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PART.A

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chanceclors meeting

17th November 1981

Finance council  
Brussels

PO CH/GH/0176  
PART.A.

1981

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TO IMMEDIATE FCO

TELEGRAM NUMBER 106 OF 21 APRIL

INFO IMMEDIATE UKREP BRUSSELS, AND ALL OTHER EC POSTS.

FOLLOWING FROM UKREP BRUSSELS.

INFORMAL MEETING OF COMMUNITY FINANCE MINISTERS:

UK BUDGET QUESTION

1. PANDOLFI TOLD US IN ROME ON SUNDAY EVENING THAT MONROY NOW ANTED DISCUSSION OF THE UK BUDGET QUESTION DURING THIS MEETING. PANDOLFI HIMSELF PERHAPS FAVOURED THIS IN THE HOPE OF PROGRESS IN SENTIMENT IF NOT ON SUBSTANCE.
2. AT TAORMINA ON SUNDAY PANDOLFI SPOKE OF 4 ISSUES. THEY WERE THE FIGURES FOR THE UK CONTRIBUTION AS NOW FORECAST; THE FINANCIAL MECHANISM, WHERE IT WAS PROPOSED TO SUSPEND 3 LIMITATIONS, AND THE DURATION OF THE SUSPENSION; AND THE GENERAL QUESTION OF THE LESS PROSPEROUS COUNTRIES, INCLUDING THE QUESTION WHETHER THE EMS INTEREST RATE SUBSIDIES SHOULD BE UPDATED. THIS FOURTH POINT WAS EUPHEMISM FOR WHETHER ITALY AND IRELAND SHOULD CONTRIBUTE TO THE UK SOLUTION, OR BE EXCUSED OR COMPENSATED.
3. PANDOLFI ADDED THAT IN HIS VIEW A COMPLETE REVIEW OF THE COMMUNITY BUDGETARY SYSTEM WOULD BE NECESSARY BEFORE LONG. HE LINKED THIS INTER ALIA WITH ENLARGEMENT.
4. MATTHOEFER, IN A QUIET SPEECH, SAID THAT A SETTLEMENT OUGHT NOT TO BREAK THE 1 PER CENT VAT LIMIT. HE MENTIONED THAT HE CALCULATED THE AGRICULTURAL ECONOMIES PROPOSED BY THE COMMISSION TO BE WORTH ABOUT 100 MEUA TO THE UK. THE SOLUTION SHOULD BE LIMITED IN TIME. HE LINKED THIS TO ENLARGEMENT, BUT REFRAINED CAREFULLY FROM SUGGESTING A PERIOD. HE SUPPORTED PANDOLFI AS TO THE FORM OF A SOLUTION, INCLUDING REMOVAL OF THE 3 CONDITIONS FROM THE MECHANISM. HE ADDED THAT IT WOULD BE HELPFUL IF THE UK COULD COME UP WITH SUGGESTIONS FOR SOLUTIONS ON OTHER COMMUNITY PROBLEMS.

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5. MONORY AGREED THAT A SOLUTION MUST BE WITHIN THE 1 PER CENT LIMIT, MUST CONFORM TO COMMUNITY PRINCIPLES AND USE COMMUNITY MECHANISMS. HE WAS CONVINCED THAT HEADS OF GOVERNMENT WOULD COME TO A DECISION AT THE EUROPEAN COUNCIL, WHICH AS AN INSTITUTION HAD A GREAT CAPACITY FOR COMPROMISE. THE NEWSPAPERS WERE GETTING CALMER. HE AGREED THE SOLUTION WOULD CONSIST OF AGREEMENT ON CHANGES TO THE FINANCIAL MECHANISM AND A NEW LINE IN THE BUDGET FOR EXPENDITURE IN THE UK. WE MUST SOFTEN CERTAIN MECHANISMS BUT NOT DEPART FROM THEM. WE COULD NOT DEAL NOW WITH THE QUESTION OF AMOUNT. DURATION WOULD ALSO BE SOMETHING FOR HEADS OF GOVERNMENT TO DECIDE, BUT HE FAVOURED REACHING GREATER PRECISION ON SOME QUESTIONS IN PREPARATION FOR THE SUMMIT, FOR EXAMPLE BY TAKING A VOTE ON QUESTIONS LIKE DURATION IN THE FINANCE COUNCIL, AND REPORTING THE RESULT TO HEADS OF GOVERNMENT. HE THOUGHT IT WOULD BE WISE TO DEAL NOW WITH THE QUESTION OF THE UK CONTRIBUTION IN A SPECIFIC AND PRECISE WAY, SO AS NOT TO LEAVE VAGUE FORMULA OR GENERAL EXPRESSIONS WHICH THE NEW ENTRANTS TO THE COMMUNITY MIGHT EXPLOIT. IN THE COURSE OF HIS STATEMENT HE ALSO MADE A BRIEF REFERENCE TO THE NEED FOR AGREEMENT ON SHEEPMEAT.

6. THE CHANCELLOR SAID HE AGREED WITH MONORY ON TWO ISSUES SUMMED UP IN THE EXPRESSIONS : ONE LAST HEAVE AND LET'S CLEAR THE GROUND. ON THE BASIC FIGURES 1552 MEUA (THE COMMISSION FIGURE) HAD BEEN TREATED AS "RES JUDICATA" AT DUBLIN - THE ACCEPTED BASIS; AND THE NEW COMMISSION FORECAST OF 1683 MEUA, PRODUCED FOR THE COUNCIL, SHOULD BE SIMILARLY REGARDED NOW. WE COULD NOT UNPICK THE COMMISSION FIGURE. FOR EVERY ARGUMENT TO VARY IT ONE WAY, ANOTHER COULD BE PRODUCED TO VARY IT THE OTHER WAY. HE AGREED THAT THE FORM OF THE SOLUTION SHOULD BE THE FINANCIAL MECHANISM WITH AT LEAST 3 RESTRICTIONS REMOVED; AND SUPPLEMENTARY EXPENDITURE UNDER ARTICLE 235.

7. THE CHANCELLOR SAID HE WISHED TO STRESS THE QUESTION OF DURATION. WE THOUGHT A REASONABLE PERIOD WAS THE 6 YEARS OF THE ORIGINAL FINANCIAL MECHANISM. ON EXISTING POLICIES HE HAD HAD TO TELL THE BRITISH PARLIAMENT THAT THE UK CONTRIBUTION WOULD RISE FROM OVER POUNDS STERLING 1 BILLION TO NEARER POUNDS STERLING 2 BILLION BY 1983/4. WE DID NOT WANT THIS WHOLE PROBLEM COMING BACK TO PLAGUE US AND THE COMMUNITY IN A VERY FEW YEARS. SECONDLY, WE DID NOT WANT THE ISSUE RETURNING TO THE DOMESTIC SCENE BEFORE THE NEXT BRITISH ELECTION IN ABOUT 1984.

8. ON AGRICULTURAL QUESTIONS, IT WAS NOT THE UK WHICH HAD TAKEN THE INITIATIVE IN LINKING THEM WITH OUR BUDGET PROBLEM. BUT TO USE MONORY'S WORDS, THE AGRICULTURAL QUESTIONS WERE 'PAS SANS INTERET' FOR OUR BUDGET PROBLEM : THEY COULD ADD TO OUR NET CONTRIBUTION. THE COMMISSION'S FIGURE OF 1683 MEUA ASSURED MAJOR AGRICULTURAL ECONOMIES AND A PRICE INCREASE AVERAGING 2.4 PER CENT. MORE EXPENSIVE PROPOSALS WOULD ADD TO THE 1683 MEUA. SO WE COULD NOT SETTLE CURRENT AGRICULTURAL QUESTIONS IN ADVANCE OF, AND WITHOUT, A SOLUTION ON THE BUDGET.

9. O'KENNEDY SAID THE SOLUTION OF THE UK PROBLEM WOULD NOT OF ITSELF BREAK THE 1 PER CENT LIMIT: BUT CERTAINLY THE FUNDAMENTALS OF THE COMMUNITY, WHICH MADE IT MORE THAN A COMMON MARKET, MUST BE PRESERVED. HE AGREED WE MUST HAVE AN EYE TO THE NEW ENTRANTS AND NOT INVITE BIDS FROM THEM. EQUALLY WE COULD NOT RULE OUT CHANGE AND DEVELOPMENT IN THE COMMUNITY. CONSIDERATION OF ENERGY POLICY WAS ONE EXAMPLE.

10. MONORY INTERVENED TO SAY THAT HE DID NOT NECESSARILY ACCEPT AS FINAL THE COMMISSION'S FIGURES OF NET CONTRIBUTIONS. FRANCE HAD EXPRESSED DOUBTS ABOUT THE EARLIER FIGURES AT DUBLIN AND HE DID NOT WISH TO LET IT BE THOUGHT HE ACCEPTED WHAT THE CHANCELLOR HAD SAID.

11. IN SOME BRIEF FURTHER EXCHANGES THE CHANCELLOR ESTABLISHED THAT THERE WAS NO SUPPORT FOR MONORY ON THE IDEA OF TAKING VOTES AT THE FINANCE COUNCIL ON THE NEXT DAY.

FCO ADVANCE TO:-

FCO - PS/S OF S, PS/PUS, BRIDGES, HANNAY, SPRECKLEY  
 CAB - FRANKLIN, ELLIOTT, WALSH  
 TSY - PS/CHANCELLOR, COUZENS, HANCOCK, MICHELL, THOMSON,  
 MISS WRIGHT (PLUS 7)  
 NO 10 - ALEXANDER

THOMAS

FRATE ECONOMIC  
 ECD(I)  
 FR

[ADVANCED AS REQUESTED]

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CONFIDENTIAL

Informal Meeting of EC Finance Ministers  
Mullerthal, Luxembourg: 20/21 September 1980

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1. The agenda turned out to be:-

1. IMF matters and the Presidency speeches for the Interim Committee and Annual Meeting;
2. development of the non-exchange rate part of the EMS, and the date of March 1981 for the "second phase" which derives from the Bremen European Council;
3. a possible joint meeting of Finance and Social Ministers;
4. ECO FIN agenda for October.

The Chancellor was present for the first two items on 20 September. I represented the UK on 21 September for items 3 & 4.

2. In the course of Saturday the Chancellor spoke to the German, Dutch, Belgian and Luxembourg Ministers about the urgency for the UK of clearing up the outstanding matters on the Article 235 refund, arising from our 30 May Agreement.

3. IMF matters. There was little new in this discussion. Pandolfi gave a lengthy account of the issues and referred to the PLO difficulty. The Chancellor, echoing in part Pandolfi, said it was a central part of the role of those present to preserve the IMF, its structure and broad voting rights, as well as the SDR, as part of the monetary system; and not as an instrument for the transfer of resources. Lending for adjustment and conditionality were part of that. We supported borrowing from OPEC on the right terms but did not wholly rule out a limited degree of market borrowing as an alternative while the OPEC surpluses lasted.

4. The Chancellor took the opportunity to make 2 comments on the draft Presidency speech for the Annual Meeting. The first was about the tone of one passage which came rather close to placing

responsibility for the present LDC position on the developed countries as well as on OPEC. The second was about the references to progress towards the 0.7% target. There was a case for a reference to the progress which had been achieved in private flows, which had trebled to about 1½% of GNP for the UK, France, Italy and Germany together between 1970 and 1978. In answer to Monory, who said that was "business", not aid, the Chancellor pointed out that there was a 1% target for private flows. There was no explicit acceptance (or rejection) of the Chancellor's points and the Chancellor succeeded in airing the arguments. The Presidency was left to take account of drafting points in the discussion, following general approval of the draft.

5. EMS/EMU "stock-taking". Sauter pointed to the obligation in the "Bremen Annex" to proceed to the second, institutional stage of the EMS in March 1981. This provoked clear statements by Monory and Matthöfer, later echoed by Ortoli, that nothing dramatic could or should happen by that date. Hofmeyer (Bank of Denmark) reported that central bank governors were thinking of renewal for 2 years from March of present EMCF and ECU-swap arrangements, perhaps with an announcement this year. Ortoli suggested that there would have to be an announcement which would refer to the renewal of present arrangements and to practical progress in work on the ECU etc and which would take any exaggerated emphasis off the March 1981 date. He also referred briefly to the absence of the UK from the exchange rate arrangements as something on which progress was needed.

6. Following other comments (none referring to the UK), the Chancellor said the UK would continue to participate fully in work on the credit mechanisms and the UK.

7. The Trades Unions. Sauter spoke of the need for psychological reasons to reorganise trade union anxieties and associate them with European development. He did not propose a

tripartite meeting but perhaps a joint meeting of Finance and Social Ministers was worth considering. He referred to the question of the shorter working week.

8. There was no enthusiasm from Italian, Dutch, Belgian or German spokesmen (or indeed from Ortoli) for either a tripartite meeting or a joint Council meeting. I said I felt I must cast the Chancellor's vote against both. Ortoli's suggestion for a study by officials of the possible agenda for a joint meeting was not followed up. Lahnstein said there were already too many channels of trade union contact with the Commission and the Community.

9. In this discussion it was indicated that the union interest was in the shorter working week, and relations with multi-national companies and participation in company boards.

10. October ECO FIW Agenda. Ortoli said the agenda for October was likely to be:-

- i. new Community instrument (ie UK and Article 235) on which he hoped a conclusion could be reached, with the prospect of an annual report on its working;
- ii. energy and recycling.

11. Pandolfi referred to the work of the Monetary Committee on the Community loan facility for oil-induced deficits and spoke of this as a Community contribution to recycling. I took the opportunity to stress the political importance for the UK of settling the "new Community instrument" to avoid any suspicion of back-tracking on the 30 May agreement. I also suggested that, following what Ortoli had said earlier, the proposed improvements in the Community loan facility might possibly be scored with the extension of the central bank ECU-swap and of the medium

term loan facility as a "package" of monetary developments. These might be referred to together in a European Council communique in a way which would help us over the March 1981 date implicit in the Bremen communique. The question was how best we could score the loan facility in both this context and as recycling.

12. Ortoli and Lahnstein intervened to support this suggestion and to stress the need to play down the March 1981 date. Lahnstein in particular said that the March 1981 time limit had been a mistake, and he indicated that it was likely to be a long time before the developments envisaged for that date took place.

22 September 1980



BREDA : 3 and 4 APRIL 1981

The Belgians sent only a junior official because of their Government crisis. The Finance Minister, Mr Eyskens, was trying to form an administration. Mr Matthofer was also absent through illness and was represented by Mr Schulmann. A list of those present is attached.

2. Mr Van der Stee proposed the following agenda:

- i. IMF Interim Committee matters.
- ii. Export Credits.
- iii. The macroeconomic outlook.
- iv. The proposed jumbo Council of Finance and Social Affairs Ministers.
- v. Subsidies in the energy field.
- vi. Interest rate policy.
- vii. Restructuring of the EC Budget.

In fact, export credits and energy subsidies were not discussed and the jumbo Council was referred to only briefly. A decision was taken to cancel the Eco/Fin meeting on 13 April.

#### IMF Interim Committee Matters

3. These were allowed to occupy the whole of the afternoon of Friday and the first hour of Saturday morning.

4. Monory described his journeyings to the United States, Canada and Mexico. He had found the US Administration "closed" as regards the LDCs and concluded that it was better not to press too hard in Libreville. He hoped that the Americans had accepted the importance of avoiding a clash with the LDCs, but he was not sure.

5. The first item was a discussion about IMF borrowing. Schulman and Pöhl said that the US ought to be pressed to participate in the 1 billion OECD loan although Zijlstra suggested that such pressure was useless. There was some discussion of whether Community countries should refuse to participate in the 1 billion if the Americans failed to do so and Haberer raised the question whether other contributors would have to make up the US share. The Chancellor said we should certainly urge the US to participate but not make it an absolute condition. The point about the US share need not really arise since the total was a very approximate one and there would not be strictly prescribed shares.

6. On market borrowing, Schulmann said the FRG were against it except as a last resort and Zijlstra said there was no need for market borrowing as a bridging operation, given what had been agreed with the Saudis; while a permanent policy of borrowing raised very large issues. Haberer referred to the tactical importance of keeping open the possibility of market borrowing in order to avoid Saudi blackmail and Monory referred to this also. In addition, Haberer stressed that there were different sorts of market loan.

7. The Governor said that we ought to keep market borrowing open as a reserve possibility. He refuted a suggestion that market borrowing might impair conditionality and Zijlstra agreed with him. Van der Stee concluded that the study of market borrowing should continue but that we should not cross the threshold of it before Libreville. On the 1 billion SDR loan, we ought to press the United States but not make their participation a condition of ours.

8. Creation of SDRs. Monory said the US was "closed" on this subject and his concern at Libreville would be simply to prevent a situation in which the "file" was permanently closed. The Chancellor said that the time was not ripe for a further SDR issue. He agreed with Pöhl that the criteria of shortage of world liquidity was not met and we should not succumb to the political temptation to give aid in a disguise form. The SDR had been invented under a fixed exchange rate regime and in totally different circumstances. We ought to use the breathing space on SDR issues to consider more fundamentally the role of the SDR in the international monetary system.

9. Van der Stee concluded that all present were opposed to the aid link. The French did not challenge this.

10. Food Facility. Schulmann and the Chancellor said they could accept this idea, in the form now proposed of an extension of the Compensatory Financing Facility, though without enthusiasm.

11. Subsidy Account. Monory referred to a French contribution of 10 million SDRs towards a target of 250 million. The Saudis would contribute \$35 million. The Chancellor and Schulmann both said that they could not contribute.

12. 8th Quota Increase. The Italians suggested a quick equi-proportional increase but the general view was that it was premature to discuss this.

13. Energy Affiliate. Monory reported US reluctance and suggested the aim should be to keep the idea alive. Andreatta suggested that others go ahead without the US. Schulmann favoured the Affiliate but did not wish to go it alone on it. The Chancellor agreed that we would not go it alone.

14. IDA VI. Schulmann said that the FRG would not contribute to IDA VI, or to further bridging, until the US Congress had approved it. The Chancellor agreed with Schulmann. We could not take over US responsibilities.

15. The Chancellor stressed that at Libreville we ought to be careful to take full credit for the general expansion of the Fund's facilities and should not allow ourselves to adopt a defensive attitude. We had nothing to be ashamed of. He also said it would be a mistake to over-dramatise the US position on the multilateral institutions and the LDCs, or to say (as the Belgians suggested) that the multilateral system was in decay. It would be dangerous in relation to the LDCs to do this (even if some switch of emphasis from multilateral aid had been suggested in Venice). And we must assume the US would continue to make a large effort, even if somewhat reduced. It was best to take their participation for granted.

US Interest Rates

16. Although, under another item, M. Monory remarked that present international interest rates were suicidal, the question of US interest rates was treated rather briefly with a reminder from the chair of the remit from the last Finance Council to the Monetary Committee and the Board of Governors to consider the matter further.

Budget Restructuring

17. Somewhat surprisingly, the Chairman advanced this item, and Schulmann initiated the discussion. He began by referring to what was said in the agreement of 30 May 1980 about avoiding unacceptable situations for any member state. He hoped the Commission would put forward their ideas on budget restructuring a month earlier, at the end of May rather than the end of June. Progress really must be made on this subject in the second half of the year. We could no longer rest on the accidental growth of net contributor and net beneficiary positions. We had to restructure the budget and that meant restructuring agricultural policy. The growth of agricultural expenditure must henceforth be at a rate markedly below the growth of our resources. The Federal Republic was ready to see changes in the Regional Fund and wondered whether the wealthier states should continue to benefit from it.

18. At all events the first objective must be to restructure the budget so that no Community member was placed in an unacceptable situation. If however this were not successful, then Germany would wish to see her net payer position limited in the same way as had happened for the UK. He wished to give advance notice of the German intention in this respect. He added that it was German policy to keep to the 1% ceiling indefinitely.

19. Ortoli intervened to say that he would report to his colleagues what Schulmann had said about the timing of their report, as well as on the substance.

20. The Chancellor said that the Finance Ministers of the Community had a particular responsibility and a growing one. We faced a difficult time nationally and internationally with little growth to lubricate the situation. Agricultural prices for the next year had been settled but the underlying budgetary difficulty in the Community was getting larger and nearer. This was much more than a purely mathematical problem: there were major underlying policy issues. Agriculture was the most important of these, but there were also the structure of the budget and enlargement.

21. Expedients would no longer do. If the Community were to continue to inspire and command confidence it must address itself properly to this situation. We were all aware of separate national interests but would have to put these second in order to achieve a solution. In the Community as nationally it would be necessary to scale down expectations based on existing policies.

22. The Chancellor agreed with Schulmann that the Community would have to decide more consciously what should be the pattern of net contributions and receipts for member states. That was the only way to be sure that unacceptable situations would be a thing of the past. Up to now the pattern had resulted haphazardly from decisions taken by different councils for different purposes. Especially with enlargement, that would not do. The strain on net contributor countries like Germany and the UK would be too great and too unpredictable.

23. The pattern of net contributions and receipts should be related in a defensible way to things like relative prosperity and population. But there was no preconceived British formula on this.

24. It would be a great mistake if the Community were to do no more than wait for the budgetary problem to hit us and then indulge in a great battle. We ought to meet the imperative of change in advance, as we try to do nationally. The UK was more than willing to do this.

25. We had to think soon and think big. He hoped the Commission would offer us a choice of possibilities, and supported Schulmann on the timing of their report. We must address ourselves to finding a truly European solution.

26. Palaiocrassus said he agreed with the Chancellor. The CAP institutionalised our difficulty. We must avoid a continuing battle between those who wanted to restrict contributions and those who wanted to increase receipts. We must start now with restructuring the budget, which meant restructuring the CAP; and tell Agricultural Ministers that this was the requirement. The Regional and Social Funds did not raise the same problems but restructuring the CAP was crucial.

27. Fitzgerald said Ireland was ready to be flexible about agricultural policy but was nationally dependent on agriculture. He was ready to see more done on the Regional and Social Funds. However he saw a rigid approach to the Budget and 1% limit as more anti-European than support for the CAP.

28. Ortoli said the Commission knew they must show a capacity to offer solutions. He added however that the 30 May mandate also called for respect for the principles of the CAP.

#### The Macroeconomic Prospect

29. Rutten, as Chairman of the Co-ordinating Committee, made a long statement based on a document most of those present had not yet seen. Ortoli followed, arguing that the main requirements were to reduce oil dependence, improve competitiveness and increase investment. He remarked that too high an exchange rate discouraged investment.

30. Monory, in a major statement, spoke of the Community's loss of competitiveness. Like Japan, we were excessively dependent on imported energy - except in the case of the UK which had found a solution. Not enough had been done to influence public opinion eg on nuclear power. By comparison fiddling with agricultural

policy was unimportant, even if it added 2% to unemployment. If we could reduce imports of oil by 3 million tons that would be much more important.

31. The policy of high interest rates was suicidal. There were other means of limiting monetary growth. We had to tell the public that there must be a shift from consumption to investment. Consumption must be stabilised. Productivity gains might conceivably be used to reduce hours and thus unemployment but not to increase consumption.

32. The Community must find a way to better its growth rate, even if it meant more exports to poor countries. Perhaps we should encourage recycling in the Community as a way of cementing unity. He was <sup>as</sup>rigorous as the next about inflation and monetary growth but a way must be found.

33. Andreatta expressed his thanks to colleagues for agreeing to the recent lira devaluation and explained the associated policy measures taken or proposed. They were proposing \$5 billion of public expenditure reductions and hoped for \$3-5 billion reduction in public borrowing.

34. Italy needed a realistic exchange rate but had also to use it as a discipline. Wage indexation was incompatible for both Italy and Belgium with their obligations to the EMS. He sought a formal Community declaration against indexation.

35. Palaiocrassas sought a link between the Rutten plan and restructuring of the budget away from the CAP.

36. The Chancellor said we were all aware of declining competitiveness. There were seductive ways like work sharing of letting it decline further. He agreed we must shift the emphasis away from consumption and towards the right sort of investment, but we must not let investment become a vague word for use by colleagues with expenditure programmes.

37. We were all conscious of the interest rate difficulty but it was just as suicidal to force rates down artificially in a way which was not sustainable. This was where fiscal policy was important, as in our recent March Budget. Although we were now securing pay increases below the rate of inflation, we entirely agreed with what had been said about indexation. Could we not help each other more on policies, for example on the indexation question, and present Community insights on policy better publicly. What about the level of salaries in the Commission and the expenditure of the European Parliament?

38. There was Belgian support for a statement on indexation. Schulmann suggested that the case for more investment be put positively. He was convinced that the potential for investment was greater than at the beginning of the 1970's. It would be helpful if real interest rates could be reduced. But it must be industry, not governments, which did the investing.

39. Ortoli agreed to consider what form a declaration on indexation might take.

40. Next Informal Meeting. The Chancellor asked if colleagues wished to have a second informal meeting in the second half of the year which the UK would be very pleased to arrange. There being no dissent, he proposed, and it was agreed, that the meeting be after the IMF Annual Meeting, perhaps in late October or November.



Informal Meeting of the Ministers of Finance  
3 and 4 April 1981

Participants

Belgium

Mr. J.M. Mottoul : Advisor to the Minister of Finance

Denmark

Mr. Ivar Noergaard : Minister for Economic Affairs  
Mr. E. Hoffmeijer : Governor of the National Bank of Denmark  
Mr. N. Ussing : Ministry of Economic Affairs

Federal Republic of Germany

Mr. H. Schulmann : Staatssekretär, Bundes Finanzministerium  
Mr. O.Poehl : President der Bundesbank Deutschland  
Mr. Schmitt : Bundes Finanzministerium

Greece

Mr. I. Palaiocrassas : Minister of Coördination  
Mr. Zolotas : Governor of the Central Bank of Greece

France

Mr. René Monory : Minister de l'Economie  
Mr. De la Genière : President de la Banque de France  
Mr. Rigaud : Membre du Cabinet du Ministre des Finances

Ireland

Mr. Gene Fitzgerald : Minister of Finance  
Mr. Reynolds : Governor of the Central Bank of Ireland  
Mr. Coffey : Secretary General, Ministry of Finance

Italy

Mr. Gulio N. Andreatta : Minister of Finance  
Mr. Champi : Governor of the Central Bank of Italy  
Mr. Izzo : Ministry of Finance  
Mr. Saccomanni : Adviser of the Governor of the Central Bank

Luxemburg

Mr. Jacques Santer : Minister of Finance  
Mr. Muhlen : Vice Minister of Finance  
Mr. Zimmer : Advisor of the Minister of Finance

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PRINCIPAL PRIVATE SECRETARY

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- cc Sir D Wass
- Sir K Couzens
- Mr Hancock
- Mr Lavelle
- Mr Ashford
- Mr Edwards
- Mr Bottrill
- Mr Scholes
- Mr Franklin - Cabinet Office
- Lord Bridges - FCO
- GPS - Bank of England
- Mr Butt - UKREP

INFORMAL FINANCE MINISTERS' MEETING, LONDON, 30-31 OCTOBER 1981

I attach a record of the discussions - mainly the work of Mr Hancock and Mr Bottrill.

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MRS M HEDLEY-MILLER

4 November 1981

THE INFORMAL MEETING OF MINISTERS OF FINANCE FROM THE  
EUROPEAN COMMUNITY

LANCASTER HOUSE, LONDON, 30 AND 31 OCTOBER 1981

1. The first session of the Informal Meeting opened at 3 pm on Friday 30 October. A list of those present is attached as Annex A.

2. The Chancellor of the Exchequer referred to the manifestations of unease within the Community. These resulted from unemployment and its underlying causes : inflation; rigidity and distortions in our economies; the accumulation of Budget deficits resulting in high interest rates. He suggested that the meeting should discuss, entirely informally, the three parts of the Mandate : non-agricultural policies; agricultural policy and the Budget. M. Delors had recently joined the Finance Ministers' club and had some clear ideas to express. He invited M. Delors to begin.

3. M. Delors said that the Community could tackle its current problems in one of two ways : an approach that would divide and an approach that would unite. There were divisions,

on the CAP, on

the structure of the Budget, and what were called "unacceptable situations". These gave a very unfortunate impression to public opinion. The problems could not be ignored but should be looked at in a more positive context - the responsibility of our generation for the solidarity of Europe, which does unite us. The first 25 years after the war had been extremely favourable for Europe, but times had now changed. The United States had lost interest. Raw material and energy prices had gone up; Governments had exhausted the possibilities of bringing growth through Budget deficits; Europe (with the United States) no longer had a monopoly of technology. The challenge was to find the way to a third industrial revolution, and for Europe to meet the challenge; not to haggle about the last 100m ecus. If that were the sole approach, historians would say

that Europe had declined in the 1980s. We had responsibility for those younger than ourselves. In explaining his approach he was not trying to avoid discussion of the CAP or the British problem.

4. Mr Vandeputte said that he agreed with Delors' diagnosis. Belgium had come to the end of a very prosperous period and, if it were to get itself out of its present difficulties, co-operation in Europe would be very desirable. Belgium had tended to lose heart about the Community which had not achieved what had been expected.

5. Norgaard also agreed with Delors' diagnosis. But he pointed out that the member states differed in their social structures. The countries newly arriving were different from the north of Europe. He was not sure that we could discuss details of an industrial policy, for example, and also deal with the problem of the difference between north and south Europe. Even so we had to try to find solutions for the Community as a whole, and for the Community in the world.

6. The Chancellor said that we could all see how previous decades of relative comfort had lulled the European countries into a false sense of security. Many things now worked against us : the oil price, the rise of thrusting competitors : many other things. The expectations nurtured by the good years could no longer be fulfilled. Governments could try to persuade people to be more patient, and to reshape Government institutions. But when it came to stimulating new sources of technology, he was not confident that politicians were very good at it. How could we recapture optimism and liveliness in a difficult world?

7. Mr Bruton said that Ireland's special problem arose from its disproportionately high agricultural and young populations. He agreed with Mr Norgaard that the Community must be capable of adapting itself to a wide variety of social and economic conditions. Community countries could help each other with techniques of budget-making. Ireland was now in severe difficulties because it

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had failed to act appropriately after the Iranian crisis. It was essential to improve budgetary control at home. Finance Ministers should support each other because they were often on their own in their own Governments - sometimes they might get their Prime Minister's support but not always. There was no mystery about the level of unemployment in Europe : labour was over-priced - it was as simple as that.

8. The Chancellor agreed with Mr Bruton that Finance Ministers had to bear the brunt of bringing home the realities of life to their colleagues. They should forcify each other. It would also be helpful if the Commission and other international bodies would help Finance Ministers in their task. The public did listen to Community institutions. The trouble was that newspapers tended to pick out the comforting sentences and ignore the hard ones. If the Community was in a state of constant warfare over Budget issues, it would be unable to respond to the challenge of current problems. This is why he had taken the opportunity of his speech in the Hague to suggest that the Community Budget arrangements should be developed so as to produce a pattern of effects founded on rational analysis.

9. Mr Engering of the Dutch Treasury made a statement on behalf of his Minister, Mr Van der Stee. He apologised for his Minister's absence and conveyed Mr Van der Stee's message that unless he had stayed in the Netherlands at this crucial moment, he might never be able to attend a meeting of Finance Ministers again. Mr Van der Stee believed that it would be quite wrong to put the Budgetary problem into the background. There was a risk of the Community falling into the trap of an uncontrolled pattern of expenditure (just as the Netherlands had done). The Community needed a Budgetary framework. There had been a good deal of discussion of this issue in the Hague stimulated by the Chancellor's speech. The conclusion they had reached was that the Community should first create a procedure for establishing an annual framework. Decisions would have to taje account of pluri-annual forecasts. A good deal more could be done to control expenditure on the CAP.

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10. Mr Ortoli said that Finance Ministers should make it clear that they were sincere when they spoke of the need for discipline - how unconvincing Council communiques sounded! His foreword to the 5th Medium-Term Plan had been intended to say that there were a number of things that Europe could do together to solve current problems. He agreed with Mr Bruton that Finance Ministers could help each other establishing control over their domestic budgets. "There are countries where no budget structure exists". The CAP should not be discussed in emotive terms but the Community institutions should define objectives to be pursued within certain limits. He was less worried than the Chancellor about the Budget. What could be done on common actions, and "solidarity" via the Regional and Social Funds, was limited. The majority of the Commission felt that what we could do in common was rather limited in the immediate future. The Community was not a State and did not have the resources to imitate the fiscal actions of a State. But there should nevertheless be a common strategy and a common view. Monetary issues should not be ignored. If Ministers forgot that the EMS was a discipline, they would make a great error. In the outside world we could not leave exchange rates to be completely free. Interest rate policy must be seriously discussed. The Community needed to increase its influence in the world.

11. Herr Schulmann apologised for his late arrival (because of a bomb scare at Munich) and for Herr Matthöfer's absence. Herr Mathöfer was undertaking yet another agonising budget exercise. Herr Schulmann said that he shared the concerns expressed by Mr Engering on behalf of Mr Van der Stee. We could not have a double standard. If we ran a tight budget at home we must do the same in the Community. The Community Budget was not managed in the same professional way as would be required domestically. Speaking of the more general problems, he explained the current mood in Germany. They had had three budgets in a year. Their research institutions had revised their growth estimates downwards and their unemployment estimates upwards. This would result in more

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expenditure and lower revenue. The resulting deficit had to be closed. Herr Schulmann was worried that the exercise would have to be repeated early in 1982. But the deficits had to be eliminated or the effect on capital markets would be such as to increase real interest rates still further.

12. M. Delors intervened again to say that great progress had been made in the management of the CAP. The savings in FEOGA expenditure had not only resulted from favourable cyclical conditions, but also from more rigorous management. We should stop doctrinal battles about the CAP and continue to make progress of that sort. France advocated four essential conditions for the development of the CAP; increase in Community preference; the gradual elimination of MCA's; increased coresponsibility for products in structural surplus; and the establishment of an organised export policy like that of the United States. By comparison with the CAP, the Community's regional policy had mostly been a failure. The French Government recognised that there was a British problem, an Irish problem, an Italian problem and a German problem. They should be looked at and each would need to contribute to the common task in proportion to what he could manage. The Community needed to generate political warmth by selecting two or three areas where progress could be made. He mentioned in particular investment in information technology and new energy sources. Finally, he asked whether Finance Ministers should not be present at meetings of the European Council.

13. The Chancellor suggested that this last point should be looked at, but not with a view to making a change at the November Council.

14. Speaking for the United Kingdom Sir Kenneth Couzens said that the UK did not see the CAP as a war of religion, though we did think there was need for reform. We agreed that there was at present an unhealthy conflict between the Community's regional and agricultural policies. This reflected the problem that the CAP took so much from the Budget and that there was no system which made the general effect

work in the right direction. The conflict could be sidestepped if there was a conscious plan for the overall direction of the Budget so that the resources flowed in general from the more prosperous to the less prosperous member states. Perhaps too much had been said about the decline of Europe, though we certainly risked some relative decline, and this was associated with the loss of competitiveness. If we could succeed with our underlying policy of combating inflation we would do a great deal to restore the confidence of the Community and put the Community in a much stronger position to make proposals to other countries.

15. M. Santer agreed with M. Delors' diagnosis of the Community's problems. He said that it was a familiar theme. The Community was constantly writing reports expressing the same diagnosis but they did not result in action. He cited energy policy as one example and the reluctance to take a second step in the development of the EMS as another. We needed to develop new policies and to give them finance.

16. This part of the meeting ended at 5.15 pm.

17. At 9.30 am on Saturday 31 October, the meeting resumed at a session at which Central Bank Governors were also present, to discuss monetary relations with third countries. The record of this part of the discussion is below.



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INFORMAL MEETING OF EC FINANCE MINISTERS 30-31 OCTOBER 1981

MONETARY RELATIONS WITH THIRD COUNTRIES

Summary

Discussion of relations with the U.S. was given a slightly new aspect by the prospect of lower American interest rates and a potentially weaker dollar - in contrast to the past year's experience. Most felt, however, that exchange rate fluctuations were still too volatile, and some intervention by the U.S. would be useful. The Americans' own attitude seemed to be changing. There was disagreement, however, about the advisable size and about the likely effectiveness of intervention. The Germans supported by the Chancellor, argued that the most that could perhaps be achieved was to smooth short-run fluctuations. Others, notably the Belgians, argued for strong intervention to demonstrate to the markets that the authorities cared about exchange rate levels.

2. The recent realignment of EMS currencies also resulted in some shift of emphasis in discussion of monetary relations with Europe.

The realignment was agreed generally to have worked well. It was hoped that the reduction of U.S. interest rates would allow lower interest rates in Europe. The French looked to Germany to take the lead. The Germans agreed that there should be increased room for manoeuvre, but it was limited by the size of budget deficits and by the continued need to fight inflation.

3. The Commission made its familiar plea for more co-ordination of policies within Europe. But others, including the Chancellor, queried exactly what was meant by co-ordination. The Germans argued that as long as countries were committed to fight inflation, this was a form of co-ordination.

4. There was some discussion of the future development of the EMS, but several voices urged a cautious approach and some argued that no significant progress could be made until the UK was a member.

5. There were also suggestions for a greater role for the ECU, perhaps as a unit of account for pricing imports of oil and other commodities. It was argued, however, that the ECU would have to be acceptable to oil producers. In the long-run, the ECU could only become attractive and representative of the EC economies if it was backed by sound and co-ordinated policies.

6. Lastly, there was some brief discussion initiated by the Irish of the need to find a new macroeconomic policies to replace the post-war Keynesian consensus that had now broken down.

7. Subject to confirmation, it was agreed that the November Finance Council should be deferred to 17 November.

Relations with the U.S.

8. The Chancellor invited the Governor of the Bank of England to open the discussion by reporting the previous day's meeting of central bank governors. The Governor said that high U.S. interest

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rates and a firm dollar had posed the dilemma for EC countries in the summer of accepting higher interest rates than many would have wanted on domestic grounds or having a lower exchange rate. But U.S. failure to fight inflation would probably have created worse problems.

9. The prospect of lower U.S. interest rates and a weaker dollar would provide an opportunity for EC countries to reduce interest rates if this was justified by domestic conditions. Nevertheless, EC countries ought perhaps to be concerned in the longer perspective about the prospect for a U.S. balance of payments deficit and weak dollar, since portfolio shifts out of the dollar could be disruptive.

10. The EC governors had noted 'the first signs of a crack' in the hostile U.S. attitude towards intervention in the foreign exchange markets. The U.S. was perhaps now more outward-looking and conditions existed for a constructive dialogue.

11. Haberer (France), chairman of the Monetary Committee, said the European Council had agreed that more co-ordination of European interest rate and exchange rate policies vis-a-vis third countries should be sought. This had typically been remitted to the Finance Council and then the Monetary Committee, but what was needed from the present meeting was 'a political impulse'.

12. Ortoli (Commission) said that ~~the~~ size of recent short-term exchange rate fluctuations had been too great and the Community needed to consider how to organise co-operation with the U.S. He

recalled the successful arrangements of 1978. Discussion now should cover not only intervention but also monetary policy.

13. Poehl (Germany) said that in spite of \$25 billion intervention by G10 countries so far this year, of which the Bundesbank had supplied \$10 billion, exchange rates had still fluctuated widely. Most of the intervention had been by non-U.S. central banks and it would be helpful if the U.S. authorities appeared in the market again.

14. Stryker (Belgium) said the relationship between the dollar and the DM was most important. The first need was to persuade the U.S. that intervention was useful and then consider how to organise it. The U.S. must be expected to intervene in DMs, but was Germany ready to accept the domestic monetary consequences of this?

15. Co-ordinated intervention with U.S. could have an important psychological effect in demonstrating to markets that authorities are in earnest in wanting greater stability. More determined intervention would probably reduce instability.

16. Andreatta (Italy) said the U.S. Treasury Secretary should be pressed to define the concept of 'crisis' which would prompt the U.S. authorities to intervene in the markets. Perhaps Ministers, as well as central bank governors, should approach their U.S. colleagues in the first few hours after a crisis. He cited the example of Sadat's murder.

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17. A European Fund could be some use in in enlarging the possibility of intervention by the EC countries. The policy of 'waiting for the U.S.' could be replaced to some extent by European intervention, for example, in the DM/\$ rate. Existence of a pail of reserves could have contributed to this.

18. De la Geniere (France) said it was difficult to spot economic turning points. It was true that we might be seeing a turnround in U.S. interest and exchange rates, but the large U.S. budget deficit might keep American interest rates high.

19. Schulmann (Germany) said the DM had fluctuated between 2.20 and 2.60 to the dollar in 1981. This reflected highly unstable exchange rate expectations contrary to what the advocates of floating exchange rates had said in the early 1970s. He would be content if the DM stayed between 2.20 and 2.30 to the dollar i.e. about the same as the 4 per cent divergence allowed in EMS.

20. In the case of intervention, however, 'it took two to tango', and as long as the U.S. maintained its opposition to intervention, all one could do was talk to them. Recent fluctuations had been far greater than when the U.S. was intervening actively. The U.S., however, tended to swing from too little to too much intervention.

21. Poehl said the EC countries should not seek heavy intervention by the U.S. It was probably only possible to smooth fluctuations. The lesson from the past was that intervention was not possible against fundamental changes. Intervention could also have serious implications for those countries whose currencies were used.

Germany would not like the U.S. to build up large DM holdings. U.S.

intervention could damage German monetary policy.

22. The Chancellor said Ministers appeared to agree on the need to urge on the U.S. a more generous interpretation of 'crisis' and on the need for intervention to smooth fluctuations. He was ready to speak to Regan about this. He was not convinced, however, about the possibility of coping with large exchange rate swings through larger intervention. The EMS example had showed markets could be convinced without too large intervention, but could this be repeated across the Atlantic? To what extent would Germany accept the monetary implications of greater intervention? It was easy for others to advocate greater intervention if theirs was not the currency used.

#### Co-ordination of policies within Europe

23. Ortoli said individual countries' monetary policies were essential for the stability of the EMS. The EC countries needed to be able to discuss whether national monetary policies were consistent with convergent economic performance. Countries 'should commit themselves to some extent' in these discussions. A 'common discipline' was needed.

24. Haberer said there had been a co-ordinated reduction in European interest rates after the EMS realignment. Currencies formerly at the top of the EMS were now at the bottom. It was important to organise further effective co-ordination of reductions in interest rates i.e. on the same day or a day later. The Monetary Committee had discussed the co-ordination of quantitative monetary targets without reaching agreement. If Ministers wished,

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the committee could continue these discussions.

25. De la Geniere said co-ordinated intervention policies had enabled the EMS to work despite divergent inflation rates. Nevertheless the EMS posed a constraint on domestic policies. Decisions on monetary and budgetary policies needed to take account of the exchange rate obligation.

26. Delors (France) in the same vein said France had faced a contradiction between domestic interest rate policy and remaining in the EMS. They had chosen to stay in the EMS. It as 'a useful pressure'. He hoped that Germany would take the opportunity offered by lower U.S. interest rates to reduce its own rates. This would benefit investment in Germany and give a lead to Europe.

27. Lazaris (Greece) agreed that co-ordination would imply constraints on domestic policy. The objective for the Community as a whole needed to be framed with regard to individual countries' objectives.

28. Bruton (Ireland) said it would not be possible to have stable exchange rates within Europe until there was political consensus on the need for resource transfers between the better-off and the less-well-off, as in nation states. Most countries were following anti-inflationary policies, but if persevered with too long without regard to unemployment there would be no political consensus.

29. Poehl agreed that the prospect of lower U.S. interest rates increase the room for manoeuvre on European interest rates. But

this was limited by the size of budget deficits and continued high rates of inflation. The latter had accelerated to close to 7 per cent in Germany, although some slowdown was likely since two-thirds of the recent acceleration had been due to worsening terms of trade. He queried the concept of co-ordination of European policies as too vague. As long as countries all had the objective of keeping down inflation this was a form of co-ordination.

30. The Chancellor, too, questioned what was meant by co-ordination. Countries had to pay attention to conditions in their own markets, although naturally they also looked at foreign interest rates.

Future development of EMS

31. Haberer said the Monetary Committee had completed its technical discussions on the EMS and if no progress was made now, this would be a retrograde step. Ortoli, too, said it was worth considering how to consolidate the system. Andreatta too said some practical decisions were needed on the EMS including for example perhaps intervention in terms of the ECU.

32. De la Geniere said the system had in general worked well. Technical problems were not great, although some improvements could be considered.



33. Poehl said countries should be careful about any new institutional arrangements. Changes would be premature as long as there were strong divergencies in inflation rates and economic policies, and as long as the UK was not in the EMS.

Role of the ECU

34. Norgaard (Denmark) asked whether the ECU could not be used more to denominate prices of oil and other imported commodities. De la Geniere also speculated whether the ECU could become more than a unit of account i.e. a currency representative of all the Community economies. This, however, could only be considered when there was co-ordination between both narrow and wide margin members, as well as those currently outside the system.

35. The Chancellor said EC countries were becoming more accustomed to use the ECU in their own transactions, but was it realistic to expect oil prices to be set in a relatively unfamiliar unit such as the ECU? The SDR was perhaps more marketable. Poehl said similarly that the oil producers' readiness to accept the ECU depended on its quality i.e. if Europe had lower inflation than the U.S. So far the Arabs had tended to prefer the SDR or even the DM. Germany, for example, had financed its deficit with DMs. EC countries needed to make the ECU more attractive by pursuing better policies.

36. Andreatta said the ECU's acceptability depended not only on policies but also on the existence of a deep and resilient market. There might be a need to replace the basket definition of the ECU by a different definition. The problem was to enlarge Europe's financial possibilities and its possibilities for intervention.

#### New macroeconomic policies

37. Bruton suggested that the breakdown of the twin pillars of the post-war world economy - Keynesian domestic policies and the international Bretton Woods system - suggested the need for new theories. Perhaps the EC should create a new medium-term think tank. Ortolini said this had been considered in the past and rejected.

38. The Chancellor said that domestic Keynesianism had destroyed the international Keynesianism of the Bretton Woods system. If the real cost of labour were reduced, budget deficits would be lower and governments would be less at the mercy of investors whose money they needed to borrow. He was adverse to creating new institutions. We should use those we had, such as the OECD. Perhaps the OECD Secretariat should be asked to look at the relevant questions.

#### Next ECOFIN meeting

39. It was agreed that subject to confirmation early the following week, the next Finance Council meeting would be on the morning of

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17 November. The main subject would be insurance. Ortoli would be unable to attend, but Tugendhat would. Andreatta would be occupied with the budget debate in Rome, but the Italians would send a delegation.

Conclusion

40. The Chancellor said that although there had been no overall agreement the discussion had moved forward on relations with the U.S. Ministers had not mentioned Japan. Perhaps they should return to this.

INFORMAL MEETING OF MINISTERS OF FINANCE  
FROM THE EUROPEAN COMMUNITY

LANCASTER HOUSE, LONDON

30-31 OCTOBER 1981

Presidency

The Rt Hon	
Sir Geoffrey Howe QC MP	Chancellor of the Exchequer
Sir Kenneth Couzens KCB	Second Permanent Secretary, HM Treasury

Belgium

Mr R Vandeputte	Minister of Finance
Mr van Ypersele	Prime Minister's Chef de Cabinet

Denmark

Mr I Nørgaard	Minister for Economic Affairs
Mr J Thomsen	Special Adviser, Ministry of Economic Affairs

Federal Republic of Germany

Dr H Schulmann	State Secretary, Ministry of Finance
Dr W Heck	Deputy Secretary, Ministry of Finance

/Greece

Greece

Professor Lazaris

Minister of Coordination

Mr F Dimou

Counsellor, Greek Representative,  
Brussels

France

Mr J Delors

Minister of the Economy and  
Finance

Mr J-Y Haberer

Directeur du Tresor

Ireland

Mr J Bruton

Minister for Finance

Mr M Doyle

Permanent Secretary (designate),  
Ministry of Finance

Italy

Mr B Andreatta

Minister of Treasury

Mr L Izzo

Ministry of Treasury

Luxembourg

Mr J Santer

Minister of Finance

Mr E Mühlen

Secrétaire d'Etat aux Finances

Netherlands

Mr F A Engering

Director of Foreign Finance

Commission

Mr F-X Ortoli  
Mr de Boissieu

Vice-President, European Commission  
Mr Ortoli's Chef de Cabinet

Council Secretariat

Mr K Christofas

Director-General, Secretariat of  
the Council of Ministers

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LUXEMBOURG ATHENS WASHINGTON TOKYO

**INFORMAL FINANCE MINISTERS' MEETING, BRUSSELS 17 MAY 1982**

**EXPORT CREDITS**

**SUMMARY**

1. DISCUSSION OF THE COMPROMISE PROPOSALS PUT FORWARD BY CHAIRMAN OF OECD CONSENSUS GROUP PROVED INCONCLUSIVE. MOST DELEGATIONS WERE ABLE TO ACCEPT THE COMPLETE PACKAGE TO AVOID COLLAPSE OF THE CONSENSUS BUT FRANCE (DELORS) AND GREECE (POTTAKIS) WERE UNABLE TO AGREE. IT WAS DECIDED TO SEEK FORTNIGHT'S EXTENSION (TO 15 JUNE) IN PRESENT ARRANGEMENT TO ALLOW TIME FOR FURTHER STUDY AND IN PARTICULAR, TO CONSIDER POSSIBLE COUNTER-PROPOSALS THAT MIGHT BE PUT FORWARD. MATTER NOW REMITTED FOR CONSIDERATION AT MEETING OF EXPORT CREDIT POLICY COORDINATION GROUP ON 26 MAY. FINAL DECISION TO BE TAKEN AT ECOFIN ON 14 JUNE.

**DETAIL**

2. DE CLERCQ (CHAIRMAN) STRESSED DANGER OF CREDIT WAR IF CONSENSUS ARRANGEMENT COLLAPSED. HE ASKED FOR VIEWS ON THE RESPONSE TO THE COMPROMISE PACKAGE PROPOSED BY CHAIRMAN OF OECD GROUP (WALLEN) ON 7 MAY. HE SAID THE COMPROMISE HAD SOME SATISFACTORY ELEMENTS (EG 1 YEAR DURATION, UNDERTAKING BY PARTICIPANTS NOT TO DEROGATE IN FUTURE AND ASSURANCES ON OPENING OF YEN CAPITAL MARKET) BUT THERE WERE ALSO LESS ACCEPTABLE FEATURES (EG THE PROPOSED INTEREST RATE INCREASES WERE HIGHER THAN DESIRED AND THE SURCHARGE TO BE ADDED FOR JAPANESE EXIMBANK FINANCE WAS LOWER THAN EXPECTED). HE REMINDED MEMBERS THAT AN ANSWER HAD TO BE GIVEN BY 25 MAY AND SILENCE IMPLIED ACCEPTANCE.

3. IN FOLLOWING DISCUSSION DELORS SAID HE CONSIDERED WALLEN COMPROMISE TO BE UNBALANCED. IT WAS UNACCEPTABLE TO FRANCE BECAUSE OF THE LARGE INCREASES IN RATES PROPOSED (WHICH IN ABSENCE OF THE TRANSITIONAL PERIOD REQUESTED BY FRANCE WOULD ADD TO THE DEBT SERVICE PROBLEMS OF DEVELOPING COUNTRIES) AND THE DERISORY MARGIN TO BE APPLIED TO JAPANESE RATES. HE ALSO CONSIDERED THAT US UNDERTAKING NOT TO DEROGATE ON CREDIT LENGTH NEEDED CLARIFICATION AND MUST BE CLEARLY EXTENDED TO COVER PRIVATE US LOANS GUARANTEED BY US EXIMBANK.

4. POTTAKIS REPEATED PREVIOUS (LUXEMBOURG) ARGUMENTS THAT GREECE SHOULD BE RECLASSIFIED AS CATEGORY 2 (MIDDLE INCOME) COUNTRY BECAUSE IT WAS LESS DEVELOPED THAN OTHER EC COUNTRIES (AND USSR) AND WAS CARRYING HEAVY DEBT SERVICE BURDEN. GREECE COULD THEREFORE AGREE TO FINAL EC POSITION ONLY IF ITS RECLASSIFICATION REQUEST WERE APPROVED. (THE GREEK POSITION WAS SUBSEQUENTLY CRITICISED BY COMMISSION AND OTHER DELEGATIONS - NOTABLY THE PRESIDENCY - BUT POTTAKIS REMAINED UNMOVED).

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5. NE RLANDS, LUXEMBOURG, DENMARK AND FRG ALL INDICATED BRIEFLY THAT THEY WOULD ACCEPT WALLEEN COMPROMISE. IRELAND (MACSHARRY) WAS ALSO WILLING TO DO SO IF ALL OTHERS AGREED (BUT WOULD WISH TO FOLLOW GREECE IF ITS RECLASSIFICATION REQUEST WERE TO BE AGREED.) BELGIUM (MORLEGHEM) WERE UNHAPPY BUT WERE ON BALANCE PREPARED TO ACCEPT WHOLE PACKAGE IN ORDER TO KEEP ARRANGEMENT IN EXISTENCE.

6. CHANCELLOR STRESSED IMPORTANCE OF PRESERVING THE CONSENSUS. HE CONSIDERED THAT NEVERTHELESS SOME COUNTER-PROPOSALS MIGHT BE NEGOTIABLE IF THESE DID NOT THREATEN SPIRIT OF THE AGREEMENT. HE PROPOSED THAT EC SHOULD SEEK INCREASE IN JAPANESE MARGIN TO 0.5 PER CENT BUT IF THIS WERE NOT NEGOTIABLE THEN THE INCREASE IN CATEGORY 2 RATES MIGHT BE ABATED. HE ALSO SUGGESTED A TRANSITIONAL PERIOD OF ONE YEAR BEFORE FULL CATEGORY 2 RATES AND TERMS WERE APPLIED TO NEWLY INDUSTRIALISED COUNTRIES MOVING INTO THAT CATEGORY. HE WELCOMED JAPANESE UNDERTAKING TO PROVIDE ACCESS TO YEN CAPITAL MARKET BUT THOUGHT THIS SHOULD BE MONITORED AND REVIEWED IF DIFFICULTIES AROSE IN PRACTICE; WHILST SURVIVAL OF CONSENSUS WAS IMPORTANT SUCH AMENDMENTS TO THE WALLEEN PACKAGE WOULD STRENGTHEN IT AND MIGHT BE NEGOTIABLE (ESPECIALLY IF US WERE PREPARED TO SUPPORT EC IN PURSUIT OF HIGHER JAPANESE MARGIN).

7. IN SUBSEQUENT DISCUSSION IT EMERGED THAT DELORS HAD NO ROOM FOR MANOEUVRE. THE COMMISSION (ORTOLI) WERE PESSIMISTIC ABOUT CHANCES OF SECURING ANY CHANGES IN PACKAGE OR LENGTHY EXTENSION TO PRESENT ARRANGEMENT. OTHER PARTICIPANTS (INCLUDING USA AND JAPAN) HAD ALREADY ACCEPTED THE PROPOSALS WHICH WERE ON LINES ORIGINALLY SUGGESTED BY THE COMMISSION. SUPPORTED BY LAHNSTEIN, HE DREW ATTENTION TO RISK OF DAMAGE TO EC'S WIDER TRADING RELATIONSHIPS AND POSSIBILITY OF GATT ACTION IF EXPORT SUBSIDIES CONTINUED FOLLOWING THE COLLAPSE OF THE CONSENSUS. HOWEVER, DELORS MAINTAINED THAT PACKAGE AS IT STOOD WAS NOT ACCEPTABLE BUT HE INDICATED THAT COUNTER-PROPOSALS OUTLINED BY CHANCELLOR MIGHT FORM BASIS OF A SOLUTION.

8. CHAIRMAN CONCLUDED DISCUSSION BY PROPOSING THAT:

I) COMMISSION SHOULD CONTACT MR WALLEEN ASKING THAT THE DEADLINE FOR EXPIRY OF PRESENT AGREEMENT SHOULD BE EXTENDED UNTIL 15 JUNE;

II) POSSIBLE COUNTER-PROPOSALS SHOULD BE STUDIED BY EXPORT CREDIT POLICY COORDINATION GROUP AT ITS NEXT MEETING (26 MAY);

III) FINAL EC DECISION SHOULD BE TAKEN AT ECOFIN MEETING ON 14 JUNE.

FCO - PS/S OF S, PS/LPS, PS/PUS, BRIDGES, HANMAY, CROWE, BROOMFIELD, GOWLLAND (TRED)

CAB - HANCOCK, ELLIOTT

DOT - PS/MFT, FRANKLIN, BENJAMIN (PEP)

TSY - PS/CHANCELLOR, PS/FST, LITTLER, CAREY, PEET

ECCD - TAYLOR, HENLEY, TWYFORD

BANK - PS/GOVERNOR, BALFOUR

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INFORMAL MEETING OF EC FINANCE MINISTERS17 MAY, 1982

The meeting was held at the Palais Egmont in Brussels, beginning at 4.30 p.m. and continuing over dinner until about 9.30 p.m. The Chancellor of the Exchequer, the Governor of the Bank of England and Mr. Littler were present throughout, and Mr. Twyford of ECGD for the first item only.

2. The two items discussed during the main part of the meeting were: export credit consensus and the EMS. Over dinner there was discussion of the prospective Versailles Summit. The main points are recorded below. The Chancellor also, both towards the end of the dinner discussion and in conversation with French and German colleagues separately, stressed the importance attached by the UK to resumed discussion of insurance, and his insistence on having this on the agenda for substantive discussion at the June ECOFIN.

Export Credit Consensus

3. The chairman (De Clercq, Belgium) described the proposal of the Swedish chairman of the export credit group as being a mixture of good and bad points and posed the question whether it should be accepted, rejected, or whether there might be possibilities of further negotiation. Ortoli (Commission) recommended adoption of the proposal as a compromise which was not quite what members of the Community wanted, although fairly close to what the Commission had initially proposed.

4. Delors (France) said that the proposal was not acceptable to France, because it was not really a compromise but a victory for the United States. He thought it was particularly damaging, not merely to French interests, but to the interests of developing countries (a point which he elaborated at some length in subsequent interventions).

5. Pottakis (Greece) thanked the Community and the Commission for the efforts made on behalf of Greece, but said that, since these had not been successful in placing Greece in Category II, he could not support the Swedish proposal.

6. The remaining Finance Ministers spoke in a tour de table. All indicated willingness to accept the proposal as a compromise. The Chancellor, in an effort to provide a bridge as well as reflecting UK views, urged the importance of avoiding a collapse of the consensus but suggested that it might be possible to secure some improvements as the price of agreement, in particular:

- an increase in the Japanese lending margin, at least to 0.5 per cent;
- some transitional easement of conditions for countries moving from Category III to Category II;
- arrangements to monitor the effectiveness of the Japanese undertaking to allow access to the yen market, with provision for an early review of the margin for low-interest-rate countries if access proved difficult. He also suggested that there was some illogicality in the Greek position, and that their insistence on it weakened the negotiating position of the Community as a whole. Most of his remarks were echoed in varying degrees by most other speakers. Only Lahnstein (Germany), although agreeing in form with much of what the Chancellor suggested, tried briefly to urge all others to accept the Swedish proposal as it stood.

7. Following a statement from Delors that he could not accept the proposal, or minor variants, without reference back to his Government, the chairman developed the idea that the Community should seek a postponement beyond 25 May, to give time for further reflection and the working out of a satisfactory set of points on which the Community could seek improvement of the Swedish proposal. It was agreed that the points would be in essence those proposed by the Chancellor. It was also agreed that postponement should be sought until 15 June, to give opportunity for final positions to be taken at the 14 June ECOFIN, preceded by some further work among officials. The last remark in the discussion was that of Lahnstein, warning all concerned to be very careful in their proposals, because in his view the Swedish chairman had already been courageous in offering what was a genuine compromise between conflicting views of the Community and other countries.

EMS

8. Schulmann (Germany) as chairman of the Monetary Committee, and Ciampi (Italy) as chairman of the Committee of Central Bank Governors, reported the views of their respective Committees, effectively offering no hope of substantial technical progress on the EMS at present, and recommending more attention to fundamentals of convergence of economic policies and performance. In a tour de table, regrets were expressed, ranging from routine to 'passionate, but with general acceptance of the inability to make progress at present, and general agreement on the importance of avoiding dramatisation and publicity either arousing expectations or announcing failure. All agreed, that further work should continue, with Germany, Netherlands and the United Kingdom concentrating on convergence and the Commission and France fighting a rearguard action in favour of technical changes, supported at the end of the discussion by the chairman.

9. Delors, claimed that the original Commission proposals had been sound and that, if they had been accepted and implemented at the beginning of the year, there would have been substantial favourable effects on markets and public opinion, and this progress in the affairs of the Community might well have helped discussions in such other fields as agriculture and the budget.

10. In his final summing up, De Clercq acknowledged a retreat and expressed great disappointment. He concluded that there should be further discussions, on convergence, which was a matter for individual governments, and on technical developments in the EMS, on which he insistently urged that the two Committees (Monetary Committee and Central Bank Governors) must go on examining possibilities of progress and report to the Council as soon as possible.

11. After this summing up, the Governor of the Bank of England asked if he could take advantage of the informal nature of the meeting for some rather more frank talking. He referred to recent re-alignments of currencies within the Exchange Rate Mechanism, and pointed to the fact that the most recent example had, unusually for such arrangements, been followed by a continued period of considerable turbulence in foreign exchange markets. He felt that this reflected a considerable and growing doubt in markets about the possibility of

maintaining stable relationships when the perception of markets was that economic policies among members of the Community were tending to diverge, rather than converge, and the economic performances of those countries were seen to be diverging perhaps even more. In these circumstances, he felt that to focus attention on technical changes was rather like calling in the decorators to re-do the sitting-room, when the house was suffering from subsidence. He therefore joined those who urged more concentration on the fundamentals of economic policies and performance.

#### Versailles Summit

12. There was an uneven conversation over dinner about preparations for the Versailles Summit (many parts of it difficult to hear from the ends of the long and narrow table).

13. Delors, for the benefit of those not involved directly in the Summit, outlined the agenda as a whole and the parts of it of particular interest to Finance Ministers. He emphasised the four subjects of world economy, exchange rate arrangements, East/West and North/South. Picking up remarks he had made during the earlier discussion on export credit, he placed a good deal of emphasis on the problems of developing countries, although others did not follow this part of his presentation with much comment.


14. On East/West, Lahnstein offered that, apart from moves in the context of the export credit consensus, he would be very cautious of any changes, especially in the field of credit arrangements. There was fairly general agreement.

15. Most of the discussion focussed on the United States and, largely because of the Chancellor's interventions at two or three points, Japan. The need to press changes on the United States was generally supported, with the Chancellor urging the line that the Community representatives should not tell the Americans precisely what to do, but should urge on them the importance of achieving changes quickly and decisively, in their own interests and as part of their leadership role. On Japan, a variety of views was expressed, with the French offering little comment, the Germans warning against too much pressure, and focussing only on imports and the value of the yen, and with the Chancellor urging that there was need for all participants in the Summit to sing the same song fortissimo, as the best way of bringing the Japanese to recognise that they must bow to world opinion.

16. There were brief allusions to possibilities of some progress in international currency arrangements, between leading currencies. At one point Delors referred to the possibility of a "tripolar" arrangement; Lahnstein shortly afterwards took the opportunity of referring to the need for "multi-polar" arrangements.

Next Meeting

17. There was a suggestion at the end of the meeting that the next meeting, a formal ECOFIN on 14 June, might begin at 10.30 a.m. in Luxembourg.

  
(J. G. LITTLER)

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FM UKREP BRUSSELS 172030Z DEC 82  
TO IMMEDIATE F C O  
TELEGRAM NUMBER 4948 OF 17 DECEMBER 1982  
INFO PRIORITY BRUSSELS COPENHAGEN THE HAGUE ROME DUBLIN PARIS BONN  
LUXEMBOURG ATHENS

**ECOFIN COUNCIL 17 DECEMBER:**

1982 REFUNDS

SUMMARY

1. THE COUNCIL CONFIRMED THE COMMITMENT IN THE AGREEMENT OF 26 OCTOBER AND AGREED THAT A SOLUTION TO THE BUDGETARY IMPASSE CAUSED BY THE PARLIAMENT SHOULD BE FOUND THROUGH THE 1983 BUDGET AND THAT THE UK AND GERMANY SHOULD NOT SUFFER ANY FINANCIAL LOSS AS A RESULT OF THE RESULTING DELAY.

DETAIL

2. THE CHANCELLOR MADE AN OPENING STATEMENT. HE STRESSED THE SERIOUS PROBLEM WHICH THE COMMUNITY FACED AS A RESULT OF THE PARLIAMENT'S REJECTION OF THE RECTIFYING BUDGET. IT WAS ESSENTIAL THAT THE COUNCIL AND THE COMMISSION DETERMINED JOINTLY TO HONOUR THE 26 OCTOBER AGREEMENT BY THE END OF THIS YEAR IN SPITE OF THE SETBACK. THIS WAS IMPORTANT FOR THE UK AND FOR THE COMMUNITY. THE PARLIAMENT HAD BEEN RIGHT TO COMPLAIN THAT THE COUNCIL HAD FAILED TO AGREE ON A LONG TERM REFORM OF THE FINANCIAL SYSTEM BUT HAD CHOSEN THE WRONG METHOD OF EXPRESSING ITS VIEW. IT WAS WRONG BECAUSE THE 30 MAY AGREEMENT ITSELF PROVIDED FOR A SOLUTION FOR 1982 ON THE LINES OF 1980 AND 1981 AND BECAUSE THE COUNCIL WAS IN FACT ABOUT TO BEGIN WORK ON A SUBSEQUENT SOLUTION. IT WAS ALSO A MISUSE OF THE PARLIAMENT'S BUDGETARY POWERS TO BLOCK AN AGREEMENT ARRIVED AT WITH DIFFICULTY BY MEMBER STATES TO THE DETRIMENT OF ONE OF THEM.

3. IF THE PAYMENTS SLIPPED INTO 1983 THE BALANCE OF THE AGREEMENT AND ITS VALUE TO THE UK WOULD BE UPSET. THE AGREEMENT OF 26 OCTOBER MUST THEREFORE BE IMPLEMENTED AS PLANNED. HOWEVER, HE WAS NOT SUGGESTING THAT THE COUNCIL SHOULD BRUSH ASIDE THE PARLIAMENT. THE COUNCIL SHOULD SEND A MESSAGE TO THEM STATING ITS DETERMINATION TO BEGIN WORK AT A VERY EARLY DATE ON A REFORM OF THE COMMUNITY'S BUDGETARY SYSTEM WHICH WOULD PRODUCE, IN THE WORDS OF THE PARLIAMENT'S MOTION OF 16 DECEMBER, QUOTE A LASTING COMMUNITY SOLUTION TO THE UNACCEPTABLE SITUATIONS WHICH HAVE ARISEN FOR A NUMBER OF MEMBER STATES UNQUOTE. AT THE SAME TIME THE COUNCIL SHOULD EXPLAIN TO THE PARLIAMENT THE NEED IN THE MEANTIME FOR THE COUNCIL AND THE COMMISSION TO FIND A WAY OF IMPLEMENTING THE AGREEMENT AS PLANNED. THE UK WAS OPEN TO SUGGESTIONS ABOUT HOW THIS COULD BE DONE. THE AMBASSADOR HAD SUGGESTED ONE POSSIBILITY IN COREPER (A TRANSFER IN 1982). HE HOPED THAT MINISTERS WOULD AGREE THAT THE MEETING SHOULD NOT CONCLUDE BEFORE SETTING THINGS ON A RECOVERY COURSE.

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4. THE CHANCELLOR RAISED THE QUESTION OF ADOPTING THE REGULATIONS. HE SUGGESTED THAT IF MEMBER STATES COULD NOT AGREE TO ADOPT THEM BEFORE RECEIVING AN OPINION FROM THE PARLIAMENT, THE COUNCIL SHOULD AGREE TO SEND AN URGENT MESSAGE TO DANKERT, DESIGNED TO REACH HIM BEFORE PARLIAMENT DISPERSED AT LUNCH TIME, INVITING HIM TO CALL AN EMERGENCY SESSION EARLY NEXT WEEK TO ADOPT AN OPINION.

5. THORN (PRESIDENT OF THE COMMISSION) AGREED ON THE SERIOUSNESS OF THE SITUATION. THE COMMUNITY WAS IN DANGER OF ADDING AN INSTITUTIONAL CRISIS TO THE EXISTING POLITICAL AND ECONOMIC CRISES. THE COMMISSION SHARED THE REGRET OF THE UK AND THE PARLIAMENT AT THE FAILURE TO ARRIVE AT A LONG TERM BUDGET SOLUTION AND THE NEED TO RESORT TO AN AD HOC ARRANGEMENT FOR 1982. IN RETROSPECT IT HAD BEEN A MISTAKE NOT TO HAVE KEPT THE PARLIAMENT BETTER INFORMED DURING THE LENGTHY NEGOTIATIONS FROM MAY TO OCTOBER.

6. THORN SAID THE COMMISSION HAD EXAMINED A WIDE RANGE OF POSSIBLE SOLUTIONS. THEY HAD CONCLUDED THAT THEY COULD NOT PROPOSE ANYTHING WHICH DID NOT RESPECT THE PARLIAMENT'S ROLE AS HALF THE BUDGET AUTHORITY. THEY DID NOT BELIEVE THAT THE REGULATIONS COULD BE ADOPTED IN THE ABSENCE OF AN OPINION FROM THE PARLIAMENT AND THIS IN TURN SEVERELY LIMITED THE BUDGETARY OPTIONS. A TRANSFER IN 1982 WOULD BE IN DEFIANCE OF THE PARLIAMENT'S ACTION ON THE RECTIFYING BUDGET AND WORSEN THE ROW. THE COMMISSION HAD NOTED THAT THE PARLIAMENT HAD NOT CHALLENGED THE SIZE OF THE REFUNDS TO THE UK AND GERMANY AND HAD THEREFORE CONCLUDED THAT THE BEST WAY TO PROCEED WAS TO ASK THE COUNCIL TO CONFIRM ITS DETERMINATION TO SOLVE THE PROBLEM ON THE BASIS INTENDED IN THE AGREEMENTS OF MAY AND OCTOBER. THE COUNCIL SHOULD ALSO UNDERTAKE THAT THE 1982 BALANCES SHOULD BE APPLIED AS A FIRST PRIORITY TO SETTLING THE REFUNDS. THE COMMISSION WOULD GUARANTEE THAT THERE WOULD BE SUFFICIENT FUNDS AVAILABLE FOR THIS PURPOSE. THE COMMISSION WOULD CONSIDER AT ITS NEXT MEETING MAKING THE NECESSARY BUDGET PROPOSAL IN THE VERY EARLY DAYS OF 1983 TO GIVE EFFECT TO THE COUNCIL DECISION AND DRAWING UP A WORK PROGRAMME FOR THE DEVELOPMENT OF COMMUNITY POLICIES AS DESIRED BY THE PARLIAMENT.

7. THE CHANCELLOR REPLIED THAT HE COULD UNDERSTAND THE COMMISSION'S DIFFICULTIES IN RELATION TO PARLIAMENT. THE COUNCIL COULD NOT EXPECT THE COMMISSION TO PICK UP ON ITS OWN ACCOUNT THE CHALLENGE THROWN DOWN BY PARLIAMENT. IT WAS FOR THE COUNCIL TO DO THIS AND TO INVITE THE COMMISSION TO TAKE THE APPROPRIATE ACTION. HE SAW CONSIDERABLE DIFFICULTIES WITH GOING FOR A 1983 AMENDING BUDGET IN 1983. THE MAIN 1983 BUDGET MIGHT BE DISPUTED, AND THE PASSAGE OF AN AMENDING BUDGET WOULD REQUIRE THE AGREEMENT OF THE PARLIAMENT, WHICH COULD PROBABLY ONLY BE SECURED BY CONCESSIONS ON FIGURES, CLASSIFICATION ETC. THERE WOULD THUS BE NO CERTAINTY AS TO THE SIZE OF THE REFUNDS OR THEIR TIMING. HE COULD SEE NO BETTER WAY OF PROCEEDING THAN BY A TRANSFER IN 1982 AND HE HOPED THAT THE COUNCIL WOULD AGREE TO INVITE THE COMMISSION TO MAKE A PROPOSAL ACCORDINGLY.

9. GORIA (ITALY) AGREED ON THE NEED TO RECONFIRM THE 26 OCTOBER AGREEMENT, BUT ALSO INSISTED ON THE NEED TO AVOID A MAJOR INSTITUTIONAL CONFLICT. HE THOUGHT THE TRANSFER PROPOSAL WOULD FURTHER INFLAME RELATIONS WITH THE PARLIAMENT AND THEREFORE PREFERRED THE COMMISSION'S COURSE.

9. TIETMEYER (GERMANY) SAID THE 26 OCTOBER AGREEMENT MUST BE HONOURED. THEY HAD GREAT SYMPATHY FOR THE UK'S POSITION, BUT THERE WAS A PROBLEM TOO FOR GERMANY. HE SAW TWO PROBLEMS WITH THE UK'S PROPOSAL. THE COMMISSION MIGHT REFUSE TO PROPOSE A TRANSFER AND GERMAN REFUNDS COULD BE PAID BY THIS ROUTE BECAUSE THERE WAS NO BUDGET LINE. HE WOULD BE INTERESTED TO KNOW WHETHER THE LAWYERS THOUGHT THAT ANY EXISTING LINE IN THE 1982 BUCGET COULD BE USED FOR THIS PURPOSE.

10. DELORS (FRANCE) SPOKE IN FAVOUR OF THE COMMISSION APPROACH. NOTERDAEME (BELGIUM) CONFIRMED THE COUNCIL'S COMMITMENT AND SAID THAT THE COMMISSION'S PROPOSAL WAS THE SAFEST WAY OF TRYING TO IMPLEMENT IT. ANDERSEN (DENMARK) SAID THAT A SOLUTION MUST COMPLY WITH THE OCTOBER AGREEMENT AND WITH BUDGETARY RULES AND HE THEREFORE SUPPORTED THE COMMISSION. RUDING (NETHERLANDS) THOUGHT THE COMMISSION PROPOSAL WAS REASONABLE AND COULD SEE NO ALTERNATIVE, BUT HE ACCEPTED THE CHANCELLOR'S POINT THAT THE UK AND GERMANY SHOULD NOT SUFFER FINANCIALLY BECAUSE OF THE DELAY IN IMPLEMENTING THE AGREEMENT. HE ASKED WHETHER SOME ARRANGEMENT WAS POSSIBLE FOR SAFEGUARDING THEIR FINANCIAL POSITION, FOR EXAMPLE BY PUTTING THEIR REFUNDS IN SEPARATE, INTEREST-BEARING ACCOUNTS.

11. THE CHANCELLOR SAID HE WAS GRATEFUL FOR THE GENERAL REAFFIRMATION OF SUPPORT FOR THE AGREEMENT OF 26 OCTOBER. BUT THE PARLIAMENT'S REJECTION OF THE BUDGET RAISED AN ISSUE WHICH WAS WIDER THAN JUST AN INSTITUTIONAL CONFLICT. WHAT WAS AT STAKE WAS THE POLITICAL INTEGRITY AND GOOD FAITH OF THE COMMUNITY. HE WAS WORRIED THAT THE SORT OF ASSURANCES THAT WERE BEING OFFERED WOULD NOT GUARANTEE THE RIGHT OUTCOME. HE REPEATED HIS SUGGESTION FOR AN IMMEDIATE MESSAGE TO THE PARLIAMENT ABOUT THE REGULATIONS.

12. RUDING SUPPORTED THE CHANCELLOR'S PROPOSAL ON THE REGULATION PROVIDED THE LAWYERS SAID THIS PROCEDURE WAS CORRECT. TIETMEYER SAID THE COUNCIL COULD ONLY REACH A CONDITIONAL CONCLUSION ON THE REGULATIONS IN THE ABSENCE OF PARLIAMENT'S OPINION. DELORS SAID THAT SHORTCUTTING THE PARLIAMENTARY PROCEDURE WOULD AGGRAVATE RELATIONS WITH THE PARLIAMENT BUT HE WAS PREPARED TO GO ALONG WITH IT. ORTOLI (COMMISSION) SAID THAT SUCH ACTION WOULD WORSEN THE PROSPECT FOR THE PARLIAMENT ADOPTING AN AMENDING BUDGET IN 1983. GORIA AGREED WITH ORTOLI. TUGENDHAT, ON THE OTHER HAND, POINTED OUT THAT THE PARLIAMENT HAD HAD AN OPPORTUNITY TO COMMENT ON THE REGULATIONS THIS WEEK AND HAD DELIBERATELY CHOSEN NOT TO DO SO. CHRISTOPHERSEN (PRESIDENCY)



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CONCLUDED THAT THERE WERE SERIOUS DOUBTS IN THE COUNCIL ABOUT THE WISDOM OF CALLING UPON THE PARLIAMENT TO ADOPT AN OPINION AT A SPECIAL SESSION AND THAT IT DID NOT SEEM POSSIBLE TO PROCEED WITH THIS SUGGESTION.

16. THE CHANCELLOR SUGGESTED THAT MINISTERS SHOULD REFLECT IN THE LIGHT OF THE DISCUSSION SO FAR AND DISCUSS THE MATTER FURTHER OVER LUNCH BEFORE RESUMING THE DISCUSSION IN THE AFTERNOON.

17. IN THE EVENT MINISTERS SUCCEEDED OVER LUNCH IN REACHING AN AGREEMENT EMBODIED IN THE TEXT CONTAINED IN MIFT.

18. THE CHANCELLOR'S STATEMENT TO THE PRESS AT THE END OF THE COUNCIL IS REPORTED IN A SEPARATE TELEGRAM.

FCO ADVANCE TO :

- FCO - PS/S OF S, PS/MR HURD, EVANS HANNAY DE FONBLANQUE FRY
- CAB - HANCOCK DURIE
- TSY - PS/CHANCELLOR, PS/FST, COUZENS LITTLER HEDLEY-MILLER EDWARDS

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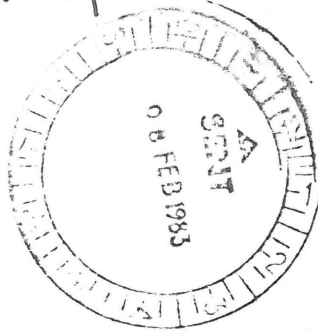
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UNCLASSIFIED

FROM UKREP BRUSSELS 080930Z FEB

TO IMMEDIATE FCO

TELEGRAM NUMBER 542 OF 8 FEBRUARY

INFO IMMEDIATE COPENHAGEN THE HAGUE ROME DUBLIN PARIS BONN LUXEMBOURG ATHENS

FOLLOWING IS TEXT OF CHANCELLOR'S STATEMENT AT NEWS CONFERENCE, BRUSSELS MONDAY 7 FEBRUARY.

I WANT TO SUGGEST THAT IT IS TIME FOR THE COMMUNITY TO FOLLOW UP THE HISTORIC ACHIEVEMENT OF AGREEMENT ON A COMMON FISHERIES POLICY WITH A COMPARABLE AGREEMENT ON THE BUDGET PROBLEM.

THE PARLIAMENT HAS UNDERLINED THE URGENCY. IN REJECTING THE 1982 SUPPLEMENTARY BUDGET IN DECEMBER, IT HAS CALLED FOR A LASTING SOLUTION. A NEW DRAFT SUPPLEMENTARY BUDGET IS BEFORE THE PARLIAMENT THIS WEEK, AND THE COMMISSION ARE ABOUT TO PUBLISH THEIR IDEAS FOR POLICY DEVELOPMENTS AND FINANCIAL ARRANGEMENTS. I SHOULD LIKE TO TAKE THE OPPORTUNITY TO SHARE A FEW THOUGHTS ABOUT THESE MATTERS.

1982 SUPPLEMENTARY BUDGET AND UK REFUNDS FOR 1982 TO BEGIN WITH THE 1982 SUPPLEMENTARY BUDGET, I NATURALLY REGRETTED THE PARLIAMENT'S DECISION LAST DECEMBER. THAT AN AGREEMENT REACHED AFTER SO MANY MONTHS OF PAINFUL NEGOTIATION IN THE COUNCIL SHOULD BE THROWN OUT AT THE FINAL STAGE CAME AS A CONSIDERABLE SHOCK. WITH THE WISDOM OF HINDSIGHT IT IS EASIER TO SEE THE MATTER IN PERSPECTIVE. THE COUNCIL WAS PERHAPS UNREASONABLY OPTIMISTIC IN ASSUMING THAT THE PARLIAMENT WOULD BE WILLING SIMPLY TO ENDORSE THE COUNCIL'S COMPROMISE. AND THERE IS EVERY REASON TO EMPHASISE, AS THE PARLIAMENT HAS DONE, THE NEED FOR PROGRESS TOWARDS A LONGER TERM SOLUTION.

THE IMPORTANT TASK FOR THE COMMUNITY IS UNDOUBTEDLY TO...

LY BE TO LEARN FROM PAST EXPERIENCES, TO TURN WHAT HAS  
PENED TO GOOD ACCOUNT, AND TO REACH EARLY AGREEMENT ON THE  
83 SUPPLEMENTARY BUDGET WHICH GOES BEFORE THE PARLIAMENT THIS  
EEK. WE NEED TO LAY THE FOUNDATIONS FOR A MORE HARMONIOUS AND  
CONSTRUCTIVE RELATIONSHIP BETWEEN THE COMMUNITY'S INSTITUTIONS  
IN THE FUTURE.

I HOPE AND BELIEVE THAT THIS IS IN FACT BEGINNING TO HAPPEN.  
SINCE DECEMBER'S VOTE, THE COMMISSION AND THE COUNCIL HAVE BEGUN  
A DIALOGUE WITH THE PARLIAMENT WHICH HAS ALREADY BEEN HIGHLY  
CONSTRUCTIVE. THE INSTITUTIONS HAVE ALREADY DRAWN CLOSER  
TOGETHER. THEIR REPRESENTATIVES HAVE BEEN SITTING DOWN TOGETHER  
AND DISCUSSING THE COMMUNITY'S PROBLEMS, AS BEFITS PARTNERS IN A  
COMMON ENTERPRISE. THIS SEEMS TO ME A VALUABLE WAY OF DOING  
BUSINESS - ONE WHICH WE SHOULD DEVELOP AND EXTEND.

THE PARLIAMENT HAS DRAWN ATTENTION TO A NUMBER OF SPECIFIC  
ISSUES - THE URGENT NEED FOR A LASTING SOLUTION TO THE BUDGET  
PROBLEM, IN PLACE OF AD HOC ARRANGEMENTS; THE STAGING OF GRANT  
PAYMENTS FOR ENERGY AND SUPPLEMENTARY MEASURES; THE NEED TO  
INTEGRATE PAYMENTS TO THE UK AND GERMANY WITH COMMUNITY POLICIES,  
NOT AT LEAST ON ENERGY; AND THE CLASSIFICATION OF EXPENDITURE AS  
OBLIGATORY OR NON-OBLIGATORY. THE COUNCIL HAS RESPONDED  
POSITIVELY AND CONSTRUCTIVELY ON ALL THESE POINTS IN THE RECENT  
DIALOGUE AND THE NEW DRAFT BUDGET. IT HAS TRAVELLED A REMARKABLE  
DISTANCE IN A SHORT TIME. I HOPE VERY MUCH THAT THE PARLIAMENT  
WILL NOW RESPOND IN A SIMILAR SPIRIT OF FLEXIBILITY AND  
COOPERATION, SO THAT THE COUNCIL'S NEW DRAFT BUDGET CAN BE  
ADOPTED WITH A MINIMUM OF DELAY.

IT WOULD IN MY VIEW BE PARTICULARLY UNFORTUNATE IF THE EVENTS  
OF LAST DECEMBER WERE TO BE REPEATED. THIS WOULD DAMAGE THE  
INTERESTS OF THE COMMUNITY AS A WHOLE AS WELL AS PENALISING THE  
UNITED KINGDOM AGAIN AND TARNISHING THE COMMUNITY'S IMAGE IN THE  
EYES OF THE BRITISH PEOPLE. IT WOULD ALSO BE A CRUEL IRONY. FOR  
BRITAIN'S VIEWS ON THE MATTERS AT ISSUE ARE PROBABLY CLOSER TO  
THE PARLIAMENT'S THAN THOSE OF ANY OTHER MEMBER STATE. WE IN  
BRITAIN HAVE CALLED REPEATEDLY FOR A LASTING AND COMPREHENSIVE  
COMMUNITY SOLUTION TO THE BUDGET PROBLEM WHICH WILL FREE THE  
COMMUNITY FROM THE DAMAGING AND PROTRACTED QUARRELS OF RECENT  
YEARS. THESE QUARRELS ARE A BY-PRODUCT OF THE CONTINUING AD HOC  
SOLUTIONS WHICH BOTH THE PARLIAMENT AND BRITAIN WOULD LIKE TO

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...BALANCE WHICH CHARACTERISE THE PRESENT SITUATION AND THE  
...DENS WHICH THEY PLACE ON CERTAIN MEMBER STATES ARE A SERIOUS  
...PROBLEM WHICH CALLS FOR AN IMMEDIATE SOLUTION''.

#### A LASTING SOLUTION

I TURN NOW TO THE QUESTION OF A LASTING SOLUTION. WHAT SHOULD THE OBJECTIVES BE? AND WHAT FOR SHOULD IT TAKE? THE IDEAS WHICH THE COMMISSION ARE PUBLISHING TODAY AND TOMORROW, ON THE COMMUNITY'S FINANCING SYSTEM AND THE DEVELOPMENT OF COMMUNITY POLICIES, WILL BE HIGHLY RELEVANT TO THIS. I LOOK FORWARD TO STUDYING THEM. I MYSELF SET OUT A BROAD PHILOSOPHY IN MY HAGUE SPEECH OF JUNE 1981. I WANT TODAY TO OFFER A FEW THOUGHTS IN A SEVERELY PRACTICAL VEIN.

AS TO OBJECTIVES, WHAT WE NEED, I SUGGEST, IS A COMMUNITY SOLUTION WHICH IS LASTING, FAIR, SIMPLE, CONSTRUCTIVE AND COMMUNAUTAIRE - ONE WHICH WILL PROVIDE A SOLID BASIS FOR THE COMMUNITY'S FUTURE DEVELOPMENT. WE NEED AN ARRANGEMENT WHICH CAN BE GUARANTEED TO SOLVE THE PROBLEM ONCE AND FOR ALL - A MEANS OF SOLVING THE PROBLEM, WHICH ONCE IMPLEMENTED, WILL REMOVE THE NEED FOR BUDGET REFUNDS AND TAKE THE WHOLE SUBJECT OFF THE COMMUNITY'S REGULAR AGENDA.

AS TO FORM, THE NEED FOR THE DEVELOPMENT OF COMMUNITY POLICIES IS WIDELY ACCEPTED. THE BRITISH GOVERNMENT HAS RECENTLY CONTRIBUTED SOME IDEAS ON THIS IN THE BOOKLET CALLED 'A POSITIVE APPROACH'. WE FAVOUR A FRESH LOOK AT THE REGIONAL DEVELOPMENT AND SOCIAL FUNDS. WE WANT TO SEE GREATER PROGRESS TOWARDS THE COMMUNITY'S ENERGY OBJECTIVES AND IN PARTICULAR AN INTEGRATED STRATEGY FOR COAL. WE FAVOUR SELECTIVE SUPPORT FOR HIGH TECHNOLOGY INDUSTRIES, SUCH AS THE EUROPEAN STRATEGIC PROGRAMME FOR INFORMATION TECHNOLOGY. IF AGRICULTURAL EXPENDITURE IS PROPERLY CONTROLLED, THE ANNUAL GROWTH OF THE COMMUNITY'S REVENUES SHOULD PROVIDE THE NECESSARY FINANCIAL RESOURCES FOR SUCH PURPOSES AND INDEED FOR ENLARGEMENT.

REALISTICALLY, HOWEVER, WE HAVE TO RECOGNISE THAT POLICY DEVELOPMENTS SUCH AS THESE WILL NOT SOLVE THE PROBLEM OF BUDGETARY IMBALANCES ON THEIR OWN. THEIR ARE TWO REASONS FOR THIS.

- FIRST, THE SCALE OF THE UK'S PROBLEM, IN PARTICULAR, IS JUST TOO GREAT. TO TAKE A SIMPLE EXAMPLE, THE REGIONAL DEVELOPMENT FUND WOULD NEED ON PRESENT QUOTA SHARES TO BE INCREASED BY

... MILLION ECUS (TWICE THE SIZE OF THE PRESENT COMMUNITY BUDGET) TO GIVE THE UK NET RECEIPTS EQUIVALENT TO OUR BASIC REFUND FOR 1982 OF 850 MECUS.

- SECOND, NEW POLICIES WHICH ARE GOOD FOR THE COMMUNITY AS A WHOLE, AND HENCE ATTRACTIVE IN THEMSELVES, MAY NOT IN FACT PRODUCE NET RECEIPTS FOR MEMBER STATES NOW BEARING EXCESSIVE BURDENS.

SINCE WE CANNOT RELY ON THE DEVELOPMENT OF COMMUNITY POLICIES ALONE TO SOLVE THE PROBLEM, A LASTING SOLUTION WILL NEED TO INCLUDE SOME CHANGES ON THE FINANCING SIDE AS WELL - CHANGES WHICH CAN BE GUARANTEED TO PREVENT ANY RECURRENCE OF THE PROBLEM, WHILE DISTURBING THE COMMUNITY'S EXISTING ARRANGEMENTS AS LITTLE AS POSSIBLE. I WOULD LIKE TO MENTION TWO ALTERNATIVE POSSIBILITIES BY WAY OF EXAMPLE. I STRESS THAT THESE ARE NOT PROPOSALS. I MENTION THEM TO SHOW THAT IT IS POSSIBLE TO SOLVE THE PROBLEMS ALONG THESE LINES.

ONE POSSIBILITY WOULD BE TO TACKLE THE PROBLEM DIRECTLY BY MEANS OF A FINANCIAL EQUALISATION ARRANGEMENT. THIS COULD DRAW FROM THE LARGE RESOLUTION OF 1979 AND THE SPINELLI RESOLUTION OF 1981 THE VALUABLE IDEAS OF RELATIVE PROSPERITY AND ADJUSTMENTS TO VAT LIABILITIES. IT COULD BE EXTREMELY SIMPLE. THE VAT LIABILITIES OF MEMBER STATES NOW BEARING EXCESSIVE BUDGETARY BURDENS COULD BE REDUCED SO AS TO PLACE AN UPPER LIMIT ON THESE BURDENS. THESE LIMITS COULD BE CALCULATED BY REFERENCE TO RELATIVE PROSPERITY AND GDP. THEY COULD BE SET AT ANY LEVELS WHICH THE COMMUNITY THOUGHT FAIR AND REASONABLE. FOR EXAMPLE THESE LIMITS COULD BE SET SO AS TO REFLECT THE MEMBER STATE'S RELATIVE GDP PER HEAD AND WOULD RISE PROGRESSIVELY TO A HIGHER PERCENTAGE OF GDP FOR MEMBER STATES WHOSE GDP PER HEAD WAS WELL ABOVE THE COMMUNITY AVERAGE.

ANOTHER POSSIBILITY WOULD BE SOME CORRECTIVE ARRANGEMENT RELATED TO CAP FINANCES. THIS WOULD RECOGNISE THAT, AS THE COMMISSION POINTED OUT IN THEIR MANDATE REPORT OF JUNE 1981, THE PROBLEM OF BUDGETARY IMBALANCES, AND IN PARTICULAR THE UK PROBLEM, ARISES MAINLY FROM THE BUDGETARY IMPACT OF THE CAP. SUCH AN APPROACH ONCE AGAIN, COULD BE VERY SIMPLE. THE VAT LIABILITIES OF THE COUNTRIES WHICH CONTRIBUTE MORE THAN THEY RECEIVE FROM THE BUDGET COULD BE RELATED TO THE DIFFERENCE BETWEEN THEIR SHARES OF CAP RECEIPTS AND THEIR CONTRIBUTIONS TO CAP EXPENDITURE.

RECEIPTS AND THEIR CONTRIBUTIONS TO CAP EXPENDITURE; THIS  
COULD BE PROGRESSIVELY PHASED OUT FOR MEMBER STATES WHOSE  
GDP PER HEAD WAS MORE THAN SOME SPECIFIED PERCENTAGE OF THE  
COMMUNITY AVERAGE.

ON PAST EXPERIENCE, THE ACHIEVEMENT OF CONSENSUS ON A LASTING  
SOLUTION IS BOUND TO TAKE SOME TIME. AND IMPLEMENTATION IS  
BOUND TO TAKE MORE TIME - EVEN FOR SOLUTIONS AS SIMPLE AS THOSE  
WHICH I HAVE OUTLINED TODAY. AS THE PARLIAMENT HAVE REMINDED US,  
HOWEVER, WE NEED TO PROCEED WITH ALL POSSIBLE URGENCY TOWARDS A  
LASTING SOLUTION. AND OF COURSE ARRANGEMENTS WILL HAVE TO BE  
MADE FOR THE INTERIM PERIOD.

CONCLUSION

TO SUM UP, THEN, THE COMMUNITY MUST FIND A LASTING SOLUTION  
AND FIND IT URGENTLY. THE COMMISSION WILL SHORTLY BE CONTRIBUTING  
ITS IDEAS. I HAVE CONTRIBUTED SOME TODAY. OTHERS WILL DOUBTLESS  
CONTRIBUTE THEIRS AS WELL. I HOPE THAT THE COMMUNITY'S  
INSTITUTIONS WILL GIVE SERIOUS CONSIDERATION TO ALL THESE IDEAS,  
WITH A VIEW TO REACHING AGREEMENT ON A FAIR AND LASTING SOLUTION  
AS SOON AS POSSIBLE.

FCO ADVANCE TO :

TSY - PS/CHANCELLOR HALL LITTLER

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RESTRICTED  
FRAME ECONOMIC  
DESKBY 180900Z  
FM UKREP BRUSSELS 172120Z NOV 81  
TO IMMEDIATE FCO  
TELEGRAM NUMBER 4323 OF 17 NOVEMBER 1981  
INFO IMMEDIATE BONN  
INFO ROUTINE BRUSSELS COPENHAGEN THE HAGUE ROME DUBLIN PARIS  
LUXEMBOURG ATHENS

ECOFIN COUNCIL 17 NOVEMBER 1981  
SUMMARY TELEGRAM

1. THE INSURANCE SERVICES DIRECTIVE WAS THE ONLY ITEM ON THE AGENDA. DISCUSSION CENTRED ON THREE MAIN AREAS - THE TREATMENT OF ICP RISKS, FREEDOM OF SERVICES FOR BRANCHES AND AGENCIES AND TAXATION. THE CHANCELLOR WAS IN THE CHAIR; THE FINANCIAL SECRETARY REPRESENTED THE UK. ONLY FIVE COUNTRIES WERE REPRESENTED BY MINISTERS, IN SOME CASES FOR ONLY PART OF THE TIME.

2. SOME TANGIBLE, THOUGH LIMITED, PROGRESS WAS MADE IN MOVING TOWARDS SOLUTIONS. AMONGST OTHER DELEGATIONS THERE WAS GREATER EVIDENCE OF WILLINGNESS TO SEEK COMPROMISES THAN ON PREVIOUS OCCASIONS.

#### ICP RISKS

3. THE CHANCELLOR SUMMED UP DISCUSSION BY CALLING FOR FURTHER WORK ON THREE POSSIBLE COMPROMISES INVOLVING:-

- (A) THE EXCLUSION OF CERTAIN CLASSES OF RISK;
- (B) THE FIXING OF THRESHOLDS FOR CERTAIN RISKS;
- (C) SIMULTANEOUS NOTIFICATION.

4. THE FRENCH AND ITALIAN DELEGATIONS FAVOURED A DIFFERENT APPROACH, INVOLVING SUBSTANTIVE VERIFICATION OF ANY INSURER INTENDING TO PROVIDE SERVICES PRIOR TO HIS INITIAL ENTRY INTO THEIR MARKETS, WITH VERY LITTLE CONTROL THEREAFTER.

#### BRANCHES AND AGENCIES

5. THE BASIC APPROACH OF A TRANSITIONAL PERIOD FOR FREEDOM OF SERVICES FOR BRANCHES AND AGENCIES WAS ALMOST UNIVERSALLY ENDORSED, SUBJECT TO AGREEMENT LATER ON DURATION. GERMAN PROPOSALS TO REQUIRE HEAD OFFICES AND THE AUTHORITIES SUPERVISING THEM WERE REFERRED BACK FOR FURTHER STUDY. THE COMMISSION WERE INVITED TO PROPOSE AN ANTI-ABUSE CLAUSE, AT THE REQUEST OF LUXEMBOURG.

RESTRICTED

6. THE SUGGESTED APPROACH TOWARDS CUMUL PROHIBITING BRANCHES FROM CARRYING OUT PRESENTATION, CONCLUSION AND EXECUTION OF CONTRACTS ON BEHALF OF THEIR HEAD OFFICES, WAS GNERALLY ENDORSED, BUT THERE WAS NO UNANIMITY ON THE INCLUSION OF ALL THREE TERMS. THE CHANCELLOR CALLED FOR GREATER PRECISION IN THEIR DEFINITION.

TAXATION

7. OPTIONAL VAT ENCOUNTERED OBJECTIONS, AS BEING LIABLE TO DISTORT COMPETITION. THE COMMISSION AND OTHERS CONSIDERED THAT A SEPARATE DIRECTIVE, INVOLVING NEW COMMISSION PROPOSALS AND CONSULTATION OF PARLIAMENT, WAS NEEDED TO AMEND THE 6TH VAT DIRECTIVE. THE PRESIDENCY IS TO DISCUSS THE WAY FORWARD URGENTLY WITH THE COMMISSION.

FUTURE PROSPECTS

8. FURTHER WORK ON THESE ISSUES WILL TAKE PLACE IN COREPER. THERE REMAINS A GOOD CHANCE OF PROGRESS UP TO AND AT THE FINAL ECOFIN COUNCIL OF THE UK PRESIDENCY, IF THE MORE COOPERATIVE SPIRIT SHOWN AT THIS COUNCIL PERSISTS. BUT RESOLUTION OF THE KEY OUTSTANDING ISSUES WILL DEPEND ON SOME FLEXIBILITY ON OUR PART AS WELL.

FCO ADVANCE TO:

- FCO - PS/SOFS; PS/LPS; PS/PUS; HANNAY; SPRECKLEY; DE CHASSIRON; PIRNIE
- CAB - ELLIOTT; BROWN
- C/E - KNOX; WATSON
- IDT - REID; HENES; BIRCH
- TSY - PS/CHANCELLOR; PS/FST; HANCOCK; PERETZ; PERFECT; SCHOLLES

BUTLER

ADVANCED AS REQUESTED

FRAME ECONOMIC  
ECD (1)

RESTRICTED



GR1600

CONFIDENTIAL

FRAME ECONOMIC

DESKBY 180900Z

FM UKREP BRUSSELS 172235Z NOV 81

TO IMMEDIATE FCO

TELEGRAM NUMBER 4324 OF 17 NOVEMBER 1981

INFO IMMEDIATE BONN

INFO ROUTINE BRUSSELS COPENHAGEN THE HAGUE ROME DUBLIN PARIS

LUXEMBOURG ATHENS

ECOFIN COUNCIL 17 NOVEMBER 1981

INSURANCE SERVICES DIRECTIVE

SUMMARY

1. MODEST PROGRESS IN CLARIFYING SCOPE FOR COMPROMISE ON ARTICLES U O AND 15. BROAD AGREEMENT ON APPROACH SUGGESTED IN PRESIDENCY COMPROMISE PROPOSALS ON BRANCHES AND AGENCIES AND CUMUL. COREPER TO CONTINUE WORK ON THESE PROBLEMS IN LIGHT OF COUNCIL'S DISCUSSION. FOR REPORT ON TAXATION PLEASE SEE MIFT.

DETAIL

2. MEETING OPENED WITH FOUR DELEGATIONS REPRESENTED BY MINISTERS AND REMAINDER BY DEPUTY PERMANENT REPRESENTATIVES; DELORS (FRANCE) ARRIVED AT LUNCHTIME. ALTHOUGH NO SPECTACULAR PROGRESS WAS MADE, DELEGATIONS WERE CLEARLY BETTER BRIEFED THAN ON PREVIOUS OCCASIONS AND THERE WAS EVIDENCE OF WILLINGNESS TO RECONCILE DIFFERING VIEWS.

3. INTRODUCING THE PRESIDENCY PAPER (10742/81) THE CHANCELLOR SAID THAT IT HAD BECOME APPARENT THAT PROGRESS COULD ONLY BE MADE BY DISCUSSING TEXTS RATHER THAN PRINCIPLES. HE PROPOSED THAT ATTENTION SHOULD FIRST BE DIRECTED TO ARTICLE 7.

4. COMMISSIONER TUGENDHAT SAID THAT PROGRESS AT THIS COUNCIL WAS VITAL. THERE HAD BEEN MODESTLY ENCOURAGING DEVELOPMENTS SINCE THE LAST COUNCIL, OF WHICH THE GERMAN PROPOSAL WAS A HELPFUL EXAMPLE. THE COMMISSION FELT BOUND BY JUDICIAL RESTRAINTS IMPOSED BY THE TREATY, BUT WAS PREPARED TO TAKE PRAGMATIC RATHER THAN DOCTRINAIRE LINE, AND HOPED MEMBER STATES WOULD BE ABLE TO SHOW SIMILAR FLEXIBILITY.

5. FIRST ROUND OF DISCUSSION ON ARTICLE 7 PRODUCED SOME REPETITION OF FAMILIAR POSITIONS. SUPPORT FOR GERMAN TEXT CAME FROM FRANCE, ITALY, IRELAND AND GREECE. UK, NETHERLANDS AND DENMARK FAVOURED PRESIDENCY VERSION.

6. LE POIVRE (BELGIUM) SAID THAT BELGIUM HAD FAVOURED COMPLETE LIBERALISATION FOR ICP BUSINESS BUT NOW ACCEPTED THAT PROHIBITION OF NOTIFICATION COULD NOT BE AGREED. THEY COULD ACCEPT PRESIDENCY TEXT ON CONDITION THAT PROVISION FOR APPLICATION OF PRICE CONTROLS WAS INCLUDED AND THAT CLASSES 8, 9, 13 AND 16 WERE EITHER DELETED OR SUBJECT TO THRESHOLDS.

CONFIDENTIAL

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D4/AG2

17.

7. MUHLEN (LUXEMBOURG) TOOK SIMILAR POSITION AND PROPOSED THAT NEW PARAGRAPH SHOULD BE ADDED AFTER ARTICLE 7(1) INTRODUCING THRESHOLD OF 10M ECU PER CONTRACT FOR CLASSES 8, 9 AND 16 AND THRESHOLD OF 5M ECU TURNOVER FOR CLASS 13. THUS AMENDED, PRESIDENCY TEXT WOULD BE PREFERABLE TO GERMAN PROPOSAL WHICH HAD DRAWBACKS FOR CONSUMER PROTECTION. TUGENDHAT SUGGESTED THAT THIS AMENDMENT MIGHT ENABLE OTHER DELEGATIONS TO RALLY TO PRESIDENCY TEXT.

8. FOR THE UK THE FINANCIAL SECRETARY WAS ENCOURAGED BY SUCH SUGGESTIONS FOR MAKING PRESIDENCY TEXT MORE GENERALLY ACCEPTABLE. THE GERMAN VERSION OF ARTICLE 7(2) WAS QUITE UNACCEPTABLE TO UK SINCE IT IMPLIED DUPLICATION OF SUPERVISORY PROCEDURES.

9. SCHULMAN (GERMANY) ARGUED THAT SIMILAR TYPE-APPROVAL PROCEDURES SHOULD BE APPLICABLE TO INSURANCE AS TO OTHER PRODUCTS SUCH AS CARS; THERE WAS NO FUNDAMENTAL REASON TO DIFFERENTIATE BETWEEN MASS RISKS AND ICP RISKS IN THIS CONTEXT. PERHAPS 10 PER CENT OF ALL POLICYHOLDERS DID NOT NEED CONSUMER PROTECTION, WHICH WAS ARGUMENT FOR THRESHOLDS, BUT COMPLETE TRANSPARENCY WAS NECESSARY FOR PROTECTION OF SMALL AND MEDIUM SIZED POLICYHOLDERS. IT WAS MOREOVER ESSENTIAL TO AVOID DISCRIMINATION AGAINST ESTABLISHED INSURERS, IN INTERESTS OF FAIR AND EFFECTIVE COMPETITION.

10. MARCORA (ITALY), EXARCHOS (GREECE) AND SWIFT (IRELAND) WERE ALL PREPARED TO ACCEPT PRESIDENCY TEXT SUBJECT TO FAMILIAR CONDITIONS, BUT NONE FAVOURED INTRODUCTION OF THRESHOLDS. MARCORA CLAIMED THAT PRESIDENCY TEXT WOULD DISCRIMINATE AGAINST ESTABLISHMENT BUSINESS; THIS WAS REJECTED BY NICOLL (CHAIRMAN OF COREPER DEPUTIES) ON GROUNDS THAT ARTICLE 7 COVERED ESTABLISHMENT AND SERVICES BUSINESS ALIKE.

11. VIDAL (FRANCE) THOUGHT THAT GERMAN TEXT OFFERED MORE FLEXIBILITY THAN PRESIDENCY VERSION; MEMBER STATES WOULD HAVE OPTION TO REQUIRE NOTIFICATION OR NOT, AND NOTIFICATION COULD BE SIMULTANEOUS. NOTIFICATION COULD EVEN BE HELPFUL TO AN INSURER IN DRAWING HIS ATTENTION TO LOCAL REQUIREMENTS OF WHICH HE WAS UNAWARE.

12. THE CHANCELLOR COMMENTED THAT OBJECTIONS TO PRIOR NOTIFICATION SEEMED TO ARISE FROM ITS RESEMBLANCE TO AN APPROVAL PROCEDURE. SIMULTANEOUS NOTIFICATION SEEMED LESS OBJECTIONABLE, AND HE INVITED DELEGATIONS' REACTION.

13. THE FST SAID THAT THE VERY EXISTENCE OF CHECKING PROCEDURES, SUCH AS WERE APPLIED AT PRESENT, WERE IMPEDIMENT TO FREEDOM OF SERVICES. THE UK WAS PREPARED TO STUDY POSSIBILITY OF SIMULTANEOUS NOTIFICATION, BUT IT WOULD BE NECESSARY TO CONSIDER VERY CAREFULLY WHAT WAS TO BE NOTIFIED, AND TO ENSURE THAT ANY FOLLOW-UP WAS IN ACCORDANCE WITH ARTICLE 10.

14. VAN SWINDEREN (NETHERLANDS) SUPPORTED UK'S VIEW THAT THERE SHOULD BE REAL LIBERALISATION. THOUGH PREPARED TO ACCEPT SOME RESTRICTIONS, HE WAS SCEPTICAL BOTH ABOUT THRESHOLDS AND ABOUT SIMULTANEOUS NOTIFICATION.

15. TUGENDHAT THOUGHT THAT SIMULTANEOUS NOTIFICATION SHOULD BE EASIER TO ACCEPT. HE SUGGESTED IT COULD BE LIMITED TO GENERAL CONDITIONS ONLY.

16. SCHULMAN COULD ENVISAGE POSSIBILITY OF SIMULTANEOUS NOTIFICATION FOR RISKS DEFINED IN ARTICLE 7(1). THIS SHOULD INCLUDE GENERAL AND SPECIAL CONDITIONS AND FORMS, BUT NOTIFICATION OF RATES MIGHT NOT BE NECESSARY.

17. VIDAL INSISTED THAT THERE SHOULD BE PRIOR NOTIFICATION OF CONDITIONS AND RATES AT THE OUTSET, BUT SIMULTANEOUS NOTIFICATION MIGHT BE POSSIBLE THEREAFTER. MARCOR SIMILARLY ARGUED FOR ONCE-AND-FOR-ALL PRIOR NOTIFICATION.

18. THE CHANCELLOR CONCLUDED THAT THREE POSSIBLE APPROACHES HAD BEEN IDENTIFIED - EXCLUSION OF CERTAIN RISKS, THRESHOLDS FOR CERTAIN RISKS, AND SIMULTANEOUS NOTIFICATION - WHICH NEEDED FURTHER EXAMINATION.

19. ON INCLUSION OF LIBERAL PROFESSIONS IN ARTICLE 7(1) MUILEN SAID THAT AGREEMENT ON THIS WAS LINKED WITH QUESTION OF THRESHOLDS. FRENCH AND IRISH POSITION WAS SIMILAR. SCHULMAN COULD ACCEPT INCLUSION IN CONTEXT OF COMPROMISE. THE FINANCIAL SECRETARY POINTED OUT THAT LIBERAL PROFESSIONS MIGHT INVOLVE VERY LARGE RISKS, BUT WAS PREPARED TO CONSIDER THRESHOLDS.

20. POSITIONS ON OTHER DISPUTED POINTS IN ARTICLE 7 9 AND 11 WERE AS FOLLOWS:

- ARTICLE 7(3) - ACCEPTABLE TO ALL BUT NETHERLANDS
- ARTICLE 7(4) - UK ACCEPTED PRINCIPLE BUT WAS CONCERNED THAT OTHER LEGAL RULES SHOULD BE SPECIFIED, AND CONSISTENT WITH TREATY. COMMISSION SAID SUCH RULES MUST BE JUSTIFIABLE IN TERMS OF VAN WESEMAEL JUDGEMENT. BELGIANS WANTED PRICE CONTROL PROVISION BUT UNDERSTOOD UK'S CONCERN.
- ARTICLE 9(2) - DANES ATTACHED GREAT IMPORTANCE TO (D). UK AND NETHERLANDS MAINTAINED RESERVES.
- ARTICLE 9(3) - ALL DELEGATIONS COULD ACCEPT INCLUSION OF BOTH SECOND AND FOURTH SUB-PARAGRAPHS, EXCEPT ITALIANS WHO WANTED SECOND ONLY
- ARTICLE 10(2) - ITALIANS LIFTED RESERVE ON REFERENCE TO SPECIFIC BUSINESS. RESERVE MAINTAINED BY GREEKS, BELGIANS PROPOSED ALTERNATIVELY 'SPECIFIC BRANCH'.

ARTICLE 18(3) - BROAD ENDORSEMENT GIVEN TO IRISH PROPOSAL TO REPLACE LAST 2 LINES BY "... MEASURES AS ARE STRICTLY NECESSARY TO PREVENT THE FURTHER CONCLUSION OF INSURANCE CONTRACTS BY THAT UNDERTAKING BY WAY OF PROVISION OF SERVICES WITHIN ITS TERRITORY."

ARTICLE 18(5) - UK AND NETHERLANDS OBJECTED STRONGLY TO INCLUSION OF FINAL SENTENCE. ITALAINS, WITH GREEK SUPPORT, INSISTED ON RETENTION BUT HINTED AT FLEXIBILITY. CHANCELLOR SUGGESTED ANSWER MIGHT BE IN COOPERATION BETWEEN SUPERVISORY AUTHORITIES.

21. ON BRANCHES AND AGENCIES, PRESIDENCY PROPOSAL FOR TRANSITIONAL PERIOD SET OUT IN ARTICLE 19 WAS ACCEPTABLE TO GREECE AND IRELAND, IN BOTH CASES SUBJECT OBTAINING 5-YEAR OVERALL DEROGATION FROM TITLE III OF THE DIRECTIVE. ITALY AND FRANCE COULD ALSO ACCEPT PROPOSAL, BUT BOTH WANTED LONGER TRANSITIONAL PERIOD.

2. MUHLEN MAINTAINED LUXEMBOURG'S RESERVATION, CERTAINLY WITHOUT EXTENSION OF PERIODS PROPOSED. INTRODUCTION OF AN ANTI-ABUSE CLAUSE MIGHT MAKE POSITION MORE FLEXIBLE.

23. LE POIVRE COULD ACCEPT PRESIDENCY'S PROPOSAL, BUT COULD NOT AGREE TO ANY EXTENSION OF PERIOD. TUGENDHAT AGREED; LONGER PERIOD WOULD CALL INTO QUESTION BASIC PRINCIPLE OF FREEDOM OF SERVICES FOR BRANCHES. HE EXPRESSED INTEREST IN IDEA OF ANTI-ABUSE CLAUSE.

24. GERMANS' PROPOSED ADDITION TO ARTICLE 18(2) WAS ACCEPTABLE TO ITALY AND NETHERLANDS; SUBJECT TO MODIFICATIONS, THE UK MIGHT ALSO AGREE.

25. THE CHANCELLOR CONCLUDED THAT ARTICLE 19 APPEARED GENERALLY ACCEPTABLE, SUBJECT TO AGREEMENT ON DATES, AND THAT THE GERMAN PROPOSALS RELATING TO ARTICLE 18(2) AND ARTICLE (8) NEEDED MORE DETAILED STUDY.

26. ON CUMUL, GERMANS ITALIANS AND BELGIANS FAVOURED INCLUSION OF ALL THREE FUNCTIONS REFERRED TO IN ARTICLE 3(B). LUXEMBOURG AGREED AND THOUGHT AN ANTI-ABUSE CLAUSE WOULD BE RELEVANT HERE ALSO. IRELAND COULD ACCEPT DELETION OF 'PRESENT'. NETHERLANDS WANTED 'CONCLUDE' ALONE; COMMISSION AGREED BUT THOUGHT AN ANTI-ABUSE CLAUSE MIGHT HELP. UK AGREED WITH 'CONCLUDE' BUT WAS LESS CERTAIN ABOUT 'EXECUTE'; 'PRESENT' WAS UNREALISTIC.

27. THE CHANCELLOR CONCLUDED THAT ARTICLE 3(B) REPRESENTED THE BASIS OF A SOLUTION, SUBJECT TO GREATER PRECISION IN DEFINITIONS. THIS SHOULD BE CONSIDERED FURTHER TOGETHER WITH AN ANTI-ABUSE CLAUSE, FOR WHICH HE INVITED THE COMMISSION TO PUT FORWARD A DRAFT.

CONFIDENTIAL

28. FOR BONN ONLY  
SUPPLEMENTARY BRIEFING FOR ANGLO-GERMAN SUMMIT  
BEGINS

THE FINANCE COUNCIL TODAY MADE MODEST PROGRESS IN CLARIFYING THE SCOPE FOR COMPROMISE ON THE CENTRAL ISSUE OF HOW MUCH FREEDOM SHOULD BE GIVEN TO INSURANCE OF INDUSTRIAL, COMMERCIAL AND PROFESSIONAL (IC) RISKS. THE GERMANS SHOWED A FAIR MEASURE OF FLEXIBILITY, THOUGH THEY HAVE NOT GIVEN UP THEIR BASIC REQUIREMENT - DIFFICULT FOR US - OF MAINTAINING GOVERNMENT CONTROL OVER THE POLICY CONDITIONS AND RATES ON WHICH ICP BUSINESS IS DONE. OUR VIEW THAT ICP INSURANCE DOES NOT NEED SUCH GOVERNMENT CONTROL REMAINS, AND OUR ARGUMENTS AS REFLECTED IN THE BRIEF ARE WORTH PUTTING OVER. BUT THERE ARE NO GROUNDS FOR TAKING A STRONGLY CRITICAL LINE ON THE GERMAN NEGOTIATING POSITION.  
ENDS.

- FCO ADVANCE TO:
- FCO - PS/SOFS, PS/LPS, PS/PUS, HANNAY, SPRECKLEY, DE CHSSIRON  
PIRNIE
- CAB - ELLIOTT, BROWN
- DOT - REID, HENES, BIRCH
- TSY - PS/CHANCELLOR, PS/FST, HANCOCK, PERETZ, PERFECT, SCHOLES

BUTLER

ADVANCED AS REQUESTED

FRAME ECONOMIC  
ECD (1)

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9RS1700

RESTRICTED

FRAME ECONOMIC

DESKBY 180900Z

FROM UKREP BRUSSELS 172237Z NOV 81

TO IMMEDIATE FCO

TELEGRAM NUMBER 4325 OF 17 NOVEMBER 1981

INFO IMMEDIATE BONN ROUTINE BRUSSELS COPEHAGEN THE HAGUE ROME  
DUBLIN PARIS LUXEMBOURG ATHENS

ECOFIN COUNCIL 17 SEPTEMBER 1981

INSURANCE SERVICES DIRECTIVE

ARTICLE 15: TAXATION

SUMMARY

1. PART A OF THE PRESIDENCY TEXT WAS BROADLY ACCEPTABLE. PART B WAS REFERRED BACK TO COREPER TO CONSIDER WHETHER A SOLUTION FOR FRANCE COULD BE EVOLVED TAKING ACCOUNT OF THE POINTS WHICH HAD BEEN MADE, IN PARTICULAR THAT THERE MIGHT BE AN OPTION TO BE EXERCISED WITHIN A CERTAIN PERIOD.

2. APART FROM FRANCE, GERMANY AND THE UK, DELEGATIONS SAID THEY HAD PROBLEMS WITH AN OPTION FOR VAT FOR ALL MEMBER STATES. SOME SAID A TEMPORARY DEROGATION APPLYING TO FRANCE ALONE MIGHT BE ACCEPTABLE OTHER EMPHASISED THE DIFFICULTY OF AMENDING THE SIXTH VAT DIRECTIVE, THE POSSIBILITY OF DISTORTION OF COMPETITION AND THE NEED FOR A COMMISSION PROPOSAL ABOUT WHICH THE EUROPEAN PARLIAMENT WOULD NEED TO BE CONSULTED.

DETAIL

3. THE CHANCELLOR OF THE EXCHEQUER SAID THE PRESIDENCY PROPOSAL ON ARTICLE 15 WAS INTENDED AS AN OVERALL COMPROMISE SOLUTION WITH A VERY FLEXIBLE PROVISION ABOUT TAX COLLECTION METHODS AND THE POSSIBILITY OF AN OPTION FOR VAT. HE ASKED FOR REACTIONS TO THE BROAD LINES OF THE DRAFT.

4. VAN SWINDEREN (NETHERLANDS) SAID THEY COULD LIVE WITH PART A BUT, WHILE THEY UNDERSTOOD THE FRENCH PROBLEM AND WERE PREPARED TO CONTRIBUTE TO A SOLUTION THEY FELT A GENERAL CONCESSION VIOLATING THE SIXTH VAT DIRECTIVE WENT TOO FAR. THE SIX VAT DIRECTIVE HAD BEEN AGREED AS A VERY DELICATE COMPROMISE. THEY WOULD NOT EXCLUDE A SOLUTION FOR FRANCE ON A PROVISIONAL BASIS BUT WOULD HAVE MAJOR DIFFICULTY WITH A GENERAL WAIVER. A TRANSITIONAL SOLUTION WOULD GIVE THE COMMUNITY THE OPPORTUNITY TO SEE HOW THE APPLICATION OF VAT IN ONE MEMBER STATE AFFECTED THE OPERATION OF FREEDOM OF INSURANCES IN THE TAX CONTEXT

RESTRICTED

5. MUHLEN (LUXEMBOURG) SAID HE WOULD LIKE THE COMMISSION'S VIEW ON WHETHER AN OPTION WOULD DISTORT COMPETITION AND WHETHER THE SIXTH VAT DIRECTIVE COULD BE AMENDED IN THE CONTEXT OF THE INSURANCE DIRECTIVE.

6. GALLI (ITALY) SAID THEY WERE PREPARED TO ACCEPT THE APPROACH IN PART A THOUGH OTHER SOLUTIONS COULD ALSO BE ACCEPTABLE. HE HAD THE GREATEST DOUBTS ON B BECAUSE OPTION WOULD LEAD TO DISTORTION OF COMPETITION AND IT WAS NOT POSSIBLE TO MODIFY THE 6TH DIRECTIVE IN THE INSURANCE DIRECTIVE. HE DID NOT BELIEVE THAT ITALY COULD ACCEPT A TRANSITIONAL WAIVER BUT HE DID NOT RULE IT OUT ALTOGETHER.

7. SWIFT (IRELAND) SAID THEY WERE OPEN MINDED ABOUT A SOLUTION BUT NOT VERY HAPPY WITH PRESIDENCY TEXT. THE 6TH DIRECTIVE WAS COMPLICATED AND POLITICALLY BALANCED. THERE WOULD NEED TO BE A COMMISSION PROPOSAL TO AMEND IT. A VAT DEROGATION SEEMED CONTRARY TO PART OF THE DRAFT RESOLUTION ON THE INTERNAL MARKET WHICH THE PRESIDENCY SEEMED ANXIOUS TO SEE ADOPTED. IRELAND HAD DIFFICULTY OVER COMPLIANCE WITH TAX RULES ABROAD SINCE THERE WAS NO TAX IN IRELAND AND IRISH INSURERS WOULD BE AT A DISADVANTAGE. A VAT OPTION WOULD GIVE A COMPETITIVE ADVANTAGE TO COMPANIES ESTABLISHED IN A MEMBER STATE WHICH CHARGED VAT. IRELAND WAS OPEN TO ANY SOLUTION WHICH MET THE NEEDS OF FRANCE BUT WOULD PREFER ONE WHICH WAS LESS TROUBLESOME TO OTHER MEMBER STATES.

8. DELORS (FRANCE) APOLOGISED FOR HIS ABSENCE DURING THE MORNING. DISCUSSIONS ON ACHIEVING A COMMON MARKET IN SERVICES HAD BEEN GOING ON FOR A LONG TIME, TOO LONG IN THE VIEW OF SOME. THERE WERE THREE LINKED PRINCIPLES, THE RIGHT OF ESTABLISHMENT, THE FREEDOM TO PROVIDE SERVICES AND FISCAL HARMONISATION. FRANCE REMAINED FIRMLY WEDDED TO THE PRINCIPLE OF TAX HARMONISATION BUT THEY WERE ANXIOUS TO REACH A POLITICAL AGREEMENT. THEY SHARED THE RESERVATIONS EXPRESSED BY MANY OTHERS ABOUT THE NEED TO PROTECT PURCHASERS OF INSURANCE (WHICH WAS USED AS A MEDIUM FOR SAVINGS) BUT THEY WERE READY TO TRANSFER THIS PROTECTION TO THE COMMUNITY. IN THIS CONTEXT THE PRESIDENCY COMPROMISE REPRESENTED AN ACCEPTABLE SOLUTION ON FISCAL QUESTIONS IN SPITE OF THE FRENCH WISH TO SEE TAX HARMONISATION. THE SIXTH DIRECTIVE WAS NOT INVOILABLE. A NEW SITUATION AROSE IF FREEDOM TO PROVIDE SERVICES WAS INTRODUCED. THE PRESIDENCY PROPOSAL DID NOT DISTORT COMPETITION SINCE THE VAT DEDUCTION MECHANISM SHOULD OPERATE. PROVISION FOR REVIEW IN PRESIDENCY TEXT INDICATED THAT THIS WAS AN EXPERIMENTAL MEASURE IN THE ABSENCE OF TAX HARMONISATION IF THE TEX HAD TO GO TO THE EUROPEAN PARLIAMENT THEN FRENCH AGREEMENT (ON THE WHOLE DIRECTIVE?) WOULD BE SUBORDINATED TO THE COUNCIL'S AGREEMENT TO A SATISFACTORY FINAL TEXT ON TAX. RESTRICTED 2

9. EXARCHOS (GREECE) IN AN UNCLEAR INTERVENTION SAID THAT THE NEW TEXT WAS FUNDAMENTALLY DIFFERENT FROM THE ORIGINAL ARTICLE 15 AND NEEDED TO BE EXAMINED IN MORE DETAIL. HE ECHOED POINTS MADE BY DELEGATES OPPOSING A VAT OPTION AND SAID IT WOULD NEED TO BE CONSIDERED BY FISCAL EXPERTS.

10. KITTEL (GERMANY) SAID THEY HAD GREAT UNDERSTANDING FOR THE FRENCH PROBLEM. DISTORTIONS OF COMPETITION MIGHT AFFECT THE INSURED AS WELL AS INSURERS BUT NO HARMONISATION OF TAXES EXISTED IN THE COMMUNITY AND THEY WERE PREPARED TO CONTRIBUTE FULLY TO DISCUSSION ON PRESIDENCY PROPOSAL.

11. LARSEN (DENMARK) SAID THEY WOULD LIKE TO SEE A SOLUTION BUT SHARED THE HESITATIONS OF OTHERS OVER AMENDMENT TO THE 6TH DIRECTIVE. THEY COULD AGREE TO PART A BUT WOULD PREFER TAX CORRESPONDENTS TO TAX REPRESENTATIVES.

12. LE POIRE (BELGIUM) AGREED TO PART A BUT SAID THEY HAD DIFFICULTIES WITH A VAT OPTION ON SIMILAR LINES TO OTHERS AND ADDED THAT THERE MIGHT BE AN OWN RESOURCES PROBLEM. THEY WISHED TO SEE THE FRENCH PROBLEM SOLVED AND MIGHT BE PREPARED TO SEE A TRANSITIONAL SOLUTION ALONG THE LINES SUGGESTED BY THE DUTCH.

13. EKINS-DAUKES (UK) SAID THE UK UNDERSTOOD THE PROBLEM HAD A FLEXIBLE AND SYMPATHETIC APPROACH AND THOUGHT THAT IF TECHNICAL PROBLEMS AROSE THEY COULD BE SOLVED WITH THE COMMISSION'S HELP.

14. TUGENDHAT (COMMISSION) SAID THEY WERE ANXIOUS TO SOLVE THE PROBLEM BUT WERE CONCERNED ABOUT THE INTEGRITY OF THE VAT SYSTEM. THEY UNDERSTOOD FRENCH ANXIETY AND APPRECIATED PRESIDENCY EFFORTS TO FIND A SOLUTION BUT THE PROPOSED SOLUTION POSED PROBLEMS. THE COMMISSION NEEDED ASSURANCES THAT TAX REPRESENTATIVES SHOULD NOT BE AS ONEROUS AS TO FORM AN ESTABLISHMENT AND THAT TAX COLLECTION FROM THE INSURED SHOULD NOT BE A DISINCENTIVE TO SEEK INSURANCE ABROAD. THE COMMISSION WOULD WELCOME THE GENERAL APPLICATION OF VAT TO INSURANCE. A VAT OPTION WOULD POSE PROBLEMS OF DISTORTIONS OF COMPETITION IN THE LIGHT OF THE OPERATION OF ARTICLE 17(3)A OF THE SIXTH DIRECTIVE. AS SOME HAD SAID, A CHANGE COULD ONLY BE MADE ON THE BASIS OF A COMMISSION PROPOSAL SUBJECT TO CONSULTATION OF THE PARLIAMENT AND ECOSOC. THE COMMISSION WAS PREPARED TO UNDERTAKE THE WORK SUGGESTED AND HAD A CONSTRUCTIVE ATTITUDE TO FINDING A SOLUTION. THEY HAD A DUTY TO POINT OUT POSSIBLE DIFFICULTIES. THEIR JUDGEMENT WOULD HAVE TO BE BASED ON THE BALANCE OF ADVANTAGE IN THE INSURANCE DIRECTIVE AS A WHOLE.



**RESTRICTED**

15. THE CHANCELLOR OF THE EXCHEQUER SAID THERE WERE NO INSUPERABLE PROBLEMS ON PART A. THERE WERE DIFFICULTIES ON VAT BUT A GENERAL DISPOSITION TO FIND A SOLUTION IF AT ALL POSSIBLE. PERHAPS A DEROGATION FOR FRANCE WAS A SOLUTION.

16. DELORS SAID THE PRESIDENCY TEXT CONTAINING AN OPTION SHOULD AVOID MANY OF THE PROCEDURAL PROBLEMS AND WAS PREFERABLE TO A DEROGATION. THE TEXT SHOULD REMAIN AS PROPOSED BY THE PRESIDENCY.

17. THE CHANCELLOR SUMMED UP AS IN PARAGRAPH 1.

**FCO ADVANCE TO:-**

- FCO - PS PS/LPS PS/PUS HANNAY SPRECKLEY DE CHASSIRON PIRNIE**
- CAB - ELLIOTT BROWN**
- C/E - KNOX WATSON**
- IDT - REID HENES BIRCH**
- TSY - PS/CHANCELLOR PS/FST HANCOCK PERETZ PERFECT SCHOLES**

**BUTLER**

ADVANCED AS REQUESTED

FRAME ECONOMIC  
ECD (1)

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COUNCIL OF THE EUROPEAN COMMUNITIES  
OFFICE OF THE PRESIDENT

24

PRESS RELEASE

10790/81 (Presse 148)

740th meeting of the Council

- Economic Affairs/Finance -

Brussels, 17 November 1981

President: Sir Geoffrey HOWE,  
Chancellor of the Exchequer  
of the United Kingdom

The Governments of the Member States and the Commission of the European Communities were represented as follows:

Belgium:

Mr Marc LEPOIVRE  
Deputy Permanent Representative

Denmark:

Mr Fleming HEDEGAARD  
Deputy Permanent Representative

Germany:

Mr Horst SCHULMANN  
State Secretary  
Federal Ministry of Finance

Greece:

Mr Antoine EXARCHOS  
Deputy Permanent Representative

France:

Mr Jacques DELORS  
Minister for the Economy  
and Finance

Ireland:

Mr John SWIFT  
Deputy Permanent Representative

Italy:

Mr Giovanni MARCORA  
Minister for Industry

Luxembourg:

Mr Ernest MUHLEN  
State Secretary for Finance

Netherlands:

Mr R.A. van SWINDEREN  
Deputy Permanent Representative

United Kingdom:

Sir Geoffrey HOWE  
Chancellor of the Exchequer  
  
Mr Nicholas RIDLEY  
Financial Secretary to the  
Treasury

Commission:

Mr Christopher TUGENDHAT  
Vice-President

INSURANCE OTHER THAN LIFE ASSURANCE

The Council held a detailed discussion on the problems faced with regard to the treatment of major risks, checking and supervision procedures, the role of agencies and branches, the confusion which might arise where an undertaking provided services in a Member State in which an establishment of the same undertaking was located (the so-called "aggregation" problem), and the question of the tax arrangements to be applied to insurance contracts.

During the discussion the Council was able to arrive at a number of positive guidelines. Consequently, it has instructed the Permanent Representatives Committee to continue its work on the subject for the Council's next meeting on economic and financial questions, planned for 14 December.

MISCELLANEOUS DECISIONS

Travel-allowances

The Council has adopted two Directives and a Regulation which will increase from January next year the tax and duty reliefs for travellers and for small consignments of goods sent to private individuals in the Member States.

As a result of these increases, which should contribute to a further simplification of formalities at the Community's frontiers, the new allowances from 1 January 1982 will be:

- for travellers entering the Community from third countries:  
45 Ecus;
  - for consignments of goods sent from third countries:  
35 Ecus and
  - for goods sent within the Community: 70 Ecus.
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NOTE FOR THE RECORDFINANCE COUNCIL, TUESDAY 17 NOVEMBER 1981Note of the discussion at lunch

1. The Chancellor of the Exchequer presided over an informal discussion at lunch. The only Ministers present apart from himself were the Financial Secretary, Delors, and Muhlen the Luxembourg Secretary of State. Other countries were represented by officials. Mr Tugendhat was also present.

Relations with the United States and Japan

2. Mr Delors said that it would be desirable for the Germans to give a signal for the start of a concerted fall in interest rates in the Community. But they could not do so because of the strength of the dollar and the Swiss franc and Delors understood and accepted that fact.

3. A further problem, in his view, was the unnatural weakness of the Japanese yen. There was a rumour that Mr van Lennep would take the initiative in proposing a meeting between the Community, the United States and Japan, and Mr Delors clearly thought that this would be desirable.

4. The Chancellor commented that although it was right to look for opportunities to influence the United States administration there was little point in repeating advice that they already knew quite well. He wondered whether there was a case for a meeting of the seven Summit countries at Finance Minister level so that it could concentrate on monetary issues.

5. Riberholt (Danish Permanent representative) said that the Community had no hope of influencing Japanese commercial policy unless they could reconcile the commercial policies of the individual Member States. There was a wide gulf between the import regimes of Italy at one end and Germany and Benelux at the other. The Chancellor said that Community countries did not always exploit the opportunities they had to influence Japan. For example, at the Ottawa Summit, he had attempted to get a much stronger passage about Japanese commercial policy into the

communiqué, but he was not supported by others. The Community should not under-estimate its own strength. It was a very large trading bloc and the Japanese had a very big interest in the market.

6. Mr Tugendhat said that the Japanese did not recognise that they were taking great risks in not responding to the concern in other industrial countries about their policy. He thought it realistic for the Community to aim for better access to Japanese markets; more sensitivity to the effects of their laser-beam tactics on industries where there was already high unemployment; and a greater willingness to participate in the western economic system. Mr Delors commented that the last was the most important point.

#### Secretary General of OECD

7. There was a brief discussion of this subject. Riberholdt said that Norgaard had withdrawn his candidature. It might be necessary for the Danish Government to support Burenstam-Linder for a while but they did not seriously suppose that he would get the job. Several speakers said that it would be desirable to have a Community candidate and the chances of getting the job for a Community candidate would be very much greater if one could be agreed. The general view was, however, that the time was not ripe for choosing a single Community candidate and that Ministers ought to return to the subject later.

#### European Monetary System

8. The Chancellor invited Mr Delors to explain his thinking on the future development of the European Monetary System. Mr Delors said that he hoped the European Council would agree to instruct the Finance Council to achieve some progress in the development of the EMS. He was not thinking of an early move to Stage 2. So long as sterling was outside the exchange rate mechanism, the opportunities for advance were limited. If the British Government decided that the time was right for sterling to join, the possibilities for progress would be much increased. The EMS had done remarkably well in its first three years. If the experts had been asked to predict the course of events early in 1979 they would have given a far more

pessimistic account than what actually happened.

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9. He listed the following as possible areas for immediate progress (but he did not use the phrase Stage 1½):-

- (i) There should be a dialogue with the United States aimed at establishing a target zone for the fluctuations in the exchange rates between the dollar and the Community currencies. The object should be to reduce the range of fluctuation from plus or minus 20% to plus or minus 5%. The rules of the game needed to be defined.
- (ii) There should be a greater understanding about the monetary and interest rate policies of the Member States. Fighting inflation should remain the priority and each should find its own solution; but national solutions should not impede the freedom of others to act. France was not at the moment impeded - its domestic inflation rate prevented any cut in its interest rates. But Germany was impeded and it was most unfortunate that the most powerful economy in Europe should be so constrained.
- (iii) Ways should be found of increasing the use of the ecu and reducing the use of the dollar in settlements between Central Banks and the credit mechanisms could be simplified.

Mr. Delors stressed that he was not recommending an institutional phase which would, as he put it, take the Community even further away from the British position. But at least we could do something that would get the ball out of the scrum.

D.H.

D J S HANCOCK  
19 November 1981

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