PART

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PO -CH /GH/0102

PART A

Begins: ~~8/12/82~~ 4/5/83

Ends: ~~17/1/83~~ 16/5/83

EUROPEAN COMMUNITY (EC) ECONOMIC AND FINANCE COUNCIL (ECOFIN), 16 MAY 1983

PO -CH /GH/0102
PART A

BRITISH EMBASSY
PARIS

4 May 1983

J G Littler Esq CB
Second Permanent Secretary
HM Treasury
Parliament Street
LONDON SW1

Done

A word of congratulation at Ecofin?

Dear Jeffrey,

MICHEL CAMDESSUS: LEGION D'HONNEUR APPOINTMENT

1. You will wish to know that Michel Camdessus was appointed a Chevalier of the Ordre National de la Légion d'Honneur in the Easter honours. I have written to offer him my congratulations and said that I felt sure that his friends in HM Treasury, whom I would inform of the appointment, would be delighted by this news.

Yours,

Roger

R R Garside

12/2

PRINCIPAL PRIVATE SECRETARY

From: G INGHAM
6 May 1983

cc PS/Financial Secretary
Mr Littler
Mr Byatt
Mr Unwin
Mrs Hedley-Miller
Mr Kemp
Mr Lavelle
Mr R I G Allen
Mr Bottrill
Miss Court
Mr Edwards
Mr M A Hall
Mr Peretz

Mr Fry - FCO
Mr Durie - Cabinet Office
Miss Balfour - B/E
Mr Diggory - UKREP

pwf

FINANCE COUNCIL : 16 MAY

The Chancellor may like to have advance notice of the subjects likely to be discussed at the Finance Council in Brussels on 16 May.

2. On present plans, the agenda will be very short:

i. Seventh company law directive
~~ii. Insurance services directive~~
iii. Protectionism
iv. Preparation for Williamsburg

French loan
Commission paper.

Seventh company law directive

3. There is a good chance that discussion on this will not be necessary. At present, there are three reserves on the directive, two of which offer no difficulties for the UK. It is hoped that the reserves will all be lifted before the Council, but even if not, there remains a strong chance that the UK will have no particular interest in the discussion of this item.

Insurance services directive

4. It remains important to maintain the political momentum for agreement on this directive. Although no final decisions are expected at the May Council, it is hoped that discussion this month will improve the chances

of progress in June. This is, of course, something to which the UK has attached considerable importance.

Protectionism

5. It has now been proposed that there should be a further discussion on the EPC paper on protectionism. The Chancellor will recall that there was some discussion of this at the last ECOFIN, where the view was expressed that a further discussion would be helpful.

Williamsburg

6. This subject was also discussed at the April Council and has, of course, been discussed in a number of other fora. But at the meeting of COREPER Ambassadors yesterday, a number of delegations expressed the view that a further discussion at ECOFIN would be helpful and we assume that the Chancellor would have no objection to this.

7. At the COREPER yesterday, some delegations expressed the view that the rather thin agenda would not justify a meeting of ECOFIN this month. From the UK's point of view, cancellation would be unfortunate in view of our desire to make progress on the insurance services directive. As the June European Council approaches, informal contact between the Chancellor and Herr Stoltenberg may also prove timely.

8. We are therefore proceeding on the assumption that the Chancellor still plans to attend the Council. If next week we find a strong move afoot to cancel the meeting or if it becomes clear that few Ministers will be going, we shall, of course, consult the Chancellor again.

9. Full briefing on all agenda items will be submitted on Friday 13 May.

G Ingham

G INGHAM

C/

As well as the brief from AEF, the Williamsburg Dossier includes:

1. the agreed UK paper on Williamsburg, and the paper agreed by the Financial Deputies;

2. the Larosière material from Washington.

3. notes on present American attitudes

4. telegrams indicating Summit participants' expectations from Williamsburg.

CONFIDENTIAL

From: G INGHAM
13 May 1983

CHANCELLOR OF THE EXCHEQUER

cc as attached list

EC FINANCE COUNCIL : 16 MAY

You will be attending this half-day Council in Brussels on Monday 16 May, accompanied by Mr Littler, Mr Byatt (Chairman of the Economic Policy Committee), Mr Hall and Miss Simpson. The Council is scheduled to begin at 10.00 am and end with a Ministerial lunch. In order to allow you to travel out on Monday morning, however, the Presidency have indicated that if the Council begins on time no important business will be conducted before your arrival (probably between 10.30 and 10.45). You will be flying out on BA 374 leaving Heathrow 08.05am on Monday morning, and you are booked to return from Brussels on SN 607 at 3.45pm.

Agenda

2. The agenda is fairly thin:

i. Seventh Company law directive
ii. Commission oral presentation on three papers:
  a. financial integration
  b. tax and financial incentives for investment; and
  c. international role of the ecu.

iii. Williamsburg : including an oral report by M. Camdessus, the Monetary Committee chairman, on international liquidity and interest rates, and a further discussion of the EPC Opinion on protectionism. Much of the discussion on Williamsburg itself is scheduled to take place over lunch.
iv. The French application for borrowing under the Community loan mechanism.

Full briefing on all items is attached.

Seventh Company Law Directive (Brief 1)

3. This is not likely to be a contentious item for the UK and indeed all the evidence suggests that there will be minimal discussion. Mr Vile, Department of Trade, who prepared the brief will therefore not be accomapnying you on this occasion; but Mr Richardson at UKREP is familiar with the subject matter should any problems arise.

Commission's oral presentation

4. We understand the Presidency were not too enthusiastic about the Commission's desire to give an oral presentation on these papers. The ensuing discussion, if any, is expected to be very brief and certainly not substantive. Of the three papers, one (on the international role of the ecu) has not yet been seen and another (on investment incentives) only arrived in London yesterday. Short notes on all three papers are attached, although one is obviously speculative.

Williamsburg

5. This was, of course, discussed at the April Council but some of the smaller countries and the Commission argued strongly for a further discussion. A revised version of the Presidency's conclusions on Williamsburg, which you may recall was circulated in draft at the last Council, has now been circulated and is perfectly acceptable to the UK. The Commission have now also circulated a rather more detailed note on Williamsburg and a full brief on this is attached. We understand that the Presidency plan to take the bulk of the discussion on Williamsburg over lunch, but it is expected that the chairman of the Monetary Committee, M. Camdessus, will give an oral report on international liquidity and interest rates during the morning. A short note on this is attached; we advise you not to encourage discussion.

EPC Opinion on protectionism

6. This Opinion, which will be taken during the morning under the general heading of Williamsburg, was also discussed at the last Council. We now understand that the Presidency will ask the Council to take note of the Opinion as a useful contribution to the preparation for Williamsburg. We would recommend you to take an encourging line, to say that this is a useful piece of work by the EPC and to say also that the EPC should be encouraged to do further work of this kind. You may be interested to know that Mr Byatt spoke to Professor Walters this morning who described the Opinion as a useful document in the circumstances.

French borrowing proposal

7. Mr Littler's note of 12 May (not copied to all) provides your main brief. There is attached (as brief 4(b)) a note about the method of lending to France which the Germans appear to have advocated on Wednesday: the use of the so-called Medium Term Loan Facility which involves Government to Government loans and which the French themselves had rightly avoided because they know very well that it would, in the UK and no doubt elsewhere, have to count as public expenditure. The UK share of a 4 billion ecu loan of this kind would be about £400 million. We cannot agree to use this route.

8. On the market aspects of the French borrowing proposal, you could emphasise that loansfor France in the fixed rate bond market must not be so big as to harm the EIB's borrowing programme or that of the NCI (to which the French have themselves attached great importance). Any approval of the loan must be accompanied by an adequate assurance about this. There is plenty of bank finance at floating rates available.

9. On the politics of the borrowing proposal, you will not wish to make any public or indeed any direct link with the French attitude to the UK budget problem - 1983 refunds in particular - but you might find an opportunity to remind M. Delors that you have demonstrated good will and a communautaire spirit. (We would, of course, not need to be so inhibited if we were being asked to make a government to government loan to France under the medium term facility.)

Community budget problem

10. You may not have time for an extended talk with Herr Stoltenberg, but it would be a shame to let this opportunity pass without reminding him of the crucial importance of a good and speedy outcome to the discussion in the Community about refunds for 1983 and the remaining period. Arrangements are in hand for you to receive as full a briefing as possible from Sir Michael Butler on developments at the informal Foreign Ministers meeting at Schloss Gymnich over the weekend. A copy of the Gymnich brief on the Community budget problem is attached. The Foreign Affairs Council proper is on 24/25 May.

CAP price fixing

11. The Agriculture Council will resume on 16 May in an attempt to agree on the 1983 price-fixing arrangements. You are familiar with the problems concerning the proposed realignment of the ecu against sterling. But I

attach for reference a copy of the brief on this prepared for your meeting last week with the Danish Finance Minister, Mr Christophersen. (The only new point to note is that the Monetary Committee will be looking further at the method of imputing sterling's central rate - though on a longer timescale.)

12. Press interest in the Council is unlikely to be very great and to the extent that there is any, it may be concentrated on the French loan application.

G Ingham

G INGHAM

13/5/83

EC FINANCE COUNCIL : 16 MAY

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Brief and documents

BRIEF 2 — PRESENTATION BY THE COMMISSION OF THREE DOCUMENTS

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(b) Brief and document on tax and financial measures in favour of investment

(c) Brief on international role of the ecu

BRIEF 3 — PREPARATION FOR WILLIAMSBURG ECONOMIC SUMMIT

(a) Brief and document

(b) Brief on Monetary Committee Chairman's Report

(c) Brief on protectionism, EPC opinion and conclusions of Finance Council 18 April

BRIEF 4 — COMMUNITY LOAN FOR FRANCE

(a) Note by Mr Littler (already circulated - not to all)

(b) Note on Medium Term Financial Assistance

OTHER BRIEFS

(a) Brief on Community Budget problem for Schloss Gymnich Foreign Ministers meeting.

(b) Sterling, the ecu and agri-money issues

(c) OECD concerns: note from B. Unwin. (possible topic for discussion at lunch).

13/5/83

BRIEF 1

EC SEVENTH (COMPANY LAW) DIRECTIVE ON CONSOLIDATED ACCOUNTS

Background

1. This Directive seeks to establish a harmonised EC regime for the preparation and publication of consolidated or group accounts by parent companies.

2. The report of 31 March by COREPER to ECOFIN (6037/83) identified five outstanding issues. ECOFIN on 18 April ECOFIN did not discuss these issues but remitted them to COREPER with a view to taking any necessary final decisions at ECOFIN on 16 May.

3. In theory, two issues (2(b) and 4 in 6037/83) remain unresolved by COREPER, but on one outstanding reserves have been raised or will be raised at ECOFIN. On the other only one reserve remains outstanding and it is possible that no discussion at ECOFIN will be required. Any discussion should be brief and limited, and there is no reason why the Presidency should not achieve their aim of agreement to this Directive at this Council. If so, the UK as one of the Member States supporting such a Directive in principle, can join in any congratulations to the Presidency.

Article 6(6)(b) : Financial Holding Companies

Line To Take

4. The UK can go along with any majority position on Article 6(6)(b) provided that the review of it in 1995 envisaged by Article 6(8) is maintained. The UK's preference, however, would be for acceptance of the proposed addition to Article 6(6)(b) which all except France have indicated is acceptable.

Background

5. For "financial holding companies" read "Luxembourg holding companies". Luxembourg has been fighting tooth and nail for maximum derogation from the Seventh Directive for financial holding companies, of which Luxembourg has several thousand, whose raison d'etre is the holding of financial interests in other companies rather than the commercial direction of a group of companies, which Luxembourg has deliberately sought to attract with favourable regimes for tax and disclosure of information, and which Luxembourg consequently now regards as a substantial national financial asset. Other Member States, led by France, Belgium and Italy

whose interests have been most adversely affected by the competitive advantages offered by Luxembourg and by a number of scandals involving financial holding companies, have been seeking to keep any derogations to a minimum.

6. A regime for consolidated accounts has been agreed. At issue now are derogations from disclosure in the individual accounts of a financial holding company which the Fourth Directive on individual accounts provided in 1978 pending adoption of the Seventh Directive. Luxembourg has sought to maintain those derogations in full; other Member States to claw them back.

7. The proposed addition to Article 6(6)(b) has its origins in a UK suggestion for a compromise which broke the deadlock at COREPER. Its effect is to enable holding companies to continue to omit certain disclosures from their individual accounts (subject to disclosure of the fact of omission) which other Member States wished to insist upon; but this further derogation is dependent on there being serious prejudice to the specified categories. This roughly echoes a parallel Fourth Directive provision and offers Luxembourg more shadow than substance. Nevertheless, it is understood that Luxembourg is prepared to accept this as the best deal it can get. At COREPER, France and Italy maintained reserves. It is understood that Italy will now lift theirs. No decision has yet been forthcoming by France but there is no indication that they will not fall into line in the interests of completing the Directive.

Article 6a.1a (Exemption from Sub-Consolidation)

Line To Take

8. The UK is grateful for the further flexibility on this issue shown by Member States. The UK can accept the text proposed although it does not go so far as we would have wished. The UK hope that all Member States are now able to accept what represents the limit of UK negotiating possibilities on this subject.

Background

9. This has been a major UK concern. It relates to a requirement in Article 6a.1a that Member States must exempt from the requirement to prepare consolidated accounts certain intermediate parent companies (ie. companies that are subsidiaries as well as parents). UK law and practice is to require consolidations by all intermediate parent companies

(so-called sub-consolidations) except 100%-owned subsidiaries of GB companies. The Directive will require us to extend that derogation to 100%-owned subsidiaries of EC companies. Other Member States have wished to extend the scope of mandatory exemption still further, ostensibly on cost-saving grounds. The UK has sought to resist this to protect the interests of minority shareholders and other users of accounts.

10. The UK has now agreed to a recent Presidency compromise, in the text proposed, providing for an exemption beyond the 100% subsidiary but the further element would not have to be applied by the UK until the year 2000 (sic) and the provision will in any event be part of a review in 1995.

11. Only Italy maintained a reserve at COREPER. They have since indicated that they will go along with the compromise.

Department of Trade

12 May 1983

13/5/83
BRIEF 2 (a)

EC. FINANCIAL INTEGRATION

The Commission will present Document COM(83)207, which is about promoting the financial integration of the Community. It is well intentioned, but it will put a lot of backs up. There will probably be no disposition to discuss it. The best thing will be for the Council simply to remit it to the Monetary Committee for further study.

Line to Take

2. A UK intervention is not essential. But the Chancellor could take the opportunity of welcoming the Commission's initiative in seeking to promote financial integration. It is important to ensure that national exchange control and monetary measures do not impede the free circulation of goods and services. Freedom to provide financial services, including insurance, is a right under the Treaty which has yet to be implemented. The paper covers several subjects. The Monetary Committee could be invited to sift the material and to consider how best to make further progress.

Background

3. As indicated above, the paper is well intentioned, and the general thrust is welcome to the UK. But the Commission are very bad advocates. The generally assertive tone, and many individual proposals, are very easy to criticise, so the paper is not likely to get much applause. It deals with lesser and larger issues. It ventures on to central bank territory over Bank supervision. In many cases it blandly ignores past discussion and evident difficulty or sensitivity. Even a proposal for an exchange control ring-fence around the Community is based on no apparent justification. And so on.

4. Judging by initial reactions in the Monetary Committee, no member country will want to endorse the paper. The way out is for the Council to remit it to the Monetary Committee.

5. The paper reviews progress and finds it disappointing (pages 1-5). There has been no progress on achieving the founding treaty provisions on freedom of movements of capital since the adoption of the 1960 and 1962 Directives on capital movements. Community instruments for providing medium term financial assistance and Community loans agreed in the 1970's have not been used since 1977 (although the French have now applied for assistance). Freedom of establishment for banks and insurance companies has been achieved, but without free capital movements this has not led to integration of markets. And freedom to provide financial services is similarly constructed.

6. The second section (pages 7-10) argues the need to launch an initiative. Experience shows that the impact of capital movements controls on the balance of payments is at best temporary. Speculators find ways around regulations, though long-term capital movements may be hindered. Freedom to provide financial services, notably insurance services, would help to minimize differences in industrial firms financial costs. Too small a proportion of Community savings is channelled into transferable securities, particularly shares. Divisions between member states capital markets divert savings outside the Community. In contrast the Euromarkets show Community financial centres remarkable technical capacity when freed from regulation.

7. The third section contains proposals for action to develop :

i. internal liberalisation (pages 11-15) of capital flows, financial services and new instruments for tapping Community savings;

ii. external financial relations (pages 15-17) especially greater control of capital flows to the rest of the world; joint consideration of banking supervision and co-ordinating foreign borrowing policies;

iii. the ECU.

8. The Conclusions amount to a draft request from the Council asking the Commission to increase its activities monitoring exchange control measures; asking member states to remove barriers to the free movements of shares and impediments to the ECU. The Council is asked to aim to agree the insurance services directive, adopt the Directive on consolidated banking supervision, adopt directives on CIUTS (investment and unit trusts), smooth the way to a common market in banking, further consider foreign debt policies, and the association of other non EC countries to the EMS.

Defensive

9. The Council ought not to be drawn into any detailed discussion of the many individual propositions without the benefit of further advice from the Monetary Committee. We certainly advise the Chancellor not to go beyond the suggested line to take above. But, in the unlikely event that interest is shown in ideas for an exchange control ring fence round the Community (page 7) the Chancellor might inject a note of caution. The Commission do not say how this would benefit the Community. The paper already says that national controls are not very effective. Joint controls would be even more difficult to keep watertight. We would deprecate spending time and talent on work in this area.

gbh

13/5/83

BRIEF 2 (b)

TAX AND FINANCIAL MEASURES IN FAVOUR OF INVESTMENT

This paper examines the case for specific measures to encourage investment in companies. It argues that the most effective avenues for increased investment are through company self-financing and the raising of equity capital rather than through borrowing. In its assessment of the effects of corporate taxation, the paper discusses the impact of inflation on business profits and capital, and focuses attention, *inter alia*, on the need to reduce the burden of business taxes, particularly those unrelated to profits, in times of slow economic growth. The paper also discusses measures to encourage the channeling of savings into equity capital, the need for an active market in unquoted companies' shares and the value of measures to promote employee shareholdings. It proposes a study to examine the possibility of abolishing the Community duty on the raising of capital (in the UK, part of the stamp duty regime).

The broad thrust of the paper is in line with UK Government policy and most of the arguments are familiar: for example, the affects of inflation on business, and the way this is reflected in corporate taxation, is discussed in detail in the Corporation Tax Green Paper. The paper does not discuss tax measures in member countries in any detail and so omits reference to UK Government's action to cut the burden of Corporation Tax on small firms and reduce the National Insurance Surcharge, a tax unrelated to profits. The Business Start Up Scheme is briefly mentioned, but not the measures to promote wider share ownership through profit-sharing and share option schemes.

The paper is unlikely to be discussed. However, if the Chancellor is called upon to make a few general comments, the line to take might be - "UK Government welcomes the Commission's paper, which is broadly in line with our policies. UK itself has done much in the last four years in introducing measures to encourage investment, but Government always interested in examining further options for change which may arise from Commission's work."

13/5/83

BRIEF 2 (c)

INTERNATIONAL ROLE OF THE ECU

1. Since 1981 international financial market use of ecu-denominated instruments has grown rapidly, though it still has a long way to go before becoming a major currency in its own right. The ecu market is centred on Brussels, with Kredietbank its most active proponent, but banks in the UK (particularly Lloyds), France, Italy and Netherlands also participate. The principal forms of business are taking time deposits; issuing bonds (36 bonds worth Ecu 2.6 billion ; have been issued); and trade finance.

2. The ecu has proved useful as a currency hedge, particularly for European based institutions, and it has become more popular than the SDR as it lacks the latter's large dollar component.

3. But in some respects the market remains underdeveloped. There is no clearing house for ecu settlements (though the BIS is considering providing such a service). Demand for ecu bonds has been principally by small investors and there is little secondary market trading so bond issues have to be relatively small. German banks are unable to transact in ecu as it is not recognised by the Bundesbank as being a bona fide foreign currency.

4. The Commission are anxious to promote the commercial use of the ecu as they see it as a step towards European integration. It participates in a working party with commercial banks which investigates means of developing the market, and the EIB is active in both the ecu bond and ecu deposit markets.

5. The Commission may propose that countries remove any impediments to the development of an ecu market. This would be aimed at the Germans; we have no impediments on ecu business in London.

6. The Commission have previously proposed attempting to standardise the ecu by making regulations about the characteristics of ecu instruments and the way they might be used. But such interference with private markets would probably be counter-productive and would discourage use of the ecu.

7. The Commission have previously proposed that non-EMS central banks be permitted to hold ecus. This would be harmless, but it is unlikely that there will be much, if any, take-up of such a facility.

13/5/83

OTHER BRIEFS (4)

Pyms

c/ This is only the steering brief; the Commission backing papers will all be out-of-date by Monday morning, so have not been included.

SUMMARY

Interim

1. Must get agreement at May Council.

2. To get negotiation going, I am tabling what I see as only realistic basis for solution:-

a) basic refund - must be on same 66% basis as in 1980 and 1981

b) risk-sharing up and down

c) amount for 'overpayment' to be agreed, subject to acceptance of other elements of solution

d) hope for lasting solution by 1984, but interim solution must be capable of extension if needed.

3. (If raised) Cannot accept link with decision on increasing own resources.

Long Term

4. Modulated VAT could help with problem of budget imbalances. Need thorough evaluation.

5. More effective action needed to curb CAP costs - not convinced of need for more money

6. Modulated VAT, CAP cost control and new policies not sufficient solution to budget imbalances - safety net needed too.

7. (If pressed to agree in principle to more own resources). No prospect of ever agreeing to that so long as CAP expenditure is out of control and there is no lasting solution to budgetary imbalances.

EC FOREIGN MINISTERS' INFORMAL WEEKEND MEETING :
GYMNICH : 14/15 MAY 1983

FUTURE FINANCING OF THE COMMUNITY

Points to Make

Interim Solution

1. Critical and urgent to agree the solution at the 24 May Council. On 25 May last year and again on 26 October we were promised a decision by the end of November 1982. That deadline was missed. Now we have a remit from the European Council to report conclusions to Stuttgart and we must keep to that timetable.

2. In recent months discussion has been going round in circles; Coreper on 10 May showed no new sense of urgency. No-one has come up with any alternative framework for a solution to that put forward by the Commission last November. So let us now agree on that.

3. But no good now only talking about bones of a solution in such general terms. Must agree figures at May Council, and must start talking about specific points today. To provide a basis for that, I thought it helpful to put down on a piece of paper what I see as the main elements of a solution. [Circulate Annex A].

4. a) For the reference figure for 1983, I have taken the estimate of about 2000m ecu mentioned by M Noel in Coreper.
b) The figure for the basic refund is calculated on the same basis as was used on 30 May 1980, ie 66%. I see no alternative basis on which agreement can be reached. The reference figures for 1980 and 1981 [1784m ecu and 2140m ecu] were of the same order of magnitude as the estimate for 1983. It would be unreasonable to ask us to accept a basic refund for 1983 which was derived in a different way from the 1980 and 1981 figures [1175m ecu and 1410m ecu]. We are not seeking anything more than what has been agreed in the past, and we could not accept less. This is a sticking point for us.
c) Risk-sharing Essential to protect us against the risk that

reference figure too low, and you against risk that it is too high. All problems over the "overpayment" derive from lack of downward risk-sharing in 1980 agreement. I have taken a formula half-way between the 1980 and 1981 formulae. Fairest to apply it symmetrically upwards and downwards.

d) On duration, we must set ourselves the aim of ensuring that the lasting solution will be in place in respect of 1984. This should not be impossible if agreement can be reached by the end of this year. But we are all aware that it could take longer than that to implement, given the need for ratification. If it does take longer, it is inconceivable that the United Kingdom's problem should go uncorrected during the interim. The Community has after all repeatedly promised to solve "unacceptable situations". Last May we agreed that there would be a solution for 1983 and later. That solution should cover any interim period until the lasting solution - which is what we really want - takes effect.

e) I am willing to negotiate a sum to be deducted in full and final settlement of the "overpayment", subject to your accepting the other elements of the solution. This is essentially a political matter; Britain is under no legal obligation to make any such restitution, but I agreed in May last year to take the "overpayment" into account when negotiating the"subsequent solution", and I stand by that. I have already taken it into account in accepting the arrangement for 1982. My attitude to any further restitution will depend on your attitude to the arrangements for 1983 and later. [For full defensive points on "overpayment" see Annex B].

5. [If others object to figures as too high, and point to lower basic refund for 1982]. The 1982 solution was to have been "on the lines of that for 1980 and 1981" - ie a refund of 1008m ecu in relation to the 1530m ecu reference figure and a risk-sharing formula at least as good for us as that for 1981. In accepting something less good for Britain, I made it absolutely clear both at the Foreign Ministers' meeting and later publicly that I was taking account of the unexpected outturn for 1980 and 1981. This was therefore a first restitution of the "overpayment" - amounting

to over 200m ecu.

6. [If others refer to possible objections from European Parliament]. We must of course get on with agreeing the long-term solution, which both we and the European Parliament are seeking. But we must also solve the immediate problem of the iterim period. That means that we shall need to secure provision in the 1984 budget, and I have indicated in the note I circulated the UK's flexibility over the form that takes. The Parliament's objections to such provision can easily be exaggerated; Dankert said recently that "interim solutions such as a financial mechanism to increase benefits and compensate disadvantages seemed virtually inevitable".

7. [If others try to make a link with a decision on more own resources]. Last May and October we were promised a "subsequent" solution, with no mention of own resources. The European Council in March confirmed that promise. Of course we must get on with agreeing on a long-term reform of Community financing. But the United Kingdom cannot now accept that the promised interim solution should be subject to new conditions of this sort. [See further below].

Long-Term Solution

8. Glad Commission proposals [Annex C] came out on time. Extremely important to reach early agreement.

9. Modulated VAT of interest. Could contribute to a solution of the problem of budgetary imbalances. We need to get some work done urgently to assess its effects, and agree some illustrative figures.

10. Commission's comments on agriculture expenditure are very weak. The UK shares the objective that CAP expenditure should grow at a slower rate than the own resources base. We supported the Commission's ideas at the time of 30 May Mandate for narrowing the gap between Community and world prices and guarantee

thresholds. But it is no good just repeating old articles of faith when CAP expenditure is so far running at 35% above last year. We need am effective guideline for restraining the rate of growth of agricultural expenditure and practical proposals to reduce surpluses and thus give effect to it. The Commission has not convinced us that more own resources are needed. If CAP expenditure grows less quickly than own resources, that will free resources within the 1% ceiling for new policies.

11. On budgetary imbalances, our own calculations suggest that modulated VAT could only be part of the answer and that even with control of CAP expenditure and new policies from which UK benefits, bulk of problem will remain for the foreseeable future. Something more will be needed. Seems to us that it would be necessary to introduce some kind of safety net which would come into operation only if these other possible remedies left Member States bearing too heavy a burden. Safety net would ensure that no Member State's burden would exceed an amount which would be fair in relation to the size of its GDP and its relative prosperity. [The French ideas on "écrêtement des soldes" seem to be based on a similar approach; they too must form part of the debate together with our safety net ideas.]

12. [If pressed to agree in principle to more own resources] Very ready to discuss the Commission's proposals. Quite clear that we cannot now prejudge the outcome of the discussion. But equally clear that there is no prospect of ever persuading our Parliament to increase own resources so long as the Community's arrangements do not ensure firm control of CAP expenditure and a lasting solution to the problem of budgetary imbalances. So perhaps I should be asking you whether you are all ready to agree now (a) that CAP expenditure shall grow less fast than own resources and (b) to introduce full and lasting solution to problem of budgetary imbalances? These are difficult issues, and we must be realistic. But the British Government is keen to get work started quickly on the long-term reform and to keep up the momentum so that final decisions are taken by the end of this year.

CONFIDENTIAL

ANNEX A

ELEMENTS FOR THE INTERIM SOLUTION

1. Reference figure:	2000 mecu (as mentioned by M. Noel at COREPER)
2. Basic refund:	1320 mecu (net)
3. Risk-sharing upwards and downwards:	Differences in either direction from reference figure: (a) First 10 mecu: no change in refund. (b) 10-60 mecu: refund increased or reduced by 50 per cent of difference in excess of 10 mecu. (c) Beyond 60 mecu: refund increased or reduced by 25 mecu <u>plus</u> 75 per cent of difference in excess of 60 mecu.
4. 'Overpayment':	Amount in full and final settlement to be agreed and deducted from basic refund over agreed period.
5. Later years:	Firm intention to apply long term solution in respect of 1984. If not possible, similar arrangement to 1983.
6. Method of payments:	Gross sums equivalent to figure in 2 above to be entered in 1984 budget either under supplementary measures or under special programmes of Community interest in the UK for eg energy, transport. Flexibility within categories during budgetary procedure, subject to maintaining the total decided. Sums due under 3 above to be treated in an analogous fashion.

ANNEX B

GYMNICH: THE SUBSEQUENT SOLUTION

POINTS TO MAKE ON "OVERPAYMENT"

1. Legally, we don't owe you anything. We received what the 30 May agreement said we should - refunds of 1175 and 1410 m ecu.

[If others persist in saying we owe them something]
2. Would you rather leave the "overpayment" out of this negotiation and let the Court settle it?

[If French say the trop payé is 1 000 m ecu]
3. Are you saying the 30 May agreement provided for a mimimum net contribution by the UK (of 609 m ecu for 1980 and 730 m ecu for 1981)? If so, not true. We wanted a limit on our net contribution. Not the same thing as a minimum. But your representatives rejected a limit and insisted on a lump sum refund. The final compromise was a lump sum refund with upwards risk-sharing - not a minimum net contribution. Estimates of net contributions after refunds included in the text only as a point of reference for risk sharing. Anyway, you too did much better than the Commission estimated: your net receipts were 900 m ecu better. Do you intend to pay that back?

[If French persist]
4. Shall we leave "overpayment" to the Court?

[If others argue that we didn't pay anything back in 1982]
5. Under para 7 of 30 May agreement, 1982 solution should have been "along the lines" of 1980/81. Para 2 of the agreement sets out how figures for 1981 were deduced from 1980 figures. So the same should have applied to 1982. This would have produced a figure of 1008 (66% of the reference figure of 1530). But the 1982 basic refund was only 850. The risk sharing was also less favourable than 1980/81. So, as I made clear at the meeting and publicly, we were then paying back a couple of hundred million of the "overpayment" (1008-850 = 158 plus 50 for the worse risk-

sharing formula)
[How much are we ready to pay back in full and final settlement?]
6. If others accept the other elements of the solution, perhaps another couple of hundred million. Have to make a political sett~~t~~lement. No way of determining objectively what the 30 May agreement might have said if it hadn't said what it did.

[If someone says the right thing to do is to apply 1980/81 risk-sharing downwards]
7. Risk sharing provisions of 30 May Agreement quite clearly only intended to apply upwards. No-one suggested at the time that they should apply downwards.

[If someone suggests 66% of 1980/81 as measure of what we should have got]
8. Again, not what the agreement actually says. And what about restitution we have already made in 1982?

[If they produce a figure - say about 500 m ecu]
9. The legal position is zero. In the interests of a settlement, I'd be prepared to split the difference.

	Commission Estimate of unadjusted net contribution	Actual un-adjusted net contribution	Refund
1980	1784	1512	1175
1981	2140	1419	1410
1982	1530	2040(?)	850 (+ 300?)
1983	(2000)	?	?

13/5/83
OTHER BRIEFS (b)

STERLING, THE ECU AND AGRI-MONEY ISSUES

We understand that the Minister is greatly exercised about recent EMS and agrimonetary developments. There are two points which he might raise.

a) EMS realignment discussions in March

2. You will recall that there was some difference of opinion about the conclusions of the 21 March realignment meeting, as they related to sterling and the ecu. M. Ortoli took the view that it was agreed that sterling should not be brought back into the ecu in accordance with the normal rules. Keeping sterling at its earlier level would have produced a higher value ecu, so reducing the increase in positive MCAs, and in the case of Denmark obviating the need for a positive MCA at all.

3. The UK did not agree to this; and the minutes of the Monetary Committee Secretariat made this clear, thus removing the need for the UK to clarify our position. But Mr Christophersen reportedly felt that he was misled at the discussions and only accepted the outcome on the basis that a new sterling rate would not be imputed. He may well raise this.

Line to Take

4. We advise you not to raise this question. But if Mr Christophersen mentions it, you could say that we would not have felt able to agree on the spot to an ad hoc change in the arrangements for imputing a new sterling rate. There are agreed rules covering this. You know that the Danish authorities have always been troubled by the fact that, since sterling is not constrained within the 2¼% margins, it is always possible that there will have to be a sizeable change in sterling's imputed central rate at the time of realignment. But partly because of the Danish interest the Monetary Committee did

review the arrangements in February 1982, and came to the conclusion that all things considered, there was no better way of dealing with the problem, though they would keep the matter under review. You could emphasise that the UK is not at all averse from another attempt to see whether the arrangements can be improved. We will be as helpful as we can.*

b) The agricultural price-fixing issue

5. You will recall that at the beginning of last week the German Finance Minister proposed a realignment of the central rate for sterling in the ecu. The object of this proposal was to break the deadlock which had arisen in the CAP price-fixing negotiations in the Agriculture Council as a result of the Commission proposals for the price-fixing which included the reduction of positive MCAs. The effect of the Commission proposals would be to reduce German positive MCAs by up to 3% thus largely offsetting the benefits to German farmers of the common price increases; equally, without a cut in German MCAs of about that size, it seemed clear that the French would reject the price proposals.

6. The German compromise might have avoided the need for further common price increases to satisfy both French and Germans. Under the normal rules, sterling was taken into the ecu at its 21 March level after last month's realignment. Since this level was very low, the effect was to weaken the ecu overall, thus increasing positive MCAs for Germany. The new proposal was that sterling should in effect be realigned again with the ecu by being included at its modest rate on 22 April (7.3% higher than 21 March). This would increase the value of the ecu by just over 1%; reduce German MCAs by 1%; and increase French negative MCAs by 1%.

7. There would be no practical consequences for the sterling exchange rate. But this would be an arbitrary variation of agreed EMS procedures.

8. A further feature of the proposed realignment was that it would increase the competitive advantage of Denmark (and Ireland) vis-a-vis the UK in agricultural trade. This arises from the operation of the complex "franchise" arrangements in setting MCAs.

9. Positive MCAs for fully-participating members of the EMS are normally calculated by taking the actual difference between the green rate and central rate (the real monetary gap) and deducting a 1% "franchise". At present the real monetary gap for Denmark is 2.3% giving a positive MCA (ie export subsidies) of 1.3%. But the non-cumulation rule provides for the minimum MCA to be 1%, and such a rate is triggered for real monetary gaps between 1.1% and 2%.

10. The effect of the proposed realignment would in general reduce positive MCAs, including that for the UK, by about 1%. But for Denmark the new real monetary gap (1.3%) would fall in the non-cumulation rule zone, so that her MCA would be cut by only 0.3 percentage points from 1.3% to 1.0%. Hence there would be competitive gain for Denmark over the UK; and the main area of competition would be pigmeat, currently a sensitive area for UK Ministers.

11. It was agreed that subject to developments at the Agriculture Council on 27 April, the UK would agree to the proposal; but that we should not hint at our intended concession in advance. Hence Mr Walker drew attention at the Council both to the arbitrary nature of the proposal and the competitive disadvantage for the UK. In the event, the Agriculture Council broke up in deadlock on 28 April; it is to resume later this month.

Line to Take

12. We advise you not to raise this issue. If the Danish Minister raises it himself, we suggest you point out that the UK every much dislikes ad hoc expedients. What appears to suit one day may, as the exchange markets change, become very unsatisfactory the next,

and lead to yet another ad hoc move. This cannot be good for the public image of the exchange rate mechanism; and indeed, seems to be irresponsible. Whatever arrangement we choose should be orderly and symmetrical*. We recommend that you avoid giving any indication of what the UK's line on this proposal would have been (or might be). On other aspects of the price fixing, you could underline that the UK would be resolutely opposed to any increase in the Commission's proposals for common prices.

* a new review of the arrangements is probably going to be agreed upon at the Monetary Committee on 4 May. Mrs Hedley-Miller will report early on Thursday.

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Other briefs (c).

13/5/83

From: J B UNWIN
13 May 1983

CHANCELLOR OF THE EXCHEQUER

cc Mr Littler
Mr Byatt
Mr Carey
Mrs Hedley-Miller
Mr Hawtin
Mr Ingham
Mr Odling-Smee

ECOFIN 16 MAY: OECD CONSENSUS

This is not on Monday's agenda but there is a point I should like to put to you in case a suitable opportunity arises - perhaps over lunch - for you to raise the matter.

Background

2. You will recall that last month's ECOFIN were unable to agree on the size of any interest rate reduction (the French wanted at least 2%, which was unacceptable to ourselves, the Germans and the Dutch in particular) and the Commission were in consequence given pretty wide negotiating discretion. At the OECD meeting shortly following ECOFIN the Commission used their discretion in the French favour to the full, but strong opposition from the Americans led to a stalemate. There has been some further discussion between officials in Brussels but we understand that the Commission do not propose to refer the matter to ECOFIN again. The next formal stage, therefore, will be a further OECD meeting at the end of June (the OECD having agreed to extend the current consensus for 2 months in hope of reaching agreement).

Problem

3. We have been a little disturbed to hear that ECGD, whether wittingly or not, have been giving the impression, notably to the Americans and possibly also to the Commission, that the UK position is somewhat more relaxed than you clearly stated last month. The Americans seem to have got the impression that we are positively in favour of an interest rate reduction of at least 1%, and they are concerned. If the Commission have got a similar impression it will, of course, affect their negotiating stance and increase the risks of a further impasse with the Americans.

Action

4. We are taking the necessary steps at official level to disabuse the Americans

of these notions. If, however, any opportunity does arise reasonably naturally in Brussels on Monday I think it would be very helpful if you could reassert your position. The key elements of your approach last month were:-

- we would be happy to stick with present rates;

- however, as a matter of negotiating realism, we accepted the need for some compromise with French views and would therefore be prepared to go along with a reduction of up to 1%, provided this was linked to some automatic adjustment mechanism for the future.

- our position, in Community terms, was identical with that of the Germans, Dutch (though their ceiling was 0.5%) and the Danes, all of whom in fact went out of their way to register agreement with us.

5. The essential point, however, is to reinforce, particularly for the benefit of the Commission, the main message you conveyed at Luxembourg - that this year the UK remains firmly in the low inflation/low interest rate camp of the Germans, Dutch etc. No one should be misled into believing that the UK line has "softened".

J B UNWIN

13/5/83

BRIEF 3 (a)

EC FINANCE COUNCIL 16 MAY 1983

THE APPROACH TO WILLIAMSBURG

COMMISSION PAPER ON THE COMMUNITY POSITION

POINTS TO MAKE

i. Growing indications of up-turn underway but recovery in world economy not yet fully established. Latest forecasts now more optimistic but activity within the Community expected to remain depressed. Summit should sound note of optimism to encourage confidence but must not generate excessive expectations.

ii. Important to consolidate progress in reducing inflation and to pursue prudent policies that will ensure the recovery is steady and sustainable. With steady financial policies the greater the success in reducing inflation the more room there will be for real growth.

iii. The Commission's paper is broadly acceptable on some topics but not on others. In particular it pays scant attention to the need to maintain the counter-inflationary thrust of policy and it does not emphasise that renewed inflation is a risk to recovery. This should be a major theme of the Summit.

iv. The paper argues that the Summit should recognise world inter-dependence. It needs also to consider other risks to recovery from high real interest rates, further debt problems and protectionism. Lower interest rates should help alleviate debt problems. But important that IMF, World Bank etc have adequate resources.

v. It also endorses the Commission's earlier calls for reflationary fiscal policies by the UK and Germany. It commends the success in reducing structural deficits in Europe and rightly points to the special responsibility on this resting with the US.

vi. Monetary policy should allow for recovery but be firm enough to prevent any renewed inflationary upsurge as activity recovers. We should beware of the Commission's emphasis on the need to reduce real interest rates if this is to be achieved in the short term by monetary relaxation.

vii. The paper's policy prescriptions lack any time dimension. A medium term focus for monetary and fiscal policy is essential for credibility and for the objectives of convergence to be met. We have argued that the major countries, especially the SDR group, should pursue policies to converge over the medium term towards non-inflationary growth. Multi-lateral surveillance with the IMF's MD should help.

viii. This should promote greater exchange rate stability. Recourse now to new institutions or international conferences would without the appropriate policies be fruitless. The Commission's views on intervention perhaps go beyond the recent G7 statement in which Ministers agreed that intervention has only a limited role to play in reducing short term volatility.

BACKGROUND

Signs of recovery in the world economy in the early part of this year include rising output in the US together with some pick-up in production and demand, partly due to temporary factors, in Germany. Despite some general improvement in business confidence especially in Germany and the UK it is still too early to say the recovery is firmly established. But latest OECD forecasts have been revised upwards especially for the US and Germany. Growth in the Community as a whole is, however, likely to remain depressed.

2. The upward revision to forecasts as recovery seems to be firming in certain countries is encouraging. The Summit, in recognition, should strike a cautiously optimistic note to encourage confidence.

3. The UK expects the Summit to endorse the need for continued prudent monetary and fiscal policies to ensure that the recovery is sustainable and does not lead rapidly to renewed inflation. This

is not adequately recognised by the Commission. The UK also wishes to head off suggestions that countries, which have reduced inflation, such as the UK, should act as locomotives for the world economy. The UK Government's view is that within a given framework of firm financial policies, lower inflation and lower interest rates should themselves help to generate recovery.

4. Both the UK and Germany were singled out by the Commission in their paper on the economic situation for the March European Council as countries where fiscal expansion was possible. This paper endorses that view and again goes to far in suggesting that policies should 'fuel the upturn'. It generally pays scant regard to the dangers of a renewed inflationary upsurge as activity recovers.

5. Some reduction in real interest rates especially in the US would help secure recovery but this mechanism of recovery is perhaps given too high a priority. Progress on fiscal policy, to reduce the prospective Federal deficit in the US, together with a counter-inflationary monetary policy are essential if real interest rates are to be reduced.

6. It is important to achieve continued progress among the major countries on policy convergence to achieve non-inflationary growth. A medium term focus for this is necessary to ensure credibility. The G7 statement issued with the publication of the Jurgenson report accepted coordinated intervention in certain instances but stressed the need for disciplined and convergent policies.

7. In the Community, we can expect broad endorsement at least by the Germans and the Dutch for continued prudent policies although they may be less ready to contemplate specific medium-term guide-lines. Support from other Community partners is likely to be more grudging. The Germans have shown themselves sensitive to the need to carry other Community partners with them in the Summit process.

8. The Summit should consider the major uncertainties which threaten the recovery. Firstly, prudent macro-economic policies are necessary to ensure the revival in activity is not choked off by renewed higher inflation and higher interest rates. The conduct of monetary and fiscal policies in the US is particularly important here.

9. Secondly we share the Commission's concern over increased protectionist pressures and believe in the benefits of the open trading system. Any statement against protectionism should be realistic as the Commission recognises (see separate brief on protectionism).

10. Thirdly, despite considerable adjustment by some debtor countries, with IMF help, further problems caused by existing (Mexico and Brazil) or new debtors cannot be ruled out. Both the commercial banks and the IFIs need to help finance the adjustment process. The UK is seeking solutions on a case-by-case basis rather than looking to blanket solutions, which inevitably substitute public money for private money, or new institutions.

11. Preliminary discussions of the Summit focussed on a two-part agenda consisting of world economic prospects and East-West economic relations. This provoked some difference of opinion between the US and the Europeans, especially the French. No formal agenda is now proposed. Instead there will be a list of the major issues. Judging by President Mitterand's speech to OECD Ministers on 9 May (Mr Littler's minute of 12 May 1983), the French are likely to restate their demands at Williamsburg for a new international monetary order. This sort of intervention may unsettle the discussion and inhibit a frank and informal exchange of views.

LK

13/5/83

BRIEF 3 (b)

EC FINANCE COUNCIL: 16 MAY

Item iii. Monetary Committee Chairman's Report on Liquidity and Interest Rates.

1. We have so far seen the Report only in draft. ('French text attached).

2. We agree with the Report's analysis of developments in Liquidity. A number of significant LDCs now have a shortage of liquidity which they cannot satisfy in full from the commercial banks. But this is not necessarily the same as a global need for liquidity of the sort which might, eg, justify an SDR Allocation. In our view the predominant need is for conditional liquidity which becomes available in support of adjustment programmes. The need for more unconditional liquidity is less obvious, and requires very careful study within the IMF.

3. We also agree with the Report's analysis of Interest Rates. While positive real interest rates are needed in many countries for domestic reasons, the prospective level of US budget deficits is undoubtedly having an impact on the level of real interest rates internationally. There is little room for flexibility on US monetary policy. Equally there are political difficulties in carrying reductions in the US budget deficit through Congress.

13/5/83
BRIEF 3 (c)

OPINION OF THE ECONOMIC POLICY COMMITTEE ON PROTECTIONISM

This "Opinion" (copy attached) was drawn up following a long discussion of protectionism at the meeting of the Economic Policy Committee (EPC) on 17 February. It was unanimously agreed by members of the EPC. The Finance Council considered it briefly at their meeting on 18 April. Ministers did not formally endorse the Opinion, but accepted it in the sense that no-one spoke against it.

2. The Presidency may wish to use the Opinion in arguing at Williamsburg for a stand against protectionism. The conclusions of the President of the Council included the statement that:

> "There is broad agreement that an undertaking should be entered into that no new protectionary measures will be adopted and that existing obstacles to trade will be removed as the economy picks up. The efforts to reinforce the potential of GATT should be given every support."

Summary of the Opinion

3. The opinion stresses the benefits that members of the EC derive from the common market and the maintenance of relatively free external trade. It argues that problems of unemployment and balance of payments deficits cannot be corrected by resorting to protectionist measures. Indeed, they may be worsened by retaliation and emulation by others. The opinion notes that there may be occasions where selective protective measures may be justified, but argues that there are significant risks that measures which are intended only to be temporary may become permanent and serve to fossilise the structure of industry. In general the economy will be more efficient and standards of living higher if resources are assisted to move to other economic activities where protection is not needed. To help maintain a relatively free world trading system, the opinion calls for the Community to adopt a firm attitude toward discriminatory trade practices of other countries.

Protection and the Williamsburg Summit

4. The line taken in the Opinion is in accord with the Government's macro-economic and industrial policies and should not conflict with what the UK hopes to achieve at the Williamsburg summit. Ministers have still to agree on the precise form of words that the UK would like to see in any Williamsburg declaration on trade and protectionism, but the Ecofin lunch is unlikely to turn into a drafting session on this. The main elements of any declaration are likely to be commitments to introduce no new protectionist measures and to dismantle some existing protectionist measures in due course. There will be temptations to give these commitments as many loopholes as possible, but this risks rendering them ineffective in disuading other countries from adopting measures such as the US draft Export Administration Act.

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ECOFIN COUNCIL ON 16 MAY 1983

1. DISCUSSION IN THE COUNCIL, WHICH CONCLUDED AT 13.15, WAS DOMINATED BY THE FRENCH APPLICATION FOR A COMMUNITY LOAN OF 4 BILLION ECU AND WAS HIGHLY RESTRICTED. REPORTING IS LIMITED TO THIS TELEGRAM.

2. THE CHANCELLOR OF THE EXCHEQUER REPRESENTED THE UNITED KINGDOM.

SEVENTH COMPANY LAW DIRECTIVE

3. DIRECTIVE AGREED AFTER LIFTING OF FRENCH, GERMAN AND ITALIAN RESERVES. JURISTS/LINGUISTS TO CONSIDER TEXT ON 18-20 MAY.

COMMUNITY LOAN FOR FRANCE

14. REY, WHO HAD ACTED AS CHAIRMAN OF THE MONETARY COMMITTEE ON 11 MAY, REPORTED THE COMMITTEE'S OPINION ON THE FRENCH APPLICATIONS (TEXT BY HAND OF LITTLER). WHILST STRESSING THE NEED FOR THE FRENCH GOVERNMENT TO MAINTAIN THE ECONOMIC MEASURES RECENTLY TAKEN, IT CONCLUDED IN FAVOUR OF THE APPLICATION. ORTOLI (COMMISSION) SAID THE APPLICATION FELL WITHIN THE SCOPE OF THE COMMUNITY LOAN MECHANISM. THE FRENCH WERE TAKING APPROPRIATE CORRECTIVE ACTION, THOUGH ITS SUCCESS WOULD BE CONDITIONED BY THE PERFORMANCE OF THE WORLD ECONOMY. THE MEETING THEN WENT INTO A VERY RESTRICTED SESSION.

5. AFTER LENGTHY DISCUSSION, IT WAS AGREED THAT A COMMUNITY LOAN OF 4 BILLION ECU SHOULD BE RAISED FOR FRANCE. THE COMMISSION, IN CONSULTATION WITH A GROUP OF EXPERTS FROM THE MONETARY COMMITTEE, WAS INVITED TO MAKE APPROPRIATE MARKETING ARRANGEMENTS, HAVING REGARD TO THE IMPORTANCE OF MAINTAINING THE QUALITY OF COMMUNITY BORROWING IN ALL FORMS. THE DURATION OF THE LOAN SHOULD BE ABOUT SIX YEARS.

6. THE MAIN POINT OF DIFFICULTY WAS THE SIZE OF THE LOAN IN RELATION TO THE TOTAL (6 BILLION ECU) OF THE INSTRUMENT AS A WHOLE. IT WAS EVENTUALLY AGREED TO INVITE THE MONETARY COMMITTEE TO CONSIDER THE CASE FOR ENLARGEMENT OF THE INSTRUMENT, AND TO REPORT TO THE COUNCIL BY SEPTEMBER. MUCH TIME WAS TAKEN IN DEBATE MAINLY BETWEEN GORIA (ITALY) AND STOLTENBERG (GERMAN PRESIDENT) OVER THE INCLUSION IN THE TERMS OF REFERENCE OF THE MONETARY COMMITTEE OF A REQUIREMENT TO SECURE ''EQUALITY OF TREATMENT'' OF MEMBER

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/ COUNTRIES.

COUNTIRES. THIS WAS RESOLVED BY A FORMULA WHICH REFERS TO EQUALITY OF TREATMENT, BUT REFERS ALSO TO THE VARIOUS FORMS OF ASSISTANCE AVAILABLE IN THE COMMUNITY FOR DIFFERENT PURPOSES.

7. AT THE PRESS CONFERENCE AFTER THE COUNCIL THE CHANCELLOR SAID THAT MINISTERS HAD BEEN IMPRESSED BY THE SCALE AND SEVERITY OF FRENCH CORRECTIVE MEASURES SINCE JUNE 1982 AND HAD ACCEPTED THAT THESE PROVIDED JUSTIFICATION FOR APPROVING THE LOAN. THEY WOULD BE KEPT UNDER REVIEW. THE CHANCELLOR COMMENTED THAT THE FRENCH COURSE OF PUTTING MEASURES IN PLACE BEFORE SEEKING A LOAN WAS MORE DIGNIFIED THAN HAVING THEM IMPOSED AS A CONDITION FOR THE LOAN. HE DENIED THAT THE UK HAD MADE ANY LINK WITH SOLVING THE UK BUDGET PROBLEM. IT WAS IN THE INTEREST OF THE WHOLE COMMUNITY THAT THE FRENCH ECONOMY SHOULD BE MORE CONVERGENT.

COMMISSION PAPERS ON ECU AND FINANCIAL INTEGRATION
8. AFTER A BRIEF STATEMENT BY ORTOLI, IN WHICH HE DEMANDED A CONSULTATIVE AND POSITIVE RATHER THAN A CRITICAL APPROACH, AND AFTER MINIMAL DISCUSSION, IT WAS AGREED TO REMIT BOTH SUBJECTS FOR CONSIDERATIONS BY THE MONETARY COMMITTEE.

9. OTHER POINTS ON THE AGENDA WERE ABANDONED.

FCO ADVANCE TO:-

FCO - HANNAY FRY
CAB - WILLIAMSON PEARSON
DOT - VILE
TSY - PS/CHANCELLOR LITTLER UNWIN BYATT INGHAM
BANK - BALFOUR

FCO PASS SAVING : COPENHAGEN THE HAGUE ROME DUBLIN LUXEMBOURG ATHENS

BUTLER

[ADVANCED AS REQUESTED]
[REPEATED AS REQUESTED]

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