hard-line elements in Poland may wish to do this anyway). The effects of a moratorium are unpredictable. No individual bank is so seriously exposed as to create a problem. ECGD would have to pay up further large sums, adding to the PSBR, but mainly in 1982 and later. We have only scanty information about the effect on foreign banks; German and Austrian banks are the most heavily-engaged.

3. Even if there is no moratorium, and the banks all reschedule their debts, there will still be an enormous gap in the Polish balance of payments for 1981, variously calculated as between \$1½ and 2½ billion. Part of this will be covered by loans from the banks if and when a rescheduling agreement is reached. Part of it will be covered by credits already promised by some of the major creditors, notably France and Germany. There is a big line of credit on offer from the USA, but on terms so unfavourable that Poland cannot take advantage of it; and the Western powers insist that the Soviet Union and its satellites must also help out, they they show little sign of doing so.

4. France convened a meeting of creditor countries in Paris on 1 and 2 June to see whether anything further could be done by way of "burden sharing" in the provision of new guaranteed export

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credit. The results were very disappointing to the Poles. We were all asked to report how much credit we were prepared to make available. The replies are not yet all in but it looks as though there will still be a very big gap. The French may therefore use the opportunity of this meeting to seek agreement at a political level that the gap must somehow be bridged.

5. The United Kingdom has so far given new credits totalling £40 million for the first half of 1981 (plus a bit left over from 1980). Most of this has been earmarked for the Community-assisted food package. Ministers have approved a further £25 million for the second half of the year. Half of it will be earmarked for agricultural sales and the other half for general purposes. For agricultural sales, terms will be those applying to the credits made available earlier this year. For the other sales normal "Consensus" terms will apply. This may be announced at the OECD Ministerial meeting on 17 June if the matter is raised then. Otherwise it will probably be put to the Polish Deputy Prime Minister when he calls on the Chief Secretary on 19 June.

6. The Poles may also seek a political commitment to provide further short-term loans to replace the withdrawal of short-term banking facilities earlier this year. They say they want \$500 million coming equally from the five major creditors (Britain, France, Germany, USA, Austria). We see no reason to co-operate. British banks were responsible for only \$8 million of the \$500 million or so of facilities which were withdrawn earlier this year. We cannot pressurise British banks into providing further facilities without Government guarantee; we have no powers to give guarantees for general purpose loans of this kind; technically the EEA could make a swap arrangement available, but nobody wants zlotys.

FINANCE COUNCIL 15 JUNE 1981

TRADE RELATIONS WITH JAPAN

- 1. At lunch the Chancellor could take the opportunity to explain to colleagues our increasing concern about the level of Japanese imports.
- 2. This concern reflects the fact that, although some of our Community partners could take administrative action to discourage imports from Japan, the UK would be frustrated in such a course by legal action. The Department of Trade has prepared a factual note on our powers and a copy is attached to this brief.
- 3. The UK's general line on trade relations with Japan is that we favour continued surveillance of Japanese imports, especially cars. Any long term agreement by Japan to restrain voluntarily its exports to the Community as a whole would almost certainly be accompanied by a demand for the phasing out of national agreements and restrictions and the restructuring of European industries. The UK would require a long phasing out period. France and Italy would be reluctant to drop national restrictions under any circumstances.
- 4. The UK favours both Community and national efforts to open up the Japanese market. But commitments on the part of the Japanese are probably also essential to make this work.
- 5. We anticipate that agreement to launch tri-lateral discussions between the EC, the US and Japan might be one of the objectives sought at the Ottawa Summit.

Line to take

6. UK increasingly concerned about the level of Japanese imports. The British Government is in a bit of a dilemma. Without Community support we could not take action to protect

ourselves and views within the Community on the need for protection are not unanimous. Would be interested to know, therefore, how colleagues saw the matter.

POWERS TO RESTRICT JAPANESE IMPORTS

There are three separate instruments which are relevant to any action we may take to restrict the imports of Japanese ~~motor vehicles~~ ^{goods}:

- (i) EC Council Regulation 926/79.
- (ii) The GATT. Article XIX of the GATT permits the contracting parties to restrict the import of products which are being imported "in such increase quantities and under such conditions as to cause or threaten serious injury to domestic producers". Normally consultation is required before any such restrictions are imposed, but there is provision for action in advance of consultation "where delay would cause damage it would be difficult to repair";
- (iii) The Treaty of Commerce, Establishment and Navigation between the UK and Japan of 1962. The first protocol to this Treaty permits either contracting party, subject to consultations, to restrict the imports of the other on conditions modelled on those of Article XIX of the GATT. Article 26 of the Treaty reserves the GATT rights of both parties;

Regulation 926/79 establishes the regime under which action can be taken against imports into the Community from Japan and certain other countries. Its provisions apply to the introduction of import restrictions under GATT Article XIX and bilateral treaties such as the Anglo-Japanese Treaty cited above. Neither Article XIX nor bilateral treaty provisions on import restrictions may be used unless the provisions of Regulation 926/79 are met.

Under Regulation 926/79 quotas may be introduced by the Commission on its own initiative or at the request of one or more Member States. Quotas may also be introduced by a Member State autonomously ie without prior Community approval. But all quotas, however introduced, are subject to confirmation by the Council and in practice it is impossible to maintain any quota for more than a limited period if the Community is opposed to it.

The Regulation distinguishes between "liberalised" and "non-liberalised" products (which happen to include cars). In terms of Council voting rules, it is at present rather more difficult, in the case of non-liberalised products, for opponents of an autonomous quota to secure its removal. This distinction will however lapse automatically at the end of this year and thereafter all products will be covered by the provisions which currently apply to "liberalised products".

ECONOMIC SITUATION

In theory the Council is preparing the discussion of economic and financial matters for the European Council of 29/30 June. In practice it is doubtful if much of substance will emerge. However, there will quite possibly be further discussion of the US interest rate issue. At last week's Coordinating Group it was generally agreed that the European Council should consider the effect which US domestic policy was having on the Community.

2. The Chairman of the Coordinating Group will make an oral statement at the Finance Council on the Commission's economic forecasts for 1981 and 1982.

3. This brief summarises and comments on these forecasts and provides background and a line to take on the question of US interest rates.

THE FORECASTS

4. The main features of the forecasts are:

- (i) a fall in EC GDP of 0.6 per cent in 1981 and growth of 2.1 per cent next year;
- (ii) an EC inflation rate (implied private consumption deflator) of 11.5 per cent in 1981, declining to 10.3 per cent in 1982;
- (iii) an increase in the EC current deficit from \$39 billion this year to \$44 billion next;
- (iv) an EC unemployment rate of 7.7 per cent in 1981 and 8.2 per cent in 1982.

5. ^{There are} a number of differences between these forecasts and those prepared by the OECD Secretariat for next week's Ministerial meeting. The Commission is a good deal more optimistic than the Secretariat on GDP (except in the UK's case where it expects a fall of 2.6 per cent in 1981 against our forecast of -2 per cent). The Commission has not revised down its growth forecast prepared at the beginning of the year. Surprisingly, it is, if anything, inclined to revise the forecast up a little. It gives considerable weight, for example, to recent positive signs in Germany, where exports are picking up quite strongly.

However, the general view at the Coordinating Group was that it would be wrong to pin too much on a few positive indications. The uncertain effects of recent exchange rate movements and continuing high interest rates continued to cast a shadow.

6. On the inflation front the Commission is more pessimistic than the OECD, perhaps realistically so. This is mainly because of expected adverse terms of trade developments in the EC. Only a small fall in inflation is forecast between 1981 and 1982 in the EC as a whole - from 11.5 per cent to 11.2 per cent. No reduction at all is expected in France. For the UK, the Commission's 1981 forecast is much in line with our own, at 11.2 per cent, but for 1982 we expect inflation to be about $1\frac{1}{2}$ per cent below its forecast of 9.1 per cent.

7. The Commission's current balance forecasts are particularly gloomy: much more so than the OECD's. In 1982 the Commission expects the combined EC deficit to rise by over $\$4\frac{1}{2}$ billion to around $\$44$ billion, whereas the OECD expect it to fall to about $\$28$ billion. The differences relate mainly to Germany, where the Commission foresees only a small fall in 1982; France, where it expects a sharp increase (no doubt reflecting the stimulatory impact of the new Government's policies); and Italy where it forecasts little change between the two years. Both sets of forecasts expect a current deficit for the UK in 1982.

8. If the EC current balance develops as the Commission expects, the prospect of an easing of external constraint in some member countries is rather more remote than the OECD secretariat have been suggesting recently.

9. The rate of unemployment is expected to increase in all member states in 1981 and 1982, except France, but the rate of increase in 1982 slows down. Ireland, the Netherlands and the UK are expected to have the largest increases.

INTEREST RATES

10. At the time of drafting US interest rates appear to be falling a little. But they remain at near-record levels. The following table

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shows 3 month money market rates in the US and the main EC countries as at 11 June:

US	16.5
Germany	13.2
France	20.0
Italy	20.5
Netherlands	11.8
Belgium	16.5
UK	12.7

11. You are aware that M. Delors and Signor Colombo have joined Chancellor Schmidt in attacking US interest rate policy. And M. Ortoli wrote to you on 27 May to express his concern as well, suggesting that EC countries should make a common representation to the US.

12. As Sir Kenneth Couzens pointed out in his note of 9 June on the Summit preparatory group, the European's position on this issue is ambiguous. All countries claim to support the US priority for countering inflation. But none are very specific about what the Americans should do to get lower interest rates. In addition, the depreciation of EMS currencies against the dollar has only partly reflected interest rate factors. It has also reflected market reaction to the improvement of the US current account and the continuing large deficits in most EMS countries.

13. Even within Germany there is disagreement about the issue. Bundesbank Chairman Pohl said recently that high interest rates were the "inevitable concomitant" of anti-inflationary monetary policies; it would be better to tackle the underlying causes of inflation - which in Germany, he said, were large budget and current account deficits - than to "complain about high interest rates".

14. Though there are inconsistencies in some of the criticism of the US, the level and volatility of American interest rates has been damaging and destabilising. Moreover you may not wish to be an isolated voice in defence of the US and risk alienating our European partners.

15. Sir Kenneth Couzens' note, referred to earlier, suggest that the best course for the UK is to tread a middle way and to some extent act as a conciliator. One objective would be to try and prevent public or collective criticism of the US. Another would be to stress the importance of balanced fiscal and monetary policies so that interest rates are not put under unnecessary pressure.

LINE TO TAKE

16. (i) Vital for all of us that US succeeds in fight against inflation. And that value of world's main reserve currency is safeguarded.
- (ii) Agree that US reliance on monetary control has resulted in high interest rates; and control techniques have probably contributed to volatility.
- (iii) But should not attribute weakness of EMS currencies solely to interest rate movements. Relative current balance positions also important.
- (iv) Should consider carefully our approach to the US. Quiet dialogue much better than public demarche.
- (v) Should assure the US that we fully support determination to reduce inflation through monetary restraint. But at the same time underline the need for this to be supported by appropriate fiscal policy if interest rates are not to bear too much of the burden.
- (vi) As to interest rate volatility, in the US, some of this might be avoided by paying rather less attention to short term monetary fluctuations. Hope that as US gains more experience with its still rather new techniques it will be able to combine satisfactory monetary control with less interest rate volatility.

SUBSIDIES AND TAX EXEMPTIONS FOR ENERGY CONSUMPTION

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15/6/81

(Working Paper by the Commission Services)

Objectives

To reinforce the UK commitment to economic energy pricing, and UK support for Commission work on comparisons between Member States;

2. To maintain national freedom of action on levels of energy taxation, but accepting readiness to discuss harmonisation of principles.

Background

3. This paper has been prepared by the Commission in response to a request by the German Finance Minister earlier this year. Apparently the Germans are in the process of abolishing a number of energy subsidies, and they would find it helpful in domestic political terms if the Council could discuss the use of such subsidies and agree that they were undesirable.

4. At Coreper on 10 June, the general view was that the paper should be presented to the Council by the Commission; delegations would be free to comment if they wished (presumably the Germans would do so) but it is unlikely that firm Council decisions will be called for. It was generally agreed that the paper might be referred for further study to Coreper.

5. The paper draws together two strands of work in the Commission: on comparative energy pricing, and on energy taxation. On the former, the UK are keen to see an active Commission role, in view of the difficulty we have had domestically on industrial price comparisons with certain Community countries - especially large consumers of electricity in France and Germany. We hope

that the Commission's work may help to bring pressure on any pricing practices which are not in line with declared Community policy, as set out in paragraph 3 of the paper. The paper's broad analysis of the position on energy pricing is acceptable to the UK, though there would doubtless be specific points which Energy Ministers would wish to discuss in greater detail.

6. There is more scope for difference of opinion on taxation. The paper's approach is that exemption from taxation is equivalent to subsidy. While anomalies in principles of taxation can evidently be unhelpful in terms of intra-community comparisons, national Administrations must preserve considerable freedom in the application of fiscal policy, and absolute freedom in tax levels. The question of harmonisation of energy taxation principles has been on the table within the Community for a long time, and the ball is currently in the Commission's court. Until progress is made with this initiative, it would be wrong to endorse some of the sweeping generalisations in the taxation part of the Commission's paper.

7. There are two particular points where the UK may be criticised: an unhelpful reference to a UK fuel subsidy for horticulture (at the end of paragraph 5); and the fact that the UK does not levy VAT on domestic fuels (paragraph 10 (b)).

Points to Make

8. The paper provides a useful outline of the energy pricing situation. The pursuit of economic pricing principles within the Community is a matter to which the UK accords high importance. You understand that there is to be a discussion of the way in which ^{the Commission's work} should be carried forward at the Energy Council on 24 June; and there should be substantive discussion at the next Energy Council, under the UK Presidency.

9. On taxation, you could not accept that the exemption of certain classes of consumer from tax amounts to a subsidy of those consumers. The principles of tax harmonisation in the energy

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field are under consideration in the Commission and you will be interested to see the work rising out of the study mentioned at paragraph 12 (a) of the paper.

10. (If it is suggested that this paper, or the fuller papers outlined in paragraph 12 should be on the July Finance Council Agenda;). It is perhaps doubtful whether there need be substantive discussion of the current paper at the next Finance Council - though you would not rule it out if others were strongly in favour. The more detailed work on energy pricing should, of course, come before Energy Ministers in the first instance. If the study on energy taxation is ready in time, you see no reason why it might not be discussed at the next Council, provided delegations have ample time to consider the Commission's thinking on this important subject. But this will evidently need to be seen alongside the work on the harmonisation of energy tax principles, which has to date been proceeding at a slower pace.

(Defensive)

11. The UK Permanent Representative notified the Commission of the scheme for assisting horticulture in a letter of 6 May. This set out our view that the scheme is compatible with the guidelines for fuel oil adaptation aids for heated horticultural production, which were laid down by the Commission in March 1980.

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BRIEFING FOR BILATERAL WITH M. DELORS

LUXEMBOURG, MONDAY 15 JUNE, 10.45 - 11.30

OBJECTIVES

1. To strike up a good personal relationship with M. Delors with a view to future cooperation.
2. To emphasise HMG's desire to enhance UK/French relations, bilaterally and within the Community.
3. To sound out the thinking of the new French Government on a range of economic issues, particularly those of immediate interest to the UK.

Points to make

4. HMG looks forward to working closely with new French Government. Personally looking forward to cooperating with M. Delors. [If atmosphere suitably warm.] France and UK have quarrelled far too much in past. Have many common interests and should settle differences as between friends and Community partners.
5. [If raised] US Interest rates. Vital for USA to succeed in fight against inflation and for world's major reserve currency to be strong and stable. Serious consequences for all if USA fails. Monetary policy an essential tool. Must therefore allow high inflation countries to have high interest rates. But tight fiscal policy also essential to prevent rates becoming unnecessarily high. This should be stressed to US Government particularly where difficulties are created for its allies by monetary techniques causing highly volatile rates. This is probably best achieved by private influence and persuasion rather than a hostile Community demarche.
6. French economic policy. What sort of timescale is envisaged for implementation of the Socialist programme? For its part HMG determined to persevere with its anti-inflation policy.

7. /If raised/ UK doing a great deal to help the Third World. But development of our aid programme, in particular, has to take account of the reality of need to cut public expenditure. Does M. Delors consider he is faced with conflict of priorities in this area? If so, how does he think the industrialised countries can persuade ldc s to be realistic in their expectations.
8. Export credits. Will budgetary priorities force French Government to review the cost of supporting French exports, as we have done in the UK? Competition in this area is expensive and self-defeating. Will the new French Government be less reluctant than its predecessor to consider larger increases in consensus minimum interest rates on export credit? If so we (EC and US) could then turn jointly to the problem of low Japanese interest rates.
9. French proposals to nationalise their banks. The French Government proposals have obviously aroused interest in London. How wide would be the scope of the measures? Over what time-scale is the programme likely to be implemented? Would foreign-owned banks be affected at all?
10. Budget restructuring. HMG respect French Government's desire for reasonable settling-in period before committing themselves on the substance of the Commission's proposals. Nevertheless hope that M. Delors would agree on importance of not allowing negotiations to drag on too long. HMG certainly expect progress to be made at European Council fixed for November. Does M. Delors see any difficulty about that?
11. If time permits. Does M. Delors agree that we should shift the emphasis away from official development aid, and the 0.7 per cent target, and towards the encouragement of private investment flows? How far can governments help in this process eg by more co-financing? Does he see a role here for the international institutes? Can we now look for French support, especially within the Community,

in formulating a common front among the industrialised countries? (The first chance will be at Ottawa.)

Background

12. The British Embassy in Paris has particularly stressed the warmth with which M. Delors has accepted the invitation to meet the Chancellor.

13. M. Delors is very likely to raise the subject of US interest rates, even if the Chancellor does not. M. Delors is known to be in favour of the EC making a joint Community move to persuade the US to lower its rates.

14. M. Delors' comments on the French Government's ability to fulfil the Socialists' programme will doubtless be coloured by the results of the first stage of the French elections held the day before. In general we would expect M. Delors to emphasise that the programme will be implemented gradually and responsibly. The reflation will be controlled and subject to strict monetary control.

15. M. Delors is likely to emphasise that the new government will show much more interest than its predecessor in third world questions.

16. Export credits are on the Council agenda, in general terms, and will probably be discussed over lunch. There are a few signals that the French may be reviewing the cost of support for exports. Last year France held out against an automatic increase in consensus minimum interest rates on export credit, but agreed to a smallish increase (which has not however been implemented).

17. Our Paris Embassy advise that there has been no public statement of policy on how far the banking nationalisation programme will go. The general assumption seems to be that it will be confined to French domestic banks. It is highly unlikely that the branches of foreign-owned banks will be affected but there is a possibility of an effect on foreign-owned banks registered in France. The British banking community in France is however showing no signs of alarm.

18. Since his appointment M. Delors has announced two sets of economic measures. The first involved increases in minimum wages, family allowances, pensions and rent allowances. The increased wage costs have been offset partly by a reduction in social security charges payable by employers. The second package involved a £600 million increase in expenditure on jobs, housing and industrial investment financed by extra taxes on the wealthy and windfall taxes on banks and oil companies.

19. M. Delors' public statements have been aimed towards reassuring domestic and international opinion. In a recent press interview he listed his economic objectives as:

- i. tight control of public expenditure;
- ii. wages and price moderation;
- iii. an active employment policy; and
- iv. strict monetary control.

20. A personality note is attached.

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15/6/81.

Budget restructuring

There is one key point for you to register with Matthöfer: Germany and the UK must be at one (and be seen to be at one) on the issue of budget reform. We have a strong shared interest in reducing the total burden on the net contributor countries. Any impression that we are trying to shift the burden onto each other would be disastrous. We must not end the present negotiation with an Anglo-German quarrel as to how the existing burden on our two countries should be divided up.

The background to this is that there are some German officials, particularly in their Foreign Office, who keep suggesting that the problem is that Germany is contributing too much to the UK's refunds and that the solution lies in reducing the UK's refunds. We need to convince the Germans that it is very much in their interests as well as our own to drop this kind of talk, which is bound to cause serious problems for the UK, and to talk instead about their excessive contribution to the budget as a whole.

A possible way of leading up to the point would be as follows:

- You could give Matthöfer a copy of your Hague speech and say that you would particularly welcome any comments he may have, at his convenience.
- As he will see from the speech, we have great sympathy with the German problem over the size of their net contribution: we would strongly support an arrangement which controlled the Germans' burdens and limited their net liabilities as well as our own.
- It is terribly important, [redacted] that Germany and the UK should stand together on the issue of budget reform. We need to reduce the total burden on the net contributor countries. We must avoid a situation

where we end up by arguing between ourselves on how distribute the existing burden between the two of us.

- We need in particular to avoid language which suggests that Germany's budgetary problem has arisen because Germany is contributing too much to the UK's refunds. The problem for both the UK and Germany is that we are contributing too much to the budget as a whole.

POINTS TO MAKE : AGRICULTURE

1. Our two Governments are agreed that, from 1982 onwards, the growth of agricultural support spending should be "markedly lower" than the growth of the own resources base.

2. For 1982
 - a. own resources base forecast to grow at 11.7 per cent, but

 - b. the Commission propose to provide/for a 12.8 per cent increase in agricultural support spending (compared with the latest 1981 estimate).

3. Commission proposal seems hard to reconcile with our joint policy. What do Germans think?

FISHERIES - defensive only

Anxious to resolve common fisheries policy as soon as possible. We have been in touch with the French and made it clear that we are willing to have bilateral discussions with them as soon as they are ready.

[If UK criticised]

We believed we were close to an agreement in December last year, but this was blocked by the French. President Giscard then told us at Maastricht that the French were prepared to settle before their Presidential elections, but the French Minister of Fishing then asked for negotiations to be suspended until after the elections at the end of March.

THE GERMAN ECONOMY

Output and Prices

1. GNP growth of nearly 2 per cent in 1980 was entirely concentrated in the first quarter. Output fell for the rest of the year. It picked up (perhaps by 1/2 per cent) in Q1 1981 because of strong export performance influenced by the DMark depreciation. No growth or a 1 per cent decline in GNP is officially forecast for this year.

2. Consumer price inflation has accelerated a bit in recent months to 5.6 per cent (annual rate) reflecting higher import prices caused by the weak DMark, which has led to a substantial rise in import prices. The authorities no longer officially expect inflation to fall below 5 per cent this year. But the FRG's underlying inflation performance remains good. Wage settlements this year have been surprisingly moderate, at around 5 per cent, considering the unusually lengthy and bitter negotiations seen earlier in the year in key sectors of the economy.

3. Unemployment continues to increase - to 5 per cent of the work force in April. The number of workers on short time is at near record levels.

Balance of Payments and Exchange Rate

4. The overall balance of payments deficit is at the root of many of the economy's problems. In 1980 the current deficit was the largest of the OECD countries at DM 28 billion. The traditional trade surplus fell to DM9.1 billion (mainly because of higher oil prices and the weak DMark) and was insufficient to cover the growing structural deficit on transfers and services (DM37 billion). There are some signs now that exports are responding to the DMark depreciation - a significant increase in export volume so far in 1981 brought about a large improvement in the current account in April. But the current account deficit is unlikely to fall much this year. High interest rates have only managed to attract enough short term inflows to match substantial long term capital outflows. Reserves have therefore been considerably run down.

The size of the current account deficit along with a number of other factors including the strength of the dollar, proximity to Poland and interest rate differentials have been blamed for the weakness of the DMark over the last eighteen months. The DMark went back to the top of the EMS after / ^{the Bundesbank} substantially raised interest rates in February but it is still very weak against the dollar. It has fallen from a peak of about DM1.70/\$ in 1979 to present levels of around DM2.40/\$.

Policies

A supplementary budget proposing additional spending has had to be tabled because of rising unemployment, higher than expected interest payments, higher defence spending and aid to Poland. Spending is likely to be 7 per cent higher than last year instead of the 4 per cent originally hoped for. As discussion of this has got underway the discord within Schmidt's Social Democrat Party as well as between it and the Free Democrat coalition partners and the Bundesbank has become more pronounced. The Bundesbank and the Free Democrats are calling for substantial public spending cuts, involving major structural changes in the system of social welfare benefits. The Social Democrats are likely to resist fiercely and in turn have criticised the Bundesbank for keeping interest rates too high. Pohl, Governor of the Bundesbank says it should not be made 'the scapegoat for the failure and omissions of other s'. He claims the large increase in Government indebtedness is keeping interest rates high and points to this year's budget deficit which is likely to reach DM34 billion ($4\frac{1}{2}$ per cent of GNP) instead of the DM27 billion (4 per cent of GNP) originally planned.

7. Last year through money market fine tuning, the Bundesbank more than offset the liquidity drain arising from the balance of payments deficit. This allowed interest rates to remain low and to some extent offsetting its intervention to support the exchange-rate. In February, policy changed and the Bundesbank moved aggressively to push up interest-rates by squeezing liquidity, suspending the short-term lombard credit facility, and announcing a new facility which could be changed dealing, if necessary, in support of the exchange-rate. Three-month domestic money-market rates are now around $13\frac{1}{2}$ per cent instead of about $9\frac{1}{2}$ per cent in January. The Bundesbank has not however entirely given up its attempts at monetary fine tuning.

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TELEGRAM NUMBER 96 OF 15 JUNE 1981
INFO IMMEDIATE UKREP BRUSSELS
INFO ROUTINE THE HAGUE ROME
INFO SAVING BRUSSELS COPENHAGEN DUBLIN PARIS BONN ATHENS

FOLLOWING FROM UKREP BRUSSELS

FINANCE COUNCIL - 15 JUNE
PREPARATION FOR EUROPEAN COUNCIL

SUMMARY

1. THE COUNCIL ASKED THE MONETARY COMMITTEE TO STUDY THE EFFECT OF INTEREST RATES ON THE ECONOMIES OF THE MEMBER STATES AND TO REPORT IN GOOD TIME FOR A FURTHER DISCUSSION ON 6 JULY. THE CHAIRMAN OF THE COMMITTEE OF CENTRAL BANK GOVERNORS WAS ASKED TO SUBMIT THE WRITTEN REPORT OF THE CONCLUSIONS OF HIS COMMITTEE FOR CONSIDERATION AT THE SAME MEETING. MEANWHILE MINISTERS SHOULD REPORT THE DISCUSSION AT THE PRESENT COUNCIL TO THEIR HEADS OF STATE AND GOVERNMENT AND URGE A CAUTIOUS APPROACH ON THIS SUBJECT AT THE OTTAWA SUMMIT.

2. THE COUNCIL LISTENED TO REPORTS BY THE CHAIRMAN OF THE CO-ORDINATION GROUP AND ORTOLI ON THE ECONOMIC SITUATION IN THE COMMUNITY. ORTOLI ANNOUNCED THE COMMISSION'S INTENTION TO PRESENT A PAPER ON THIS SUBJECT TO THE EUROPEAN COUNCIL. AT THE END OF THE DISCUSSION THE CHAIRMAN ASKED HIM TO TAKE ACCOUNT OF THE POINTS MADE WHEN DRAFTING THE COMMISSION'S REPORT.

US INTEREST RATE POLICIES

3. IN RESTRICTED SESSION THE CHAIRMAN ASKED ORTOLI, MR RICHARDSON IN HIS CAPACITY AS CHAIRMAN OF THE COMMITTEE OF CENTRAL BANK GOVERNORS AND HABERER IN HIS CAPACITY AS CHAIRMAN OF THE MONETARY COMMITTEE TO REPEAT BRIEFLY THE GIST OF THE STATEMENTS WHICH THEY HAD EARLIER MADE AT LUNCH.

4. ORTOLI (COMMISSION) SAID THAT HE SUGGESTED THAT THE MONETARY COMMITTEE BE ASKED TO EXAMINE THE EFFECTS OF UK INTEREST RATES ON THE ECONOMIES OF THE MEMBER STATES SO AS TO MAKE CLEAR THE DIFFICULTIES CREATED BY US TECHNIQUES. IT WAS NOT APPROPRIATE TO TEACH LESSONS TO THE US AUTHORITIES BUT THE COMMUNITY SHOULD MAKE ITS PROBLEMS CLEAR. THE COMMUNITY SHOULD SHOW THAT WE UNDERSTOOD THE NEED FOR THE UNITED STATES TO FIGHT INFLATION.

BUT WE SHOULD STRESS THE NEED FOR A PROPER BALANCE BETWEEN FISCAL AND MONETARY POLICY. THE MONETARY COMMITTEE REPORT SHOULD BE DISCUSSED AT THE NEXT FINANCE COUNCIL ON 6 JULY. IN THE MEANTIME HE SUGGESTED THAT EACH FINANCE MINISTER SHOULD INFORM HIS HEAD OF GOVERNMENT OF WHAT WAS PLANNED. ORTOLI HIMSELF WOULD REPORT TO THE EUROPEAN COUNCIL. THE COMMUNITY SHOULD NOT SHOUT ITS VIEWS AT THE UNITED STATES BUT SHOULD MAKE THE POLITICAL IMPORTANCE OF UNITED STATES ACTION CLEAR. LOBBYING SHOULD NOT BE CONFINED TO BILATERAL MEETINGS BUT THE COMMUNITY VIEW SHOULD BE DEPLOYED IN OTHER FORA SUCH AS THE OECD MINISTERIAL MEETING.

5. MR RICHARDSON, SPEAKING ON BEHALF OF THE COMMITTEE OF CENTRAL BANK GOVERNORS, CALLED ATTENTION TO A RECENT HARDENING OF US INTEREST RATES AND THE DECLARATION OF POLICY IN THE FOREIGN EXCHANGE MARKET BY THE US AUTHORITIES. BOTH THESE DEVELOPMENTS SHOWED THAT THE US AUTHORITIES INTENDED TO GIVE A GREATER ROLE TO THE MARKET. THE COMMUNITY SHOULD NOT SUGGEST THAT ALL ITS PROBLEMS WERE THE FAULT OF THE UNITED STATES. SOME WERE THE RESULT OF COMMUNITY ACTIONS. THE COMMUNITY SHOULD STRESS THE IMPORTANCE THAT IT ATTACHED IN ITS OWN INTEREST TO THE ANTI-INFLATIONARY POLICY OF THE UNITED STATES. THE DOLLAR WAS THE WORLD'S MAJOR TRADING CURRENCY AND IN THE PAST THE COMMUNITY HAD CRITICIZED THE UNITED STATES FOR THE BENIGN NEGLECT OF THE DOLLAR. THE RIGHT LINE TO TAKE ON THE LEVEL OF US INTEREST RATES WAS TO QUESTION WHETHER THEY HAD ACHIEVED THE BEST MIX OF MONETARY AND FISCAL POLICY. BUT WE SHOULD BEAR IN MIND THAT THE US FISCAL DEFICIT WAS CONSIDERABLY SMALLER THAN IN SOME COMMUNITY COUNTRIES. WHILE IT WAS PERMISSIBLE TO DEMONSTRATE THE EFFECTS OF THE VOLATILITY OF US INTEREST RATES, IT WOULD BE UNWISE TO RECOMMEND SPECIFIC DIFFERENT TECHNIQUES TO THE US AUTHORITIES SINCE THE COMMUNITY DID NOT HAVE A COMMON VIEW ITSELF ON WHAT WAS APPROPRIATE. THESE POINTS WERE BEST DEPLOYED IN QUIET CONVERSATIONS AT MANY DIFFERENT LEVELS. A PUBLIC DEMARCHE WAS LIKELY TO BE INEFFECTIVE AND TO RISK REBUFF.

6. HABERER SAID THAT THE MONETARY COMMITTEE HAD ALSO DISCUSSED THESE QUESTIONS. THE COMMITTEE HAD NOT FINISHED ITS WORK AND THERE WERE DIVIDED OPINIONS. THE COMMITTEE COULD NOT MAKE PROGRESS WITHOUT A POLITICAL STIMULUS BUT IF ORTOLI'S PROPOSAL WERE APPROVED BY THE COUNCIL IT COULD CONTINUE ITS WORK AND PRODUCE A STUDY OF THE EFFECTS OF US INTEREST RATES ON THE ECONOMIES OF THE MEMBER STATES FOR DISCUSSION AT THE NEXT COUNCIL ON 6 JULY.

7. ANDREATTA (ITALY) SAID THAT THE MONETARY COMMITTEE SHOULD ALSO CONSIDER WHETHER THE COMMUNITY SHOULD ACCELERATE THE SECOND STAGE OF THE EUROPEAN MONETARY SYSTEM SO AS TO STABILISE COMMUNITY EXCHANGE RATES VIZ-A-VIZ THE DOLLAR. THE CHAIRMAN SAID THAT THAT WAS COVERED BY ORTOLI'S PROPOSAL.

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8. MR RICHARDSON SAID THAT THE GOVERNORS WERE SUBMITTING A WRITTEN REPORT DEALING WITH TWO TECHNICAL QUESTIONS POSED BY THE COUNCIL AT AN EARLIER MEETING, NAMELY THE CONSOLIDATION OF SWAPS INTO ONE ARRANGEMENT WITH THE EUROPEAN MONETARY CO-OPERATION FUND AND THE POSSIBILITY OF INCREASED INTERVENTION IN COMMUNITY CURRENCIES WITHIN THE EXCHANGE RATE MARGINS OF THE EUROPEAN MONETARY SYSTEM.

9. THE CHAIRMAN THEN SUMMED UP AS RECORDED IN PARAGRAPH 1 ABOVE.

THE ECONOMIC SITUATION IN THE COMMUNITY

10. RUTTEN GAVE AN ORAL REPORT ON BEHALF OF THE CO-ORDINATION GROUP. THE COMMUNITY ECONOMY MIGHT BE APPROACHING A TURNING POINT BUT ONE COULD NOT BE SURE AS THERE WERE TOO MANY UNCERTAIN FACTORS. ONE OF THESE WAS THAT THE FIGHT AGAINST INFLATION WAS STILL BEING GIVEN PRIORITY AS WAS ENTIRELY JUSTIFIED. HE SUMMARISED THE LATEST FORECASTS FOR 1981 AND 1982. HE SAID THAT POLICIES STILL NEEDED TO BE GEARED TO STABILITY AND TO THE STRENGTHENING OF ECONOMIC STRUCTURES SO AS TO PERMIT GROWTH IN THE LONGER TERM. THERE WAS A RISK OF DIVERGENT PERFORMANCE BECAUSE OF INSUFFICIENT ADJUSTMENT IN CERTAIN MEMBER STATES WHICH COULD LEAD TO UNILATERAL ACTION WITH UNFORTUNATE RESULTS - FOR EXAMPLE THE ITALIAN IMPORT DEPOSIT SCHEME. IT WAS IMPORTANT THAT PUBLIC SECTOR DEFICITS SHOULD BE REDUCED IN SEVERAL MEMBER STATES AND THAT THE ROOM FOR MANOEUVRE WHICH EXISTED IN OTHER MEMBER STATES SHOULD BE USED CAREFULLY.

11. ORTOLI (COMMISSION) SAID THAT THE COMMISSION WOULD SUBMIT A REPORT TO THE EUROPEAN COUNCIL. THERE WERE SOME SIGNS OF IMPROVEMENT IN THE COMMUNITY ECONOMY AND IN PARTICULAR SOME HEADWAY HAD BEEN MADE IN DEALING WITH THE ENERGY PROBLEM BUT UNEMPLOYMENT WOULD CONTINUE TO BE A MAJOR CAUSE OF CONCERN. BY 1985 UNEMPLOYMENT WAS LIKELY TO BE VERY MUCH HIGHER THAN THE 8 PER CENT WHICH WAS EXPECTED THIS YEAR. THE PROBLEM COULD NOT BE SOLVED BY A CYCLICAL REVIVAL OF DEMAND BUT MUST RESULT FROM A CHANGE IN STRUCTURAL FACTORS SUCH AS INDEXATION. PUBLIC SECTOR DEFICITS NEEDED TO BE CORRECTED IN A NUMBER OF COUNTRIES. THE VOLATILITY OF INTERNATIONAL INTEREST RATES CREATED PROBLEMS FOR A RESUMPTION OF ECONOMIC ACTIVITY.

12. THE DANISH AND GREEK MINISTERS REGISTERED A PLEA THAT THE CONCLUSIONS OF LAST WEEK'S JUMBO COUNCIL SHOULD NOT BE FORGOTTEN BUT SHOULD BE REPORTED TO THE EUROPEAN COUNCIL. THEY WERE LATER SUPPORTED BY DILLON (IRELAND) SPEAKING ON BEHALF OF HIS ABSENT MINISTER.

13. DELORS (FRANCE) SAID THAT HE SHARED THE CONCERN THAT HAD BEEN EXPRESSED ABOUT UNEMPLOYMENT WHICH CONSTITUTED A RISK TO THE PROPENSITY TO INNOVATE. HE FEARED THAT THE COMMUNITY WOULD NEVER CATCH UP WITH THE UNITED STATES AND JAPAN. WAYS MUST BE FOUND OF INVESTING IN NEW TECHNIQUES DESPITE THE PROBLEMS OF

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PUBLIC DEFICITS. A CONTRIBUTION TO THE SOLUTION OF THIS PROBLEM COULD BE MADE BY COMMUNITY INSTRUMENTS. FRANCE CERTAINLY INTENDED TO USE ITS ROOM FOR MANOEUVRE RESPONSIBLY. THE RESULTING INCREASE IN GDP WOULD ONLY BE ABOUT 0.5 TO 1 PER CENT. IF THE FRENCH GOVERNMENT WENT FURTHER IT WOULD RISK ACCELERATING INFLATION WHICH WAS ALREADY ABOVE THE COMMUNITY AVERAGE.

14. THE CHANCELLOR SAID THAT HE WAS STRUCK BY THE NOT OF CAUTION WITH WHICH DELORS HAD CLOSED HIS OBSERVATIONS. EACH TIME WE EXPERIENCED A SURGE OF INFLATION WE DISCOVERED HOW DIFFICULT IT WAS TO BRING IT BACK UNDER CONTROL. WE SHOULD THEREFORE BE VERY CAUTIOUS ABOUT POLICIES WHICH INVOLVED A SIGNIFICANT INCREASE IN DEMAND. HE WAS SYMPATHETIC TO THE CASE FOR EXTRA INVESTMENT BUT WE MUST ASK OURSELVES HOW FAR THAT COULD ACCOMMODATED WITHOUT RISK OF GREATER INFLATION. AT BREDA FINANCE MINISTERS HAD ASKED THEMSELVES IF THEY COULD NOT HELP EACH OTHER MORE IN DEALING WITH STRUCTURAL PROBLEMS SUCH AS INSTITUTIONALISED INDEXATION. WE ALL SHARED SUCH PROBLEMS AND COULD SUPPORT EACH OTHER IN BECOMING MORE FLEXIBLE.

15. THE CHAIRMAN THEN SUMMED UP AS RECORDED IN PARAGRAPH 2 ABOVE.

FCO ADVANCE TO-

FCO - BRIDGES HANNAY SPRECKLEY

CAB - FRANKLIN WENTWORTH

TSY - PS/CHANCELLOR WASS COUZENS HANCOCK HEDLEY-MILLER SCHOLES

BANK - BALFOUR

FCO PASS SAVING TO BRUSSELS COPENHAGEN DUBLIN PARIS BONN ATHENS

THOMAS

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REPEATED AS REQUESTED

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FM LUXEMBOURG 152144Z JUN 81
TO IMMEDIATE F C O
TELEGRAM NUMBER 100 OF 15 JUNE 1981
INFO IMMEDIATE UKREP BRUSSELS
INFO SAVING EC POSTS

FOLLOWING FROM UKREP BRUSSELS

FINANCE COUNCIL 15 JUNE

ADJUSTMENT PROCEDURE FOR CENTRAL RATES WITHIN EMS

SUMMARY

1. HABERER (MONETARY COMMITTEE) REPORTED THAT THE COMMITTEE HAD REVIEWED THE PROCEDURES FOR ADJUSTING CENTRAL RATES AGREED LAST YEAR IN THE LIGHT OF THE RECENT DEVALUATION OF THE LIRA. THESE LAID DOWN A REQUIREMENT FOR PRIOR CONSULTATION AND OBTAINING THE OPINION OF THE MONETARY COMMITTEE. THE PROCEDURE HAD WORKED REASONABLY WELL IN THE RECENT CASE. BUT THE COMMITTEE HAD DRAWN 2 CONCLUSIONS FOR THE FUTURE:

(A) PRIOR NOTIFICATION, AND HENCE THE CONSULTATION PERIOD SHOULD BE LONGER, IE FRIDAY EVENING IF POSSIBLE:

(B) THE SIGNIFICANT IMPACT ON AGRI-MONETARY RATES OF THE INCLUSION OF STERLING IN THE BASKET OF CURRENCIES HAD BEEN NOTED. THE MONETARY COMMITTEE WAS STUDYING THIS ARRANGEMENT AND WOULD BE REPORTING IN A FEW MONTHS TIME.

FCO ADVANCE TO:-

FCO - HANNAY, SPRECKLEY
CAB - FRANKLIN, WENTWORTH
TSY - PS/CHANCELLOR, HANCOCK, PERETY, SCHOLES
BANK - BULFOUR

FCO PASS SAVING BRUSSELS COPENHAGEN THE HAGUE ROME DUBLIN PARIS
BONN ATHENS

THOMAS

(REPEATED AS REQUESTED)

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RESTRICTED

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FM LUXEMBOURG 152138Z JUN 81
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TELEGRAM NUMBER 97 OF 15 JUNE 1981
INFO IMMEDIATE UKREP BRUSSELS
INFO SAVING EC POSTS

FOLLOWING FROM UKREP BRUSSELS

FINANCE COUNCIL 15 JUNE

EXPORT CREDITS

SUMMARY

1. THE COUNCIL AGREED THAT COREPER AND THE WORKING GROUP SHOULD CONTINUE THEIR WORK ON THE COMMISSION'S INFORMAL PROPOSALS FOR SOLVING THE OUTSTANDING PROBLEMS WITH A VIEW TO A DEFINITIVE DISCUSSION BY THE COUNCIL AT ITS SEPTEMBER MEETING SO THAT THE COMMUNITY WOULD HAVE AN AGREED POSITION AT THE NEXT MEETING OF THE CONSENSUS IN OCTOBER.

DETAIL

2. ORTOLI (COMMISSION) REPORTED TO THE COUNCIL THAT THE COMMISSION HAD MADE A NUMBER OF INFORMAL SUGGESTIONS TO THE WORKING GROUP ON HOW THE DEADLOCK SHOULD BE BROKEN. THE COMMISSION WAS NOT YET IN A POSITION TO SUBMIT NEW FORMAL PROPOSALS - THEY STOOD BY THEIR PROPOSALS OF 26 MARCH. BUT HE HOPED THAT THE EXPERT GROUP WOULD MEET AT A MORE SENIOR LEVEL TO CONSIDER THE INFORMAL IDEAS THAT THE COMMISSION HAD RECENTLY PUT FORWARD. IF SUFFICIENT PROGRESS WERE MADE THE COMMISSION WOULD THEN CONVERT THEIR IDEAS INTO NEW FORMAL PROPOSALS.

3. ORTOLI'S STATEMENT WAS WELCOMED BY MATTHOEFER, VANDERPUTTE, THE DUTCH AND THE CHANCELLOR. DELORS (FRANCE) PLEADED THAT THE NEW GOVERNMENT SHOULD BE GIVEN MORE TIME TO CONSIDER THE MATTER. FRANCE'S GENERAL POSITION HAD NOT CHANGED BUT THE NEW GOVERNMENT WANTED TO ACHIEVE A GREATER DEGREE OF COOPERATION WITHIN THE COMMUNITY AND HE WOULD DO HIS UTMOST TO AVOID DELAYING THE COUNCIL'S WORK. HE SHOULD BE ABLE TO JOIN IN A SUBSTANTIVE DISCUSSION AT THE NEXT MEETING ON 6 JULY.

RESTRICTED

/4.

RESTRICTED

4. ANDREATTA (ITALY) INDICATED THAT HE COULD AGREE TO A 3 PER CENT INCREASE IN INTEREST RATES FOR ADVANCE COUNTRIES AND 2 PER CENT FOR THE LESS DEVELOPED. THE KEY TO THE SOLUTION OF THE JAPANESE PROBLEM WAS ACCESS BY OTHER COUNTRIES TO THE JAPANESE MARKET.

5. THE CHAIRMAN THEN SUMMED UP AS RECORDED ABOVE.

FCO ADVANCE TO :-

FCO - HANNAY, SPRECKLEY

CAB - FRANKLIN, WENTWORTH

TSY - PS/CHANCELLOR, HANCOCK, MOUNTFIELD, HAWTIN, SCHOLLES

ECGD - COCHRANE

FCO PASS SAVING BRUSSELS COPENHAGEN THE HAGUE ROME DUBLIN PARIS
BONN ATHENS

THOMAS

[ADVANCED/REPEATED AS REQUESTED]

FRAME ECONOMIC
ECD (I)

33

RESTRICTED

GRPS 330
RESTRICTED
FRAME ECONOMIC
DESKBY 160800Z
FM LUXEMBOURG 152138Z JUN 81
TO IMMEDIATE F C O
TELEGRAM NUMBER 97 OF 15 JUNE 1981
INFO IMMEDIATE UKREP BRUSSELS
INFO SAVING EC POSTS

FOLLOWING FROM UKREP BRUSSELS

FINANCE COUNCIL 15 JUNE

EXPORT CREDITS

SUMMARY

1. THE COUNCIL AGREED THAT COREPER AND THE WORKING GROUP SHOULD CONTINUE THEIR WORK ON THE COMMISSION'S INFORMAL PROPOSALS FOR SOLVING THE OUTSTANDING PROBLEMS WITH A VIEW TO A DEFINITIVE DISCUSSION BY THE COUNCIL AT ITS SEPTEMBER MEETING SO THAT THE COMMUNITY WOULD HAVE AN AGREED POSITION AT THE NEXT MEETING OF THE CONSENSUS IN OCTOBER.

DETAIL

2. ORTOLI (COMMISSION) REPORTED TO THE COUNCIL THAT THE COMMISSION HAD MADE A NUMBER OF INFORMAL SUGGESTIONS TO THE WORKING GROUP ON HOW THE DEADLOCK SHOULD BE BROKEN. THE COMMISSION WAS NOT YET IN A POSITION TO SUBMIT NEW FORMAL PROPOSALS - THEY STOOD BY THEIR PROPOSALS OF 26 MARCH. BUT HE HOPED THAT THE EXPERT GROUP WOULD MEET AT A MORE SENIOR LEVEL TO CONSIDER THE INFORMAL IDEAS THAT THE COMMISSION HAD RECENTLY PUT FORWARD. IF SUFFICIENT PROGRESS WERE MADE THE COMMISSION WOULD THEN CONVERT THEIR IDEAS INTO NEW FORMAL PROPOSALS.

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RESTRICTED

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RESTRICTED

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5. THE CHAIRMAN THEN SUMMED UP AS RECORDED ABOVE.

FCO ADVANCE TO:-

FCO - HANNAY, SPRECKLEY

CAB - FRANKLIN, WENTWORTH

TSY - PS/CHANCELLOR, HANCOCK, MOUNTFIELD, HAWTIN, SHOLES

ECGD - COCHRANE

FCO PASS SAVING BRUSSELS COPENHAGEN THE HAGUE ROME DUBLIN PARIS
BONN ATHENS

THOMAS

[ADVANCED/REPEATED AS REQUESTED]

FRAME ECONOMIC
ECD (I)

RESTRICTED

RESTRICTED

FRAME ECONOMIC

DESKBY160800Z

FM LUXEMBOURG 152132Z JUN 81

TO IMMEDIATE F C O

TELEGRAM NUMBER 94 OF 15 JUNE 1981

INFO IMMEDIATE UKREP BRUSSELS ROUTINE ROME DUBLIN

INFO SAVING EC POSTS

FOLLOWING FROM UKREP BRUSSELS

FINANCE COUNCIL 15 JUNE

NEW COMMUNITY INSTRUMENT (NIC)

SUMMARY

1. IN SPITE OF THE GERMAN RESERVE, THE CHAIRMAN SAID THAT ENOUGH PROGRESS HAD BEEN MADE ON THE OUTSTANDING QUESTIONS OF THE CEILING, ITS LEVEL AND THE VOTING RULE FOR THE COUNCIL TO RESUME ITS DISCUSSIONS IN JULY WITH A VIEW TO REACHING CONCLUSIONS.

DETAIL

2. THE CHAIRMAN INVITED CONTRIBUTIONS ON WHETHER THERE SHOULD BE A CEILING, ITS LEVEL AND THE VOTING RULES GOVERNING NEW TRANCHES.

3. MATTHOFFER (GERMANY) SAID THAT HIS GOVERNMENT WAS NOT CONVINCED OF THE NEED TO MAINTAIN THIS FACILITY. TODAY'S DECISION TO DOUBLE THE CAPITAL OF THE EIB PROVIDED THE COMMUNITY WITH SUFFICIENT LENDING CAPACITY. THIS, TOGETHER WITH THE NIC, COULD SWAMP THE CAPITAL MARKETS. HIS GOVERNMENT SAW A LINK BETWEEN THE RENEWAL OF THE NIC AND THE MANDATE OF 30 MAY AND, HE SAID DARKLY, WOULD WANT TO DISCUSS THE PROPOSAL WITH CERTAIN OF THEIR PARTNERS IN THIS CONTEXT. HOWEVER, THEY RECOGNISED THAT THEY WERE IN A MINORITY AND WOULD GIVE THE MATTER FURTHER THOUGHT.

4. DILLON (IRELAND) SAID THAT RELIANCE ON THE EIB ALONE WAS NOT SATISFACTORY BECAUSE OF ITS EXISTING HEAVY COMMITMENTS BOTH WITHIN AND WITHOUT THE COMMUNITY. IN IRELAND'S CASE THE NIC HAD FACILITATED GENUINELY ADDITIONAL INVESTMENT. THE EXISTING FACILITY WAS EXHAUSTED AND ITS RENEWAL WAS URGENT FOR POORER REGIONS SUCH AS IRELAND.

5. ANDREATTA (ITALY) DENIED THAT THERE WAS ANY LINK WITH THE MANDATE. THE NIC MATERIALLY ASSISTED THE RESTRUCTURING OF WEAKER ECONOMIES. HIS GOVERNMENT WERE OPPOSED TO A CEILING BUT COULD AGREE THAT TRANCHES SHOULD BE APPROVED UNANIMOUSLY.

6. PALLIOKRASSES (GREECE) FAVOURED RENEWAL, A CEILING AND UNANIMOUS VOTING.

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RESTRICTED

7. DELORS (FRANCE) ARGUED THAT FAILURE TO RENEW THE NIC WOULD LOOK BAD VIEWED AGAINST THE HIGH UNEMPLOYMENT IN THE COMMUNITY. HE HOPED THE EUROPEAN COUNCIL WOULD AGREE TO SEPARATE THE NIC FROM THE MANDATE EXERCISE. THE RISK OF SATURATING CAPITAL MARKETS COULD BE AVERTED BY CAREFUL PROGRAMMING OF EIB AND COMMISSION BORROWING. HE FAVOURED UNANIMOUS VOTING.

8. VANDERPUTTE (BELGIUM) SAID THEY WOULD PREFER MAJORITY VOTING BUT COULD ACCEPT UNANIMITY. IF THERE HAD TO BE A CEILING IT SHOULD BE REASONABLE.

9. ORTOLI (COMMISSION) COMPLAINED THAT THE COMMISSION'S PROPOSAL HAD HUNG FIRE SINCE OCTOBER. THE COUNCIL SHOULD APPROVE IT IF THEY WERE SERIOUS ABOUT THEIR STATEMENTS ENCOURAGING HIGHER INVESTMENT IN THE COMMUNITY. IN RESPONSE TO MATTHOFFER HE SAID THAT THE NIC WAS MANAGED BY THE EIB FOR THE COMMISSION PREVIOUSLY TO AVOID CONFLICTS IN THEIR CAPITAL RAISING ACTIVITIES AND EXCESSIVE BUREAUCRACY. HE SAW NO LINK WITH THE MANDATE. RENEWAL OF THE NIC WOULD BE A SIGN OF EC SOLIDARITY AND AN APPROPRIATE FOLLOW-UP TO THE JUMBO COUNCIL.

10. VAN DER STEE ASKED COREPER TO PURSUE OUTSTANDING POINTS IN PREPARATION FOR THE JULY ECOFIN AT WHICH IT SHOULD BE POSSIBLE TO REACH FINAL DECISIONS.

FCO ADVANCE TO :-

FCO - HANNAY, SPRECKLEY

CAB - FRANKLIN, WENTWORTH

TSY - PS/CHANCELLOR, HANCOCK, HEDLEY-MILLER, SCHOLES

BANK - BALFOUR

FCO PASS SAVING BRUSSELS COPENHAGEN THE HAGUE PARIS BONN ATHENS

THOMAS

ADVANCED AS REQUESTED

REPEATED AS REQUESTED

FRAME ECONOMIC

ECD (1)

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RESTRICTED

GRS 200
RESTRICTED

RESTRICTED

FRAME ECONOMIC
DESKBY 160800Z
FM LUXEMBOURG 152140Z JUN 81
TO IMMEDIATE FCO
TELEGRAM NUMBER 98 OF 15 JUNE 1981
INFO IMMEDIATE UKREP BRUSSELS
INFO SAVING EC POSTS

FOLLOWING FROM UKREP BRUSSELS

FINANCE COUNCIL 15 JUNE
ENERGY SUBSIDIES

SUMMARY

1. IT WAS AGREED THAT COREPER SHOULD PREPARE FOR A LATER COUNCIL DISCUSSION ON THE BASIS OF FURTHER INFORMATION FROM THE COMMISSION AND THE GERMAN GOVERNMENT.

DETAIL

2. POENSGEN (GERMANY) WELCOMED THE COMMISSION'S PAPER BUT SAID THAT A FUTURE COUNCIL DISCUSSION SHOULD FOCUS ON A SMALL NUMBER OF SPECIFIC ISSUES. HE ASKED THAT THE COMMISSION SHOULD PREPARE A FURTHER PAPER ON THESE.

3. ORTOLI (COMMISSION) SAID, WITH UNDERSTANDABLE TESTINESS, THAT THE GERMANS SHOULD FIRST SAY WHAT THE ISSUES WERE AND PROVIDE SOME INFORMATION OF THEIR OWN. SUBSIDISED ENERGY PRICES, WHICH SEEM TO BE THE MAIN GERMAN CONCERN, WERE NOT THE ONLY PROBLEM IN THIS FIELD. THERE WERE IMPORTANT FISCAL QUESTIONS. FOR EXAMPLE, WHY WAS THE ITALIAN TAX ON DIESEL OIL 5 TIMES THE TAX IN THE UK? SOME OF THE ISSUES RAISED IN THE PAPER AND IN THE DISCUSSION OUGHT TO BE PURSUED IN THE ENERGY COUNCIL. COREPER SHOULD PREPARE THE GROUND FOR AN ECOFIN DISCUSSION.

4. VAN DER STEE SUMMED UP AS IN PARA 1 ABOVE.

FCO ADVANCE TO:

FCO - HANNAY SPRECKLEY
CAB - FRANKLIN WENTWORTH
TSY - PS/CHANCELLOR HANCOCK WICKS SCHOLES
D/EN - D LE B JONES
BANK - BALFOUR

(ADVANCED AS REQUESTED)

FCO PASS SAVING BRUSSELS COPENHAGEN THE HAGUE ROME DUBLIN PARIS
BONN ATHENS
THOMAS (REPEATED AS REQUESTED)

FRAME ECONOMIC
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FRAME ECONOMIC

DESKBY 16φ8φφZ

FM LUXEMBOURG 152134Z JUN 81

TO IMMEDIATE F C O

TELEGRAM NUMBER 95 OF 15 JUNE 1981

INFO IMMEDIATE UKREP BRUSSELS

INFO SAVING EC POSTS

FOLLOWING FROM UKREP BRUSSELS

FINANCE COUNCIL, - 15 JUNE

INSURANCE SERVICES DIRECTIVE

SUMMARY

1. IN A BRIEF DISCUSSION THERE WAS AGREEMENT BY ALL BUT GREEKS THAT PROGRESS HAD BEEN MADE ON AUTHORISATION. NO REAL ATTENTION TO OTHER PROBLEMS. COUNCIL AIMS TO TAKE DEFINITIVE DECISIONS IN SEPTEMBER.

DETAIL

2. VAN DER STEE (CHAIRMAN) INTRODUCED THIS ITEM BY RECALLING DISCUSSION AT MARCH FINANCE COUNCIL AND SUMMARISING SUBSEQUENT PROGRESS TOWARDS COMPROMISE ON AUTHORISATION. HE FELT THAT THE NEW PROPOSAL, REPLACING SPECIFIC AUTHORISATION BY A VERIFICATION PROCEDURE FROM WHICH INDUSTRIAL AND COMMERCIAL RISKS WOULD BE EXEMPTED, OFFERED A REASONABLE SOLUTION ON WHICH HE INVITED HIS COLLEAGUES' COMMENTS. HIS REMARKS WERE ENDORSED BY TUGENDHAT (COMMISSION) WHO REFERRED TO THE VARIOUS QUESTIONS STILL AT ISSUE ON THIS PROBLEM AND HOPED THAT THE COUNCIL WOULD BE ABLE TO MAKE PROGRESS ON THIS AND THE OTHER OUTSTANDING PROBLEMS.

3. THE CHANCELLOR, NOTING THE TIME ALREADY SPENT ON WORK ON THIS DIRECTIVE, EMPHASIZED THE UK'S ANXIETY FOR PROGRESS. ON TAXATION, COMPULSORY INSURANCE AND BRANCHES AND AGENCIES, IT SHOULD BE POSSIBLE TO REACH AGREEMENT ON THE LINES ALREADY DISCUSSED. ON AUTHORISATION, HE ACKNOWLEDGED THE WORK DONE BY THE COMMISSION AND COREPER, SAYING THAT THE DISTINCTION BETWEEN INDUSTRIAL AND COMMERCIAL RISKS AND MASS RISKS SEEMED TO PROVIDE THE WAY FORWARD. HE SUGGESTED THAT COREPER SHOULD PRESS AHEAD WITH ITS WORK ON THE DIRECTIVE WITH A VIEW TO COUNCIL DECISIONS IN SEPTEMBER.

4. VANDEPUTTE (BELGIUM) SAID THAT HE COULD ENDORSE THE BROAD APPROACH OF SUBMITTING A DOSSIER FOR VERIFICATION AS A SOLUTION TO THE PROBLEM OF AUTHORISATION. NORGAARD (DENMARK) AGREED; HE ADDED THAT THE DANES HAD NO MAJOR OBJECTIONS ON THE OTHER POINTS BEFORE THE COUNCIL AND AGREED WITH THE UK'S AIM OF REACHING AGREEMENT IN SEPTEMBER.

5. DELORS (FRANCE) RECALLED THAT THE FRENCH WERE CONCERNED WITH BOTH FAIR COMPETITION AND CONSUMER PROTECTION. ARTICLES 9 AND 10 NOW OFFERED A SATISFACTORY SOLUTION ON THE LATTER. ON THE FORMER HOWEVER HE REMAINED CONCERNED THAT THERE WAS A NEED FOR PROGRESS ON THE TAX PROBLEM IN THE INTERESTS OF FISCAL NEUTRALITY AND MUTUAL ASSISTANCE, WHERE THE FRENCH REQUIRED MORE GUARANTEES THAN WERE PROVIDED IN THE DIRECTIVE AT PRESENT. HE REITERATED THAT THEY WOULD BE PREPARED TO PURSUE THE POSSIBILITY OF OPTIONAL VAT. HE AGREED THAT PROGRESS WAS OVERDUE AND CONFIRMED BROAD AGREEMENT WITH THE GENERAL APPROACH NOW UNDER DISCUSSION, ADDING THAT HE PARTICULARLY WELCOMED THE ATTENTION BEING GIVEN TO COMPULSORY INSURANCE.

6. ANDREATTA (ITALY) COMMENTED ON THE SATISFACTORY PROGRESS NOW BEING MADE AND HOPED THAT THE DIRECTIVE COULD BE ADOPTED DURING THE UK PRESIDENCY. HE REMARKED HOWEVER THAT DISTINCTION BETWEEN RISKS REMOVED THE SENSE FROM THE VERIFICATION PROCEDURE.

7. SANTER (LUXEMBOURG) SAID THAT HIS COUNTRY'S PREVIOUS SUPPORT FOR SEPARATE AUTHORISATION HAD BEEN BASED ON THE NEED TO AVOID DISTORTION OF COMPETITION; NEVERTHELESS HE WAS PREPARED TO AGREE TO THE VERIFICATION PROCEDURE NOW PROPOSED. HE MAINTAINED A RESERVATION ON DISTINCTION BETWEEN DIFFERENT TYPES OF RISK PENDING EXAMINATION OF THIS QUESTION BY EXPERTS.

8. FOR THE IRISH, SWIFT (DEPUTY PERMANENT REPRESENTATIVE) SAID THAT THEY HAD ALWAYS BEEN CONCERNED TO PROVIDE A PROPER ROLE FOR THE HOST SUPERVISORY AUTHORITIES. THEY WERE ENCOURAGED THAT THE NEW APPROACH SET OUT IN ARTICLES 9 AND 10 HELPED TO ACHIEVE THIS AND WERE ACCORDINGLY ABLE TO LIFT THEIR RESERVATION ON AUTHORISATION.

9. PALIOKRASSAS (GREECE) SPOKE OF PARTICULAR REGULATORY PROBLEMS IN THE GREEK INSURANCE MARKET; HE CLAIMED THAT THE IDEA OF NON-ESTABLISHED INSURERS DOING BUSINESS IN THAT MARKET WAS UNACCEPTABLE. THIS HAD LED TO THEIR RESERVATION ON AUTHORISATION WHICH HE WAS UNABLE TO LIFT AT PRESENT; HE UNDERTOOK HOWEVER TO GIVE A DEFINITE VIEW ON THIS PROBLEM IN SEPTEMBER.

10. KITTEL (GERMAN DEPUTY PERMANENT REPRESENTATIVE) THOUGHT THAT THE BROAD GUIDELINES OF ARTICLES 9 AND 10 WERE SOUND AND SATISFIED THE REQUIREMENTS LAID DOWN BY THE COUNCIL IN MARCH, STRESSING THE IMPORTANCE OF AVOIDING DISCRIMINATION. HE ACCEPTED THE IDEA OF FURTHER COUNCIL DISCUSSION IN SEPTEMBER. THE NETHERLANDS DELEGATION ALSO FELT THAT ARTICLES 9 AND 10 WERE BASICALLY ACCEPTABLE.

11. TUGENDHAT EXPRESSED SATISFACTION AT PROGRESS ON AUTHORISATION BUT ASKED THAT SUFFICIENT TIME SHOULD BE ALLOWED ON THE NEXT OCCASION FOR A FULL DISCUSSION IN THE COUNCIL. IN RESPONSE TO DELORS HE SAID THAT THE IDEA OF OPTIONAL VAT WAS UNACCEPTABLE, BEING INCOMPATIBLE WITH THE COMMUNITY'S OBJECTIVES OF HARMONISATION, AND OFFERED THE COMMISSION'S HELP IN SEEKING TO ALLAY FRENCH CONCERN ON THE FISCAL PROBLEM.

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RESTRICTED

12.

RESTRICTED

12. SUMMING UP, VAN DER STEE CONCLUDED THAT THE NEW APPROACH ON AUTHORISATION WAS SEEN AS PROGRESS AND THAT THERE SHOULD BE A DEFINITIVE DISCUSSION AT THE SEPTEMBER COUNCIL, WITH FURTHER PREPARATORY WORK BY COREPER MEANWHILE.

FCO ADVANCE TO:-

FCO - PS/S OF S, PS/LPS, HANNAY, SPRECKLEY, DE CHASSIRON

CAB - FRANKLIN, ELLIOTT, BROWN

C/W - WALTON

DOT - HENES, BIRCH

TSY - PS/CHANCELLOR, HANCOCK, ASHFORD, SCHOLES

FCO PASS SAVING BRUSSELS COPENHAGEN THE HAGUE ROME DUBLIN PARIS BONN ATHENS

THOMAS

ADVANCED AS REQUESTED

REPEATED AS REQUESTED

FRAME ECONOMIC
ECD (1)

GRPS 185

RESTRICTED

*Keep one set
(you already have
advances)*

RESTRICTED
FRAME ECONOMIC
DESKBY 160800Z
FM LUXEMBOURG 152144Z JUN 81
TO IMMEDIATE F C O
TELEGRAM NUMBER 100 OF 15 JUNE 1981
INFO IMMEDIATE UKREP BRUSSELS
INFO SAVING EC POSTS

FOLLOWING FROM UKREP BRUSSELS

FINANCE COUNCIL 15 JUNE

ADJUSTMENT PROCEDURE FOR CENTRAL RATES WITHIN EMS

SUMMARY

1. HABERER (MONETARY COMMITTEE) REPORTED THAT THE COMMITTEE HAD REVIEWED THE PROCEDURES FOR ADJUSTING CENTRAL RATES AGREED LAST YEAR IN THE LIGHT OF THE RECENT DEVALUATION OF THE LIRA. THESE LAID DOWN A REQUIREMENT FOR PRIOR CONSULTATION AND OBTAINING THE OPINION OF THE MONETARY COMMITTEE. THE PROCEDURE HAD WORKED REASONABLY WELL IN THE RECENT CASE. BUT THE COMMITTEE HAD DRAWN 2 CONCLUSIONS FOR THE FUTURE:

(A) PRIOR NOTIFICATION, AND HENCE THE CONSULTATION PERIOD SHOULD BE LONGER, IE FRIDAY EVENING IF POSSIBLE:

(B) THE SIGNIFICANT IMPACT ON AGRI-MONETARY RATES OF THE INCLUSION OF STERLING IN THE BASKET OF CURRENCIES HAD BEEN NOTED. THE MONETARY COMMITTEE WAS STUDYING THIS ARRANGEMENT AND WOULD BE REPORTING IN A FEW MONTHS TIME.

FCO ADVANCE TO:-

FCO - HANNAY, SPRECKLEY
CAB - FRANKLIN, WENTWORTH
TSY - PS/CHANCELLOR, HANCOCK, PERETY, SCHOLES
BANK - BULFOUR

FCO PASS SAVING BRUSSELS COPENHAGEN THE HAGUE ROME DUBLIN PARIS
BONN ATHENS

THOMAS

(REPEATED AS REQUESTED)

**FRAME ECONOMIC
ECD (1)**

RESTRICTED

RESTRICTED

GRPS 950

RESTRICTED
FRAME ECONOMIC
DESKBY 160800Z
FM LUXEMBOURG 152134Z JUN 81
TO IMMEDIATE F C O
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INFO IMMEDIATE UKREP BRUSSELS
INFO SAVING EC POSTS

FOLLOWING FROM UKREP BRUSSELS

FINANCE COUNCIL, - 15 JUNE

INSURANCE SERVICES DIRECTIVE

SUMMARY

1. IN A BRIEF DISCUSSION THERE WAS AGREEMENT BY ALL BUT GREEKS THAT PROGRESS HAD BEEN MADE ON AUTHORISATION. NO REAL ATTENTION TO OTHER PROBLEMS. COUNCIL AIMS TO TAKE DEFINITIVE DECISIONS IN SEPTEMBER.

DETAIL

2. VAN DER STEE (CHAIRMAN) INTRODUCED THIS ITEM BY RECALLING DISCUSSION AT MARCH FINANCE COUNCIL AND SUMMARISING SUBSEQUENT PROGRESS TOWARDS COMPROMISE ON AUTHORISATION. HE FELT THAT THE NEW PROPOSAL, REPLACING SPECIFIC AUTHORISATION BY A VERIFICATION PROCEDURE FROM WHICH INDUSTRIAL AND COMMERCIAL RISKS WOULD BE EXEMPTED, OFFERED A REASONABLE SOLUTION ON WHICH HE INVITED HIS COLLEAGUES' COMMENTS. HIS REMARKS WERE ENDORSED BY TUGENDHAT (COMMISSION) WHO REFERRED TO THE VARIOUS QUESTIONS STILL AT ISSUE ON THIS PROBLEM AND HOPED THAT THE COUNCIL WOULD BE ABLE TO MAKE PROGRESS ON THIS AND THE OTHER OUTSTANDING PROBLEMS.

3. THE CHANCELLOR, NOTING THE TIME ALREADY SPENT ON WORK ON THIS DIRECTIVE, EMPHASIZED THE UK'S ANXIETY FOR PROGRESS. ON TAXATION, COMPULSORY INSURANCE AND BRANCHES AND AGENCIES, IT SHOULD BE POSSIBLE TO REACH AGREEMENT ON THE LINES ALREADY DISCUSSED. ON AUTHORISATION, HE ACKNOWLEDGED THE WORK DONE BY THE COMMISSION AND COREPER, SAYING THAT THE DISTINCTION BETWEEN INDUSTRIAL AND COMMERCIAL RISKS AND MASS RISKS SEEMED TO PROVIDE THE WAY FORWARD. HE SUGGESTED THAT COREPER SHOULD PRESS AHEAD WITH ITS WORK ON THE DIRECTIVE WITH A VIEW TO COUNCIL DECISIONS IN SEPTEMBER.

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RESTRICTED

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11. TUGENDHAT EXPRESSED SATISFACTION AT PROGRESS ON AUTHORISATION BUT ASKED THAT SUFFICIENT TIME SHOULD BE ALLOWED ON THE NEXT OCCASION FOR A FULL DISCUSSION IN THE COUNCIL. IN RESPONSE TO DELORS HE SAID THAT THE IDEA OF OPTIONAL VAT WAS UNACCEPTABLE, BEING INCOMPATIBLE WITH THE COMMUNITY'S OBJECTIVES OF HARMONISATION, AND OFFERED THE COMMISSION'S HELP IN SEEKING TO ALLAY FRENCH CONCERN ON THE FISCAL PROBLEM.

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RESTRICTED

/12.

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RESTRICTED

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FCO ADVANCE TO:-

FCO - PS/S OF S, PS/LPS, HANNAY, SPRECKLEY, DE CHASSIRON

CAB - FRANKLIN, ELLIOTT, BROWN

C/W - WALTON

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FCO PASS SAVING BRUSSELS COPENHAGEN THE HAGUE ROME DUBLIN PARIS
BONN ATHENS

THOMAS

ADVANCED AS REQUESTED

REPEATED AS REQUESTED

FRAME ECONOMIC
ECD (1)

GAS 200
RESTRICTED

RESTRICTED

FRAME ECONOMIC
DESKBY 160800Z
FM LUXEMBOURG 152140Z JUN 81
TO IMMEDIATE FCO
TELEGRAM NUMBER 98 OF 15 JUNE 1981
INFO IMMEDIATE UKREP BRUSSELS
INFO SAVING EC POSTS

FOLLOWING FROM UKREP BRUSSELS

FINANCE COUNCIL 15 JUNE
ENERGY SUBSIDIES

SUMMARY

1. IT WAS AGREED THAT COREPER SHOULD PREPARE FOR A LATER COUNCIL DISCUSSION ON THE BASIS OF FURTHER INFORMATION FROM THE COMMISSION AND THE GERMAN GOVERNMENT.

DETAIL

2. POENSGEN (GERMANY) WELCOMED THE COMMISSION'S PAPER BUT SAID THAT A FUTURE COUNCIL DISCUSSION SHOULD FOCUS ON A SMALL NUMBER OF SPECIFIC ISSUES. HE ASKED THAT THE COMMISSION SHOULD PREPARE A FURTHER PAPER ON THESE.

3. ORTOLI (COMMISSION) SAID, WITH UNDERSTANDABLE TESTINESS, THAT THE GERMANS SHOULD FIRST SAY WHAT THE ISSUES WERE AND PROVIDE SOME INFORMATION OF THEIR OWN. SUBSIDISED ENERGY PRICES, WHICH SEEM TO BE THE MAIN GERMAN CONCERN, WERE NOT THE ONLY PROBLEM IN THIS FIELD. THERE WERE IMPORTANT FISCAL QUESTIONS. FOR EXAMPLE, WHY WAS THE ITALIAN TAX ON DIESEL OIL 5 TIMES THE TAX IN THE UK? SOME OF THE ISSUES RAISED IN THE PAPER AND IN THE DISCUSSION OUGHT TO BE PURSUED IN THE ENERGY COUNCIL. COREPER SHOULD PREPARE THE GROUND FOR AN ECOFIN DISCUSSION.

4. VAN DER STEE SUMMED UP AS IN PARA 1 ABOVE.

FCO ADVANCE TO:

FCO - HANNAY SPRECKLEY
CAB - FRANKLIN WENTWORTH
TSY - PS/CHANCELLOR HANCOCK WICKS SCHOLES
D/EN - D LE B JONES
BANK - BALFOUR

(ADVANCED AS REQUESTED)

FCO PASS SAVING BRUSSELS COPENHAGEN THE HAGUE ROME DUBLIN PARIS
BONN ATHENS
THOMAS (REPEATED AS REQUESTED)

FRAME ECONOMIC
ECD (1)

RESTRICTED

15/6/81.

② #

ECONOMIC ASSISTANCE TO POLAND

(Not on the agenda: may be raised by France)

POINTS TO MAKE

1. Poland's economic problems of her own making, and may now be insoluble.
2. In the wider political context, economic assistance might be of marginal help to a liberal regime in Poland but will not be decisive.
3. Community governments, under very constructive French leadership, have done their best to ease the burden of debt by an unprecedentedly generous rescheduling operation.
4. Governments can also help through the provision of new credit, and are doing so. Community has helped collectively by making sales of food from intervention stocks at favourable prices.
5. Unfortunately banks have been much slower to reschedule their debts, and many have actually reduced their short-term facilities. Community governments should use what influence they have to remind banks of the need to avoid an untidy default if at all possible. But banks cannot be coerced.
6. Latest moves by US banks postpone any bank rescheduling agreement and make prospect of default rather more likely.
7. But see no chance of any further concerted action, whether in Paris Club or within Community. Banking system will be able to sustain shock of a default.
8. If pressed. UK would of course be prepared to join in any further discussions but not optimistic of outcome. To save time probably better to use existing French-led creditors' group, not to set up separate Community machinery.

Essential Facts


1. France has taken the lead in organising meetings of the 15 creditor countries to whom Poland owes about \$26 billion. A multilateral agreement has now been reached which reschedules 90% of the principal and interest of official and officially-guaranteed debt falling due in the last eight months of 1981. Bilateral agreements to give effect to this are now being negotiated. The United Kingdom was among the first to do a deal.
2. A parallel agreement with the commercial banks is being negotiated but it is going very closely. At a meeting in New York on 10 June, the US banks rejected proposals for a concerted rescheduling of all non-guaranteed bank debt. They are now likely to seek a separate agreement with Poland. This will probably impose a further delay, and increases the danger that Poland will be forced to impose a moratorium on all debt payment. (For political reasons some hard-line elements in Poland may wish to do this anyway). The effects of a moratorium are unpredictable. No individual bank is so seriously exposed as to create a problem. ECGD would have to pay up further large sums, adding to the PSBR, but mainly in 1982 and later. We have only scanty information about the effect on foreign banks; German and Austrian banks are the most heavily-engaged.
3. Even if there is no moratorium, and the banks all reschedule their debts, there will still be an enormous gap in the Polish balance of payments for 1981, variously calculated as between \$1½ and 2½ billion. Part of this will be covered by loans from the banks if and when a rescheduling agreement is reached. Part of it will be covered by credits already promised by some of the major creditors, notably France and Germany. There is a big line of credit on offer from the USA, but on terms so unfavourable that Poland cannot take advantage of it; and the Western powers insist that the Soviet Union and its satellites must also help out, they they show little sign of doing so.
4. France convened a meeting of creditor countries in Paris on 1 and 2 June to see whether anything further could be done by way of "burden sharing" in the provision of new guaranteed export

credit. The results were very disappointing to the Poles. We were all asked to report how much credit we were prepared to make available. The replies are not yet all in but it looks as though there will still be a very big gap. The French may therefore use the opportunity of this meeting to seek agreement at a political level that the gap must somehow be bridged.

5. The United Kingdom has so far given new credits totalling £40 million for the first half of 1981 (plus a bit left over from 1980). Most of this has been earmarked for the Community-assisted food package. Ministers have approved a further £25 million for the second half of the year. Half of it will be earmarked for agricultural sales and the other half for general purposes. For agricultural sales, terms will be those applying to the credits made available earlier this year. For the other sales normal "Consensus" terms will apply. This may be announced at the OECD Ministerial meeting on 17 June if the matter is raised then. Otherwise it will probably be put to the Polish Deputy Prime Minister when he calls on the Chief Secretary on 19 June.

Have some more to say

6. The Poles may also seek a political commitment to provide further short-term loans to replace the withdrawal of short-term banking facilities earlier this year. They say they want \$500 million coming equally from the five major creditors (Britain, France, Germany, USA, Austria). We see no reason to co-operate. British banks were responsible for only \$8 million of the \$500 million or so of facilities which were withdrawn earlier this year. We cannot pressurise British banks into providing further facilities without Government guarantee; we have no powers to give guarantees for general purpose loans of this kind; technically the EEA could make a swap arrangement available, but nobody wants zlotys.



NOTE FOR THE RECORDDISCUSSION WITH MATTHÖFER, 15 JUNE IN LUXEMBOURG

1. The Chancellor of the Exchequer was not able to see Matthöfer for very long at the Finance Council on 15 June. But they did have a few words together. They agreed that it would be desirable for them to meet for a more substantive discussion before the Ottawa Summit.
2. Matthöfer said that he had not seen the Chancellor's Hague Speech and would like to read it. I subsequently gave a copy to Heck for passing on to Matthöfer.
3. Most of the conversation was about insurance. The Chancellor commented that the officials in the German Ministry of Finance dealing with the subject seemed to be rather negative in their approach. Matthöfer said something about a change of staff in this area, but was not specific. He said he would look into the matter.
4. The Chancellor referred to Lambsdorff's views on free trade. Matthöfer warned us that Lambsdorff comes from the insurance industry and no doubt intends to return to it when he gives up being a Minister!

D.H.

D J S HANCOCK
16 June 1981Distribution

- Principal Private Secretary
- PS/Chief Secretary
- PS/Financial Secretary
- Sir D Wass
- Sir K Couzens
- Mrs Hedley-Miller
- Mr Bottrill
- Mr Edwards
- Mr Peretz
- Mr Scholes

- Mr Reid, D/Trade
- Mr Beamish, Uk Embassy, Bonn.

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Sir D Wass
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Mr Mountfield
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Mr Scholes
Mr Bottrill



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NOTE FOR THE RECORD

FINANCE COUNCIL, 15 JUNE: DISCUSSION AT LUNCH

- 1. Most of the discussion at lunch was taken up with US interest rates. The statements by Ortoli, the Governor and Haberer were repeated in restricted session later and are recorded in the reporting telegram. Matthöfer said at lunch that it would be helpful for the Community to make its views clear publicly so as to help US authorities. He seemed to have in mind particularly the need to put pressure on Volker to reduce the volatility of US interest rates.
- 2. Delors spoke in favour of a common approach by the Community. Excessive fluctuations in exchange rates were damaging to the Community and also to the United States. We should, therefore, discuss the "right rate" for the dollar.

Timing of Council Meetings

- 3. It was agreed that, with effect from July, Councils should be preceded by an informal lunch and begin in the afternoon.

Informal Meetings of Finance Ministers

- 4. There was general support for more informal discussion at restricted sessions of the Council (and indeed van der Stee tried the experiment successfully during the course of the afternoon). But some Ministers spoke up for the possibility of informal meetings as well. It was suggested that they should be held on a Friday and Saturday, but should not run over into the Sunday. The Chancellor agreed to propose a date for an informal meeting in the autumn. It could always be cancelled, if necessary, later.

Other subjects

- 5. Nothing was said about either Poland or Japan.

D.H.

D J S HANCOCK

16 June 1981

16/6/81.

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TOPICS TO BE DISCUSSED

✓ ^{Sunday} I Meeting with M Delors - current relations

II Lunch

① - ~~1. Export credits~~

② - 2. Poland's debt

③ - ~~3. [Chancellor to raise] Japanese trade~~

(A) — 4. [Chancellor to raise] informal meetings

(B) — 5. [Chancellor to raise with M. Kohl] handling of interest rate issue

III EIB Governors meeting

(C) — 1. Routine business (approving annual accounts, appointing members of Audit Committee, etc).

(4) - 2. Capital increase

IV Finance Council

(5) - 1. Economic situation (especially US interest rates)

(6) - 2. Insurance Services Directive

(7) - 3. Renewal of New Community Instrument (NIC)

(8) - 4. Energy subsidies

(D) — 5. Italian import deposits

(E) — 6. [Chancellor to raise] Returning to afternoon sessions under UK Presidency

(F) — V Meeting with Herr Matthofer - budget restructuring
CAP reform.

(B) (G) — VI Brief meeting with M. Tugendhat

(H) — VII Tour of new EIB building - British architects

Chancellor

Delors + ① - ⑧ above attached.

(A) - (H) still being reproduced &

will be sent to No 11 on Sunday evening.

D. H.

PASSAGE FOR INCLUSION IN ~~INTRODUCTORY REMARKS~~ ABOUT
INSURANCE DIRECTIVE OR RENEWAL OF NIC (WHICHEVER COMES FIRST)

Struck by what Vice-President Ortoli and a number of Ministers said at Jumbo Council about need to exploit more fully our vast internal market. Agree that it is one way in which we can help to protect employment in Europe against effects of world-wide recession. Also share view of speakers at that Council that we must look to service sector to provide many of the new jobs we need. During our Presidency, therefore, we will press for successful conclusion of work on Insurance Directive both because of its intrinsic merits and as part of the follow-up to the Jumbo Council.

In this connection, I should also like to refer to NIC, which we ~~will be discussing shortly~~. Its renewal was repeatedly mentioned last Thursday as one of the ways in which the Community could respond to current job situation, and I should like to say now that ~~insofar as today's meeting does not reach final conclusions,~~ we will also press ahead with this matter ^{in our Presidency} as part of the follow-up to the Jumbo.

discussed earlier.



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