

PO-CH/NL/0068

PART A



Part. A.

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PO -CH /NL/0068

PART A

PO -CH /NL/0068

PART A

Chancellor's (Lawson) Papers:

ECONOMIC FINANCE COUNCIL
MEETING LUXEMBOURG JUNE
1984

Disposal Directions 25 Year

[Signature]
27/1/95.

prof

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TELEGRAM NUMBER 1192 OF 30 MARCH

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ECD(1)

MR WILLIAMSON, MR STAPLETON
MR DURIE — CABINET OFFICE

MR UNWIN, MR FITCHEW,
MR MORTIMER — HM TRLSY

MR COLES — NO 10 DST

1. WILLIAMSON AND I SAW DAVIGNON THIS AFTERNOON (NOEL, LACROIX AND DE BOISSIEU BEING PRESENT.) I THINK THAT HE HAS NOW TAKEN FIRM CONTROL OF THE COMMISSION'S OPERATIONS, WORKING WITH ORTOLI. (NO WORD OF THESE MEETINGS SHOULD REACH THE EARS OF ANY OTHER MEMBER GOVERNMENT.)

2. HE SAID THAT HE WAS WORKING ON THE ASSUMPTION THAT THE FRENCH WOULD NOT AGREE TO ANY OUTCOME UNLESS IT COULD BE PRESENTED AS BEING DONE BY MITTERRAND. EQUALLY THE OUTCOME HAD TO BE ACCEPTABLE TO US. HIS IDEA WAS TO DISCUSS THE SITUATION WITH YOU ON SUNDAY NIGHT AND, IF POSSIBLE, TO PUT TO YOU A PROPOSAL WHICH YOU, AFTER CONSULTING THE PRIME MINISTER AND YOUR COLLEAGUES, MIGHT BE ABLE TO TELL HIM WOULD BE ACCEPTABLE TO THE UK IF IT WERE ACCEPTABLE TO EVERYBODY ELSE. ON THAT BASIS THEY WOULD TRY TO SELL IT TO MITTERRAND AND, IF HE COULD AGREE, DISCUSS HOW IT COULD BE PUT OVER WITH THE OTHERS. I SAID THAT WE HAD NO DISCRETION TO MOVE IN ANY WAY AT ALL AND THAT YOU WOULD NOT HAVE ANY ON SUNDAY EITHER. BUT WE WERE VERY READY TO LISTEN TO ANY IDEAS HE MIGHT HAVE FOR FINDING A SOLUTION.

3. DAVIGNON SAID THAT THE GERMANS WERE BEGINNING TO TRAMPLE ABOUT. THEY HAD GIVEN THE COMMISSION AN APPALLING WORKING DOCUMENT YESTERDAY (I BELIEVE IT SUGGESTED THAT THE GERMAN THRESHOLD MUST BE SET AT A LEVEL WHICH GAVE THEM A REFUND EQUAL TO 50 PER CENT OF THEIR NORMAL SHARE OF THE UK REFUND). IF THEY BROUGHT ALL THIS OUT INTO THE OPEN AT THE ECOFIN COUNCIL, THE NEGOTIATION WOULD BE SET BACK A LONG TIME AND WE MIGHT WELL LOSE THE SYSTEM. THE COMMISSION WERE TRYING TO PERSUADE DELORS TO DO AS LITTLE AS POSSIBLE ON MONDAY.

4. DAVIGNON SAID THAT HE WAS PREPARED TO TRY TO MOVE THE REFUND FIGURE UNDER DISCUSSION (FOR USE ON THE BASIS OF THE 1983 FIGURES) UP TO 1100. HE RECOGNISED THAT IT WAS NOW ALSO NECESSARY TO FIX THE THRESHOLD AND THE TICKET MODERATEUR (TM). ONCE AGREEMENT HAD BEEN REACHED IT MIGHT BE POSSIBLE TO PRESENT THE SOLUTION ON THE BASIS OF THE FIGURE FOR THE THRESHOLD AND THE PERCENTAGE FOR THE TM. BUT HE AGREED WITH MY POINT THAT WE HAD TO WORK ON THE 1983 FIGURES, AND HE SAW NO WAY OF AVOIDING FIXING THE COMPENSATION FIGURE.

5. THE OTHERS WERE PRETTY ENTRENCHED ON 1000. THEY WERE ALSO WORRIED ABOUT THE NET COSTS OF ENLARGEMENT. HE WAS THEREFORE WONDERING WHETHER THERE WAS ANY WAY IN WHICH HE COULD JUSTIFY MOVING TO 1100 BY SOME SPECIAL ARRANGEMENTS FOR THE COSTS OF ENLARGEMENT DURING THE TRANSITIONAL PERIOD (IE THE NET BENEFITS OF SPAIN AND PORTUGAL.) IT EMERGED THAT HE WAS THINKING OF HAVING A DIFFERENT TM FOR THE LATTER.

6. DISSENSION BROKE OUT IN THE COMMISSION CAMP ON THE PERCENTAGE FOR THE TM. NOEL DEVELOPED THE THESIS THAT WE HAD ALWAYS BEEN TALKING ABOUT A ONE-THIRD/TWO-THIRDS SPLIT AND THE TM SHOULD THEREFORE BE ONE THIRD. WE DISMISSED THIS, ARGUING VERY STRONGLY FOR 5 PER CENT. DAVIGNON SEEMED RELATIVELY RECEPTIVE. HE ARGUED WITH NOEL THAT BUDGETARY DISCIPLINE SHOULD PREVENT ANY DIC INCREASE IN UK NET CONTRIBUTION FOR AGRICULTURE AND THAT THE UK SHOULD BE A NET BENEFICIARY ON NEW POLICIES, THUS REDUCING OUR GAP RATHER THAN INCREASING IT. THE IMPORTANT THING WAS TO HAVE A TM FOR THE TRANSITIONAL PERIOD ON ENLARGEMENT WHICH MET THE ANXIETIES OF THE OTHER MEMBER GOVERNMENTS.

7. IN THE COURSE OF DISCUSSION I PRESSED DAVIGNON DOWN TO A FIRM STATEMENT THAT A RELATIVELY LOW TM WOULD APPLY TO EVERYTHING EXCEPT ENLARGEMENT (AND POSSIBLY "SOLIDARITY" PAYMENTS, BY WHICH HE MAY HAVE MEANT IMPS). I POINTED OUT MOREOVER THAT, GIVEN THE VERY LARGE CONTRIBUTION WHICH WE WOULD, ON OUR OWN FIGURES, BE MAKING IN 1986, THERE COULD BE NO QUESTION OF US ALSO CONTRIBUTING NORMALLY TO SPAIN AND PORTUGAL'S NET BENEFITS. THE PRESIDENCY TEXT MADE IT CLEAR THAT THE COSTS OF ENLARGEMENT WOULD BE TAKEN CARE OF BY USING RELATIVE PROSPERITY IN A COMMUNITY OF 12 AND BY THE NORMAL TM. DAVIGNON CONTINUED TO ARGUE THAT SOMETHING SPECIAL MUST BE DONE ABOUT ENLARGEMENT. EVEN IF NOEL AND ORTOLI DO NOT GET AT HIM TOO MUCH I THINK THAT THE BEST WE CAN HOPE HE MIGHT PROPOSE WOULD BE SOMETHING LIKE A 5 PER CENT NORMAL TM AND A 10 PER CENT SPECIAL TM FOR THE COSTS OF ENLARGEMENT.

8. WE ATTACKED THE COMMISSION OVER THE POSSIBILITY THAT THEY MIGHT DO THE FIGURES FOR ECOFIN ON THE ASSIETTE BASIS FOR THE VAT SHARE (GIVING A 1983 GAP OF 1680 RATHER THAN 1622). NOEL AND LACROIX ARGUED VERY STRONGLY AGAINST USING THE PAYMENTS BASIS FOR THE SYSTEM WHICH THEY SAID WOULD RESULT IN PECULIAR DISTORTIONS. (I WILL GET MY STAFF TO GO INTO THIS MORE FULLY ON MONDAY.) WE SAID THAT OUR EXPERTS CLAIMED THAT IT DID NOT MATTER IN THE LONG RUN WHICH BASIS WAS USED. BUT THE PAYMENTS BASIS HAD BEEN USED UP TO NOW, AND ALL THE DISCUSSIONS OVER THE PAST 10 DAYS HAD BEEN ON THE BASIS OF A UK GAP OF 1622 FOR 1983. IT WOULD BE HIGHLY CONFUSING AS WELL AS PREJUDICIAL TO OUR POSITION NOW TO START USING THE 1680 FIGURE. DAVIGNON WAS RECEPTIVE BUT NON-COMMITTAL.

9. DAVIGNON SAID THAT IT HAD BEEN A USEFUL MEETING. HE AND ORTOLI WOULD REFLECT, AND HE HOPED THAT WE WOULD DO SO WITH YOU BEFORE OUR DINNER ON SUNDAY.

10. FCO PLEASE DISTRIBUTE ONLY TO NAMED ADVANCE ADDRESSEES.

FCO ADVANCE TO:-

FCO - PS, PS/MR RIFKIND, PS/PUS, TICKELL, HANNAY, FAIRWEATHER,
WALL

CAB - WILLIAMSON, STAPLETON, DURIE

TSY - UNWIN, FITCHEW, MORTIMER

NO10 - COLES

BUTLER

Brussels, 17 April 1984 (03.05)

6529/84	
	RESTREINT

FISC 46

*cc Mr Walton .FP2
Mr Sheridan 'AEI'
Mr Ingham EC.*

INTRODUCTORY NOTE

from: General Secretariat of the Council
to : Permanent Representatives Committee

Subject: Tax measures to encourage co-operation between undertakings
from different Member States

I.

1. At its meeting on 12 March 1984, the ECOFIN Council agreed that priority should be given to work aimed at eliminating obstacles to co-operation between undertakings in different Member States.

To this end, the Council gave the Permanent Representatives Committee the instructions set out in Annex I hereto.

2. In accordance with these instructions, the Working Party on Financial Questions resumed the examination of the problems still outstanding in connection with the proposals for Directives on the common systems of taxation applicable to

- mergers, divisions and contributions of assets occurring between companies of different Member States and
- parent companies and their subsidiaries of different member States,

on the basis of the introductory notes submitted to the ECOFIN Council on 12 March 1984 (5270/84 and 5299/84).

.../...

3. At its meeting, the Working Party reached a broad consensus on most of the problems still outstanding (see 6446/84 FISC 42 and 6447/84 FISC 43). The Greek delegation said however that its authorities had not yet completed the examination of all the aspects of the two proposals and that, for this reason, it had to maintain a reservation pending further examination.
4. Of the problems still outstanding there are three which, in the view of the Working Party, are of a political nature and which it therefore proposes to submit to the ECOFIN Council on 4 June 1984. These are
- as regards the proposal for a Directive on mergers, divisions and contributions of assets
 - = the problem raised by joint management ("Mitbestimmungsrecht") applicable in Germany,
 - = the inclusion, in the scope of this Directive, of exchanges of shares;
 - as regards the proposal for a Directive on parent companies and their subsidiaries
 - = the action to be taken on withholding taxes in the event of the redistribution of dividends by the parent company

These three problems are set out in parts II and III of this note.

Once these three problems have been resolved and subject to the outcome of the examination of both proposals by the Greek authorities, the Working Party should be able to resolve the final technical problems and prepare the texts of both Directives with a view to their adoption at a subsequent Council meeting.

5. In accordance with the instructions of the ECOFIN Council on 12 March 1984, the Working Party also resumed the examination of the proposals concerning

- the introduction of an arbitration procedure with a view to the elimination of double taxation,
- the system of taxation applicable to transactions in securities,
- the introduction of a European Economic Interest Grouping (tax aspects).

These proceedings, which the Working Party will resume on 7 and 8 and 14 and 15 May, have not yet made it possible to identify problems likely, owing to their political nature, to be submitted to the ECOFIN Council on 4 June 1984.

II.

Proposal for a Directive on mergers, divisions and contributions of assets

1. Problem raised by joint management ("Mitbestimmungsrecht") applicable in Germany

The German delegation feared that the proposed Directive would prejudice the current right of workers in Germany to be represented on the supervisory bodies of the undertaking ("Mitbestimmungsrecht").

To allay such fears, the Commission representative suggested that Article 14a be worded as follows:

"A Member State may refuse, or withdraw, the application of all or any part of the provisions of Titles II, III and IV of this Directive when it appears that the merger, division, contribution of assets or exchange of shares

- (....)

- (....)

- has as its principal objective or as one of its principal objectives the loss by employees of a company, whether participating or not in the operation, of their previous right to representation in bodies of the company, without granting them an equivalent right of representation."

.../...

The German delegation reserved its position on this text.

2. Inclusion in the scope of the Directive of exchanges of shares

The draft Directive provides that this would apply not only to mergers, divisions and contributions of assets but also to exchanges of shares.

Exchanges of shares consist in the acquisition by a company of a participating interest of some importance - at least 51% according to the consensus within the Working Party - in the share capital of another company in exchange for shares in itself.

Nine delegations could agree to the inclusion of exchanges of shares in the scope of the proposed Directive.

The German delegation opposed such an inclusion. It indicated however that as a compromise it could agree to it if a derogation was provided for Member States which, internally, taxed exchanges of shares as sales. Member States should have the possibility of restricting the tax benefits provided for in the Directive to exchanges of shares which result in a participating interest of 100%.

In support of its position the German delegation pointed out that the tax benefits provided for in the proposed Directive were justified in the case of mergers and contributions of assets by the fact that such operations enabled a single economic entity to be created from several formerly distinct units. This was not so with exchanges of shares as the companies in question remained legally independent. This was why German tax legislation made such operations subject to taxation on the profits made upon sale.

.../...

The Commission representative underlined that the exclusion of exchanges of shares from the scope of the Directive would serve to deprive it, at least at present, of any practical effect for at present most Member States' commercial law did not recognize international mergers or divisions. He also pointed out that the German proposal was not a valid compromise since in fact it would result in the transfer of German domestic legislation to Community level.

The other delegations reserved their positions on the German delegation's compromise proposal.

II.

Proposal for a Directive on parent companies and subsidiaries

Withholding taxes in the event of the redistribution of dividends by the parent company

Under the proposal, the profits distributed by a subsidiary to its foreign parent company are exempt from withholding tax. A derogation from this rule is provided for Member States which apply, in respect of corporation tax, a double rate system (at present only the Federal Republic of Germany). They would be authorized to levy a withholding tax to compensate for the difference between the rate applicable to undistributed profits and that applicable to distributed profits.

These proposals were agreed to by all the delegations. There is however a difference of opinion on the action to be taken on the withholding tax in the event of the redistribution by the parent company of the dividends received from its subsidiary. Whereas the Commission and most delegations consider that in this event

the withholding tax should be reimbursed, the German delegation opposes such an approach.

The German delegation pointed out that the rate of withholding tax agreed to by the Federal Republic in most of the bilateral agreements on double taxation, namely 15%, already took account of the fact that part of the dividends paid by subsidiaries (on average 1/4) were redistributed by the parent companies. If the Federal Republic wished to compensate exactly for the difference between the rate applied to undistributed profits (56%) and that applied to distributed profits (36%) - which it would be entitled to do under the Commission proposal - it would have to apply a rate of 20% for the withholding tax. It was however prepared to agree, in the proposed Directive, to the rate contained in the bilateral agreements, namely 15%, without a redistribution clause.

The Commission representative suggested, in order to find a compromise solution, the following approach:

- the withholding tax would be fixed at a rate considerably lower than the difference in the rates; in the Commission representative's view the rate of the withholding tax should be between 0 and 15%;
- the withholding tax would not be reimbursed in the event of the redistribution of dividends.

The delegations reserved their positions on this suggestion.

Conclusions of the ECOFIN Council
on 12 March 1984

- Tax measures to encourage co-operation between undertakings in different Member States

4318/84 ECOFIN 2 FISC 6, 5300/84 ECOFIN 27 FISC 18
5270/84 ECOFIN 24 FISC 15, 5292/84 ECOFIN 25 DRS 19 FISC 16
5299/84 ECOFIN 26 FISC 17

The Council agreed that priority should be given to work aimed at eliminating obstacles to co-operation between undertakings situated in different Member States.

It accordingly instructed the Permanent Representatives Committee, in the light of the day's discussions, to press ahead with examination of the proposal for a Regulation on the European Economic Interest Grouping and, in the tax field, of the proposals on:

- the common system of taxation applicable to mergers, divisions and contributions of assets;
- the common system of taxation applicable to parent companies and subsidiaries which were in different Member States;
- the elimination of double taxation in connection with the adjustment of transfers of profits between associated undertakings (arbitration procedure);
- the system of taxation applicable to transactions in securities.

It asked the Permanent Representatives Committee to report to it before 31 May 1984.

The Council also called on the Governments of the Member States to resume work as soon as possible on the International Convention on International Mergers.

THE COUNCIL

7445/84		
		RESTREINT

FISC 54

NOTE

from: Council General Secretariat
to : Council (Economic and Financial Affairs) on 4 June 1984

Subject: Tax measures to encourage co-operation between undertakings
of different Member States
- Progress report

1. At its meeting on 12 March 1984 the Council (Economic and Financial Affairs) gave priority to work on the removal of obstacles to co-operation between undertakings situated in different Member States.

To that end it instructed the Permanent Representatives Committee to press ahead with the examination of several Commission proposals of an essentially fiscal nature and to report back before 31 May 1984.

2. In accordance with those instructions the Permanent Representatives Committee and the Working Party on Financial Questions held very frequent meetings to resume and continue their examination of the various proposals concerned.

.../...

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3. Two of those proposals date from as long ago as January 1969. These are proposals concerning the systems of taxation applicable
- to mergers, divisions and contributions of assets and exchanges of shares;
 - to parent companies and their subsidiaries of different Member States.

The Working Party managed to reach a broad consensus on most of the problems outstanding since 1970. The content of the consensus is recorded in 6446/84 and 6447/84.

Of the problems regarded as being of a political nature only three remained unresolved and accordingly have had to be submitted to the Council meeting on economic and financial affairs on 4 June. They are set out in 7444/84. In addition there is a general reservation pending examination by the Greek delegation.

Once those three problems of a political nature have been resolved - together with any problems raised by the Greek delegation - it should be possible to finalize the texts of the two directives concerned within a relatively short period of time.

4. As regards the proposal for the introduction of an arbitration procedure, which dates from November 1976, the Working Party also managed to reach a consensus on several questions outstanding for a considerable time. The content of the consensus is set out in 6303/84.

The only problem of a political nature to which the Working Party failed to find a solution was that of the possible jurisdiction of the Court of Justice. The question is thus submitted to the Council meeting on economic and financial affairs on 4 June 1984.

When that problem and any problems raised by the Greek delegation, whose general reservation also covers this proposal, have been resolved it should also be possible to reach agreement within a relatively short period of time on the last technical problems outstanding, as summarized on page 9 of 5300/84.

5. The Working Party has begun examining the proposal concerning the indirect taxation of transactions in securities. The discussions have made it possible to identify a series of problems of an essentially technical nature such as the definition of the transactions to be taxed, the special arrangements to be laid down in the case of certain Member States, the extent of any exemptions and the rate of tax. The proposal would not appear at present to be the source of any problems of a political nature which would have to be submitted to the Council meeting on economic and financial affairs, but several more Working Party meetings will be required to resolve the many technical problems.

6. The Working Party on Financial Questions has also examined the tax aspects of the proposal for the setting up of a European Economic Interest Grouping. This showed that there is a broad consensus on the principle underlying the Commission proposal, that any profits earned by a grouping can be taxed only in the hands of its members. There remain, however, certain technical problems which the Working Party should be able to resolve as the proceedings on the structure of the grouping progress.

7444/84	
	RESTREINT

FISC 53

INTRODUCTORY NOTE

from: General Secretariat of the Council
to: ECOFIN Council on 4 June 1984

Subject: Tax measures to encourage co-operation between undertakings
from different Member States

- The four points submitted to the ECOFIN Council

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At its meeting on 23 May 1984, the Permanent Representatives Committee agreed to submit the four points set out below to the ECOFIN Council on 4 June 1984 ⁽¹⁾.

I. Problem raised by the system of joint management ("Mitbestimmungsrecht") applied in the Federal Republic of Germany
(Directive on mergers, divisions, contributions of assets and exchange of shares)

1. In order to take account of the system of joint management applied in the Federal Republic of Germany, the Commission proposed the text set out on the left-hand side in Annex I hereto.

Nine delegations said they could accept this text.

⁽¹⁾ A situation report on the various tax proposals envisaged in the brief of the ECOFIN Council of 12 March 1984 is contained in 7445/84.

.../...

2. The German delegation pointed out that this text could not be applied in practice since it referred to the intentions, which were very difficult to establish, of the participants in the merger or similar operation. In its opinion, the solution would have to be based solely on objective criteria, namely whether, following one of the operations covered by the Directive, one of the undertakings concerned still fulfilled or no longer fulfilled the conditions required for the application arrangements for joint management. To this end the German delegation, at the meeting of the Permanent Representatives Committee on 23 May 1984, suggested the text set out on the right-hand side in Annex I. It pointed out that, apart from the reference to objective criteria, the powers given by this text to the German authorities were more limited than those envisaged in the text proposed by the Commission. While the latter text referred to the rights of the employees of one of the undertakings concerned, the text proposed by the German delegation referred to the undertakings.

The other delegations and the Commission reserved their positions on the text proposed by the German delegation.

II. Inclusion in the scope of the Directive on mergers, etc. of exchanges of shares

The Commission proposed including in the scope of the Directive on mergers, etc., operations involving exchanges of shares, which it defined as:

"the operation whereby a company acquires a participation in the share capital of another company such that it obtains a majority of voting rights in that company against the allotment to the shareholders of the latter company, in exchange for their shares, of shares in the former company ...".

.../...

Seven delegations agreed to the Commission proposal.

Two delegations (D/NL) reserved their positions.

The Greek delegation referred to its general reservation.

III. Withholding taxes levied in the Federal Republic of Germany on dividends distributed to parent companies in other Member States

(Directive on parent companies/subsidiaries)

1. The main aim of the proposal for a Directive on parent companies/subsidiaries is to abolish withholding taxes applicable in most Member States to profits distributed by a subsidiary company to its parent company, at least when the latter has a minimum participation in the capital of the subsidiary.
2. In order to take account of the system of dual-rate taxation of companies applicable in the Federal Republic of Germany, the Commission proposed authorizing the Federal Republic of Germany, as long as it applied this dual-rate system, to levy, as a compensatory tax, withholding taxes not exceeding 15%.

To this end the Commission proposed a new text of Article 5 together with two statements for entry in the Council minutes, set out in Annex II hereto.

3. To meet the objections of the delegations who were unable to accept this solution (DK/I/NL), two alternatives were discussed at the meeting of the Permanent Representatives Committee on 23 May 1984. These alternatives are also set out in Annex II to this note.

- Alternative I would be inserted in the Commission proposal. It would enable the Member States which at present apply withholding taxes to dividends paid to parent companies in Germany to continue to do so, provided, however, that they were required to reduce the amount of such withholding taxes in proportion to the reduction applied in their case by the FRG.
- Alternative II would enable the Federal Republic of Germany and the other Member States, as long as the FRG applied the dual-rate system of taxation to companies, to fix the amount of the withholding tax on the basis of bilateral agreements.

4. The delegations and the Commission reserved their positions on these alternatives.

IV. Arbitration procedure: Jurisdiction of the Court of Justice

1. The Commission proposal provides for the introduction of an arbitration procedure for the elimination of double taxation in connection with the adjustment of transfers of profits between associated enterprises.

2. The Commission proposed introducing this procedure through a directive based on Article 100 of the EEC Treaty. However, there was agreement between all the delegations that this procedure should be laid down in a Convention, pursuant to Article 220 of the EEC Treaty.

3. Pending the solution of the final, rather technical, problems raised by this proposal, the Permanent Representatives Committee agreed to submit the following question to the ECOFIN Council:

If an arbitration procedure is introduced by means of a Convention, should provision be made for conferring some jurisdiction on the Court of Justice?

Only the German delegation asked for such jurisdiction to be conferred. Several delegations were strongly opposed to it. The others had serious misgivings.

Problem raised by joint management ("Mitbestimmungsrecht") in the Federal Republic of Germany

Solution proposed by the Commission

"Article 14a

A Member State may refuse, or withdraw, the application of all or any part of the provisions of Titles II, III and IV of this Directive when it appears that the merger, division, contribution of assets or exchange of shares

- (....)
- (....)

- has as its principal objective or as one of its principal objectives the loss by employees of a company, whether participating or not in the operation, of their previous right to representation in bodies of the company, without granting them an equivalent right of representation."

Solution proposed by the German delegation

"Article 14a

A Member State may refuse, or withdraw, the application of all or any part of the provisions of Titles II, III and IV of this Directive when it appears that the merger, division, contribution of assets or exchange of shares

- (....)
- (....)

- results in a company, whether participating or not in the operation, no longer fulfilling the conditions required for the representation of employees in bodies of the company."

Withholding tax levied in the Federal Republic of Germany
(proposal for a Directive on parent companies/subsidiaries)

A. Solution proposed by the CommissionI. New text of Article 5 of the Directive on parent companies/subsidiariesArticle 5

1. Profits which a subsidiary distributes to its parent company shall, at least where the latter holds a minimum share of 25% in the capital of the subsidiary, be exempted from withholding tax.

These provisions shall not apply to the Hellenic Republic for as long as that country does not impose any corporation tax on distributed profits.

2. The Federal Republic of Germany may, for as long as it charges corporation tax on distributed profits at a rate at least 20 points lower than the rate applicable to non-distributed profits, impose a compensatory withholding tax at a rate not exceeding 15% on the profits distributed by the subsidiary companies of that State.
3. The Commission shall present to the Council periodically and for the first time before the end of the fifth year following the date of application of this Directive, a report on the application of the provisions of paragraph 2 accompanied, if necessary, by a proposal for a modification of the rate of withholding tax.

.../...

Statements for the Council minutes

"Re Article 5

1. The Federal Republic of Germany undertakes to extend to the other Member States any reduction in the rate of withholding tax which it grants to third countries.

2. The Council asks Member States to supply the following information to the Commission so as to enable it to draw up the report referred to in this paragraph:
 - the amount of dividends distributed by German subsidiaries of parent companies belonging to other Member States;

 - the percentage of these dividends redistributed by parent companies to recipients other than parent companies, established on a proportional basis."

B. The two alternatives raised at the meeting of the Permanent Representatives Committee on 23 May 1984

ALTERNATIVE I

Addition of a new subparagraph to the new Article 5(2) proposed by the Commission:

"Member States which, at the date of application of this Directive, apply a withholding tax to dividends paid out to parent companies situated in the Federal Republic of Germany may maintain such tax. They shall, however, reduce the rate of this tax in proportion to the reduction granted in their favour by the Federal Republic of Germany so as to comply with the above provisions."

.../...

ALTERNATIVE II

1. Replacement of the new Article 5(2) proposed by the Commission with the following:

"The Federal Republic of Germany may, for as long as it charges corporation tax on distributed profits at a rate at least 20 points lower than the rate applicable to non-distributed profits, impose a compensatory withholding tax.

During this period, Member States may maintain a withholding tax on dividends paid out by their companies to parent companies situated in the Federal Republic of Germany."

2. Deletion of both Article 5(3) and the statements for the minutes proposed by the Commission.
-

Bruxelles, le 29 mai 1984

7501/84	
	RESTREINT

SURE 25

RAPPORT

du Président du Groupe à "Haut Niveau - Assurances"
au Conseil

N° doc. préc.
7490/84 SURE 24

N° prop. Cion
R/95/76 (ES 3)
(COM/75 516 fin. + fin. 2 (f,d,e)

R/457/78 (ES 17)
(COM/78 63 final)

Objet : Proposition de deuxième directive du Conseil portant coordination des dispositions législatives, réglementaires et administratives concernant l'assurance directe autre que l'assurance sur la vie et fixant les dispositions destinées à faciliter l'exercice effectif de la libre prestation des services

Le rapport établi par le Secrétariat du Conseil expose l'état des discussions, ainsi que les positions prises par les différentes délégations ; il permet donc de connaître, de façon précise et complète, les résultats des travaux du Groupe.

Le Président estime néanmoins utile, au terme du mandat qui lui a été imparti, de faire part au Conseil de ses conclusions personnelles sur ce dossier.

.../...

Du point de vue de la procédure, la formule du Groupe à "Haut Niveau" a permis d'acquérir, très rapidement, une vue de synthèse sur la question, et s'est donc révélée une méthode efficace pour parvenir, à l'avenir, à une progression satisfaisante.

L'examen d'ensemble auquel s'est livré le Groupe a, du point de vue du fond, permis d'éclairer la portée de la proposition présentée par M. Tietmeyer lors du Conseil du 12 mars dernier : si la presque totalité des délégations a pu s'accorder sur un mode de définition de ces risques et sur le traitement particulier dont ils doivent faire l'objet, il est apparu, en revanche, que la limitation du champ d'application de la directive aux seuls grands risques ne permettait pas d'éviter la solution de problèmes généraux communs à l'ensemble des risques.

Les travaux accomplis par le Groupe ne mettent pas le Président en mesure de proposer au Conseil, dès maintenant, l'adoption d'un texte définitif sur l'ensemble de la matière. Ils ont cependant révélé des éléments de convergence suffisants pour que l'on puisse dessiner le contour général d'une solution en distinguant sur l'ensemble du dossier :

- a) d'une part, une zone de compromis : elle recouvre un ensemble de problèmes parmi les plus importants qui ont fait l'objet principal des travaux du Groupe, et pour lesquels une communauté de vue s'est exprimée jusqu'à un certain point entre une large majorité des délégations. Des réserves subsistent cependant de façon diversifiée selon les sujets et les pays. Sur toutes ces questions, les textes annexés au rapport du Secrétariat du Conseil correspondent donc à une position de moindre divergence révélée par les travaux.

.../...

En les présentant au Conseil, le Président du Groupe ne doit donc pas dissimuler les difficultés que pourrait rencontrer leur approbation formelle. Il lui paraît néanmoins peu probable qu'on puisse dégager une solution d'ensemble substantiellement différente, à brève échéance, sur des points d'une incontestable difficulté technique ;

- b) d'autre part, une zone que l'on pourrait qualifier d'ouverture ou de recherche qui, soit parce que le Groupe n'a pas eu matériellement le temps de couvrir l'ensemble des aspects du problème posé, soit parce que des divergences de fond se sont manifestées entre les délégations, doit faire en tout état de cause l'objet de travaux complémentaires.

1) Configuration de la zone de compromis

- a) La libre prestation de services ferait l'objet d'une directive unique, mais comportant à certains égards des dispositions particulières pour les grands risques définis de la façon suivante :

- Risques classés sous les branches 4, 5, 6, 7, 11 et 12 de la première directive de coordination, c'est-à-dire risques transports, pour autant que le preneur souscrive au titre d'une activité commerciale, industrielle ou libérale.

- Risques classés sous les branches 14 et 15 (crédit et caution).

.../...

- Risques classés sous les branches 8, 9, 13 et 16 (incendie, autres dommages aux biens, responsabilité civile générale et pertes pécuniaires diverses), pour autant que soient dépassés les montants de 7 millions d'écus en valeur assurée par le preneur pour la branche 8, ou 10 millions d'écus pour les branches 8, 9 et 16 cumulés au delà des valeurs retenues ou que le chiffre d'affaires annuels de l'entreprise assurée soit égal ou supérieur à 50 millions d'écus.

b) Le régime propre aux grands risques se caractériserait par un allégement des procédures de contrôle en matière d'accès et d'exercice de la libre prestation. L'entreprise d'assurance opérant dans ces conditions serait soumise à l'obligation prévue par la deuxième directive d'informer l'Etat membre de la prestation de son intervention sur son marché, de son programme d'activité, et des conditions générales de ses contrats. La commercialisation de ces contrats pourrait s'effectuer immédiatement ; un régime analogue serait adopté pour les conditions d'exercice. Le pouvoir éventuellement donné à l'autorité administrative chargée d'exercer le contrôle sur les entreprises d'assurance d'intervenir par la voie d'instructions régissant le contenu des conditions générales serait limité conformément aux dispositions de l'article 7 paragraphe 3 bis.

c) Le régime applicable aux risques de masse, de son côté, resterait caractérisé par une approbation préalable, celle-ci étant réputée acquise par accord tacite des autorités de contrôle de l'Etat de la prestation, dans un délai de 6 mois.

.../...

- d) Les règles régissant le choix de la loi applicable aux contrats seraient fixées par l'article 6 joint en annexe au rapport du Secrétariat Général du Conseil. Cette loi serait, en règle générale, celle de l'Etat membre de la situation du ou des risques, ou de la résidence du preneur (certaines exceptions étant prévues au point 1) dans le respect des règles impératives fixées par les Etats membres concernés (points 2 et 3).
- e) Les assurances obligatoires entreraient dans le champ d'application de la directive, sauf dans les cas où elles font l'objet de réglementations particulières qui posent des problèmes spécifiques. Les exceptions, limitativement fixées, concerneraient la responsabilité civile automobile, la responsabilité civile au titre des risques nucléaires et des produits pharmaceutiques, l'assurance des accidents du travail, et l'assurance construction. Une assurance obligatoire, entrant dans le champ des grands risques, relèverait de la même procédure allégée que les autres assurances.
- f) Les dispositions relatives à la concurrence seraient régies par l'annexe prévue à cet effet dans la directive, dont les dispositions ont depuis longtemps recueilli un large accord au sein des autorités de contrôle. Sur la dernière question restant en discussion (c'est-à-dire l'assouplissement visant à ne pas soumettre à l'obligation de congruence les montants relativement faibles "ou petits paquets" de monnaie détenus par une entreprise d'assurance), la Présidence propose que les limites de l'exemption correspondent, pour les engagements en monnaies communautaires, à un

double plafond, à la fois en pourcentage du total des actifs de l'entreprise (5 %), et en valeur absolue (2 millions d'écus), le montant à retenir étant le plus faible des deux. Ce dernier chiffre devrait, comme les seuils prévus pour délimiter les grands risques, faire l'objet d'une révision périodique, suivant une procédure précisée dans la directive.

- g) Les sanctions applicables à une entreprise prestataire qui ne se conformerait pas aux dispositions en vigueur dans l'Etat de la prestation seraient régies par les dispositions de l'article 16 - légèrement modifiées dans le sens des propositions présentées par la présidence allemande - auxquelles le Conseil a déjà donné son accord.

2) La zone d'ouverture ou de recherche

- a) Elle porte en premier lieu sur le problème de la démarcation entre libre prestation de services et établissement.

Au cours des phases précédentes des travaux, il avait été proposé de faire appel, sur ce point, à des critères précis, relatifs à la nature de certains actes liés aux opérations d'assurance, au lieu d'accomplissement de ces actes, ainsi qu'à la qualité de l'agent opérateur, mais la définition de tels critères avait rencontré d'extrêmes difficultés. Le Groupe a donc abordé le problème différemment. Il a évoqué la possibilité, soit d'exclure toute définition des champs d'application respectifs de la première et de la deuxième directive, soit de fixer simplement les

termes d'une procédure à l'initiative de l'Etat de la prestation (proposition de la délégation allemande). Il a été également saisi, de la part du Service juridique du Conseil, d'une suggestion qui, sans fixer de critères de démarcation stricts, définirait certains principes directeurs permettant de caractériser les situations abusives, ainsi que les procédures à suivre pour y remédier.

Le Président ne peut que souligner l'intérêt que revêt, à ses yeux, la proposition du Service juridique. Elle permettrait de fixer, à l'usage des opérateurs et des assurés, certaines indications pratiques susceptibles d'orienter leurs décisions. Elle mériterait d'être étudiée avec attention, de même que la suggestion faite par la Commission d'instituer un comité consultatif chargé d'éclairer la décision de l'Etat de la prestation.

- b) Certains points n'ont enfin pas pu faire l'objet par le Groupe d'une étude suffisamment approfondie faute de temps. Il s'agit, essentiellement, de questions techniques, notamment celles relatives au transfert de portefeuille et au compte d'exploitation spécial, sur lesquelles les travaux du Groupe des questions économiques ont néanmoins permis, non seulement de clarifier les idées respectives des uns et des autres, mais également de formuler des textes dont l'étude devrait être poursuivie. Il s'agit également de la question des provisions techniques et du traitement de la réassurance (ce dernier point pouvant éventuellement faire l'objet d'une clause de sauvegarde).

.../...

A titre de conclusion provisoire, le Président considère que la poursuite des travaux du Groupe à "Haut Niveau", suivant un programme précis et éventuellement un échéancier, permettrait de réaliser des progrès significatifs dans la voie qui conduit, sur ce dossier, vers l'élaboration d'une solution globalement cohérente.

Bruxelles, le 29 mai 1984

7575/84	
	RESTREINT

ECOFIN 69
ECO 35

COMMISSION
ION
PRO-
POSAL

ETAT DES TRAVAUX (1)

du Groupe des Questions financières

n° prop. Cion 7717/83 et 4389/84

Objet : Financement communautaire de l'innovation dans les PME

I.

Introduction

1. En juin 1983, la Commission a proposé qu'une tranche spéciale du NIC III pour 100 mios d'Ecus soit destinée au financement de l'innovation dans les PME (docs 7717/83 et 4389/84).

Le Parlement européen, le Comité économique et social et la Cour des Comptes ont donné un avis favorable sur la proposition de la Commission respectivement le 14 décembre 1983, le 26 octobre 1983 et le 9 avril 1984 (docs 11389/83, CES 975/83 et 6468/84).

Le Parlement européen s'est réservé d'engager la procédure de concertation si le Conseil s'écarte de son avis (p. 17 de l'avis).

2. Le Conseil ECOFIN a examiné à deux reprises, le 6 février et le 2 avril 1984, la proposition de la Commission.

.../...

(1) Suite à la réunion du Comité des Représentants Permanents du 23 mai et du Groupe des Questions financières du 29 mai 1984.

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A cette dernière occasion, il a chargé le Comité des Représentants Permanents de poursuivre l'examen de la proposition à la lumière des orientations suivantes :

- a) le mécanisme aurait un caractère expérimental,
- b) dans un premier stade, en ce qui concerne la formule dite "transmission",
- les prêts ne seraient pas assortis d'un élément de subvention,
 - le profil d'amortissement du prêt serait néanmoins adapté pour tenir compte de la rentabilité différée des projets innovateurs,
 - les bénéficiaires prendraient partiellement en charge les risques liés à la garantie, sous forme d'une cotisation à un "compte de mutualisation des risques".

Le Conseil a demandé au Comité des Représentants Permanents de lui faire rapport pour sa session de juin afin de pouvoir délibérer définitivement sur cette proposition.

3. Suite aux discussions du Conseil ECOFIN, les services de la Commission ont étudié les aménagements qui pourraient être apportés à la proposition initiale de la Commission afin de restreindre le coût budgétaire du mécanisme sans le priver des éléments d'incitation nécessaires (doc. 6730/84).

Le schéma de fonctionnement de l'instrument résultant de ces aménagements est le suivant :

- a) Suivant la technique des "prêts globaux NIC", la BEI met à la disposition d'Intermédiaires financiers dans les Etats membres des lignes de crédit pour le financement de l'innovation dans les PME.

Le "prêt européen d'innovation" que la Communauté a ainsi accordé à l'Intermédiaire financier est, soit répercuté tel quel ("formule transmission"), soit transformé en une prise de participation dans le capital de l'entreprise ("formule transformation").

.../...

Dans un cas comme dans l'autre, l'Intermédiaire financier est tenu de fournir à l'entreprise un montant au moins égal au prêt d'innovation à valoir sur ses fonds propres. Le risque assumé par l'Intermédiaire financier est, par conséquent, au moins égal à celui assumé par la Communauté.

- b) Le prêt d'innovation n'est assorti d'aucun élément de subvention. Il est néanmoins assorti d'un différé de remboursement du capital et de paiement d'intérêt pour une durée qui ne devrait pas dépasser, en règle générale, 3 ans.
- c) La garantie des prêts est partagée entre la Communauté et les bénéficiaires. En cas de défaillance de l'entreprise bénéficiaire, la garantie du prêt est assumée, en premier ressort, par un compte de mutualisation des risques. Ce compte est alimenté par
- une cotisation des bénéficiaires égale à 1 % du capital restant dû et
 - une dotation initiale de la Communauté.

Si les avoirs de ce compte ne devaient pas suffire, ce serait le budget des Communautés qui devrait intervenir.

- d) Dans la formule "transformation", la Communauté demanderait, en contrepartie de la garantie qu'elle assume, une participation aux plus-values éventuelles réalisées par l'intermédiaire financier.

.../...

4. Le Groupe des Questions financières a examiné les 8, 14 et 29 mai 1984 les aménagements décrits ci-dessus.

Certaines délégations ont tenu à rappeler leur position de principe sur la proposition de la Commission. La délégation du Royaume-Uni a maintenu sa réserve quant à l'opportunité d'une action communautaire en ce domaine, compte tenu notamment des difficultés budgétaires de la Communauté. La délégation néerlandaise a formulé une réserve en raison de la situation budgétaire actuelle. Les délégations belge, hellénique et irlandaise ont confirmé l'accord qu'elles avaient donné à la proposition initiale de la Commission qui prévoyait à la fois une garantie communautaire pour les prêts d'innovation et une subvention sous forme de moratoire d'intérêt.

Quant aux aménagements étudiés par les services de la Commission, le Groupe a constaté qu'ils répondaient dans leur ensemble aux orientations données par le Conseil ECOFIN le 2 avril dernier.

Toutefois, les questions suivantes sont restées ouvertes :

- Quel doit être le montant de la dotation initiale de la Communauté au compte de mutualisation des risques ?
- Quel doit être le montant de la cotisation que les bénéficiaires doivent verser au compte de mutualisation des risques en cas de transmission ?
- Quelles doivent être les modalités de la formule "transformation" ?

Ces questions sont exposées ci-après sous II.

Le texte du projet de décision, tel qu'il résulte des travaux du Groupe, ainsi que les déclarations y afférentes, sont repris aux docs 7173/84 ECOFIN 64 ECO 29 + COR 1.

.../...

II.

Questions ouvertes

1. Montant de la dotation initiale de la Communauté au compte de mutualisation des risques

Toutes les délégations se sont déclarées d'accord pour que le compte de mutualisation des risques soit alimenté au départ d'une dotation à la charge du budget communautaire.

Les délégations DK, GR, IRL, I, NL se sont prononcées en faveur d'une dotation initiale de 12 mios d'Ecus (1).

Les délégations D, F, L, RU se sont prononcées en faveur d'un montant significatif qui tiennent néanmoins compte des problèmes financiers de la Communauté. Dans cet esprit, elles pourraient accepter un montant de 5 - 6 mios d'Ecus à verser au compte de mutualisation des risques dans le cadre du budget 1985.

La solution de compromis suivante a été évoquée :
dotation initiale de 8 mios d'Ecus à prévoir au budget 1985.

2. Montant de la cotisation que les bénéficiaires doivent verser au compte de mutualisation des risques en cas de "transmission"

D'après les services de la Commission, la cotisation à verser par les bénéficiaires au compte de mutualisation des risques devrait s'élever à 1 % par an du capital restant dû.

Les délégations allemande et du Royaume-Uni se sont prononcées en faveur d'un taux de 2 %. ~~La délégation allemande~~ ^{et ont} a suggéré que ce taux soit assorti d'une "clause d'adaptation" permettant de modifier le taux en fonction des coûts qui résulteront de la mise en jeu de la garantie communautaire.

.../...

(1) Le budget 1984 prévoit au chapitre 100 un montant de 12 mios d'Ecus pour le moratoire d'intérêt qui était initialement prévu par la proposition de la Commission.

Les délégations hellénique et irlandaise ont estimé qu'aucune cotisation ne devrait être mise à la charge des entreprises. La délégation irlandaise a toutefois fait observer que si une cotisation devait être demandée aux entreprises, elle devrait se situer autour de 0,50 %.

Les délégations B, DK, F, I, L, NL pourraient accepter le taux de 1 % proposé par la Commission. Certaines d'entre elles ont souligné qu'un taux plus élevé priverait l'instrument de son caractère d'incitation.

3. Modalités de la formule "transformation"

Cette formule prévoit la possibilité pour l'Intermédiaire financier de transformer le prêt européen d'innovation en une prise de participation dans le capital de l'entreprise.

Quant aux modalités de cette formule, l'examen a dégagé les trois tendances suivantes :

a) solution de la Commission

La Commission propose que

- l'Intermédiaire financier bénéficie de la garantie communautaire en cas de défaillance définitive de l'entreprise, moyennant versement d'une cotisation de 1 % au compte de mutualisation des risques sur le capital restant dû ;
- la Communauté participe, en raison d'un tiers, aux plus-values éventuellement réalisées par l'Intermédiaire lors de la cession des parts qu'il a acquises.

Les délégations B, F, IRL, I et L pourraient accepter cette solution.

b) transformation sans garantie communautaire, ni participation aux plus-values

La délégation allemande estime qu'en cas de transformation la Communauté ne devrait pas accorder sa garantie, ni demander une participation aux plus-values lors de la cession des parts. L'intérêt de cette formule résiderait dans la mise à la disposition des Intermédiaires financiers de fonds à des conditions intéressantes (taux d'intérêt, différé de paiement).

c) transformation sans participation aux plus-values

Les délégations DK, GR, NL et RU se sont prononcées en faveur de la garantie communautaire, mais contre la participation aux plus-values proposée par la Commission. Leurs positions diffèrent quant au montant de la cotisation de garantie à verser par l'Intermédiaire financier :

- la délégation du Royaume-Uni estime que la cotisation devrait s'élever à 2 % au moins du capital. En outre, la cotisation devrait être versée en toutes circonstances, aussi bien en cas de défaillance de l'entreprise qu'en cas de remboursement anticipé du prêt. ;
- les délégations DK et NL estiment que la cotisation pourrait se situer à un niveau moyen (1 - 1,5 %), à verser même en cas de remboursement anticipé du prêt, mais pas en cas de défaillance de l'entreprise ;
- la délégation GR estime que le taux de la cotisation de garantie devrait être le plus bas possible.

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(84)
309
FINAL

COM(84) 309 final

Brussels, 29 May 1984

cc Mr Litter
Mr Vinn
Mr Fitcher

PROPOSAL FOR A COUNCIL REGULATION

Amending regulation (EEC) No 682/81
concerning the Community Loan mechanism
designed to support the balances of payments of
Community Member States

(Presented by the Commission to the Council)

COM(84) 309 final

EXPLANATORY MEMORANDUM

Subject : Proposal for a Council Regulation.

Amending regulation (EEC) N° 682/81 concerning the Community loan mechanism designed to support the balances of payments of Community Member States.

At its meeting of 16 May 1983, the Council (Economic and Financial Affairs) instructed the Monetary Committee to examine the implications of the decision to grant a loan to France for the operation of the Community loan mechanism to support balances of payments, in the light of the principle of equal treatment of the Member States, taking into account the other relevant Community instruments, their aims and their specific effects.

Whatever the outcome of the normal procedure for reviewing the mechanism under Article 7 of Council Regulation (EEC) N° 682/81 of 16 March 1981, which is to be completed before March 1986, the Commission feels, on the basis of its own investigations and of the conclusions reached by the Monetary Committee, that the mechanism should be adjusted in three ways.

1. The ceiling should be raised

Despite considerable improvement, the external payments situation of the Member countries is still fragile and further efforts of adjustment are required to achieve greater convergence within the Community.

The Commission ought therefore to have means at its disposal that enable it to provide medium-term support to all Member States experiencing balance-of-payments problems and undertaking to apply appropriate policies to ensure the requisite adjustment. Two Community instruments are available for this purpose : medium-term financial assistance and Community loans. Although the arrangements for implementing the two instruments, and the degree of conditionality attached to them, are broadly similar, there is a major difference between the methods of

financing : MFA taps the Member States' foreign exchange reserves, while Community loans involve calls on financial markets. Consequently, there will be cases where, from the point of view of the recipient Member State and of the Community, one instrument is more appropriate to the circumstances.

As the margin available under the ceiling on the Community loan mechanism was reduced by two thirds as a result of the granting of a Community loan to the French Republic in May 1983, it is now appropriate to raise the ceiling on that mechanism. An increase in the limit on the outstanding amount of authorized borrowing to 8 000 million ECU would be commensurate with the possibilities of the market and would enable the Community, if necessary, to contribute significantly and in accordance with the principle of equal treatment to the adjustment efforts of the Member States.

2. A rule governing access by each Member State to the mechanism should be introduced

The principle of equal treatment for the Member States should mean that Member States applying to the Community authorities should, if their requirements for external aid and their domestic efforts to adjust are comparable, be entitled to comparable assistance. Consequently, the Commission feels that the raising of the ceiling could usefully be accompanied by the introduction of a rule similar to that provided for under arrangements for medium-term financial assistance governing access by each Member State. The Commission proposes that normally no Member State should be entitled to more than 50% of the amount available under the new ceiling.

3. The reference to the increase in prices of petroleum products should be deleted

When the Community loan mechanism was adjusted in 1981, the link between balance-of-payments problems serious enough to justify recourse to a Community loan on the one hand, and the increase in the prices of petroleum products on the other, had already been weakened. Although the balance-of-payments difficulties facing Member State at the moment are still, in several cases, indirectly due to recent energy shocks, it seems preferable for the future to refrain from associating the support mechanism with a single specific source of external difficulties. The Commission therefore proposes that the explicit reference to an increase in prices of petroleum products should be deleted from Article 1 of the Regulation governing Community loans.

PROPOSAL FOR A COUNCIL REGULATION

amending regulation (EEC) N° 682/81 concerning the Community Loan mechanism designed to support the balances of payments of Community Member States

THE COUNCIL OF THE EUROPEAN COMMUNITIES

Having regard to the Treaty establishing the European Economic Community, and in particular Article 235 thereof,

Having regard to Council Regulation (EEC) N° 682/81⁽¹⁾ of 16 March 1981 adjusting the Community loan mechanism designed to support the balance of payments of Member States,

Having regard to the proposal from the Commission, which has consulted the Monetary Committee,

Having regard to the opinion of the European Parliament⁽²⁾,

Whereas the Community Loan mechanism set up by Regulations (EEC) 397/75⁽³⁾ and (EEC) 398/75⁽⁴⁾ and adjusted by Regulation (EEC) N° 682/81 has proved effective;

Whereas the Community ought to be in a position to provide, on equal terms of access, medium-term support to any Member State experiencing balance of payments problems and undertaking to adopt an appropriate economic and monetary programme to ensure adjustment towards better convergence within the Community;

Whereas it is appropriate to introduce a rule governing access by each Member State to the Community loan mechanism;

Whereas balance of payments difficulties serious enough to justify recourse to the mechanism may be due to factors other than an increase in price of petroleum products, and whereas it is therefore appropriate to refrain in future from subjecting implementation of the mechanism to the pressure of a specific cause of external disequilibrium,

.../...

(1) O.J. N° L 73, 19.3.1981, p.1

(2) O.J. N°

(3) O.J. N° L 46, 20.2.1975, p.1

(4) O.J. N° L 46, 20.2.1975, p.3

HAS ADOPTED THIS REGULATION :

Sole Article

Council Regulation (EEC) N° 682/81 is hereby amended as follows :

1. In Article 1, the words "directly or indirectly related to an increase in prices of petroleum products" shall be deleted;
2. In the first sentence of Article 6, "6 000 million ECU" shall be replaced by "8 000 million ECU".
3. The following shall be inserted after the first sentence of Article 6 :
"Normally no Member State may borrow more than 50% of the borrowing authorized under this ceiling".

This Regulation shall be binding in its entirety, and directly applicable in all Member States.

Done in Brussels,

By the Council

29/5/84. BRIEF 7

IDA 7 SUPPLEMENTARY FINANCING

*See letter from Clauwa
Immediately below.*

Objective

To speak privately to Herr Stoltenberg to encourage the Germans to participate in the £3 billion supplementary financing operation for IDA.

Points to make

2. The £9 billion IDA 7 is now in place, but it is not really enough and we need to consider the £3 billion supplementary fund.
3. HMG continues to be willing to participate (on the basis of fair burden sharing). We regard IDA as one of the most effective means of channelling development resources to the poorest countries.
4. Appreciate the difficulties facing the Germans, including competing claims on limited resources, but note in particular that EDF VI need not be as large as the Commission propose.
5. Nevertheless, note that the Germans (like the UK) originally supported a figure of £12 billion for IDA 7, and hope they will join us in the £3 billion supplementary fund now required to reach this total.

Background

6. US/Japanese differences over the liberalisation of Japanese capital markets were resolved last month, and this cleared the way for the formal adoption of the £9 billion IDA 7 (and the IBRD selective capital increase).
7. We believe that £9 billion is not enough (IDA 6 totalled £12 billion) and have announced our willingness to participate in a supplementary fund to bring the total as near as possible to £12 billion.
8. Among other G5 countries, we know that the French would participate. The Americans would not participate at this time, and this would leave 25 per cent unsubscribed. The Japanese have linked their position to the Americans, in effect ruling themselves out at present too.

IDA 7
SUPPLEMENTARY
FINANCING
COUNCIL

9. The Germans have withdrawn from their original commitment to a total of \$12 billion, for reasons which include adverse exchange rate movements and budgetary constraints. In particular, they see a link between this and the next European Development Fund (EDF) replenishment under Lome III, and would give the EDF higher priority than us.

10. The Germans are rather sensitive on this issue, but the UK stands to gain credit by being seen to favour a supplementary fund, and so the pressure on the Germans should be maintained. Until recently we had assumed that if the Germans could be persuaded the Japanese might follow, but we have now learned that, as part of their recent negotiations with the US, the Japanese are committed not to contribute unless the US does, and both countries have expressed the view that there is no need for a supplementary fund if the basic \$9 billion is focussed on the most needy countries.

PERSON-
ALITY
NOTES

29/5/84

Fiscal Matters

Presidency compromise

We could accept all of this compromise package.

We are not particularly enthusiastic about any of the measures as you will have seen from the briefing. We should avoid unrealistic deadlines (see VI.1)

It seems likely that Netherlands will object to the arrangements proposed for German withholding tax (III).

Germany will probably object to the lack of reference to the Court of Justice in the arbitration procedure (IV).

Denmark will have an overall reserve (because the Folketing Market Committee wishes to examine the proposals in detail) and Greece has a general reserve and may treat us to a discourse on their specific problems.

29/5/84.

SUBJECT: TAX MEASURES TO ENCOURAGE COOPERATION
BETWEEN UNDERTAKINGS IN DIFFERENT MEMBER
STATES

RELEVANT DOCUMENTS: 7444/84 7445/84

UK OBJECTIVE: To get the details right.

LINE TO TAKE: The documents mention three proposals
- mergers, parents & subsidiaries and
arbitration. Notes on all three are
attached plus a note on prior information
which may also be discussed. All four
proposals are fairly peripheral to greater
business cooperation within the Community.
The UK is not enthusiastic about any of
these proposals but neither are we opposed
provided the details can be got right.
Each of the proposals has been around for
several years at least and the UK should
oppose any deadlines which appear artificial
or hasty.

AGENDA
ITEM
5

SUBJECT: PROPOSED COUNCIL DIRECTIVE ON
A COMMON SYSTEM OF TAXATION APPLICABLE TO
MERGERS ETC BETWEEN COMPANIES OF DIFFERENT
MEMBER STATES

RELEVANT DOCUMENTS: 7444/84 (FISC 53 PARAS I & II)
7445/84 (FISC 54)

UK OBJECTIVE: To ensure the terms of the Directive do not place UK companies at a disadvantage with their competitors in the community.

LINE TO TAKE: The UK would be pleased to make progress on the Directive if the major reservations of Germany can be resolved within the terms of our objective. The two German reservations are likely to be discussed at the ECOFIN meeting. These are:-

- (i) What safeguards should be included within the Directive to protect worker participation rights in Germany ("Mitbestimmungsrecht").

The UK has no strong views on this German reservation but we prefer the safeguard provided in Article 14 as drafted by the Commission.

- (ii) What conditions need to be fulfilled for an exchange of shares to be a merger within the scope of the Directive.

We would prefer all exchanges of shares resulting in a participation level of 51% of the ordinary share capital to be a merger within the scope of the Directive. However, we could accept the compromise suggested by the Commission that a merger occurs when a majority of voting rights are acquired following an exchange of shares.

BACKGROUND NOTE

OBJECTIVE OF THE DIRECTIVE

1. The Directive aims to remove tax barriers to mergers and divisions of companies within the Community. Payment of capital gains tax would be deferred until gains were actually realised. However, there would be consequential changes in the treatment of mergers within the UK and some legislation may be needed.

HISTORY

2. The proposal was tabled in 1969 and revised in 1980. It has been discussed many times in the Working Party on Financial Questions and in COREPER especially under the recent French Presidency.

3. Progress has been held up because -

a. the Dutch fear that their industry may be taken over by the Germans; and

b. German fears that their special arrangements for worker participation rights would be put at risk.

UK ATTITUDE

4. The Directive would be of little practical value to the UK and was greeted with no enthusiasm by the CBI etc. Also, international mergers are not occurring as frequently as when the proposal was first tabled.

WORKER PARTICIPATION RIGHTS: DETAILS

5. The Commission have provided a safeguard to Worker Participation rights in Germany in Article 14 whereby the tax advantages of a merger can be withheld when the principal aim is to remove the participation rights of workers in the new enterprise or new parent company. The Germans want this safeguard worded so that the tax advantages are withheld when the effect of the merger is to remove those worker participation rights.

We do not favour the German suggestion because -

- a. Companies would need to be fully acquainted with German domestic law; and
- b. the benefits of the Directive will, to some extent, be dependent upon the scope of German legislation on participation rights; and
- c. it would place UK companies at a disadvantage as they would have to fulfill a further condition under the Directive not present when a German company takes over one resident in the UK.

EXCHANGES OF SHARES: DETAILS

6. It has been agreed to include exchanges of shares (the most common form of UK merger) within the scope of the Directive provided it results in a participation level of 51% of the ordinary share capital. Germany has wanted a participation level of not less than 90% which we have strongly resisted as it would exclude virtually all mergers involving UK companies. Indeed, the 51% level is higher than our domestic legislation which provides for a deferment of tax following a participation level of 25%. The Commission has proposed a compromise solution whereby exchanges of shares fall within the Directive when the exchange results in the acquisition of the majority of voting rights.

7. We have not had the time to discuss the implication of the Commission's proposal with the CBI and it may have undesirable implications compared with the 51% participation level. However, we believe that takeovers by joint ventures and consortia will still be possible if the Commission's proposal is included within the Directive.

SUBJECT : Proposals for a Directive on the common system of taxation applicable to parent companies and subsidiaries.

RELEVANT DOCUMENT : 6529/84 FISC 46

UK OBJECTIVE : The UK's original objectives have been achieved. The only matters remaining are fairly minor. The aim is to settle these as straightforwardly as possible.

- LINE TO TAKE :
- The UK welcomes the changes to allow Member States to choose between the credit and exemption methods for relieving double taxation under the directive.
 - On the German difficulty over withholding tax, we accept the principle that Germany should be allowed to retain some part of its withholding tax to compensate for the difference between the rates of tax applied to distributed and non-distributed profits. We could accept a compromise of any figure between 0 and 15 per cent provided it is acceptable to other members. Because of difficulties in collecting meaningful information we are not enthusiastic about formal biannual reviews to determine an appropriate rate. But we have no objection to some more informal ad hoc review if the other members think one necessary.
 - Other suggestions of withholding taxes being applied by other members to dividend remittances to German companies unnecessarily complicated, and inappropriate. But if necessary we can accept provided the Germans do not retain a rate in excess of 15 per cent.

DEFENSIVE

- [If the French raise the point] it is neither necessary nor desirable for Member States to commit themselves now to a particular method for relieving double taxation under a system of full harmonisation. That will depend on the form which harmonisation eventually takes.

- [If the point arises] UK ACT is not a withholding tax. It is genuinely an advance payment of corporation tax to be set off against the company's final liability at the end of the year. It is not an additional tax and applies to the company, not as a tax on the shareholders. As a separate matter, we do in some cases pay a tax credit equal to one-half of the ACT deducted from UK dividends paid overseas, but that is done in the context of individual double taxation agreements.

/BACKGROUND NOTE

BACKGROUND NOTE

PURPOSE OF THE DIRECTIVE

1. The Directive aims to remove tax obstacles to the formation of groups of companies within the Community. It does so by proposing a common system to deal with dividends paid from a subsidiary in one member state to a parent in another. The main proposals are:-

- a. dividends paid by a subsidiary would be exempt from any withholding taxes;
- b. dividends received by a parent would be exempt from corporation tax in its hands.

UK OBJECTIVE

2. The UK is not enthusiastic about this proposal (we believe it is fairly peripheral to greater business co-operation with the Community).

3. There were two potentially very difficult points under consideration for the UK, but these have been successfully resolved:

- i. A compromise has now been proposed which allows countries to use either the credit or exemption method of double taxation relief. Originally it was proposed that only the exemption method should be allowed. This was important to UK because we use the credit method.
- ii. That UK Advance Corporation Tax (ACT) should not be treated as a withholding tax. This issue has been successfully avoided.

MAINPOINT OUTSTANDING

4. All member states accept that because Germany has a two-tier company tax regime (with a higher rate for retained profits than for distributed profits) it is right in principle that the Germans should be allowed to retain some part of their withholding tax to compensate for the difference between the two rates of tax. The question is, how much. The German position is that they are prepared to go as low as 15 per cent (the rate offered in their double taxation agreements), but no lower - and with no refund where the foreign parent distributes the dividend it has received. The German argument is that to go any further would mean putting a foreign parent of a German subsidiary at a competitive advantage compared to a German parent.

5. Matters rest with suggestions that the rate of withholding tax should be set at 15 per cent as a temporary measure; it would then be reconsidered within five years of the Directive's implementation. Alternatively other countries should in turn withhold tax from dividends paid to German parents.

UK ATTITUDE

6. We can accept a figure of 15 per cent or less (if one can be agreed). We have no objection to the matter being reviewed after a few years, provided we do not need to provide details of the proportion of dividends received from German subsidiaries which are redistributed by the parent. This is because the information obtained is not likely to be very accurate and so does not seem to warrant the amount of work involved in obtaining it.

7. The variations which allow a Member State to maintain a withholding tax on dividends paid to German parents appear to defeat the purpose of the Directive. They also seem an unnecessary complexity. However, provided the figure of withholding tax retained by the Germans does not exceed 15 per cent we have no objection to either of these if agreement cannot otherwise be reached.

8. There are a number of more detailed points which have been touched on in the Working Group, but which may not yet have been resolved to the satisfaction of all Member States. If any other Member States were to suggest that it would be helpful to look more carefully at technical points of this kind, we would support them.

SUBJECT: (IV) PROPOSAL FOR A DIRECTIVE ON THE ELIMINATION OF DOUBLE TAXATION IN CONNECTION WITH THE ADJUSTMENT OF TRANSFERS OF PROFITS BETWEEN ASSOCIATED ENTERPRISES (ARBITRATION PROCEDURE)

RELEVANT DOCUMENT: 7444/84, point IV.

UK OBJECTIVES: The UK, in common with other Member States, is not enthusiastic about this proposal, and is unconvinced that an international arbitration procedure is really necessary: but, provided the details are got right, the UK is not opposed to the idea. Detailed discussions are continuing at Working Party level and we are prepared to work for a practical solution.

LINE TO TAKE: Two issues are likely to come up at the ECOFIN meeting:-

(i) Should the procedure be established by a Directive or by a multilateral convention signed by all Member States?

The UK and some other States doubt that the Commission has power to propose a Directive (there are worries about the precedent for extending the Commission's powers); and anyway questions whether a Directive is an appropriate instrument to set up and regulate a supranational body arbitrating between member States, since a Directive has to be implemented by member States individually and the arbitrating body has to be regulated by international agreement. For these reasons the UK is opposed to a Directive and favours a convention.

(ii) Should the European Court be able to review procedures and decisions of the arbitrating body?

The UK wants time to consider further the implications of giving the European Court such a role: but we are opposed to involving the European Court in the details of particular tax cases referred to arbitration and have grave reservations about even involving it in procedural matters.

BACKGROUND:

This proposal was tabled in November 1976. There have been a number of meetings in Brussels to discuss the terms of a multilateral Convention but it is difficult to get agreement between all Member States. The UK is willing to continue these discussions in the hope of producing an acceptable alternative to the draft Directive.

SUBJECT: DRAFT DECISION ESTABLISHING A PRIOR INFORMATION AND CONSULTATION PROCEDURE FOR TAX MATTERS

RELEVANT DOCUMENT: NONE, but advised by UKREP that this will be on the agenda.

UK OBJECTIVES: The UK is opposed to the proposed Decision. It would give the Community a formal role in domestic tax policy, and, despite the safeguard for "urgent" changes, could fetter the UK's ability to introduce tax measures with immediate effect. Where a change was to take effect from eg Budget Day or the start of the tax year, it might have to be disclosed to the Commission and other Member States' tax authorities before it was announced to Parliament; this would conflict with Budget secrecy and Parliament would be likely to object. The proposal would also constrain the timetable for Budget decisions.

The UK is also concerned about the wording of the proposal, which might arguably confer powers on the Commission and the European Court to review tax measures and their manner of implementation. There has been no detailed discussion on the text of the Decision, and it is important that our worries should be cleared up.

LINE TO TAKE: Since this proposal has never been brought before a working party or COREPER meeting for proper consideration this is likely to be a procedural item. The Commission may ask for a decision ~~but~~ the Presidency is unlikely to pursue and the UK considers that discussion by the appropriate committee is required before any decision can be reached.

BACKGROUND:

This proposal was tabled in December 1981 but no Presidency has been persuaded of its necessity. The UK's objections are shared by other Member States and, early in 1982, the German Bundestag's tax committee voted unanimously that the government should reject the proposal.

EC FINANCE COUNCIL: 4 JUNE

29/5/84.

PREPARATION FOR THE LONDON SUMMIT

EC
FINANCE
COUNCIL
416

Points to make

(i) Preparations for summit now being finalised. As host country UK welcomes discussion. Community will be represented by President of the Commission *M. Orkeli*

(ii) Recovery has been stronger and inflation is now lower than many expected. Forecasts suggest growth should continue next year. But wrong to be complacent. No further general decline in inflation expected. Recent rises in US interest rates threatens recovery and worsens developing countries debt problems. Unemployment and structural problems persist.

(iii) Summit leaders will need to demonstrate that these problems can be tackled and recovery turned into durable growth. Main elements of strategy should be:

(a) continued adherence to prudent macro-economic policies with firm monetary control and action to put fiscal deficits onto a sustainable basis.

(b) Firm US commitment to tackle its budget deficit. Others with high deficits also need to pursue a firm fiscal stance.

(c) Liberalisation of capital markets important both for efficient international allocation of investment and for ensuring major currencies play their appropriate roles.

(d) Reaffirming and developing debt strategy agreed at Williamsburg. Proposals include restructuring debt maturities, larger role for IBRD and greater direct and portfolio investment in developing countries.

(e) Maintaining momentum of Williamsburg to rollback protectionism. Real results needed from phase 2 of OECD initiative, where progress can be made in advance of a new GATT round. [If appropriate: UK supports moves to limit/phase out mixed credits and similar trade distorting transactions.]

(f) Promoting structural adjustment, especially more flexible operation of labour markets and reducing share of GDP accounted for by public spending.

(g) G10 Ministers aim to complete discussions on international monetary reform by first half 1985. Await interim report to Summit. UK view that prudent policies essential for stable system. Attach importance to effective surveillance of major countries policies.

(iv) Do not believe global negotiations should figure in Summit discussions. Expect Summit to focus on major issues of substance affecting developing countries rather than process.

Background

The Commission is submitting a paper to the Summit though it is not to be tabled at this meeting. It reviews the world economic background, discusses international debt and emphasises the need to safeguard the open trading system. The recommendations are for the most part close to the UK approach to the Summit. But it makes a thinly disguised pitch for a conditional SDR allocation. Our view is that a decision on an SDR allocation is for the September Interim Committee and is an inappropriate item for the Summit.

2. Preparations for the London Summit are nearing completion. The final version of the thematic paper was agreed by personal representatives at Chevening on 20-21 May although the Americans still have reservations. The Summit briefs of interest for this meeting are FMV(84)3, 4, 5 and 6 covering respectively the world economy, international monetary matters, trade, international debt and developing country issues.

3. Forecasts for growth in Summit countries this year have been revised up to 4-4½ per cent followed by 3-3½ per cent in 1985. World trade growth is put at 6 per cent this year and next. Further falls in US unemployment together with the possibility of some decline in Germany and the UK contrasts with a continuing rise in unemployment elsewhere in Europe. Higher US inflation is liable to offset any further decline in Europe this year.

4. Prospects for sustaining recovery depend particularly on the future course of interest rates and progress on containing inflation. The rise of 1½ points so far this year in US short and long term interest rates is a major concern.

5. We shall be seeking continuation of the broad general medium-term macro-economic strategy of prudent monetary and fiscal policies which has been agreed by successive Summits. It was endorsed again by the IMF's Interim Committee at their April meeting and at last ~~week's~~
Minist's OECD Ministers' meeting on 20-21 May.

6. The US, Germany, France and the UK have all announced lower monetary targets for 1984 which should be consistent with containing inflation. Credit, however, is rising rapidly in the US, and this seems to have prompted the Fed to adopt a firmer line - although recent difficulties with Continental Illinois and other US banks may have curtailed the Fed's room for manoeuvre.

7. In the US attention is focussing on a budget deficit reduction package worth around \$150-180 billion over fiscal 1985-87 but with most of the savings in later years. Consensus on expenditure, particularly defense, is proving elusive. Even if some agreement emerges, further measures, including higher taxes if necessary, will be required after the election.

8. A progressive reduction in the US budget deficit and easing of interest rate pressures would improve the prospect for an orderly adjustment of the dollar. We also wish to see a stronger yen. Both would contribute to a more stable exchange rate pattern.

9. The recent financial liberalisation package (announced by Japan on 30 May) could help towards enhancing the yen's international role. In the longer term such liberalisation would be an influence encouraging a stronger yen. The package marks the final report of the US/Japan talks on the yen/dollar problem. It meets some but not all of the concerns raised by the US and others.

10. Liberalisation of capital markets in developed economies generally would for example lead to a better global allocation of savings. France, Italy and Japan still have major restrictions. Reducing restrictions on capital flows generally might help to persuade developing countries to be more receptive to inward investment. This, in turn, could contribute towards resolving debt problems.

11. Proposals to develop the existing debt strategy include in the short term; restructuring debt maturities and encouraging debtors to accept increased investment in existing assets. In the longer term; continued support for the IMF, a greater IBRD role in development finance and increased direct and portfolio investment could contribute. The pros and cons of the many schemes which have been suggested to help debtors (such as interest rate capping) and to put banks' balance sheets on a more sustainable basis (eg a secondary market in developing countries' debt) are under consideration.

12. OECD Ministerial gave only lukewarm approval to parts of the Secretary General's proposals for phase 2 of rollback. It seems increasingly likely that phase 2 of rollback will not yield substantial results, with a number of countries preferring to concentrate on the proposed new GATT round. The Summit provides an opportunity to give the rollback initiative some much-needed momentum. ES agreed that the Summit should give impetus to existing GATT work programme so as to pave the way for new round, and this is reflected in the draft Economic Declaration.

13. Unsatisfactory outcome on mixed credits at OECD Ministerial; it is difficult to see further progress at the Summit, but the matter might be raised as part of discussion of market distorting subsidies constituting barriers to the creation of new jobs.

14. Two particular aspects of structural adjustment on which the UK will wish to focus at the Summit are: the need to reduce public expenditure as a share of GDP and to promote greater industrial flexibility especially in labour markets.
15. There is some general concern in the OECD over the growth of public expenditure and particularly the rapid rise in social spending which now accounts for 60 per cent of the total. The US, Japan and the UK have already recognised the strains on social security budgets. Other European governments are taking measures in their budgets to curb social expenditure growth but they seem not so far at least to have considered it in the longer-term context.
16. Rising employment in the US compared to stagnant employment in Europe underlines the need for greater labour market flexibility in the Community. The recent OECD Ministerial meeting decided that OECD should strengthen its appraisals of adjustment policies in member countries.
17. We expect no radical changes to result from the G10 Deputies' discussion of international monetary reform. As this could be disappointing to some it could be helpful if the Summit decided how the final report should be handled. The obvious best solution seems to be a special meeting of the IMF Interim Committee.
18. Mexico and Algeria have asked the UK and other participants to consider global negotiations at the Summit. G77 are divided on GNs. The US are not interested. We are content to see them die but Germany and France are more enthusiastic. (Not for use: personal representatives have agreed GNs should not be on the Summit agenda.)

EUROPEAN INNOVATION LOANS

29/5/84

EURO-
MEAN
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ATION
LOANSRelevant documentUK Objectives

To oppose the Commission's proposals mainly on grounds of principle but also on grounds of budgetary cost, and/^{to} seek to terminate discussion.

Line to take

At April ECOFIN Presidency (Delors) suggested little point in undertaking further work if a compromise could not be achieved by June Council. UK representatives, while maintaining our general reserve, have participated in further discussions on a possible compromise proposal, but now clear wide disagreement remains.

2. We believe time has come to recognise that it will not be possible to reach agreement on a suitable proposal. Needs of individual states differ widely. Unrealistic to believe a Community-based scheme can meet needs of all member states. Action at Community level best, directed towards liberalising EC capital markets since this is more likely to stimulate innovatory activity.

3. Remain concerned about likely call on Community budget. Doubt whether even a 2 per cent premium would cover cost. UK experience with our national Loan Guarantee Scheme for small firms relevant. Although this was intended to be self-financing has proved very costly. (Losses about £40 million to date). Have recently announced premium is to be increased to 5 per cent. to cover losses. More sanguine views of likely losses under Commissions proposals in our view unrealistic, but if achieved would imply lower risk and hence non-additional investment.

4. Proposal that in successful transformation cases, ie where loans transformed into equity, one third of profits should be repaid to Commission totally impracticable. There is not sufficient uniformity in capital markets of member states at present time to make it worth considering anything along these lines. Proposal also raises major problems of timing and evaluation of equity which we believe will prove insuperable.

Discussion of this proposal should now be terminated.

If Commission wishes to examine scope for encouraging innovatory activity it should undertake study of what is done at national level and contribution more liberal capital markets can make to achieving this objective. UK remains willing to consider whether EIB could do more lending at market rates of interest in support of advanced technology projects/venture capital companies, but should be looked at as separate proposal.

BACKGROUND

At April ECOFIN UK again expressed serious reservations about EIL proposal on grounds of principle and budgetary cost. Much discussion at official level since then but no agreement on compromise. Some countries (eg Greece) still in favour of something like original scheme. In view of wide disagreement on EIL proposal and fears about budgetary cost we do not think other member states will take it badly if UK vetoes further discussion of these proposals.

2. Main features of the Commission proposals^{as} now tabled are as follows:

- (i) loans up to a ceiling of 100 MECUS;
- (ii) EIB will manage the scheme;
- (iii) loans will be made to intermediaries who will have the choice of either passing them through as loans to the ultimate borrower matched by loans on similar terms and equivalent amounts on the intermediaries own account (transmission) or passed on in the form of equity again matched by a similar subscription by the intermediary (transformation);
- (iv) all loans to be subject to a guarantee premium of 1 per cent of principle outstanding;
- (v) in successful transformation cases, the intermediary will repay to the Commission one third of the profit made on the Community tranche of the equity provided, and the Commission will repay the relevant guarantee premium to the intermediary;
- (vi) there will be a moratorium of up to three years on payment of interest and repayment of principal recoverable over the life of the loan;

(vii) the Community will make available a sum of up to 12 MECUs to fund any guarantees called, supplementing premium income;

(viii) there will be recourse to the Community budget if the funds available to meet all guarantees are inadequate at any time.

3. We continue to believe a Community-based scheme of this kind would make greater demands on the Community budget than has been recognised and offers poor value for money. The Commission have not looked at small and medium enterprises, nor the extent to which their financing needs vary from state to state, nor whether there is sufficient commonality of financial intermediation methods to warrant a single scheme, nor established how additionality is to be achieved, nor defined innovation adequately. Tactically, it will probably be best to oppose the scheme mainly on grounds of principle and cost-effectiveness. Our main worry about the budgetary cost is not so much the initial endowment but the contingent liability on the EC budget.

Other delegations' positions

4. Not surprisingly the Greeks and Irish favour something like the original proposal, but seem prepared to go along with a compromise proposal as would the Belgians, French, Danes and Italians. The Germans and Dutch are not enthusiastic about the Scheme, but would probably go along with a compromise proposal. In the case of the Germans and probably the Dutch this would almost certainly involve raising the premium to 2 per cent and dropping the transformation option. Despite the apparent willingness of other countries to agree on a compromise proposal, most other delegations consider the Commission's proposals suffer from serious defects and would probably not be unduly worried if there is no further discussion of the proposal.

Fallback position

5. We have, as you requested, considered whether there is a 'safe' fallback position which you could put forward in the certain expectation that it would not be adopted. Our judgement is that

The only fallback position which can be regarded as completely safe is one which is seen by other member states as clearly designed to prevent further discussion. This would raise hackles. A major difficulty here is that even suggesting alternative proposals for consideration could lead others to believe the UK might finally accept a compromise whereas our main objective must be to make it clear we do not believe a satisfactory compromise is possible.

EIB loans

6. In previous discussions the Germans have raised the possibility of using NIC money to extend EIB lending to venture capital companies. If the Germans put forward this proposal again we would see some benefit in saying that the UK is prepared to consider this possibility on a without prejudice basis. But, if you do so we suggest you make it clear, as suggested in para 5 of the main brief, that this proposal is best regarded as a separate matter. Otherwise you may be asked why you are prepared to agree to further discussion of lending by EIB but not the Commission's proposals for EILs. You will want to be aware that EIB lending would involve no guarantee premium or interest rate subsidy though because of the risks involved it might still be necessary to have a pour memoire entry in the Community budget. Part of the attractions of lending under this facility has been the availability of exchange risk cover through our exchange risk cover scheme. This scheme is currently under review and Treasury officials are concerned about contingent liabilities because premium income from the scheme does not cover the guarantee cost of providing exchange risk cover. One option under consideration is to terminate the scheme. So the German idea might turn out to be of little interest to UK participants.

29/5/84

INFORMAL
ECOFIN
12/5

INFORMAL ECOFIN : 12 MAY

COMMUNITY LOAN MECHANISM/MEDIUM-TERM FINANCIAL ASSISTANCE

There have for some time been competing ideas for amending elements of these two forms of mutual balance of payments assistance within the Community. Discussion is expected at ECOFIN on 12 May.

Medium-Term Financial Assistance (MTFA)

2. This scheme, set up in 1971, requires on qualified majority agreement that all other member states should lend to one of their number in serious balance of payments or foreign exchange reserve difficulties. The main features are :

- the total facility has a ceiling of 14.37 billion ecu;
- contributions are quota-determined, the UK maximum share being 3.105 billion ecu;
- no member state may borrow more than one-half of the total facility;
- a contributor may claim exemption either at the outset or during the term of a loan on grounds of its own serious balance of payments or foreign exchange reserve difficulties (the UK did so in the only use of the facility hitherto), a loan to Italy in 1974). But exemption requires qualified majority approval by the Council and the economy of the exempted country is put under surveillance by the Monetary Committee.
- "IMF-type" conditions are in principle applied. In practice these were not particularly effective in the 1974 case.
- any UK contribution (and this applies to a number of other Community countries) would have to be treated

domestically as public expenditure, and might therefore involve a very lumpy call on the Public Expenditure Reserve, or even an increase in that Reserve.

- the public expenditure/^{treatment}is a reflection of the fact that (unlike Germany) we do not accept our MTFAs contributions as part of our reserves. Our low net reserves position and corresponding need for a high degree of liquidity rule this out.

Annex A below is the text of the MTFAs Decision.

Community Loan Mechanism (CLM)

3. Set up in 1975, this empowers the Commission, on a unanimous decision of members, to borrow in the markets in the name of the Community and on-lend to a member state seeking assistance. The main features are :-

- the facility is limited to a total of 6 billion ecu;
- there is no limit on the potential claim of a borrower, except what the others will agree;
- the most recent borrower, France, was accorded a loan of 4 billion ecu in 1983. (Ireland and Italy have also borrowed in the past).
- the governing regulation allows, in weak terms, for some conditions relating to economic policy and performance of the borrower, but does not require them;
- Commission borrowing under the scheme is guaranteed contingently by the Community Budget (since 1981); this creates only a relatively remote contingent liability on member states, and the implications are nowhere treated by member states, including the UK, as actual or contingent domestic public expenditure.

Annex B below is the text of the CLM Regulation.

Problems and Proposals

4. The main problems are :-

- the large proportion of the CLM pre-empted by France last year has prompted widespread desire to raise the permitted total of the facility - to at least 8 billion ecu which would have the effect of making the French share retrospectively one-half. (Germany in particular has resisted; Netherlands and UK have played hard to get);
- there is a strong undercurrent of feeling that the extent of pre-emption by any one country should for the future be limited; most sensibly to one-half as in the other scheme. But this can only be done now if the total is increased;
- the financially stronger countries have argued that tougher conditions should be applied to the Community Loan Mechanism, on a par with those applied to the other scheme. (Other countries have ^{rightly} responded that there is nothing to prevent this under the CLM regulation).

Both schemes are in any case due to be reviewed, that of the MTEFA at the end of this year and the CLM in 1986. But the French are keen to get a decision on increasing the CLM ceiling during this Presidency.

5. Germany has recently tabled a proposal supported by the Dutch, see Annex C, for combining the two facilities. Briefly, they envisage that borrowing countries would no longer be able to choose between the two facilities, but would have to make a mixed drawing on both. In addition, the CLM could be used to substitute for MTEFA money when contributors to the latter asked to be exempted. The Germans' proposed reasons are to avoid a large increase in the CLM ceiling and to help countries for whom the MTEFA causes public expenditure problems. But the real object is to impose greater discipline.

6. Other Member States are unhappy about the German proposal and it seems unlikely to prosper. We have sympathy with the German desire to strengthen the conditionality of the CLM, though we doubt whether the wording of the Regulation is really crucial. But their proposal does not remove our difficulties with the use of the MTEFA.

Our contributions would still have to count as public expenditure and, if the MTFA were used, we would face an awkward choice between depleting our liquid reserves (unless we increased our borrowing to make up the difference) and publicly asking to be exempted on the grounds that our reserves were inadequate. It is clearly preferable to avoid this dilemma by agreeing to a modest increase in the CLM.

Line to Take

7. We suggest you support others in resisting the German proposal. (You could point out that, it would hardly add to confidence in Member States' policies if half or more of them had to ask to be exempted from contributing to an MTFA call up. As a counter-proposal, to meet the German point, you could suggest that the CLM regulation should be revised to bring its conditionality provisions in line with the MTFA. (At the very least the Council should be asked to confirm its intention to apply the conditionality provisions of the CLM effectively, where necessary by making loans available by tranches).

8. There is likely to be general pressure to increase the total of the Community Loan Mechanism to at least 8 billion ecu. The UK would not want to stand alone in opposing this, but you might suggest accompanying an increase by three parallel changes, in the following descending order of importance :

- future access to be restricted to one-half of the total for any borrowing country;
- stronger conditionality, as already suggested above.
- sympathy with a Dutch proposal to reduce the ceiling of Medium-Term Financial Assistance by a corresponding amount (although it would be hardly worth pressing this against strong opposition or if the Dutch do not pursue it).

9. Finally, as a procedural matter, if there seems to be no immediate hope of resolving the outstanding problems simply and quickly, you could suggest bringing forward the reviews of both mechanisms, so as to conduct them simultaneously this autumn. (This would give some prospect of rationalising the two facilities and removing some anomalies between them).

ANNEX A

II

(Acts whose publication is not obligatory)

COUNCIL

COUNCIL DECISION

of 19 December 1977

amending Decision 71/143/EEC setting up machinery for medium-term financial assistance

(78/49/EEC)

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community, and in particular Articles 103 and 108 thereof,

Having regard to the report from the Monetary Committee of 15 November 1977,

Having regard to the proposal from the Commission,

Whereas the detailed rules for granting medium-term financial assistance should be altered so as to improve financial solidarity between the Member States;

Whereas for this purpose the Member States' commitment ceilings should be doubled and, at the same time, the rules governing the conditions to be attached to the assistance and to the supervision of the agreed conditions should be altered; whereas, moreover, the commitment ceilings and the operations granting assistance should henceforth be expressed in European units of account,

HAS ADOPTED THIS DECISION:

Article 1

Council Decision 71/143/EEC of 22 March 1971 setting up machinery for medium-term financial assistance⁽¹⁾, as last amended by Decision 75/785/EEC⁽²⁾, is hereby amended as follows:

⁽¹⁾ OJ No L 73, 27. 3. 1971, p. 15.

⁽²⁾ OJ No L 330, 24. 12. 1975, p. 50.

1. Article 3 shall read:

Article 3

1. When mutual assistance is granted the Council shall, acting in accordance with the procedure laid down in Article 1 (1), determine what undertakings aimed at restoring internal and external economic equilibrium the recipient Member State must enter into, taking account of the quantitative guidelines on medium-term economic policy, and shall fix the amount and terms of credit, in particular its duration and the rate of interest which it shall bear.

Normally no Member State may draw more than 50 % of the total credit ceilings.

2. To ensure compliance with the conditions of economic policy, resources made available should, so far as possible, be paid in successive instalments, the release of each instalment being conditional on a review of the results obtained when compared with the targets set in the Decision granting the assistance. The Council shall, acting in accordance with the procedure laid down in Article 1 (1), decide on the release of instalments.

3. On the initiative of the Commission or any Member State, the Council shall, acting in accordance with the procedure laid down in Article 1 (1), decide that a Member State which is a debtor in respect of medium-term financial assistance shall repay in advance the debt owed either in full or in

ANNEX
A

part in so far as the conditions which brought about recourse to the system no longer obtain.

4. Credits under this system shall be granted for a period of between two to five years. The financing of each operation shall be carried out by the participating creditor countries in proportion to their obligations still outstanding.

5. The claims and obligations arising from the implementation of mutual assistance shall be expressed in European units of account as defined in Article 10 of the Financial Regulation of 21 December 1977 applicable to the general budget of the European Communities⁽¹⁾. The equivalents in national currency shall be fixed on the basis of the daily conversion rates at the due date of each operation relating to medium-term financial assistance.

2. Article 4 shall read:

'Article 4

1. When financial assistance is granted in accordance with Article 3, any Member State which maintains that difficulties exist or can be foreseen as regards its balance of payments and/or that there is persistent deterioration of its reserves shall not be exempt from contributing either in whole or in part to the financing of that operation unless the Council, acting in accordance with the procedure laid down in Article 1 (1), shall take a decision that the exemptions in question are justified. It shall at the same time lay down the conditions for financing the resulting shortfall in contributions.

The position of that State shall remain subject to examination within the Monetary Committee. Such examination shall cover not only the situation with regard to its balance of payments and reserves but also the general economic situation. If the Commission or a Member State considers that the trends in respect of the position of that State allow it to participate in the financing operation the matter shall be brought before the Council. In accordance with the procedure laid down in Article 1 (1), the Council shall, where appropriate, request the Member State to participate in the operation and shall fix the conditions for its participation.

2. If one or more Member States which are creditors under the medium-term financial assistance system experience difficulties or are seriously threatened with difficulties as regards their balance of payments and request the mobilization of their claims, the Council shall, acting in accordance with the procedure laid down in Article 1 (1), decide to mobilize the claims of that or those States.

Mobilization shall, in particular, be effected in accordance with one of the following procedures, or a combination thereof:

- by a transfer of the claim, within the system, where the resources available so permit,
- by refinancing from outside the system, either by concerted action by Member States with other international organizations, or by an agreement made with such organizations in accordance with the procedure laid down in Article 1 (1),
- by early repayment in full or in part by the debtor Member State or States.

The position of a Member State that obtains mobilization of its claims shall remain subject to examination within the Monetary Committee. Such examination shall cover not only the situation with regard to its balance of payments and reserves but also the general economic situation.

If the Commission or a Member State considers that the trends in respect of the position of that State allow it to participate again in the financing operation the matter shall be brought before the Council. In accordance with the procedure laid down in Article 1 (1) the Council shall, where appropriate, request the Member State to participate in the operation and shall fix the conditions for its participation.

3. Article 5 shall read:

'Article 5

1. Any creditor Member State may arrange with one or more other Member States for the partial or total transfer of its claims. The Member States concerned shall notify the Commission and the other Member States of the transfer.

2. Where refinancing takes place from outside the system, the debtor State shall agree that its debt, originally denominated in European units of account shall be replaced by a debt denominated in the currency used for the refinancing. If, in such a case, the rate of interest is altered, the debtor country shall bear any additional cost which may result. In exceptional cases the Council shall, by an *ad hoc* decision taken in accordance with the procedure laid down in Article 1 (1), decide as to the sharing of the additional cost.

4. Article 6 shall read:

'Article 6

This Decision shall apply with effect from 1 January 1978.'

5. The Annex to the Decision shall read:

ANNEX

The ceilings for credits provided for in Article 1 (1) of this Decision shall be as follows:

⁽¹⁾ OJ No L 356, 31. 12. 1977.

	<i>million European units of account</i>	<i>% of total</i>
Germany	1 200	22.02
Belgium/Luxembourg	400	7.34
Denmark	180	3.30
France	1 200	22.02
Ireland	70	1.28
Italy	800	14.68
Netherlands	400	7.34
United Kingdom	1 200	22.02
	<hr/>	<hr/>
	5 450	100.00

Article 2

This Decision is addressed to the Member States.

Done at Brussels, 19 December 1977.

For the Council

The President

G. GEENS

ANNEX B

I

(Acts whose publication is obligatory)

COUNCIL REGULATION (EEC) No 682/81

of 16 March 1981

adjusting the Community loan mechanism designed to support the balance of payments of Member States

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community, and in particular Article 235 thereof,

Having regard to the proposal from the Commission,

Having regard to the opinion of the European Parliament⁽¹⁾,

Whereas the Community loan mechanism set up by Regulations (EEC) No 397/75⁽²⁾ and (EEC) No 398/75⁽²⁾ still, in its general design, meets the needs of the present situation which is marked by balance of payments disequilibria in the Community;

Whereas, in the light of experience and in accordance with the conclusions reached by the Monetary Committee in its report of 10 October 1980, it is advisable to adjust the provisions for granting Community loans in order to increase their effectiveness and simplify the procedures for implementing them;

Whereas it should be possible for the operation of lending to a Member State to take place soon enough in order to encourage that State to adopt, in good time, measures likely to prevent the occurrence of an acute balance of payments crisis; whereas each loan to a Member State must be linked to the adoption by that Member State of economic policy measures designed to re-establish a tolerable balance of payments situation and adapted to the gravity of the balance of payments situation in that State and to the way in which it develops;

Whereas these loans are therefore necessary to attain the objectives of the Community as defined in the Treaty, and in particular the harmonious development of economic activities throughout the Community;

⁽¹⁾ OJ No C 346, 31. 12. 1980, p. 98.

⁽²⁾ OJ No L 46, 20. 2. 1975, p. 1.

⁽³⁾ OJ No L 46, 20. 2. 1975, p. 3.

Whereas the Treaty makes no provision for the specific powers of action required for this purpose,

HAS ADOPTED THIS REGULATION:

Article 1

In accordance with the Decision adopted by the Council pursuant to Article 2 and after consulting the Monetary Committee, the Commission shall be empowered to contract loans, on behalf of the European Economic Community, either directly from third countries and financial institutions, or on the capital markets, with the sole aim of lending the funds raised to one or more Member States in balance of payments difficulties directly or indirectly related to an increase in prices of petroleum products.

Article 2

On the initiative of the Member State seeking a Community loan, the Council, after examining the situation of that State and the adjustment programme which it undertakes to implement, shall decide, as a rule during the same meeting:

- whether to grant the loan,
- the amount of the loan,
- the techniques for disbursing the loan which may be paid in one amount or in several instalments,
- the economic policy conditions attaching to the loan, with a view to re-establishing a sustainable balance of payments situation.

At the request of the Member State seeking the loan, the loan may carry the option of early repayment at any time; this would imply the use of the appropriate borrowing formulae.

Article 3

Where a Member State receives a loan from the Community, the Commission in collaboration with the Monetary Committee shall take the necessary measures to verify at regular intervals that the economic policy of that State accords with the adjustment programme and any other conditions laid down by the Council pursuant to Article 2 and, where appropriate, shall pay any successive instalments on the basis of the findings of such verification. To this end, the Member State shall place all the necessary information at the disposal of the Commission. The Council shall decide on any adjustment to be made to the initial economic policy conditions.

Where a Member State receives a loan carrying an early repayment clause and decides to invoke this option, the Commission shall take the necessary steps after consulting the Monetary Committee.

Article 4

The operations of borrowing and lending referred to in Article 1 shall be expressed in the same currency units and carried out using the same value date and on the same terms with respect to repayment of the principal and payment of interest. The costs incurred by the Community in concluding and carrying out each operation shall be borne by the beneficiary Member State.

When the borrowings are expressed, payable or repayable in the currency of a Member State, they may be concluded only with the agreement of the competent authorities of that State.

Article 5

The funds shall be paid only into central banks and shall be used only for the purposes indicated in Article 1.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels, 16 March 1981.

Article 6

The outstanding amount of the borrowing authorized by this Regulation shall be limited to 6 000 million ECU in principal. For the application of this ceiling, the operations of borrowing shall be recorded at the exchange rate of the day on which they take place. The operations of repayment shall be recorded at the exchange rate of the day on which the corresponding borrowing took place.

Article 7

No later than five years after the adoption of this Regulation, the Council shall examine, on the basis of a report from the Commission, after delivery of an opinion of the Monetary Committee and following consultation with the European Parliament, whether the mechanism established still meets, in its principle, its arrangements and its ceiling, the needs which led to its creation.

Article 8

This Regulation replaces Regulations (EEC) No 397/75 and (EEC) No 398/75. However, the provisions of those Regulations shall continue to apply to borrowing and lending operations contracted before the date of entry into force of this Regulation.

Article 9

The Council shall adopt the decisions referred to in Articles 2 and 3, acting unanimously on a proposal from the Commission, which shall consult the Monetary Committee on the matter.

Article 10

The European Monetary Cooperation Fund shall make the necessary arrangements for the administration of the loans.

For the Council

The President

A. P. J. M. van der STEE

EXTRACT FROM MR LITTLER'S
RECORD OF INFORMAL ECUFIN

Community Loan Mechanism

10. After an initial round largely repeating known positions, Delors made a personal plea for acceptance of the Dutch proposal (increase to 8 billion ecu - although it was others, rather than the Dutch, who named this figure - with some corresponding abatement of the MTFA mechanism and an understanding that no country would have access to more than one-half). This was finally agreed by all in principle, with Stoltenberg giving a slightly reserved agreement but the promise that he expected to be able to agree by 4 June.

7449/84		
		RESTREINT

OJ/CONS 30
ECOFIN 65

PROVISIONAL AGENDA

for: 931st meeting of the COUNCIL OF THE EUROPEAN COMMUNITIES
(Economic and Financial Questions)

Luxembourg, Monday 4 June 1984 (10.30)

1. Adoption of the agenda
2. Approval of the list of "A" items
7455/84 PTS A 31
3. Budgetary discipline
7591/84 ECOFIN 70
4. Community borrowing operations
7568/84 ECOFIN 68
5. Community financing of innovation in SMUs
7575/84 ECOFIN 69 ECO 35
7173/84 ECOFIN 64 ECO 29
+ COR 1
6. International monetary and financial problems,
particularly with a view to the London Summit
7. Tax measures to encourage co-operation between
undertakings from different Member States
7444/84 FISC 53
7445/84 FISC 54
11494/81 FISC 84

*12.15 Comm
lunch & the
Tuskens ops
lunch*

(x)

.../...

7449/84

OJ/CONS 30
ECOFIN 65

ien/PB/je

(WP) E

R

8. Direct insurance other than life assurance
(freedom to provide services)

7490/84 SURE 24
7501/84 SURE 25

9. Other business

For the record: 14.30: - Meeting of the Governors of the European
Investment Bank

(x) Out of stock



*

Your secretary
here on
Tuesday.

C
Note from N Wicks
(who is here for a few days*)
below.

official advice coming.
(But the q. is whether to
raise this with Stoltenberg:
might be an opportunity in
Luxembourg, I suppose).

Phil



cc White

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

Chancellor

I hope you can take
up Mr Clausen's suggestion to
find opportunity during the Summit
to pass Mr. Stoltenberg to
go to German participation in
Supplementary Fund for IDA? *

(though unlikely) would be a
great coup if an outcome of
* He has written in similar, though shorter,
terms to the Bone Report.

The Summit was that all
Summit Countries, has the US,
were ready to agree, or at
least consider sympathetically,
joining the Supplementary Fund.

All part of the strategy
of trying to isolate recalcitrant
debtors and showing that the
rich countries are ready to
help the very poorest countries.

N.L.W.

1 June '84

30/5/84.

CH/EXCHEQUER	
REC.	01 JUN 1984
ACTION	MR BEASTALL (for advice)
COPIES TO	PS/CST
	PS/EST
	SIR P. MIDDLETON
	MR LITTLER

THE WORLD BANK
Washington, D. C. 20433
U.S.A.

116
(for advice)

A. W. CLAUSEN
President

May 30, 1984

MR UNWIN
MR LAVELLE

Dear Chancellor:

Following a useful discussion I have had with him, Nigel Wicks has kindly consented to convey this letter to you. It raises a substantive matter that I consider extremely urgent for the future of IDA and therefore wish to bring to your attention.

As you may know, Chancellor, we have made some progress on two vital issues concerning the Bank and IDA which had been deferred for several months by the Board. On May 24, our Board of Executive Directors approved the resolutions authorizing the Seventh Replenishment of resources for the International Development Association (IDA7) and a Selective Capital Increase (SCI) of \$8.4 billion for the IBRD. I might add that these institutions and their membership owe a considerable debt of gratitude to the United Kingdom for its statesmanlike, constructive approach in helping solve the difficult ranking issue which faced us in connection with the SCI. The U.K.'s willingness to consider its own interests in the wider context of the institutional good is sincerely appreciated by all members. I join the many Executive Directors who, during the Board meeting discussion of these matters, congratulated the U.K. for its contributions. I wish to take note particularly of your representative's eloquent assurance that U.K. support for the institutions comprising The World Bank Group will remain as strong as ever.

Both the SCI and IDA7 measures have had a difficult passage over extended periods involving intensive negotiations among our shareholders. For the efforts exerted on several occasions by yourself, the Foreign Secretary and Minister Raison to further the interests of the Association and the Bank, I am indeed most grateful.

With IDA7 now behind us, we can once again focus on the task of mobilizing supplementary resources of up to \$3 billion for FY85-87. You and your colleagues in Her Majesty's Government have spoken forcefully in favor of this measure on several occasions in the recent past both in the European Council forum and at the Interim and Development Committee meetings in April. Your strong support has had the extremely useful effect of coalescing the views of other Governments in all of the EEC member states except Germany. It has also helped firm up the support of important donor countries outside the EEC such as Australia, Canada, the Nordic Group and others, towards participation in a Supplementary Financing Arrangement. Needless to say, we are greatly appreciative of all your efforts on our behalf.

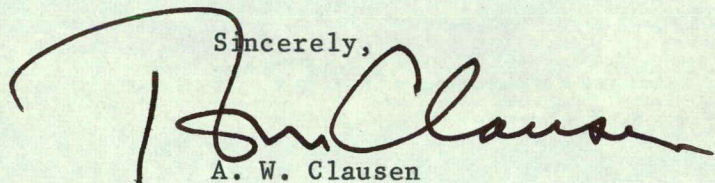
On the occasion of the forthcoming London Summit, I would once again request you to raise this matter at the meeting of Finance Ministers. I believe that this meeting would provide a useful opportunity to prevail once again on the German and Japanese authorities to reconsider their reluctance to participate in a supplemental fund unless the U.S. also participates at the same time. I share the concerns of Germany and Japan on the issue of equitable burden sharing in multilateral efforts. But it is difficult for us in the Association to accept that this concern should be permitted to result in depriving the poorest nations of the world of desperately needed resources at a time of serious economic difficulty.

It is clear that without the two largest non-U.S. donors, it will not be possible to put together any supplementary financing. It is equally clear that it would not be realistic to expect the U.S. to change its position at the London Summit. I am hopeful, however, that perhaps next year, the initiatives being proposed by several U.S. legislators will meet with success and the U.S. will once again assume a more prominent profile in IDA. I personally believe that the probability of the U.S. being persuaded to do more can only be enhanced if the other donors put together an arrangement which leaves room for eventual U.S. participation.

My colleagues and I hope that you share our views in this matter and will pursue it in formal or informal discussions with your counterparts in the coming days. I am addressing a similar request to Prime Minister Thatcher. I sincerely hope that you, too, would encourage her to raise this matter, in particular with Chancellor Kohl, during the forthcoming Summit discussions.

Warm regards.

Sincerely,

A handwritten signature in dark ink, appearing to read "A. W. Clausen". The signature is fluid and cursive, with a large initial "A" and "W" that are connected to the rest of the name.

A. W. Clausen

The Rt. Hon. Nigel Lawson, M.P.
Chancellor of the Exchequer
H.M. Treasury
Parliament St.
London SW1P 3AG
United Kingdom

EUROPEAN COMMUNITIES
THE COUNCIL

Brussels, 30 May 1984
7591/84

RESTRICTED

ECOFIN-70

NOTE FROM THE PRESIDENCY

to the ECOFIN Council of 4 June 1984

Subject: Budgetary discipline

- Work of the ad hoc group of 18 and 25 May 1984

I - The informal Council of Ministers for Economic Affairs and Finance decided to set up a working group on budgetary discipline, in the following terms:

"During the informal Council of Ministers for Economic Affairs and Finance, which was held at Rambouillet on 12 and 13 May, and following a broad exchange of views on budgetary control, the Ministers decided to set up a Working Group at very high level (senior Budget or Treasury officials). It is to propose solutions and options relating to the problems of budgetary discipline within the framework of the guidelines defined in the draft conclusions of the Presidency (1700 hrs, 20 March) at the European Council in Brussels. The report of this Working Group will be examined at the ECOFIN Council of 4 June 1984."

II - The Working Group held two meetings, on 18 and 25 May. In accordance with its mandate, it endeavoured to "propose solutions and options relating to the problems of budgetary discipline within the framework of the guidelines laid down by the draft conclusions of the Presidency at the European Council in Brussels. With this in view, it sought to define, at technical level, the consequences that would follow from each of the three principal guidelines of the draft conclusions, namely:

- 1) to fix at the beginning of the budgetary procedure a reference framework, that is to say the maximum envelope of expenditure (.....)
- 2) to ensure that net expenditure arising from the agricultural markets, calculated on a three-year basis, increases more slowly than the growth rate of the own resources base (.....)

3) to undertake (for non-compulsory expenditure) to keep to the maximum rate throughout the budgetary procedure.

III - Irrespective of the solutions and options proposed for each of these three points, which will be dealt with below, the Chairman of the Working Group, supported by the majority of the delegations, stressed that the draft conclusions of the European Council in Brussels lead one to view the work as a whole in the following light:

- 1) the concern for greater budgetary discipline^{must}/thoroughly penetrate all Community procedures;
- 2) this concern applies to all Community expenditure, according to detailed rules which take into account the specific nature of the various categories of expenditure;
- 3) budgetary discipline does not mean that realities cannot be taken into account, since those realities do not constitute a perfect excuse for setting aside any reform designed to ensure greater budgetary control;
- 4) the Working Group has a mandate to clarify, on the technical level, the guidelines of the draft conclusions of the European Council in Brussels; it has no mandate to call them into question;
- 5) bearing in mind the little time available, the Working Group cannot aspire to go into the technical solutions which it recommends in detail; its work must be supplemented by appropriate procedures;
- 6) it is a logical consequence of strengthening budgetary discipline that the Council meetings of Ministers for Economic Affairs and Finance will be given a greater role, according to procedures to be defined or specified;
- 7) putting into effect the proposed guidelines must be viewed pragmatically: while it is too late to apply^{some procedures in drafting the budget for,}the coming financial year, others, such as the quarterly review of the implementation of the budget can be put into effect immediately.

IV - As regards the three principal guidelines which it was given a mandate to clarify, the Working Group, with the support of the majority of the delegations, has formulated the following proposals:

A. - First guideline: "to fix at the beginning of the budgetary procedure a reference framework, that is to say the maximum envelope of expenditure (.....)".

1. This guideline must be assessed in the light of the principle established by the draft conclusions of the European Council in Brussels, that "the level of expenditure of the Communities will be determined by the available revenue".
2. The power of initiative in conducting the procedure of assessing the available revenue and drafting a proposal for a reference framework lies with the Commission.
3. The "available revenue" may not be treated as equivalent to the theoretical potential resources resulting from the systematic application of the ceiling rate of VAT.
4. The assessment of the available resources entails taking the economic situation of all the countries of the Community into consideration.
5. This assessment must result from an iterative process between revenue that can be isolated and expenditure that can be taken into account.

Certain delegations suggested, with this in mind, that the assessment of available revenue could be based on the forecast of the amount of traditional own resources and of VAT at call-up rates unchanged with respect to the current financial year. As for the assessment of expenditure that may be taken into account, this results in particular from the application to agricultural expenditure and non-obligatory expenditure of the guidelines laid down by the draft conclusions of the European Council.

6. In this process of "to-ing/ fro-ing"^{and}, revenue must constitute the guiding parameter, in accordance with the principle established by the draft conclusions of the European Council.

7. The reference framework, that is to say the maximum envelope of expenditure resulting from this process, must be fixed sufficiently early in the year. On this point, the Working Group agreed to propose two options to the Council of Ministers for Economic Affairs and Finance:

1st option: to fix the reference framework in April, bearing in mind the technical constraints put forward by the Commission. The choice of this date would have the advantage of enabling forecasts to be based on solid foundations,

but the disadvantage of coming after the fixing of agricultural prices.

2nd option: to fix the reference framework in February. This formula has the opposite advantage and disadvantage: forecasts are less solid, but if the reference framework is fixed at this time, the decisions on agricultural prices can be placed clearly within a predetermined framework.

The Chairman of the Working Group, supported by several delegations, suggests that the second solution should be adopted, improving and speeding up the process of gathering the necessary information from the various national authorities.

8. At the request of certain delegations, it was decided to formulate in addition several options as regards the procedure for fixing the reference framework. The various solutions put forward are as follows:

- a) establishing the reference framework would, in all circumstances; mean prior concertation between the various Community institutions;
- b) the decision to establish a "reference framework" every year at the beginning of the budgetary procedure (February or April) would be the subject of a political undertaking on the part of the Council;
- c) this undertaking could be written into the rules of procedure of the Council.

The Chairman noted that it did not come within the mandate of the Working Group to formulate proposals connected with relations between the institutions, nor, a fortiori, to propose that the Treaties be revised. He recalled that the draft conclusions of the European Council of Brussels had invited the Council of Ministers "insofar as it is concerned", to put into effect the three main guidelines.

9. Budgetary discipline and the establishment of a reference framework raise the question of the increased role of the Ministers for Economic Affairs and Finance according to procedures to be defined. Council meetings of Ministers for Economic Affairs and Finance could, in particular, fix the reference framework. It would also be for the Council to follow up its implementation through the budget, in the course of the financial year, at regular (three-monthly?) intervals on the basis of a report from the Commission. Certain delegations, moreover, requested that the Ministers for Economic

Affairs and Finance participate in decisions relating to new policies or policies which might entail new expenditure.

Certain delegations expressed reservations, in particular as regards the latter point. Most, like the Chairman, considered moreover that the role of the ECOFIN Council should be at the level of general guidelines, both in the drafting and in the implementation of the budget, the various Councils of Ministers being responsible for the adoption of the detailed measures enabling these guidelines to be respected.

10. Lastly, the Working Group stressed that budgetary discipline ruled out any possibility of exceeding resources as defined by the Treaty.

B. Second guideline: "to ensure that the net expenditure arising from the agricultural markets, calculated on a three-year basis, increases more slowly than the growth rate of the own resources base (...)."

The Working Group formulated the following proposals on which the various delegations were sometimes divided:

1. The expenditure to be taken into account should be net expenditure, in accordance with the draft conclusions of the European Council and the financial guidelines for agriculture. One delegation, which wants gross expenditure to be taken into account, expressed a reservation on this point, however. The precise definition of net expenditure calls for detailed technical examination. Subject to that examination, it could be the definition proposed by the Commission.
2. Many delegations considered that the guideline was in the nature of a political undertaking (which could take the form of a Council resolution). Moreover, the financial guidelines that the European Council is asking to have put into effect mention a "qualitative guideline". Certain delegations, however, requested that the guideline should be expressed in the form of a regulation.
3. In accordance with the draft conclusions of the European Council the assessment of trends in both revenue and expenditure will be made on bases that are comparable from year to year. Account will be taken of exceptional circumstances, in particular enlargement. The conditions in which the effect of enlargement on the bases of reference will be neutralised will be determined later. Certain delegations thought,

moreover, that other possibilities could be considered under exceptional circumstances (for example, a massive effort to dispose of stocks).

4. Respecting the guideline means that in the event of failure to comply with that guideline for one financial year, the Council and the Commission must, during the following two financial years, ensure that unless trends are abnormal, agricultural expenditure is brought back within the limits resulting from the qualitative guideline.

To face up to the fluctuations in market conditions, it would be possible, as the Commission proposes, to establish a credit reserve. This "reserve for market conditions" would, in the implementing of the budget, fulfil the same amortizing function as the reference to a three-year base does in the drafting of the budget. This reserve would be fed in particular by transfers of credits from the FEOGA-guarantee and by refunds following the clearing of FEOGA-guarantee accounts.

5. The question of whether the reserve should or should not be incorporated into the envelope of expenditure was discussed, as well as the question of the conditions governing its use. These questions require further examination before they can be decided.
6. The principle established by the draft conclusions of the European Council that "budgetary discipline (...) will apply to all budget expenditure" means that the moderation of the upward trend in agricultural expenditure applies to all the common organisations of the market. It was stated, at the request of a number of delegations, that this principle did not mean that the rate of development of expenditure must be the same for all the common organisations of the market but that the effort to exercise budgetary discipline applied equally to all of them.
7. In the event of failure to comply with the guideline, the action taken by the institutions should, as the Commission proposes, be concentrated as a priority on the sectors of production that have caused the failure to comply with the guideline. It is indeed advisable to

prevent the uncontrolled increase [in expenditure] of common organisations of the market from adding to overall expenditure, to the detriment of those common organisations of the market that have already agreed or that might agree to make a real effort to achieve control.

C. Third guideline: "to undertake to keep to the maximum rate throughout the budgetary procedure (...)".

The Working Group put forward the following proposals, the Commission and certain delegations expressing reservations, however.

1. The undertaking to keep to the maximum rate is a political undertaking equal in value to the undertaking with respect to the development of agricultural expenditure.
2. These two undertakings are inseparable, in accordance with the principle established by the draft conclusion of the European Council that "budgetary discipline (...) will apply to the whole of the budget".
3. Respect for the rule laid down means that that there must be no ambiguity as to the nature of the DNO [non-obligatory expenditure] and that the definition given of that expenditure must remain stable.
4. In particular, account must be taken of any operation which, taking the form of a deduction from revenue rather than an item of expenditure, would modify the base of assessment of the DNO which will have to be corrected as a result.

This completes the report of the two meetings of the Working Group on budgetary discipline. In addition to the reservations on particular points to which attention has been drawn, three general observations must be mentioned. Without disputing the need for greater budgetary discipline:

- the Commission laid emphasis on the idea that all the Community institutions should be associated in putting it into effect

- the Greek delegation pointed out that it was impossible to separate budgetary discipline from all the guidelines relating to new policies

- the Italian delegation expressed a general reservation on the whole exercise.*

* Translator's note: This may mean "for the whole financial year."

BUDGETARY AND FINANCIAL DISCIPLINE

1. The European Council considers it essential that the rigorous rules which at present govern budgetary policy in each Member State also apply to the budget of the Communities.

The level of Community expenditure will be fixed as a function of available revenue.

Budgetary discipline, which calls for a combined effort by all the Institutions in the framework of their respective powers, will apply to all budget expenditure.

2. The European Council invites the Council of Ministers for its part:

- to fix at the beginning of the budget procedure a reference framework, i.e. the maximum level of expenditure which it considers it must adopt to finance Community policies during the following financial year;
- so to proceed that the net expenditure relating to agricultural markets calculated on a three-yearly basis will increase less than the rate of growth of the own resources base. This development will be assessed on comparable bases from one year to the next. Account will be taken of exceptional circumstances, in particular in connection with enlargement. The provisions laid down in the Commission document on financial guidelines concerning the Common Agricultural Policy will be implemented;
- to undertake to comply with the maximum rate throughout the budget procedure as defined in Article 203 of the Treaty of Rome. At the first reading the Council will keep the increase in Non-Compulsory Expenditure to a level no higher than half the maximum rate. At the second reading the Council will adopt a position such that the maximum rate is not exceeded.

3. The European Council invites the Council of Ministers to adopt by June 1984 the measures necessary to guarantee the effective application of the principles referred to in paragraph 2.

SAVING TELEGRAM

BY BAG
FRAME ECONOMIC
CONFIDENTIAL

FM FCO

TO UKREP BRUSSELS TEL NO SAVING 55 OF 23 MAY 84

AND SAVING TO ALL OTHER EC POSTS

AD HOC GROUP ON BUDGETARY DISCIPLINE, 18 MAY

1. The ad hoc group of senior Finance Ministry officials set up as a result of agreement at the informal ECOFIN on 12/13 May (FCO telno 361 to Paris of 15 May) held its first meeting in Brussels on 18 May. Unwin and Fitchew (Treasury) represented the UK. Modest, but mildly encouraging progress. UK secured agreement that all options on legal form up to and including Treaty amendment should be explored. Netherlands, Germany, Belgium and France as well as UK in favour of making European Council guidelines effective. Italians, Greeks, Irish and Danes largely silent, though latter said nothing stronger than a political declaration acceptable. Group to meet again on 25 May. Not yet clear whether there will be written report to June ECOFIN Council.

General

2. Ouazan (Directeur General du Budget) in the chair said the two bases for the Group's work were draft

Presidency conclusions from 20 March European Council and mandate from Informal ECOFIN Council of 12-13 May (text of latter in MIFST). Work of the Group was to find concrete and operational mechanisms for putting budgetary discipline into effect; fine words no longer enough. The Group needed to draw up different solutions and options for this purpose. He suggested discussion under three headings:-

- a) the overall "reference framework";
- b) the agriculture guideline;
- c) the maximum rate.

3. In opening tour de table, the Italians, Greeks, Irish and Danes stressed that budgetary discipline was part of a wider package including budgetary imbalances; and France that budgetary discipline could help solve problem of budgetary imbalances. The Presidency commented, however, that the Group's work was confined to establishing the budgetary discipline element in the package.

4. Several delegations, said there could be no question of amending European Council draft conclusions. Kortleven (Belgium) however, pointed out that there was quite a lot of room for manoeuvre in interpreting the European Council text and favoured as restrictive (in a budgetary sense) an interpretation as

possible. We agreed that discussion should be based on the draft European Council conclusions, though we had put on record elsewhere our reservations about parts of them. We argued that it was the task of the Group to identify the various technical options for securing the "effective measures" for which the European Council had asked. The options could range from a simple political declaration at one end up to and including Treaty amendment at the other. We recognised the sensitivity of some of these options in relation to the European Parliament particularly in the election period. M Delors, however, had identified the role of the Parliament as something which the ECOFIN Council should face up to. Moreover the Budget Committee of the Parliament had adopted a resolution calling for the removal of the distinction between DO and DNO. France said that the Group should avoid solutions which disturbed the existing institutional balance.

A: The "Reference Framework"

5. The Presidency asked for comments on paragraph 1 and paragraph 2, first indent, of the European Council text, in particular on how revenue should be defined, when the estimates for revenue could be drawn up and what procedure should be adopted to allow the Council to monitor expenditure during the current year.

(a) Relationship between Revenue and Expenditure

6. The Group debated the meaning of "revenue must determine expenditure" and how revenue should be defined for this purpose. Commission, Italians and Greeks predictably argued that revenue meant the full total available within the increased VAT ceiling and that the "reference framework" could not be set without reference to the Community's policy objectives, in particular need to tackle economic imbalances.

Netherlands, UK and France said available revenue should be defined with reference to the growth of own resources base, not total own resources available and that expenditure should then be brought into line with available revenue. The Presidency concluded that there was no ambiguity in the European Council text. Common sense required restrictive definition of revenue.

Fixing the reference framework would be an iterative procedure with to-ing and fro-ing between available revenue and policy objectives. But European Council conclusions were clear that revenue had primacy.

(b) Timing and Forum

7. Strasser (Commission) argued that no firm figures for revenue were available before the beginning of April. It was essential for the reference framework to be drawn up well before beginning of May to affect the

drawing up of the Budget. Revenue forecasts should be those supplied by the Commission. With support from several delegations he argued that Parliament should be involved in establishing the reference framework. UK and Netherlands pointed out that earlier forecasts of revenue availability would be required in order to enable the agricultural guideline to be calculated before the price fixing. With Germany they argued that reference framework must be fixed in good time before Commission started to draw up preliminary draft budget. As regards forum most delegations accepted ECOFIN. France, however, suggested possibility of joint ECOFIN/Foreign Affairs Council. Presidency concluded that reference framework must be fixed no later than end-March/early April but accepted need to articulate this with timing of decisions on agricultural prices, as argued by Netherlands and UK. As regards forum, there was a choice between ECOFIN Council, a joint Finance and Foreign Affairs Council and a concertation procedure between the three different institutions.

(c) Legal Form

8. Germany asked whether all three institutions would be bound by the reference framework. This would require amendment to Article 203 of the Treaty. But this was not the only way of proceeding. If the

reference framework was a matter for the Council only, it would be necessary to consider whether the arrangements for fixing it should be put into a legal instrument or a political declaration.

9. UK said that Ministers should be offered a range of options. Least binding was a political declaration. In that case the "reference framework" would simply be the product of the agricultural guideline and the maximum rate for non-obligatory expenditure. More binding arrangements could, however, be considered even where only the Council was involved, eg a provision in the Council's Rules of Procedure under Article 151 or incorporation into the new own resources decision which would be required. If, as UK preferred, other budgetary institutions were to be bound by the framework, amendment of Article 203 would be necessary. Luxembourg surprisingly agreed with UK that full inventory of solutions and their respective advantages and disadvantages should be set out for Ministers.

10. Netherlands did not exclude possible amendment of Article 203 for the future, but for the present the existing powers of the Parliament should be respected. The possibility of a binding regulation for the Council accompanied by a commitment to self-discipline from the Commission should be considered. France said that

there was a choice between "self-discipline" and something more strict. The options should be left open. The Commission and Ireland warned against the risks of Treaty amendment. The Parliament's ambitions were very great and would extend well beyond the amendment of Article 203. Nielsen (Denmark) said there could be no question of the budgetary discipline arrangements being legally binding. He argued that the European Council had excluded this, instancing differences between the third and fourth drafts of their conclusions. Denmark's view must be stated in the report to Ministers.

11. Presidency concluded that the Group should list for Ministers all the different options with their advantages and disadvantages. The Group's priority job was, however, to propose measures which did not change existing institutional procedures. Ministers should therefore be told that certain options would require major institutional changes. There was a need to be imaginative to achieve effective discipline without changes in the institutional balance.

(d) Monitoring Current Year's Expenditure

12. General consensus that ECOFIN Council should monitor the path of Community expenditure every two or three months. Monitoring should cover all types of

expenditure, though more important for agriculture. Presidency also suggested that ECOFIN should review efficacy of non-agricultural policies from time to time. Germany argued that ECOFIN Council should have a say in any decisions on new policies setting up multi-annual programmes or requiring expenditure in excess of budgetary provision.

B. AGRICULTURAL GUIDELINE

13. Group discussed agricultural guideline under seven question headings suggested by the Presidency and an eighth (legal form) suggested by the UK.

(i) Definition of Agricultural Expenditure

14. Definition of net expenditure contained in footnote 1 to the Commission paper supported by the Commission, Italy, Luxembourg, Belgium and Denmark. UK, Netherlands and Germany argued for gross FEOGA guarantee expenditure in titles 1 and 2 of the Budget. France agreed with Commission proposal, but also suggested that deductions should be made for all products on which there were tariff concessions, eg beef, New Zealand butter. Greece and Ireland - no position (as on all other questions, Irish delegate commenting that he was afraid of his Ministry of Agriculture!). Presidency summed up that a majority favoured the Commission definition, noting that

European Council conclusions referred to "net expenditure".

(ii) Definition of 3 year period in guideline

15. Commission (ignoring their own paper) said the three year period was current year and two preceding years. This supported by Belgium, Italy and Luxembourg. France argued for the three preceding years plus an estimate for the current year. UK alone pointed out that Commission paper required two different definition of the three year period for management of current year's expenditure and for the price fixing decisions. But also essential to decide whether calculations should be on a budget-to-budget basis of an outturn-to-outturn basis. UK favoured budget-to-budget, because outturn-to-outturn would build excesses into future years' guideline figures; also outturn to outturn figures not available at time of price-fixing decisions either for current year or preceding year. No clear position given by Germany or Netherlands. Presidency concluded further thought on this necessary.

(iii) Contingency Reserve

16. Presidency and French delegation suggested there should be a contingency reserve built into budget to

allow for fluctuations in world prices etc. UK, Germany, Belgium, and Netherlands opposed on grounds that this would encourage Agriculture Ministers to use up contingency fund for price fixing. We said we preferred Commission proposal that provision in PDB should cover all estimated expenditure including price fixing, though latter should not be separately identified. No other delegation commented. Presidency tried to conclude consensus in favour of contingency fund, but retreated when challenged by UK.

(iv) Treatment of carry-overs and disallowances in calculating guideline

17. Presidency asked how carry-overs should be taken into account. Commission thought this should not be a major problem. Automatic carry-overs were charged to the year in which they were eventually spent, not to original year. Netherlands argued against automatic carry-overs; greater stringency ought to be applied. UK reserved position until next meeting. Other delegations did not comment. France and Presidency appeared to link with question of contingency reserve. No conclusions drawn.

(v) Should Guideline be applied to global expenditure or to individual product regimes?

18. Presidency noted that strict discipline had been introduced into the milk sector. Could the agricultural guideline be observed without introducing similar disciplines for other products? General agreement with Commission view that guideline had to be evaluated and applied at global level. UK, Netherlands and Germany said that in order to make guideline effective there would have to be rigorous examination of all commodity sectors and introduction of disciplines to match those in milk sector, but this would be a task for Agriculture Ministers within framework of the guideline. France argued that if the guideline required savings to be made this should be done in sectors other than milk. Italy predictably referred to the need to maintain balance between Northern and Southern products. Presidency concluded that discipline should be spread evenly among all products.

(vi) Definition of "Exceptional Circumstances"

19. The Presidency asked for views on definition of "exceptional circumstances" in paragraph 2, second indent of European Council conclusions for the purpose of calculating guideline. Several delegations,

however, treated question as relating to circumstances in which guideline, once set, could be exceeded. Commission defined "exceptional" as any unforeseen circumstances. France said the guideline should not cover spending on storage. Italy refused to be tied down to any definition. Luxembourg said that guideline could only be exceeded for unforeseen economic conditions. There should be a mechanism to claw back such excesses over subsequent three year period. Netherlands likewise said guideline could only be exceeded for wholly unforeseen circumstances.

20. UK, commenting on European Council text, said it could think of no exceptional circumstances other than enlargement for purposes of calculating the guideline. Once guideline had been fixed it should be observed strictly throughout price-fixing. Guideline should only be exceeded during the year if unforeseen conjunctural circumstances required it. There should be precise arrangements for claw back over following two years so that guideline was strictly observed over a period. Belgium argued that only enlargement was an exceptional circumstance. Germany argued that exceptional meant unforeseeable and that Commission's proposals for claw back were acceptable.

21. Chair concluded that enlargement was foreseeable and must be catered for, but suggested that European Council must have meant other exceptional circumstances as well. No conclusion drawn on claw back.

(vii) Legal Form

22. UK said that, as with reference framework, Ministers must be presented with different options on legal form. We believe a legal base was needed perhaps in form of regulation under Articles 43 and 235.

Commission should commit itself to draw up its price-fixing proposals in strict conformity with guideline not just "in the light of the guideline". Belgium expressed scepticism about legally binding guideline

Denmark said anything beyond political declaration unacceptable. No-one else commented. Presidency (only after pressure from UK) in summing up agreed that Ministers should be offered the choice of a political declaration or legally binding regulation, though latter was likely to be too vague to be effective.

C. MAXIMUM RATE

23. Presidency asked for member states' views on:-

(a) whether method of calculating maximum rate could be changed to bring it more up to date;

(b) effect on "assiette" for non-obligatory expenditure, when an existing policy came to an end

(Presidency clearly had in mind UK refunds implemented on expenditure side of budget).

24. In rapid tour de table all member states except France said that both maximum rate and assiette had to be calculated in traditional fashion.

25. Commenting on European text, we said agreement to hold to maximum rate should apply to commitments as well as payments and this would have implications for multi-annual programmes. We asked Secretariat to produce figures for growth of non-obligatory expenditure over past five years and for a comparison of the maximum rate with growth of own resources over same period.

26. Presidency concluded that maximum rate had to be calculated in traditional fashion as agreed by EPC. He asked member states to reflect on problem of defining the assiette.

27. Next meeting on 25 May.

28. Now see MIFST

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TELEGRAM NUMBER 1835 OF 28 MAY

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ATHENS

INFO SAVING BRUSSELS

FCO TELNO.SAVING 56 : BUDGETARY DISCIPLINE

SUMMARY

1. THE AD HOC GROUP ON BUDGETARY DISCIPLINE CONTINUED ITS WORK ON 25 MAY. UNWIN AND FITCHEW REPRESENTED THE UK. THE PRESIDENCY WILL REPORT ON ITS OWN AUTHORITY TO THE ECOFIN COUNCIL ON 4 JUNE BUT THE CHAIRMAN DECLINED TO SAY WHETHER IT WOULD DO SO IN WRITING. MODEST SUPPORT FOR UK IDEAS ON A LEGALLY BINDING INSTRUMENT, BUT STRONG OPPOSITION FROM ITALY, GREECE, DENMARK AND IRELAND.

DETAIL

AFTER REPEATED CALLS FROM SEVERAL DELEGATIONS FOR A TEXT TO FACILITATE DISCUSSION, THE PRESIDENCY FINALLY CIRCULATED AN INFORMAL PAPER SETTING UP A NUMBER OF 'PRINCIPLES' FOR THE IMPLEMENTATION OF THE EUROPEAN COUNCIL CONCLUSIONS WHICH, IN ITS VIEW, SEEMED LIKELY TO ATTRACT MAJORITY SUPPORT. (TEXT BY MUFAX TO MISS MARSDEN, ECD(1)).

3. THE PAPER CONTAINED A NUMBER OF WELCOME FEATURES, INCLUDING THE PRINCIPLES THAT REVENUE SHOULD BE THE DETERMINING FACTOR IN THE BUDGET AS A WHOLE; THAT FINANCE MINISTERS SHOULD BE INVOLVED MORE CLOSELY IN THE BUDGET PROCESS; AND THAT THERE SHOULD BE A CLEAR DEFINITION OF THE NATURE OF NON-OBLIGATORY EXPENDITURE. ALL THIS WENT TOO FAR FOR ITALY, GREECE, DENMARK AND IRELAND, WHO ARGUED THAT IT WAS WRONG TO SUBORDINATE EXPENDITURE ON AGRICULTURE OR NEW POLICIES TO A NARROW ENVELOPE OF REVENUE OR TO THE VIEWS OF FINANCE MINISTERS. THE ITALIAN PROFESSED 'SURPRISE AND CONFUSION' AT THE TREND OF THE DISCUSSION AND, TOGETHER WITH THE GREEK, RESERVED HIS POSITION ENTIRELY.

4. THE PAPER ALSO CONTAINED SOME LESS DESIRABLE FEATURES. IT USED THE COMMISSION'S NARROW DEFINITION OF AGRICULTURAL EXPENDITURE; PROVIDED FOR AN AGRICULTURAL CONTINGENCY FUND AND DEFINED THE GUIDELINE FOR AGRICULTURE AS MEANING THAT AGRICULTURAL EXPENDITURE SHOULD GROW LESS QUICKLY THAN THE BUDGET AS A WHOLE. IT ALSO OMITTED ANY MENTION OF A LEGALLY-BINDING INSTRUMENT OR OF CLAWBACK AND DID NOT OFFER AN ADEQUATE DEFINITION OF HOW THE REFERENCE FRAMEWORK AND THE GROWTH IN THE OWN RESOURCES BASE WOULD BE CALCULATED.

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5. IN CRITICISING THESE SHORTCOMINGS, THE UK DELEGATION CONCENTRATED ON THE NEED TO PUT THE LEGAL OPTION TO THE ECOFIN COUNCIL AND TO PUT IN HAND DETAILED WORK ON QUESTIONS OF DEFINITION, SINCE A WIDE RANGE OF RESULTS WERE POSSIBLE IN CALCULATING THE ENVELOPE, DEPENDING ON THE METHODOLOGY USED. THERE WAS SOME SUPPORT FOR BOTH POINTS FROM THE DUTCH AND THE GERMANS. THE DUTCH SAID THAT THEY DID NOT (NOT) WANT TO AMEND ARTICLE 203 OF THE TREATY, OR INTERFERE WITH THE POWERS OF THE EUROPEAN PARLIAMENT, BUT THEY WERE NOT AGAINST MODERNISING THE TREATIES IF APPROPRIATE, AND THOUGHT THE LAWYERS SHOULD BE ASKED TO SAY WHAT WAS THE MOST LEGALLY BINDING FRAMEWORK CONSISTENT WITH THE ABOVE RESERVATIONS. THEY UNDERTOOK TO CONSIDER TABLING A PAPER DEALING WITH THE DEFINITION OF AUTONOMOUS OWN RESOURCES. THE GERMANS TOO ASKED HOW THE LEGAL OPTION COULD BE IMPLEMENTED. THE FRENCH TOLD UNWIN PRIVATELY THAT THEY DID NOT RULE OUT A LEGALLY-BINDING INSTRUMENT BUT DID NOT WISH TO SAY SO FOR THE PRESENT. THE BELGIANS OFFERED SUPPORT ON THE QUESTION OF DEFINITIONS.

6. STRASSER (COMMISSION) WARNED AGAINST ANY ATTEMPT TO INTERFERE WITH THE BALANCE OF POWER BETWEEN THE INSTITUTIONS. HE DREW ATTENTION TO THE DIFFICULTIES WHICH THE COMMISSION FORESAW IN MAKING AVAILABLE FIGURES FOR OWN RESOURCES BEFORE THE AGRICULTURAL PRICE FIXING IN MARCH AND SAID THAT THIS WOULD REQUIRE MEMBER STATES TO PRODUCE NATIONAL ESTIMATES PERHAPS AS EARLY AS JANUARY. THE UK DELEGATION POINTED OUT THAT THE WHOLE POINT OF THE EXERCISE WAS TO HAVE REVENUE FIGURES AVAILABLE BEFORE AGRICULTURAL PRICES WERE FIXED.

7. A NUMBER OF DELEGATIONS SAID THAT THE PRESIDENCY SHOULD MAKE A WRITTEN REPORT TO THE ECOFIN COUNCIL AND SOME PRESSED FOR THIS TO BE CIRCULATED IN ADVANCE. THE CHAIRMAN REFUSED TO BE DRAWN. HE SAID THAT HIS REPORT WOULD NOT (NOT) GO INTO DETAIL ON THE VARIOUS PRINCIPLES WHICH HAD BEEN DISCUSSED, SINCE FURTHER WORK WOULD CLEARLY BE NECESSARY. HE WOULD REMAIN FAITHFUL TO THE TERMS OF THE DRAFT CONCLUSIONS OF THE EUROPEAN COUNCIL AND WOULD STRESS THE NEED FOR DISCIPLINE INVOLVING ALL SECTORS OF THE BUDGET AND FOR THE CLOSER INVOLVEMENT OF FINANCE MINISTERS. HE WOULD INCLUDE A RESUME OF OPTIONS, WHICH WOULD OFFER A CHOICE BETWEEN A POLITICAL AND A MORE RESTRICTIVE GUIDELINE AND BETWEEN SETTING THE REFERENCE FRAMEWORK IN FEBRUARY, MARCH OR APRIL. HE CONFIRMED THAT THE PRINCIPLE FOR AGRICULTURAL EXPENDITURE SET OUT AT POINT B 2 IN THE INFORMAL PAPER SHOULD HAVE REFERED TO EXPENDITURE GROWING MORE SLOWLY THAN OWN RESOURCES, NOT (NOT) MORE SLOWLY THAN THE BUDGET.

FCO ADVANCE TO:

FCO - RENWICK, FAIRWEATHER, WALL, MARSDEN
CAB - WILLIAMSON, DUPIE, STAPLETON, LAMBERT
MAFF - DICKINSON
TSY - UNWIN, FITCHEW, BOSTOCK, HOPKINSON

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CONFIDENTIAL COPIES TO
ADVANCE ADDRESSEES

From : G Ingham

Date : 31 May 1984

- Note below.*
[Signature] 31/5.
1. MR FITCHEW
 2. CHANCELLOR

cc Economic Secretary
Sir Peter Middleton
Mr Littler
Mr Unwin
Mr Beastall
Mr Bottrill
Mrs Case
Mr Hopkinson
Miss Edwards

Miss Mueller - DTI
Mr Plenderleith - B/England
Sir Malcolm Wilcox -
Midland Bank

EIB BOARD OF GOVERNORS' MEETING, LUXEMBOURG, 4 JUNE

You will be attending the EIB Board of Governors' Annual Meeting in Luxembourg on 4 June. This traditionally takes place on the same day as the June ECOFIN (for which separate briefing will be provided tomorrow). The Governors are scheduled to meet at 14.30 (probably in the Kirchberg Centre).

2. Mr Ruding, the Dutch Finance Minister, will chair Monday's meeting and then, in accordance with the normal rota arrangements, you will assume the Chairmanship for 1 year from Tuesday 5 June. The agenda for the meeting is attached at Annex A. The Governors convene only once a year and their meeting is usually a short one covering only routine business - principally, taking note of the Bank's Annual Report and, on this occasion, of the Report of a Board of Directors' Working Party.

3. However, on this occasion we think it would be appropriate for you to make a short but substantive intervention on the future development of the Bank. During the next year, the question of a further increase in the Bank's capital base, which will probably take effect in 1986, will need to be considered. UK Directors met recently to discuss the work of the Bank. They concluded that after a period of very rapid expansion the Bank should now be entering a period of consolidation, with somewhat lower rates of growth. To prepare the

ground for the Board of Directors' more detailed work later this year, we would like to suggest, therefore, that you make a general statement at the meeting. Draft speaking notes are attached at Annex B.

4. We think the most appropriate time for you to make this intervention will probably be immediately after the President's statement on the Bank's activity in 1983 - the first item on the agenda. If, however, it appears at the meeting that this would not be a good time to speak, the second option would be when the Board is asked to take note of the Working Party Report. The draft text attached could be used then with minimal alternations.

5. Following the President's statement (and your own intervention) the Board will be asked to accept the Bank's Annual Report for 1983 and the balance sheet for 31 December 1983. UK Directors have already had the opportunity to feed in amendments to the first draft of the Annual Report and both the documents are now perfectly acceptable to us. There is no need for you to intervene.

6. The only other substantive item on the agenda is the Working Party Report. A short background brief on this is attached at Annex C. UK Directors were closely involved in the preparation of the Report and two of its recommendations - on floating rate borrowing and lending and on more emphasis for high technology lending - are particularly welcome to us. We suggest you endorse the Report and mention these two specific recommendations. A short speaking note is attached at Annex B (section 2).

7. There is no need to intervene on the Audit Committee appointments. These are routine, with one re-appointment (Mr Thanopoulous) and the appointment of the new Chairman (Mr Bredsdorff) in accordance with the standard procedures.

8. On the composition of the Management Committee, the Governors will be asked to approve the recommendations put forward from the Board of Directors' meeting earlier in the day. It has already been arranged that Mr Broder will succeed le Portz as President of the Bank. The successor to Dr Steffe as a Vice-President is as yet not settled.

9. Finally, the outgoing Chairman of the Board of Governors will pay tribute to le Portz and Steffe on their retirement and will then offer you his best wishes for your year as chairman. It will be appropriate for you to acknowledge this and endorse his remarks about le Portz and Steffe. A short speaking note is attached at Annex B (section 3).

10. In the evening, there will be a reception followed by dinner at the Bank. You have agreed to attend this, in view of le Portz' retirement and your assumption of the chairmanship the following day. We have ascertained, however, that there will be no need for you to speak at the dinner.

Ingham

G INGHAM

I agree with Mr Ingham's advice and with the draft speaking notes.

2. We have suggested that you intervene on the question of the future rate of growth of the Bank's activities, because we suspect that M. le Portz may try to get the Board of Governors to agree, as a working assumption for the next capital increase, that what he calls the "steady growth" (around 20% pa) of the Bank's lending should continue indefinitely. We think this should be challenged at the outset.

3. The need for a new ceiling on external lending is becoming urgent for the reasons explained in the speaking note.

G E Fitchew
G E FITCHEW
31.5.84

BOARD OF GOVERNORS

Annual meeting to be held in Luxembourg on Monday, 4 June 1984
(venue and time to be notified subsequently)

Draft Agenda

ANNEX
A

1. Adoption of agenda

(Doc. 84/5) ✓

1st part : Annual Meeting

2. Statement by the President of the Bank on
EIB activity in 1983

(Doc. 84/6,
to be distributed during
the meeting)

and examination of :

- the Annual Report for the 1983 Financial Year
established by the Board of Directors on
3 May 1984

(Doc. 84/7) ✓

- the Balance Sheet and Profit and Loss Account
at 31 December 1983

(Doc. 84/9) ✓

3. Bank activity : report submitted by the Board
of Directors

(Doc. 84/4) ✓

4. Partial reappointment of the Audit Committee

(Doc. 84/8) ✓

2nd part

5. Composition of the Management Committee

(Doc. 84/10,
to be distributed during
the meeting)

6. Other business

C O N F I D E N T I A L

Copy No. 6

For MR N. LAWSON

DRAFT SPEAKING NOTES

1. Comments on President's Statement for 1983

I should like to comment, if I may, on some of the issues raised by the President in his report, which was, as we have come to expect, most helpful and lucid. I think the Bank and its staff deserve our congratulations on a splendidly produced report. 1983 was yet another excellent year for the Bank : indeed, its development has been striking in recent years. Borrowing and lending operations have been growing rapidly while the Bank's high standing on the international capital markets has been successfully maintained. All this is a great tribute to the leadership of the Bank by Yves le Portz and the commendable way in which both he and all his staff have responded to the tasks before them.

2. I do not wish to comment in detail. But I should like to offer one or two general reflections on the question of the Bank's future activity as a whole. Bank loans outstanding have recently been increasing by around 20% a year. In a period when many member states have experienced relatively high rates of inflation and have had to finance large public sector and balance of payments deficits this rate of growth was to be expected and this made a significant contribution to development in the Community. But we will need to consider, particularly in looking at the adequacy of the Bank's capital base, whether this rate of growth will continue to be appropriate or sustainable.

3. The Community is now emerging out of a period of economic recession. The rate of inflation is now falling throughout the Community and nearly all member states are engaged in programmes of consolidation of public sector finances. It is right that the Bank should contribute to financing the Community's continuing recovery from economic recession. But I wonder whether the Bank too should not begin a period of consolidation and somewhat lower growth rates. Deciding on the appropriate rate of increase in the Bank's operations will be one of the key questions to be examined when the need for a further capital increase is assessed.

DRAFT
SPEAKING
NOTES

4. Second, the ceiling of 1600 mecu allocated for lending to Mediterranean countries is virtually exhausted. This is a subject on which we shall need to focus carefully over the next few months. In addition to the request for further finance for Spain and Portugal, a large number of the Community's financial protocols are due for renewal in 1986. The risk is that, both as Governors of the EIB and as Finance Ministers, we will be faced with proposals for large increases in financial assistance to the Community's external partners to compensate them for the Community's unwillingness to remove trading restrictions. Such pressure could jeopardise the long-standing agreement that the bulk of the Bank's lending should be within the Community. It would also be a bad deal for the Community economy more generally. We could add to public expenditure while increasing the strength of protectionism.

5. My conclusion is that an early decision on a new and reasonably restrictive external lending ceiling for Mediterranean countries would be helpful. This would enable us to avoid taking ad hoc decisions in particular cases and would also provide a framework of financial discipline in which Foreign Ministers would have to operate.

6. A further reason for control is that, as the Bank Annual Report notes, the debt situation of many LDCs is precarious and their absorptive capacity for genuinely viable projects is increasingly limited. We need to be sure that we are giving sufficient weight to prudential considerations in lending to LDCs. And at all events it is important that the Bank should, ^{particularly} ~~at least~~ where its own resources are committed, ensure that projects in third countries will be well managed and carry the genuine prospect of return on investment.

7. I emphasise once again that the Bank's achievements are outstanding. My comments in no way imply criticism : but are put forward as preliminary reflections on the future development of the Bank which will obviously need further and more detailed consideration.

2. Working Party Report

8. The Working Party's Report is a commendable piece of work, reflecting the considerable efforts of the Board of Directors. I am

content with its conclusions and recommendations. I was particularly pleased to note the recommendations in favour of floating rate borrowing and lending and of greater emphasis on lending for high technology projects.

3. Informal Remarks responding to Chairman of Board of Governors

9. I am grateful to you, Mr Chairman, for your kind words and good wishes. I regard it as a great honour to be assuming the Chairmanship of the Board of Governors from tomorrow and I can assure you and all our colleagues that I shall endeavour to follow your excellent example. I endorse wholeheartedly your thanks and good wishes to Yves le Portz and Horst Otto Steffe. As I said earlier the success of the Bank in recent years is due in no small part to Yves le Portz who has been most ably assisted by all the Vice-Presidents of the Bank. We owe them a great deal and we all offer our very best wishes for the future.

10. Finally, Mr Chairman, but certainly not least, I have the pleasant task of thanking you for your work over the past year. The way we have successfully and speedily conducted our business today is largely a result of the capable and business-like approach from the Chair. I know also that the successive completion of the Working Party's excellent report resulted in no small part from the able chairmanship of the Dutch Director, Mr Arlman. I am sure that all my colleagues are equally appreciative.

WORKING PARTY REPORT ON BANK'S ACTIVITY

Background

- Board of Directors set up Working Party in June 1983 to examine outlook for Bank own resources lending activity in the light of the 1980 Working Party report.
- Main areas for examination were: EIB role in regional development, structural adjustment and energy and industry investment; prospects for Bank resources and sources of finance; Bank criteria on procurement and environmental considerations; co-operation with other sources of Community finance and with commercial banks and other financial institutions.
- Working Party completed Report earlier this year. Main recommendations of interest to UK were greater encouragement of international competitive bidding, more emphasis on lending for advance technology and introduction of floating rate borrowing and lending operations - an experimental 500 mecu to begin with. UK Directors pushed especially hard for the last of these (see separate brief).
- Other recommendations covered environmental considerations (strict application of existing regulation) continued high priority to less favoured regions and the Bank's capital base (no increase before 1986).
- The Report was accepted by the Board of Directors and will go to the Board of Governors for approval when they meet on June 4.

AGENDA ITEM 1: BUDGETARY DISCIPLINEECOFIN, 4 JUNE

Documents : Report of President of Ad Hoc Group (Doc. 7591/84, Annex A)
European Council draft conclusions (Annex B)
Telegrams reporting meetings of Ad Hoc Group (Annexes C & D)

UK OBJECTIVES

- (a) to get agreement that the Ad Hoc Group should continue to have responsibility for translating the European Council guidelines of budgetary discipline into effective measures; and that
- (b) if possible the Group should continue its work forthwith and report back to the July ECOFIN;
- (c) to restate the UK view that the options to be worked on should include procedures which are legally binding; and that the agricultural expenditure guideline should be given much greater precision;
- (d) to propose that the European Council be informed of work in hand the object of this is to make it easier for the Prime Minister to press for substantive discussion, if that seems desirable.

POINTS TO MAKE

1. Ad Hoc Group has made good start in defining problems and listing some options. But much more work still needed before we can arrive at "the measures necessary to guarantee the effective application" of the guidelines provisionally agreed by the March European Council. Need to consider how work is carried forward further.

(i) Reference Framework

2. Generally agree with the conclusions drawn by the President of the Ad Hoc Group regarding the operation of the reference framework,

in particular that the reference framework should be fixed in February so that decisions on agricultural prices can be taken within it. Assume the Commission will in any case, as they have promised, accompany the agricultural price proposals with a calculation to show that the expenditure consequences are compatible with the guideline.

3. One important question to be studied concerns the procedure for the Council to fix the reference framework each year. We will need to decide what form the procedure should take and whether and, if so, how the reference framework should be made binding.

4. Paragraph 8 on page 5 of the Presidency Report does not set out all the options mentioned at Ad Hoc Group. Is it necessary to assume changes in Article 203 of Treaty are ruled off the agenda? European Parliament has itself now proposed change in Article 203. So it is likely to be on agenda for discussions with them after European elections. Recognise the difficulties and delicacy of the subject before the elections. But at appropriate moment our officials will need to study the implications. Other options to be studied are a Council Regulation and changes in the Own Resources Decision.

(ii) Agricultural Expenditure

5. Need to give much greater precision to how the Commission's proposals will operate. In particular how to calculate the three year moving average and how to apply clawback. Incidentally, Presidency Report of the Ad Hoc Group implies a general agreement that there should be a "conjunctural reserve" for agricultural spending and that only the details are in question. This is not so. UK, and I understand other delegations, not convinced of merits of a conjunctural reserve.

(iii) Future Procedure

6. Presidency's Report says that the Group's work will be carried out "in accordance with appropriate procedures". What do you have in mind? Two suggestions. First, Ad Hoc Group to continue its work

forthwith and report back to July ECOFIN. No reason to hold up the work now. Second, suggest you as Presidency might let European Council have a short report letting them know that the work is in hand so that Heads of Government can take note and, if they judge appropriate, give us further instructions.

Background

7. The work of the Ad Hoc Group on Budgetary Discipline is reported in the two telegrams attached at Annexes C and D and in the Report of the Chairman of the Ad Hoc Group at Annex A, in a rough translation supplied by FCO. This is now first item on the ECOFIN agenda, but Sir M Butler will try to get it postponed until you arrive.

8. As the Report of the Ad Hoc Group acknowledges, there is still a great deal of work to be done. There are still large differences of view between delegations on the meaning of the European Council guidelines on budgetary discipline and how they should be applied; and a large number of technical details have simply not been examined in depth at all.

9. In particular, no agreement has been reached on whether the arrangements for budgetary discipline should constitute simply a political declaration by the Council or whether they should be given legal form and, if so, how. This applies both to the general "reference framework" for the Budget as a whole and for the agricultural guideline.

10. The Report of the Chairman of the Working Group is unsatisfactory in two main respects. First, it does not list all the possible options for putting the "reference framework" into legal form mentioned by the UK representatives at the two meetings. Indeed the Chairman's Report states explicitly that the question of Treaty amendment was entirely outside the Group's terms of reference. It is not yet clear whether this is because the French administration is opposed to Treaty amendment as an option or whether M. Delors simply wants to

avoid any reference to it in the run-up to the European Parliament elections. The French representative at the Ad Hoc Group told us it was the latter. Paragraph 3 of the points to make registers our continuing interest in Treaty amendment as a solution, though in a way which should not embarrass the French Presidency too much.

11. Second, the Chairman's Report does not bring out at all the further detailed work which is required to give the necessary precision to the agricultural guideline, as we have argued at both of the Group's meetings. The Report does, however, fairly record embodiment in a Council Regulation as an option for the agricultural guideline.

12. Given the European election campaign, we expect that Delors will want to have a pretty low key discussion on Monday. The main point of interest in the discussion should be to establish what happens next. The Chairman's Report refers (page 3, paragraph 5) to the Group's work "being completed in accordance with the appropriate procedures". You should press for a firm understanding that the Group will continue to have the responsibility for working the European Council guidelines up into a set of effective measures. We suggest that, simply in the interest of pressing ahead with the technical work, you propose that the Group should continue its work forthwith. There are, however, arguments which may lead the Presidency to defer any further work until after Fontainebleau. First, some delegations will not be prepared to negotiate seriously on the points still left in dispute until they know whether Fontainebleau has settled the question of budget imbalances. Second, it will be easier to raise the question of Treaty amendment after both the European elections and Fontainebleau are over. If the Presidency insists, we could go along with the postponement of any further work until immediately after Fontainebleau, provided it is clearly established that it will be in the hands of ECOFIN and the Ad Hoc Group. It might be helpful to have some discussion on this point of timing with M. Delors before the Council, if there is an opportunity.

13. Second, we recommend you to suggest that the Presidency should make a brief report to the European Council simply to inform the

Heads of Government that ECOFIN has taken the work on budgetary discipline in hand and will continue it. Sir Michael Butler's advice is that we should not press for a substantive discussion of budgetary discipline at the European Council and in particular should not try to change the texts provisionally agreed on 20 March. We think this is probably right, but would prefer to leave our options open until nearer the time. If there is deadlock at the European Council on budgetary imbalances, it may well be appropriate for the Prime Minister to make an issue of the lack of adequate progress on budgetary discipline. A brief procedural report from the ECOFIN Council would provide the necessary opening to do so.



(10)

C/

This contains the papers for both ECOFIN and the EIB.

You are familiar with all the subjects except the inland revenue tax things, which we are assured will not cause you any problems! (Item 5)

I have got the air tickets + invitations for the EIB dinner. We are staying at the residence: the Maunds will actually be at the dinner.

I will meet you at 10.11 at 7.10. Brian Urwin & Ian Byatt will join us at the airport.

B

CONFIDENTIAL

FROM: G INGHAM

DATE: 1 June 1984

CHANCELLOR OF THE EXCHEQUER

Copies as in attached list

ECOFIN COUNCIL, LUXEMBOURG, 4 JUNE

You will be accompanied at this Council by Mr Unwin, Mr Byatt (as Chairman of the EPC) and Miss Simpson. Mrs Helps, DTI, will be on hand in Luxembourg to assist with the insurance item. You will be leaving Heathrow at 8.20 am on LG 402, arriving at 10.25 and returning the following morning on LG 401 arriving at 7.25 am. The Council starting time has been put back to 10.30, which should allow you to get there before discussion begins.

Agenda

2. After a number of last minute changes the agenda now looks as follows:

1. Budgetary Discipline
2. Community Borrowing Operations (Community Loan Mechanism)
3. European Innovation Loans
4. Preparation for the London Economic Summit
5. Tax measures to encourage co-operation between undertakings in different member states
6. Non-life Insurance

Full briefing on all items is attached.

Budgetary Discipline (Brief 1)

3. Ministers will consider the work of the special high level group which was set up following last month's informal

BRIEF
INGHAM
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ECOFIN and on which the UK representatives are Mr Unwin and Mr Fitchew. Your main objective will be to ensure that work on making the March agreement genuinely effective continues under the aegis of ECOFIN (though not necessarily as a major item at Fontainebleu); and that all the options for making the measures legally binding remain on the table.

Community Borrowing Operations (Community Loan Mechanism)

4. You will recall that provisional agreement was reached at last month's meeting for an increase in the present 6 billion ecu CLM ceiling to 8 billion ecu. The Commission proposal received this week is generally acceptable although it will be necessary to enter a waiting reserve for the UK to allow consideration by the UK Parliament. There are a couple of difficulties with the proposal, however, on which we do not suggest you take the lead, but which you might usefully support if others (particularly the Germans and Dutch) raise them. These are the agreement last month to make a corresponding reduction in the Medium Term Financial Assistance facility which is ~~not~~ reflected in the Commission proposal; and the Commission proposal to delete references in the present CLM regulation to oil prices, which was not part of last month's agreement.

European Innovation Loans (Brief 3)

5. You indicated earlier this week that you wanted to see this proposal killed off at Monday's meeting and the briefing reflects this.

Preparation for the London Summit

6. Although this is intended to be a general preparatory discussion for the Summit, in practice discussion is likely to focus largely on international debt issues.

Tax measures (Brief 5)

7. This is not likely to be a troublesome item for us. We have managed to participate constructively in the working level discussion on these issues and where we have difficulties with the Commission proposals we can be fairly

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confident that most other member states will be ready to raise objections.

Non-life insurance (Brief 6)

8. This may well be troublesome. Although as far as the UK is concerned, very little progress has been made in the special high level group which was set up at the March ECOFIN, it is quite likely that an attempt will be made to portray the UK as being awkward. You should strongly resist this implication and oppose any attempt to drop the Court cases.

spent hour

Additional Briefing

9. We think it would be useful for you to raise bilaterally with Stoltenberg the question of supplementary financing for IDA. A brief is attached for this purpose (Brief 7).

lunch

Budgetary Imbalances

10. There are no special points we would wish you to raise on this in any private discussions with your colleagues. You are, of course, well acquainted with the main arguments if others raise the matter with you.

Discussion over Lunch

11. We understand that discussion over lunch is likely to focus principally on the question of budget discipline: but this will depend on the nature of the earlier discussion.

Personality Notes

12. As usual, a full set of personality notes is attached (top copy only).

EIB Board of Governors

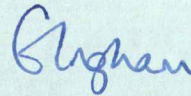
13. As you know, the annual meeting of the EIB Board of Governors is scheduled for Monday afternoon, probably immediately after the ECOFIN lunch. Separate briefing on this has already been submitted. You are staying in

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Luxembourg on Monday evening to attend the Board of Governor's annual dinner which this year will mark the retirement of the President of the Bank, Mr le Portz.

Press

14. Mr Culpin has arranged that UKREP will handle the arrangements for any brief necessary press briefing.



G INGHAM

CIRCULATION

Principal Private Secretary

Mr Unwin

Mr Byatt

Mr Fitchew

Mr Durie - Cabinet Office

Mr Fairweather - FCO

Mr Butt -UKREP (6 copies)

Steering Brief only

PS/Chief Secretary

PS/Financial Secretary

PS/Economic Secretary

Sir P Middleton

Mr Littler

Mr Ridley

Mr Battishill

Mr Lavelle

Mr Hopkinson

Mr Kelly

Mr Mortimer

Mr Beastall

Mr Gordon

Mr Culpin

Mr Bottrill

Mr Balfour B/E

Mr Garside - Paris

Mr Beamish - Bonn

Mr N L Wicks - Washington

Mr Richardson - Rome

Mr Alpe - I/R

Mrs Helps - DTI

EC FINANCE COUNCIL : 4 JUNE

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BRIEF 2 COMMUNITY BORROWING OPERATIONS

BRIEF 3 EUROPEAN INNOVATION LOANS

BRIEF 4 PREPARATION FOR THE LONDON SUMMIT

BRIEF 5 TAX MEASURES TO ENCOURAGE COOPERATION BETWEEN
UNDERTAKINGS IN DIFFERENT MEMBER STATES

BRIEF 6 INSURANCE

BRIEF 7 IDA SUPPLEMENTARY FINANCING

Insurance

4/6/84,

- Clearly not in position to discuss thoroughly today.

∴ suggest high level group continue work, with Presidency report as important input (ie not as exclusive basis for further work).

MTFA.

Ceilang

14.37

bn ecd.

INSURANCE DIRECTIVE

● Extremely disappointed ^{with} ~~in~~ progress (or lack of)

Tietmeyer proposal looked promising
but result now introduces more
complexion & restriction than genuine
liberalisation.

So -

- cannot endorse "zone of compromise"
it wd create X solve difficulties,
leaving UK market open while
giving UK Firms no genuine freedom
to operate in other member states.
[∴ "take note" of it only].

- ready to accept Presidency report as
input to continued high level group
discussions; but not as exclusive
basis for them. And not accept
deadline on group's work.

Can understand other member states defending
their corners. But they must not expect
UK to be fobbed off with unsatisfactory
compromise which could impede rather
than facilitate freedom of services.

[NB. must keep Commission committed
to court cases]



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AGENDA ITEM 6

GENERAL BRIEF

ECOFIN: 4 JUNE 1984

AGENDA ITEM 6: INSURANCE

Relevant documents:-

Report from Council Secretariat

7490/84

Report from the Chairman of the high level group

7501/84

UK OBJECTIVES

A liberal non life insurance services directive.

LINE TO TAKE

1. The UK wants a liberal directive fully consistent with the freedom of services provisions in the Treaty. That must surely be the main objective. We saw the Tietmeyer proposal, taken as a whole, as a promising basis for such a directive.
2. The UK appreciates the efforts made by the French Presidency and the Chairman of the high level working group to carry forward the work on the directive. But the solutions now proposed would make the directive even more restrictive and impede, not facilitate, freedom of services. We also doubt the compatibility of some of the "solutions" with the Treaty. The UK therefore does not believe that proposals in the Chairman's "compromise zone" form a basis for a solution. Others also have reservations on important points.
3. As for the Presidency report, we can certainly accept it as an additional element in the documentation. But we do not see it as an exclusive basis for the continuation of the discussion. The issues raised in the group are important and need fuller examination. The texts produced by the group will also need more careful consideration than there has been time for so far.

AGENDA
ITEM
6

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4. We are content that the high level group should continue.
/IF RAISED. We doubt if a deadline is appropriate. This complicated directive has been under discussion for 8 years: a hasty conclusion might well be an unsatisfactory one⁷.



BACKGROUND NOTE: GENERAL

Introduction

1. The papers before the Council are reports of the work of a high level official working group set up by ECOFIN in March to make some progress on the non-life insurance services directive, following more than eight years of fruitless negotiation.

2. The Commission was particularly anxious for the setting-up of a high level group; it considers that a similar group has been a success on the banking side. The Commission hoped that the actions that it is bringing in the European Court against some Member States (France, Denmark, ~~Belgium, Germany~~) over their restrictive implementation of the Non-Life Co-Insurance Directive (a first step to the writing of cross-frontier insurance) would put some pressure on these Member States to agree a services directive. The Commission, and we, also hoped that the group would consider a proposal for a directive limited to industrial and commercial (business) risks as a first step to freedom of services for all risks. This proposal was first aired by State Secretary Tietmeyer, of the German Finance Ministry, at ECOFIN in June last year. The "Tietmeyer proposal" was refreshingly liberal and, although only an outline, seemed to offer a basis for progress. However, at the March ECOFIN the French Presidency pushed through a mandate for the high level group to look at all the major outstanding issues on the draft services directive, while taking the Tietmeyer proposal into account. Neither the Commission nor Germany raised any objection to this mandate. Only the UK objected, unsuccessfully. Predictably, the group has not considered the Tietmeyer proposal as a whole but only some of its features in connection with a number of separate issues.

Outcome of the high level group's work

3. The Chairman's report 7501/84 says that it is not the intention to put to ECOFIN any of the texts which were discussed by the group and are included in the Council Secretariat's report. The Chairman says that, despite certain fundamental disagreements, there is sufficient consensus on an outline solution among the majority of delegations. He considers it unlikely that any solution on substantially different lines could be agreed in the near future.

4. It is quite true that the majority of delegations, which do not want freedom of services, had little difficulty in agreeing in principle on restrictive solutions to the problems discussed (eg the definition of "large" risks to which a simpler procedure should apply than to consumer risks) although even so, there is still a considerable number of reservations on the proposals. There was also a marked inclination to introduce a variety of "anti-abuse" provisions to invoke against insurers writing services business. The result is a number of undigested draft texts bristling with complicated provisions and restrictions, which are more likely to put insurers off than to facilitate the provision of services. There was relatively little support for the UK's liberal stance. Even the Commission and the Netherlands, who have been our only



allies, showed themselves willing to compromise on restrictive solutions more than might have been expected.

5. To be realistic, the outcome of the group's work is not surprising. Most other Member States, apart from the Netherlands, either do not allow the writing of insurance of risks in their territories on a "services" (cross-frontier) basis or severely restrict it. They have always been reluctant to open their markets to competition, particularly from the strong UK insurance industry. France, for example, would not want real freedom of services for balance of payments considerations as well as protecting her insurers. Moreover, most other Member States have a far more rigorous system of supervision of insurers, which, unlike the UK's includes the supervision of policy conditions. They plead the necessity of such controls for consumer protection, although, of course, industry and commerce needs no such protection. (Germany has of late been more liberal in its approach to the supervision of "business" insurance). The smaller countries, eg Belgium, Ireland and Greece are afraid that freedom of services would disrupt their national markets. This is more understandable and it might well be necessary in any directive to allow such countries a period of derogation from the directive, to allow them to adjust.

UK Policy

6. It is likely that the Presidency will want the Council to endorse the outlines of the "zone of compromise" in section 1) of 7501/84 (pages 3-6) as the basis of further work by the high level group. The UK should oppose this. The proposals are illiberal and some would create formidable practical difficulties which have not been thought through. They would make the directive even more complicated and restrictive and be of no benefit to UK insurers. The UK market would continue to be open while there would be little real possibility for UK insurers to write services business in other restrictive Member States. The UK's aim should be that the Council should merely note the report. But it is probable that the UK will get little support from other delegations. The Commission also now appears to think that the report represents a good starting point for future work.

7. In section 2) of 7501/84 (pages 6-8) the Presidency sets out areas where further work by the high level group is necessary and suggests that such further work, following "a precise programme" possible subject to a deadline, would lead to a solution. We clearly need to express our willingness to continue with the high level group, but emphasise again that the UK would not find acceptable the sort of possible "compromise" outlined in 7501/84 as a work programme. (However, it would be highly desirable that the frequency of group meetings should be reduced so that it does have to be, bounced, without notice, by complicated texts tabled at meetings).



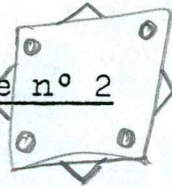
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8. In the long term, and provided that the Commission will proceed with them, the European Court cases look the best hope for progress. There is an important link between the Court cases and the Presidency report. The more that France and the restrictive Member States can present the report as a good basis for a compromise solution the more they can exert pressure on the Commission in effect to put the legal cases aside. Since it took the Commission years to decide to bring the cases and it is always open to the temptation to believe that "negotiation" is at last producing results, we need to prevent anything - short of course of a real solution - which would jeopardise the Commission's decision to go to the Court. There is of course no guarantee that legal action will help our cause: but with 8 Member States against us most of the time discussion alone will not bring us a satisfactory outcome.

Insurance Division
Department of Trade and Industry

31 May 1984

Document de séance n° 2



Compétence

Comité



Proposition de compromis de la Présidence

Objet : Financement communautaire de l'innovation dans les PME

1. Formule "transmission"

- garantie communautaire,
- cotisation des bénéficiaires : 1 %,
- différé de remboursement du capital et des paiements d'intérêt ne dépassant pas, en règle générale, trois ans.

2. Formule "transformation"

- garantie communautaire,
- cotisation des intermédiaires : 2 %,
- pas de participation de la Communauté aux plus-values,
- différé de remboursement du capital et des paiements d'intérêt ne dépassant pas, en règle générale, trois ans.

3. Dotation initiale de la Communauté aux comptes de mutualisation des risques :

6 mio ECUs.

600 à 1000

INSURANCE DIRECTIVE

Mr. B...

② Appreciate efforts of Presidency and Chairman of High Level Group. Report helpfully clarifies certain issues.

BUT UK disappointed at content of proposals in 'Zone of compromise', WHICH ANYWAY NEED FURTHER EXAMINATION

④ - Report seems to introduce more complication and restriction and not genuine liberalisation consistent with Treaty.

③ - Thought Tietmeyer proposal good basis for liberal interim directive for business risks - ready to accept Presidency report as input to continued high level group discussions, but not as exclusive basis for them.

⑤ If needed deadline not appropriate in view of complicated technical issues still to be resolved. 7

~~ALWAYS REMINDERS~~
MUST REMEMBER THAT

FUNDAMENTAL AND ESSENTIAL PURPOSE OF THE

① DRAFT DIRECTIVE IS TO GIVE EFFECT TO A RIGHT

WHICH ALREADY EXISTS IN THE TREATY

INSURANCE DIRECTIVE

Appreciate efforts of Presidency and Chairman of High Level Group.
Report helpfully clarifies certain issues.

BUT UK disappointed at content of proposals in 'Zone of compromise'

- Report seems to introduce more complication and restriction and not genuine liberalisation consistent with Treaty.
- Thought Tietmeyer proposal good basis for liberal interim directive for business risks - ready to accept Presidency report as input to continued high level group discussions, but not as exclusive basis for them.

If needed /deadline not appropriate in view of complicated technical issues still to be resolved.7

4/6/84.

AGENDA ITEM 2: COMMUNITY BORROWING OPERATIONS (COMMUNITY LOAN MECHANISM)

Relevant document : COM(84)309 Final (Commission proposal for amending regulation to Community Loan Mechanism)

UK Objectives

To agree to the Commission proposal subject to a waiting reserve to allow time for consideration by the UK Parliament.

Line to take

2. Can support the Commission's proposals to increase the CLM from 6 billion ecu to 8 billion ecu and to restrict the entitlement of any one member state to half of the facility, subject to a waiting reserve. This is necessary because the late arrival of the Commission document means that the UK Parliament has not yet had an opportunity to consider it. Since I understand the European Parliament also need to consider the proposal, our waiting reserve should cause no problem.

3. [If Germans and Dutch raise the question of corresponding reduction in Medium Term Financial Assistance facility] I agree with my German and Dutch colleagues on this; I had certainly understood that our provisional agreement last month to raise the CLM ceiling would be matched by a reduction in the MTFA.

4. [If Germans object to deletion of reference in CLM regulation to oil prices]

I have a good deal of sympathy with the point made by my German colleague. To make alterations of this kind to the regulation seems to be pre-judging the general review of the regulation due in 1986. If the changes to be made are not confined to the raising of the ceiling, then it would, in my view, be appropriate to make changes to the provisions relating to conditionality.

Background

5. The Commission's proposal now before the Council reflects the discussion at the informal meeting of Finance Ministers at Rambouillet last month. Provisional agreement was reached on an increase in the present 6 billion ecu ceiling to 8 billion ecu. It was also agreed that, in the future, no member state would have access to more than half of the facility and that there would be some corresponding abatement in the size of the Medium Term Financial Assistance facility. (The brief prepared for the Rambouillet meeting, together with the relevant extract from the record of that meeting, is attached for background information).

6. Although the Commission's proposal is generally acceptable to us it will be necessary to enter a waiting reserve to allow Parliament to consider the proposal in line with the normal Scrutiny procedure. This should not be a problem, since we understand that no agreement can be implemented until the European Parliament has also been consulted: in view of the forthcoming elections; final agreement is unlikely to take place until September or later. We are not sure if the French have taken this point on board, since we had understood that this was an issue which they wanted to have settled before the end of their Presidency.

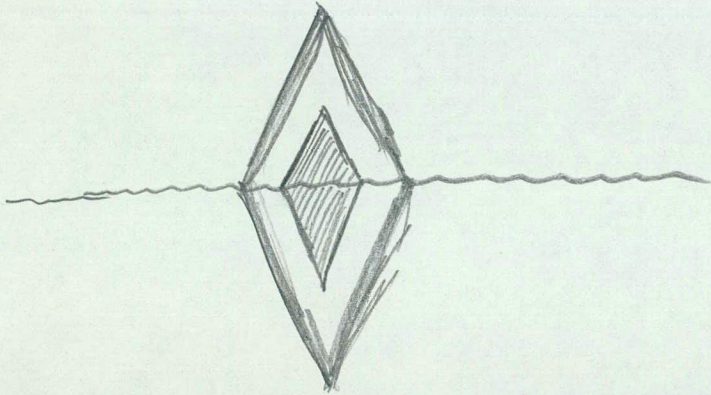
7. The Commission proposal makes no reference to the corresponding reduction in the MTFA facility which was agreed at last month's meeting. While there is no need to take the lead in raising this issue, if the Germans and Dutch do so, it would be worth supporting them.

8. The Commission proposal also includes a change which was not discussed at Rambouillet: to delete the reference to the increase in oil prices on the grounds that it is no longer relevant. This would appear to be pre-judging the general review of the regulation which is due in 1986. The discussions on the CLM so far have specifically been concerned with the size of the facility following the French

rawing last year. Again, there is no need to take the lead in questioning the Commission proposal on this. But we suspect that the Germans will object strongly and if so it would be worth giving them support, pointing out that if wider changes are to be made, then the conditionality provisions attaching to the mechanism could usefully be improved.

Fall back if absolutely pushed :-

- 1 - Limit community contribution to 6 mcr as a ceiling
- 2 - If Guarantee Fund runs out of money, premium must automatically be raised.



Meeting document No 1

Compromise proposal from the Presidency

Subject: Tax measures to encourage co-operation between undertakings from different Member States

I. German joint management

Agreement on text proposed by German delegation.
(7444/84, Annex I, right-hand column)

II. Share exchanges

Agreement on:

1. Inclusion of share exchange transactions in the scope of the Directive.
2. Text of the definition proposed by the Commission.
(see 7444/84, foot of page 2)

III. Withholding tax levied in the Federal Republic of Germany

1. Agreement on the solutions and texts proposed by the Commission with ALTERNATIVE I (see 7444/84, Annex II).

2. Mandate for the Commission to examine the possible consequences of the parent and subsidiary companies Directive on dividend flow (problem of the deviation of dividend flow) and to report to the Council submitting any appropriate proposals.

3. Statement by the German delegation to be entered in the Council minutes to the effect that:

- it confirms that the rate of the withholding tax which the Federal Republic of Germany at present applies to dividends paid to parent companies located in the Netherlands is 15%;
- it is willing to continue efforts to find a long-term solution satisfactory to its trading partners for the problem of the level of the withholding tax applied in the Federal Republic of Germany to dividends paid abroad.

IV. Arbitration procedure

1. The arbitration procedure will be set up by means of a convention based on Article 220 of the EEC Treaty.
2. The convention will not make any provision for jurisdiction by the Court of Justice.

V. Prior information and consultation procedure on tax matters

Mandate for the Permanent Representatives Committee to examine the Commission proposal (11494/81) and to report to the next Council meeting on Economic and Financial Questions.

VI. Further proceedings

Mandate for the Permanent Representatives Committee

1. to continue at very frequent meetings the examination of the three proposals relating to the four problems being examined by the Council, namely:

- the proposal on mergers, divisions, contributions of assets and share exchanges,
- the proposal on parent and subsidiary companies,
- the Arbitration Procedure proposal

so that they may be finally adopted in the very near future, if possible at the next Council meeting on Economic and Financial Questions (9 July).

2. to continue actively the examination of the other proposals covered by the mandate from the Council meeting on Economic and Financial Affairs on 12 March 1984, namely:

- the proposal on the European Economic Interest Grouping,
- the proposal on Indirect Taxation of Securities Transactions.

3. to examine the Commission proposal for the establishment of a prior information and consultation procedure on tax matters and to report to the next Council meeting on Economic and Financial Questions.

Points to Make

Admire Presidency's efforts to reach solutions, could accept the proposals in working document number 1 if this would help an overall agreement, but doubt whether it is realistic to envisage final agreement on texts as early as 9 July.

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AND TO IMMEDIATE UKREP BRUSSELS
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FM UKREP BRUSSELS

ECOFIN COUNCIL 4 JUNE 1984
INSURANCE SERVICES

SUMMARY

1. NO SUBSTANTIVE CONCLUSIONS ON HIGH LEVEL GROUP REPORT. WORK TO CONTINUE UNDER IRISH PRESIDENCY.

DETAIL

2. DELORS (PRESIDENCY) RECALLED THAT THE TIETMEYER PROPOSAL HAD LED TO THE ESTABLISHMENT OF THE HIGH LEVEL GROUP WITH A REMITT TO IDENTIFY THE SCOPE FOR COMPROMISE ON MAJOR POINTS. BARTHELEMEY (CHAIRMAN OF HIGH LEVEL GROUP) EMPHASISED AT SOME LENGTH THE PROGRESS AND DEGREE OF COMPROMISE HE HAD IDENTIFIED. TUGENDHAT (COMMISSION) EXPRESSED APPRECIATION OF THE GROUP'S WORK WHICH, WHILST FAILING TO ACHIEVE AGREEMENT, OPENED UP FUTURE PROSPECTS. HE NOTED HOWEVER THAT FREEDOM OF SERVICES WAS A RIGHT DERIVING FROM ARTICLES 59 AND 60 OF THE TREATY DIRECTLY. IT WAS THE COUNCIL'S TASK TO FACILITATE SUCH FREEDOM AND NOT CIRCUMSCRIBE IT WITH RESTRICTIONS. DELORS THEN ASKED FOR VIEWS ON FUTURE PROCEDURE AND ON THE ACCEPTABILITY OF THE ZONE OF COMPROMISE IDENTIFIED.

3. THE CHANCELLOR OF THE EXCHEQUER AGREED THAT TREATY RIGHT WERE INVOLVED AND CONSIDERED IT SCANDALOUS THAT THESE HAD NOT YET BEEN PUT INTO EFFECT. HE APPRECIATED THE EFFORTS MADE BY THE PRESIDENCY BUT REGARDED THE RESULTS AS DISAPPOINTING; THE TIETMEYER PROPOSAL HAD OPENED UP GENUINE SCOPE FOR AGREEMENT ON A LIBERAL REGIME FOR BUSINESS RISKS, MAJOR ELEMENTS OF WHICH HAD NOW BEEN CUT AWAY. HE COULD ACCEPT THE REPORT AS AN IMPUT FOR FURTHER DISCUSSION BUT NOT AS A BASIS FOR AGREEMENT. TIETMEYER (GERMANY) REGRETTED THAT HIS ORIGINAL PROPOSAL HAD NOT BEEN CARRIED FURTHER. HE PREFERRED AN APPROACH BASED ON DIFFERENTIATING BETWEEN MAJOR AND OTHER RISKS. BUT THE WORK HAD CLARIFIED SOME ISSUES AND HE CONCLUDED, WITH SOME SCEPTICISM, THAT IT SHOULD BE CONTINUED.

4. MOST OTHER DELEGATIONS, ALTHOUGH COMMENDING THE EFFORTS OF THE PRESIDENCY, SAID THAT THE PROPOSED ZONE OF COMPROMISE REQUIRED FURTHER CONSIDERATION. ALL WERE CONTENT TO ACCEPT CONTINUATION OF THE HIGH LEVEL GROUP ALTHOUGH LE POIVRE (BELGIUM) WARNED AGAINST THIS GROUP SIMPLY BECOMING ANOTHER WORKING PARTY.

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5. SUMMING UP DELORS SAID THAT THE COUNCIL HAD CLEARLY NOT AGREED ON THE CONTENT OF THE ZONE OF COMPROMISE. CONSEQUENTLY SOME DOUBT MUST BE EXPRESSED ABOUT THE VALUE OF CONTINUING WITH THE HIGH LEVEL GROUP. ITS ORIGINAL RAISON D'ETRE HAD BEEN TO SEEK A POLITICAL SOLUTION TO LONGSTANDING PROBLEMS. IF SUCH SOLUTIONS COULD NOT BE FOUND IN A SHORT PERIOD THE LOGIC OF CONTINUING WITH THIS APPROACH WAS GREATLY REDUCED.

6. DUKES (IRELAND) COMMENDED THE WORK DONE BY THE FRENCH PRESIDENCY IN THIS DIFFICULT AREA. THE WORK OF THE HIGH-LEVEL GROUP HAD BEEN USEFUL AND WOULD BE CARRIED FORWARD UNDER THE IRISH PRESIDENCY KEEPING ALL OPTIONS OPEN.

FCO ADVANCE DESKBY:

FCO - RENWICK, FAIRWEATHER, PARKER, MARSDEN

CAB - WILLIAMSON, DURIE

ADVANCED AS REQUESTED

DTM - MUIR, HELPS

TSY - P/S CHANCELLOR, LITTLER, UNWIN, FITCHEW, INGHAM

B/E - BALFOUR (BANK OF ENGLAND)

UKREP BRUSSELS DIST - BUTT, E-DAUKES, S-WALWYN / ECON-INDUS

MAUD

FRAME ECONOMIC
ECD(1)

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FRAME ECONOMIC
DESKBY 050800Z
FM LUXEMBOURG 041910Z JUN 84
TO IMMEDIATE FCO
TELEGRAM NUMBER 135 OF 4 JUNE
AND TO IMMEDIATE UKREP BRUSSELS
INFO PRIORITY PARIS
INFO ROUTINE BRUSSELS COPENHAGEN THE HAGUE ROME DUBLIN BONN ATHENS
LUXEMBOURG

FROM UKREP BRUSSELS

ECOFIN COUNCIL 4 JUNE 1984
INNOVATION LOANS

SUMMARY

1. PRESIDENCY FLOATED A COMPROMISE PROPOSAL WHICH ALL DELEGATIONS, WITH THE EXCEPTION OF THE UK, WERE ABLE WITH VARYING DEGREES OF ENTHUSIASM TO ACCEPT. PRESIDENCY CONCLUDED THAT THE COMMISSION'S PROPOSAL WAS WITHDRAWN.

DETAIL

2. DELORS (PRESIDENCY) PROPOSED A COMPROMISE. THERE SHOULD BE A 1 PER CENT PREMIUM FOR THE TRANSMISSION MECHANISM: A 2 PER CENT PREMIUM AND THE ABANDONMENT OF PROFIT SHARING FOR THE TRANSFORMATION MECHANISM: AND AN INITIAL COMMUNITY BUDGET CONTRIBUTION OF 6 MECU.

3. SCHLECHT (GERMANY) DOUBTED WHETHER AD HOC SOLUTIONS OF THIS SORT WOULD HAVE MUCH IMPACT BUT WAS PREPARED TO WORK ON THE BASIS OF THE COMPROMISE. HE WOULD PREFER PREMIA OF 1 AND A HALF PER CENT FOR TRANSMISSION AND 2 AND A HALF PER CENT FOR TRANSFORMATION. CHRISTOPHERSEN (DENMARK) SUPPORTED THE COMPROMISE.

3. THE CHANCELLOR OF THE EXCHEQUER PRAISED THE EFFORTS WHICH THE PRESIDENCY HAD DEVOTED TO THIS ISSUE BUT SAID HE RETAINED SERIOUS DOUBTS ABOUT ITS PRACTICAL EFFECTS AND COSTS. HE DID NOT THINK IT WAS SENSIBLE TO HAVE A SINGLE SCHEME FOR THE WHOLE COMMUNITY. IF THE AIM WAS TO IMPROVE THE PROVISION OF EQUITY FINANCE LIBERALISATION OF CAPITAL MOVEMENTS WAS THE BEST WAY OF DOING IT. THE UK'S EXPERIENCE WITH ITS OWN LOAN GUARANTEE SCHEME HAD BEEN THAT EVEN WITH ADMINISTRATION BY MAJOR BANKS AND A PREMIUM OF 3 PER CENT THERE HAD BEEN LOSSES OF POUNDS 40 MILLION. THE COST ESTIMATE IN THE COMMISSION'S PROPOSAL THEREFORE SEEMED UNREALISTIC. FINALLY, ACCOUNT HAD TO BE TAKEN OF THE CURRENT SERIOUS OVERSPENDING IN THE COMMUNITY BUDGET. NOW WAS NOT THE TIME FOR FINANCE MINISTERS TO TAKE ON A NEW, OPEN-ENDED EXPENDITURE COMMITMENT. IN THE LIGHT OF ALL THESE CONSIDERATIONS, AND HAVING CAREFULLY CONSIDERED THE VARIOUS PROPOSALS, HE BELIEVED THE IDEA SHOULD NOW BE DROPPED.

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5. ALL OTHER DELEGATIONS THEN DECLARED, WITH VARYING DEGREES OF ENTHUSIASM, THAT THEY COULD SUPPORT THE COMPROMISE. DOYLE (IRELAND) AND NOTERDAEME (BELGIUM) WERE AMONG THOSE WHO REGRETTED THE DILUTION OF THE ORIGINAL PROPOSAL. RUDDING (NETHERLANDS) ON THE OTHER HAND EXPRESSED SYMPATHY WITH THE UK'S RESERVATIONS BUT SAID HE WOULD SUPPORT AN EXPERIMENTAL SCHEME PROVIDED IT WAS SUBJECT TO EARLY REVIEW. EMMANUEL (FRANCE) URGED THE COUNCIL TO TAKE A DECISION. HE BELIEVED THAT GERMANY WOULD ACCEPT THE PREMIA IN THE COMPROMISE RATHER THAN BLOCK THE SCHEME.

6. ORTOLI MADE AN APPEAL FOR SUPPORT FOR THE COMPROMISE. THE COMMISSION HAD GIVEN A LOT OF GROUND. THERE WERE 12 MECU IN THE BUDGET AND THE PROPOSAL WAS NOW TO USE ONLY 6 MECU. FINANCIAL INTERMEDIARIES WOULD PUT UP 50 PER CENT OF THE CAPITAL WHICH WAS A MUCH HIGHER PROPORTION THAN IN THE UK SCHEME AND SHOULD THEREFORE INDUCE GREATER CAUTION.

7. SCHLECHT SAID THAT THE 12 MECU SHOULD BE PUT TOWARDS THE 1984 BUDGET OVERRUN AND THE 6 MECU SHOULD BE FOUND OUT OF NEXT YEAR'S BUDGET. HE DECLARED THAT THE UK'S RESERVATIONS WERE SIMILAR TO THEIRS BUT THEY FELT IT NECESSARY TO BREAK THE IMPASSE. HE ACCEPTED THE PREMIA IN THE PRESIDENCY'S COMPROMISE.

8. DELORS, NOTED THAT THIS DECISION REQUIRED UNANIMITY. HE ASKED WHETHER ANY DELEGATION REMAINED OPPOSED. WHEN THE CHANCELLOR CONFIRMED THAT HE COULD NOT SUPPORT THE PROPOSALS, DELORS ASKED WHETHER THE UK COULD ABSTAIN. THE CHANCELLOR SAID OUR POSITION WAS ONE OF OPPOSITION. DELORS THEREFORE CONCLUDED THAT THE PROPOSAL WAS WITHDRAWN.

FCO ADVANCE TO:

FCO - RENWICK, FAIRWEATHER, PAUL
CAB - WILLIAMSON, LAMBERT
DTI - GRAHAM
TSY - PS/CHANCELLOR, UNWIN, FITCHEW, GORDON
B/E - BALFOUR (BANK OF ENGLAND)

UKREP BRUSSELS DIST - BUTT, S-WALWYN / ECON, IND

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DESKBY 050800Z

FRAME ECONOMIC

FM LUXEMBOURG 041905Z JUN 84

TO IMMEDIATE FCO

TELEGRAM NUMBER 134 OF 4 JUNE

AND TO IMMEDIATE UKREP BRUSSELS

INFO BRUSSELS COPENHAGEN THE HAGUE ROME DUBLIN PARIS BONN
ATHENS.

FROM UKREP BRUSSELS.

ECOFIN COUNCIL : 4 JUNE.

COMMUNITY LOAN MECHANISM.

SUMMARY.

1. COUNCIL AGREED IN PRINCIPLE TO INCREASE CEILING FOR COMMUNITY LOANS TO 8 BILLION ECU. POSSIBLE OFF-SETTING REDUCTION IN MEDIUM TERM FINANCIAL ASSISTANCE (MTFA) TO BE CONSIDERED BY MONETARY COMMITTEE AND INFORMAL ECOFIN COUNCIL IN SEPTEMBER.

DETAIL.

2. INTRODUCING THE PROPOSAL ORTOLI (COMMISSION) SAID THAT AN INCREASE OF 2BN ECU WAS REQUIRED BECAUSE MEANS WERE STILL NEEDED TO OFFER HELP TO MEMBER STATES IN EFFECTING ADJUSTMENTS POLICIES. IT WAS ALSO DESIRABLE TO PROVIDE COMMUNITY LOANS OR MTFA FUNDS ON SIMILAR TERMS, AND IN PARTICULAR TO RESPECT THE PRINCIPLE OF EQUAL TREATMENT FOR MEMBER STATES. THIS EXPLAINED THE PROPOSAL FOR A 50 PER CENT LIMIT ON ACCESS TO COMMUNITY LOANS FOR ANY ONE COUNTRY. THE PROPOSED DELETION OF THE REFERENCE TO VARIATIONS IN OIL PRICES MERELY REFLECTED THE FACT THAT THIS REFERENCE HAD BECOME RATHER OUTDATED.

3. TIETMEYER (GERMANY) SAID THAT THEY STILL HAD RESERVATIONS ABOUT THIS PROPOSAL. AS A COMPROMISE THEY WERE PREPARED TO AGREE TO THIS PROPOSAL PROVIDED THERE WAS A CLEAR COMMITMENT TO REDUCE THE MTFA BY AN EQUIVALENT AMOUNT. IT WOULD BE HELPFUL IF THE MONETARY COMMITTEE COULD EXAMINE WHY THE MTFA HAD NOT BEEN USED AND PERHAPS RECOMMEND CHANGES TO MAKE IT MORE ATTRACTIVE, WHICH COULD BE CONSIDERED AT THE INFORMAL COUNCIL IN SEPTEMBER. THEY ALSO HAD SOME DOUBTS ABOUT REMOVING REFERENCES TO OIL PRICE DEVELOPMENTS AHEAD OF THE REVIEW OF THE MECHANISM DUE IN 1986.

4. THE CHANCELLOR OF THE EXCHEQUER, EMMANUEL (FRANCE) AND KORTEWEG (NETHERLANDS) ALL AGREED WITH THE GERMAN POSITION. KORTEWEG ALSO POINTED OUT THAT ANY REDUCTION IN THE MTFA WOULD IMPLY CONSEQUENT REDUCTIONS IN BOTH DRAWERS' AND CONTRIBUTORS' QUOTAS. HE ASKED WHAT HAD BECOME OF THE DECISION AT THE INFORMAL COUNCIL TO SEEK COMPARABLE CONDITIONALITY REQUIREMENTS IN THE TWO INSTRUMENTS.

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5. GORIA (ITALY) WELCOMED THE COMMISSION'S PROPOSAL BUT SAID THAT THE REVIEW OF THE MTFA SHOULD BE CONDUCTED WITHIN THE GENERAL REVIEW OF EMS WITHOUT ANY PRE-CONDITIONS ABOUT ITS SIZE. NOTERDAEME (BELGIUM) ALSO ARGUED AGAINST ANY PRIOR DECISION ON REDUCING THE MTFA AT THIS STAGE. DOYLE (IRELAND) WHILE WELCOMING THE PROPOSED INCREASE IN THE MECHANISM POINTED OUT THAT THE 50 PER CENT CEILING WOULD STILL ALLOW 2 LARGE MEMBER STATES TO PRE-EMPT THE WHOLE OF THE AVAILABLE FUNDS.

6. THIETMEYER RE-ITERATED HIS POSITION. GERMAN AGREEMENT TO AN INCREASE IN THE MECHANISM WAS CONDITIONAL ON AN UNDERTAKING FROM THE COUNCIL THAT THE MTFA REVIEW WOULD RESULT IN AN OFF-SETTING 2BN REDUCTION IN THAT FACILITY.

7. DELORS (PRESIDENCY), SUMMING UP, SAID THAT THE AGREEMENT REACHED AT THE INFORMAL COUNCIL IN MAY HAD TWO ELEMENTS. THE INCREASE IN THE COMMUNITY LOAN MECHANISM WAS TO BE ACCOMPANIED BY A REVIEW OF EMS BY THE MONETARY COMMITTEE AND THE COMMITTEE OF GOVERNORS, WITH SPECIFIC REFERENCE TO THE WORKINGS OF THE MTFA INCLUDING THE POSSIBILITY OF A 2BN ECU REDUCTION. ON THIS BASIS THE COMMISSION PROPOSAL COULD BE SENT TO THE PARLIAMENT FOR CONSULTATION AND HOPEFULLY ADOPTED THEREAFTER AS AN 'A' POINT.

FCO ADVANCE TO (DESKBY):

FCO	-	RENWICK	FAIRWEATHER	PARKER	MARSDEN	
CAB	-	WILLIAMSON	DURIE			ADVANCED AS REQUESTED
TSY	-	PS/CHANCELLOR	LITTLER	UNWIN	FITCHEW	INGHAM
BANK	-	BALFOUR				

UKREP DIST : BUTT/S-WALWYN - ECON

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ED/AFD
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PLUS FCO

~~SECRETARY~~
MR COLVIN
MR D WILKINSON
MR G STAPLTON
~~MR J J BROWN~~
MR D R C DURIE
MR T J BURR

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PLUS OG

MR P KEN
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RECLS

MR SAUFER
B/ENGL

~~MR J B UNWIN~~
~~MR J G LITTLE~~
~~MR J G LITTLE~~
MR JE MORTIMER
MR GW. HOPKINSON
PS/CHANCELLOR

MAFF

PERMANENT SECRETARY

GR 700

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DESKBY 050800Z
FRAME ECONOMIC
FM LUXEMBOURG 041900Z JUN 84
TO IMMEDIATE FCO
TELEGRAM NUMBER 133 OF 4 JUNE
AND TO IMMEDIATE UKREP BRUSSELS
INFO BRUSSELS COPENHAGEN THE HAGUE ROME DUBLIN PARIS BONN
ATHENS.

IMMEDIATE

ADVANCE COPY

FROM UKREP BRUSSELS.

ECOFIN COUNCIL ON 4 JUNE 1984.
LONDON ECONOMIC SUMMIT.

SUMMARY.

1. AN EXCHANGE OF VIEWS CONCENTRATING ON U S INTEREST RATES AND INDEBTEDNESS.
2. ORTOLI (COMMISSION) INTRODUCED THE SUBJECT. IT WOULD BE A STOCKTAKING SUMMIT. THE PROBLEMS WERE RECOVERY, THE INTERNATIONAL FINANCIAL SITUATION AND PROTECTIONISM. HE CONCENTRATED ON SECOND, ESPECIALLY EFFECT OF HIGH INTEREST RATES IN DEVELOPING COUNTRIES.
3. DISCUSSION CONTINUED OVER LUNCH.
4. THE CHANCELLOR OF THE EXCHEQUER SAID THE MAIN ISSUES WOULD BE U S BUDGET POSITION AND INTEREST RATES. THE SUMMIT SHOULD RE-AFFIRM SOUNDNESS OF OUR POLICIES AND DISCUSS WAYS TO MAKE MARKETS

AFFIRM SOUNDNESS OF OUR POLICIES AND DISCUSS WAYS TO MAKE MARKETS WORK BETTER. GREATER MARKET FLEXIBILITY WAS THE ONLY LASTING WAY TO REDUCE UNEMPLOYMENT. U S RECOGNISED NEED FOR ACTION TO REDUCE ITS DEFICIT. GETTING SOME COMMITMENT TO SPEED OF ACTION WOULD BE BETTER THAN DISPUTE. THERE WAS A NEED TO AVOID A DEBTORS' CARTEL. ONE COULD CONSIDER REWARDING THOSE COUNTRIES WHICH HAD MADE ADJUSTMENTS (MEXICO, BRASIL) IN THE FORM OF MORE RESCHEDULING. GOVERNMENTS HAD A LIMITED ROLE IN THIS AREA AND THE IMF AND BANK SHOULD LEAD.

5. ARSENIS (GREECE) ARGUED FOR NEW APPROACH TO DEBT ISSUE. U S INTEREST RATES WERE HIGH BECAUSE MARKETS THOUGHT THE U S WAS NOT COPIANT WITH ITS STRUCTURAL BUDGET PROBLEM. IF THE U S COULD CONVINCENCE MARKETS THIS WAS NOT SO, INTEREST RATES WOULD FALL. THE FED WOULD THEN RELAX. IF INTEREST RATES REMAINED HIGH, ONE COULD NOT DEAL WITH DEBT PROBLEM COUNTRY BY COUNTRY. DOYLE (IRELAND) AGREED WITH ARSENIS. PART OF THE PROBLEM WAS THAT U S BORROWERS DID NOT PAY FULL INTEREST RATES (TAX RELIEF). EUROPE HAD ADJUSTED FISCALLY, DEBTOR COUNTRIES WERE ADJUSTING POLITICALLY BUT U S HAD NOT. RUDING (NETHERLANDS) ASKED WHETHER IT WAS POSSIBLE FOR THE SUMMIT TO COME UP WITH NEW SOLUTIONS. INTEREST RATE CAPPING NEEDED POSITIVE DECISIONS - WERE WE WILLING TO PUT UP THE MONEY? CHRISTOPHERSEN (DENMARK) THOUGHT U S BANKING SYSTEM AS A WHOLE COULD DO MORE TO REFINANCE DEBT.

6. DE CLERCQ (BELGIUM) SPOKE OF A COLLECTIVE RESPONSIBILITY TO DEVELOPING COUNTRIES, SAID THAT FIRE-FIGHTING WAS NOT ENOUGH AND SUGGESTED MORE GLOBAL ACTION. DELORS (FRANCE) SPOKE OF DEVELOPING COUNTRIES' NEED FOR AN ENCOURAGING MESSAGE FROM THE SUMMIT AND OF THE DANGERS OF ESCALATION IN THEIR PROBLEMS. ORTOLI SIDED WITH THE CHANCELLOR RATHER THAN ARSENIS AND ARGUED THE NEED TO GET THE INTERNATIONAL FINANCIAL SYSTEM BACK TO EQUILIBRIUM.

7. THE CHANCELLOR EMPHASISED THE NEED FOR THE SUMMIT TO COMMUNIQUE TO AVOID UNREALISTIC EXPECTATIONS. HE DID NOT WANT E C TO PAY OR TO BAIL OUT U S BANKS. THE SITUATION WAS BETTER THAN A YEAR AGO. INTEREST RATES WERE HIGHER, BUT TRADE HAD INCREASED AND DEVELOPING COUNTRIES GAINED MORE FROM LATTER THAN THEY LOST FROM FORMER. THEY SHOULD BE ENCOURAGED TO WELCOME INWARD INVESTMENT.

8. STOLTENBERG SAID MESSAGE FROM THE SUMMIT SHOULD BE REALISTIC: IT COULD NOT WORK OUT NEW SOLUTIONS IN FOUR DAYS. THE MESSAGE SHOULD BE:

- (1) STRONG COMMITMENT TO ECONOMIC RECOVERY IN INDUSTRIAL COUNTRIES;
- (2) HELP WITH INTEREST RATE PROBLEMS BY OPENING OUR MARKETS TO DEVELOPING COUNTRIES;
- (3) ON DEBT, SUPPORT IMF AND CONSIDER RESCHEDULING, PAYING PARTICULAR ATTENTION TO THOSE COUNTRIES WHICH HAD MADE ADJUSTMENTS. INTEREST RATE CAPPING WOULD PRODUCE PROBLEMS. HOW COULD WE ENSURE THAT COMMERCIAL BANKS WOULD GO ON LENDING? HEADS OF GOVERNMENT SHOULD RECOGNISE PROBLEMS BUT NOT COMMIT THEMSELVES TO NEW SOLUTIONS.

9. ARSENIS SAID THAT AT LEAST DEVELOPING COUNTRIES SHOULD GET AN ENCOURAGING MESSAGE. DELORS AND ORTOLI SPOKE OF THE DANGERS OF A SERIOUS WORSENING OF DEVELOPING COUNTRY POSITION LEADING TO ACTION BY THEM WHICH COULD FRIGHTEN MARKETS. THE CHANCELLOR THOUGHT ONLY ONE OR TWO DEVELOPING COUNTRIES WERE PREPARED TO PROVOKE TURMOIL IN

A SERIOUS WORSENING OF DEVELOPING COUNTRY POSITION LEADING TO ACTION BY THEM WHICH COULD FRIGHTEN MARKETS. THE CHANCELLOR THOUGHT ONLY ONE OR TWO DEVELOPING COUNTRIES WERE PREPARED TO PROVOKE TURMOIL IN MARKETS. IT WOULD TAKE A LONG TIME FOR THE WORLD TO GET OUT OF THE DIFFICULTIES CAUSED BY DEBT.

10. DELORS CONCLUDED BY SUGGESTING A STUDY BY THE MONETARY COMMITTEE OF THE WAY THE DEBT PROBLEM COULD DEVELOP OVER THE MEDIUM TERM - 1985, 86, 87 AND 88. THIS COULD FIT IN WITH WORK OF G10. CAMDESSUS AGREED TO UNDERTAKE THIS AND SAID THEY WOULD REPORT BY SEPTEMBER. THIS MIGHT BE AN ISSUE FOR THE INFORMAL ECOFIN. DOYLE DID NOT COMMENT.

FCO ADVANCE TO:

FCO - FAIRWEATHER
CAB - WILLIAMSON DURIE COLVIN
TSY - PS/CHANCELLOR LITTLER BYATT UNWIN
BANK - BALFOUR

UKREP DIST: BUTT/S-WALWYN - ECON

MAUD

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GR1500

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FRAME ECONOMIC

DESKBY 050800Z

FM LUXEMBOURG 041855Z JUN 84

TO IMMEDIATE FCO

TELEGRAM NUMBER 132 OF 4 JUNE

AND TO IMMEDIATE UKREP BRUSSELS

INFO ROUTINE ALL EC POSTS

FROM UKREP BRUSSELS

ECOFIN COUNCIL 4 JUNE 1984

BUDGET DISCIPLINE

SUMMARY

1. FAIRLY CONSTRUCTIVE DISCUSSION LEADING TO A HELPFUL SUMMING UP BY PRESIDENCY. REPORT TO BE MADE TO FOREIGN AFFAIRS COUNCIL, IN PREPARATION FOR EUROPEAN COUNCIL, HIGHLIGHTING MAIN OUTSTANDING POINTS. OPTIONS FOR IMPLEMENTATION TO INCLUDE TREATY AMENDMENT AND REGULATIONS. FEW DELEGATIONS GAVE STRONG SUPPORT TO THESE OPTIONS, BUT MOST WERE POSITIVE ABOUT OTHER POINTS. WIDE SUPPORT FOR FIXING REFERENCE FRAMEWORK IN FEBRUARY AND CONSIDERABLE OPPOSITION TO AN AGRICULTURAL RESERVE. LINKAGE BETWEEN PROGRESS ON THIS ISSUE AND BUDGETARY IMBALANCES AND OWN RESOURCES WAS FREQUENTLY MADE.

DETAIL

2. DELORS (PRESIDENCY) INVITED A TOUR DE TABLE ON THE BASIS OF THE REPORT OF THE HIGH LEVEL GROUP. HE ENCOURAGED MINISTERS TO SPEAK FRANKLY: COMMENTS MADE TODAY WOULD NOT BE QUOTED AGAINST THEM.

3. THE CHAIRMAN OF THE HIGH LEVEL GROUP INTRODUCED THE REPORT FOR WHICH HE TOOK PERSONAL RESPONSIBILITY. THERE WAS AN URGENT NEED FOR BUDGET DISCIPLINE: IT WAS NOT INCONSISTENT WITH THE DEVELOPMENT OF THE COMMUNITY, RATHER THE CONTRARY: NOR SHOULD IT PUT AN ABSOLUTE LIMIT ON POLICIES SINCE THERE WAS ALWAYS SCOPE FOR USING RESOURCES MORE EFFICIENTLY: NOR DID IT IMPLY A UNIFORM RATE OF GROWTH FOR ALL POLICIES. HE ARGUED THAT THE MAIN PROPOSALS FOR BUDGET DISCIPLINE NEED NOT UPSET THE INSTITUTIONAL BALANCE. DETAILED IMPLEMENTING PROVISIONS WOULD HAVE TO BE WORKED OUT IN A PROCEDURE TO BE DECIDED.

4. TUGENDHAT AGREED IN LARGE MEASURE WITH THE REPORT BUT URGED RESPECT FOR THE EXISTING INSTITUTIONAL BALANCE. GUIDELINES AND RULES WERE NEEDED BUT WOULD ONLY BITE IF FINANCE MINISTERS GOT A GRIP ON THE DECISIONS WHICH WERE TAKEN IN SPECIALIST COUNCILS.

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5. ARSENIS (GREECE) SAID BUDGET DISCIPLINE WAS LINKED TO OTHER, UNDECIDED, ELEMENTS IN THE STUTTGART PACKAGE. HE WARNED AGAINST TRYING TO APPLY NATIONAL BUDGET PROCEDURES AT COMMUNITY LEVEL. COMMUNITY EXPENDITURE SHOULD BE DETERMINED BY NEEDS. STOLTENBERG (GERMANY) ARGUED THAT THE 1984 OVERRUN MADE THE CASE FOR BUDGET DISCIPLINE: AND WITHOUT IT A 1.4 PER CENT CEILING WOULD BE QUICKLY EXHAUSTED. ON THE OUTSTANDING ISSUES IN THE REPORT, HE FAVOURED SETTING THE FRAMEWORK IN FEBRUARY, EMBODYING THE ARRANGEMENTS IN A COUNCIL RESOLUTION AND USING THE ECOFIN COUNCIL TO FIX THE FRAMEWORK AND TO MONITOR THE BUDGET AT QUARTERLY INTERVALS. STOLTENBERG HAD DOUBTS ABOUT THE IDEA OF AGRICULTURAL RESERVE AND AGREED ENTIRELY THAT THE COUNCIL SHOULD RESPECT THE MAXIMUM RATE.

6. CHRISTOPHERSON (DENMARK) ALSO SAID THAT DECISIONS ON BUDGET DISCIPLINE TO BUDGETARY IMBALANCES AND NEW OWN RESOURCES SHOULD BE SIMULTANEOUS. HE FAVOURED A COUNCIL RESOLUTION. AS THE COUNCIL WAS INDIVISIBLE IT WAS ERRONEOUS TO IMAGINE THAT THE ECOFIN COUNCIL COULD BE THE FINAL ADJUDICATOR ON EVERYTHING BUDGETARY. THE REFERENCE FRAMEWORK SHOULD BE FIXED IN APRIL. NOTERDAEME (BELGIUM) ALSO MENTIONED LINKAGE AND THE NEED FOR A PROPER BALANCE BETWEEN BUDGET DISCIPLINE AND THE DEVELOPMENT OF POLICIES. THEY FAVOURED A BIGGER ROLE FOR THE ECOFIN COUNCIL BUT WANTED TO AVOID COMPLEX OR TOO-TIME CONSUMING PROCEDURES. THEY WERE HESITANT ABOUT AN AGRICULTURAL RESERVE AND AGREED THAT THE MAXIMUM RATE SHOULD BE OBSERVED, SUBJECT TO THE PROVISIONS OF ART.203.

7. THE CHANCELLOR OF THE EXCHEQUER SAID THAT BUDGET DISCIPLINE WAS OF FIRST IMPORTANCE AND HE WELCOMED THE USEFUL START WHICH HAD BEEN MADE ON DEVELOPING THE EUROPEAN COUNCIL CONCLUSIONS. HE WELCOMED THE IDEA OF A LARGER ROLE FOR THE ECOFIN COUNCIL BUT THOUGHT THAT MORE DETAILED IMPLEMENTING ARRANGEMENTS WOULD BE NECESSARY TO MAKE BUDGET DISCIPLINE EFFECTIVE. HE LISTED THE VARIOUS OPTIONS FOR INCORPORATING BUDGET DISCIPLINE IN THE COMMUNITY'S PROCEDURES. REGARDING AMENDMENT OF ART.203 HE POINTED OUT THAT THE PARLIAMENT HAD PUT THIS ON THE AGENDA BY ITS RECENT RESOLUTION PROPOSING THE ABOLITION OF THE DO/DNO DISTINCTION. THE COUNCIL SHOULD TAKE THIS OPPORTUNITY TO AVOID FUTURE BUDGET DISPUTES BY IMPROVING THE BUDGETARY PROCEDURE. AMENDMENT OF ART.203 WAS THE BEST SOLUTION. REGARDING THE AGRICULTURAL GUIDELINES A NUMBER OF IMPORTANT DETAILS REMAINED TO BE SETTLED. THESE COULD HAVE A CRUCIAL BEARING ON HOW IT WOULD OPERATE. HE WAS OPPOSED TO A CONJUNCTURAL RESERVE. THE GUIDELINES SHOULD BE INCORPORATED IN A REGULATION. ON PROCEDURE HE SUGGESTED THAT THE PRESIDENCY SHOULD REPORT THE PROGRESS TO THE EUROPEAN COUNCIL AND THAT THE HIGH LEVEL GROUP SHOULD CONTINUE ITS WORK.

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8. RUDING (NETHERLANDS) SAID THE COUNCIL HAD TO AGREE HOW TO CARRY FORWARD THE TECHNICAL WORK. PROGRESS ON BUDGET DISCIPLINE WAS A PRE-CONDITION FOR PROGRESS ON OWN RESOURCES, ENLARGEMENT ETC. HE ARGUED AGAINST AMENDING ART. 203: THIS WOULD OPEN A CAN OF WORMS AND BE SLOW. COMMENTING ON THE PAPER, HE SAID THE REFERENCE FRAMEWORK SHOULD BE FIXED IN FEBRUARY: THAT ALL THREE OPTIONS IN PARAGRAPH 8 FOR IMPLEMENTING IT SHOULD BE ADOPTED: THAT HE HAD DOUBTS ABOUT CONCEDED 'EXCEPTIONAL CIRCUMSTANCES' IN THE OPERATION OF THE FINANCIAL GUIDELINES: AND THAT EFFECTIVE CLAWBACK WAS VERY IMPORTANT. SANTER (LUXEMBOURG) WANTED BUDGET DISCIPLINE TO ACCORD WITH COMMUNITY RULES. THE REFERENCE FRAMEWORK SHOULD BE FIXED IN MARCH. SINCE THE MAXIMUM RATE WAS DETERMINED BY A FORMULA THIS WOULD EFFECTIVELY DETERMINE HOW MUCH WAS AVAILABLE FOR AGRICULTURE. THE PROCEDURES SHOULD BE BINDING ON ALL THREE INSTITUTIONS.

9. GORIA (ITALY) SPOKE OF PRIOR POLITICAL DECISIONS BEFORE BUDGET DISCIPLINE COULD BE IMPLEMENTED. HE OPPOSED ANY ATTACK ON THE PARLIAMENT'S POWERS. HE COULD GO ALONG WITH THE AGRICULTURAL GUIDELINE BUT WISHED TO STRESS THAT CONTROL OF THIS EXPENDITURE DEPENDED ON ALTERING THE BASIC POLICIES. HE SPOKE IN FAVOUR OF REVIVING JOINT COUNCILS OF FOREIGN AND FINANCE MINISTERS TO FIX THE REFERENCE FRAMEWORK. DOYLE

(IRELAND) MADE THE MOST SUSTAINED ATTACK ON BUDGET DISCIPLINE. IT WAS PART OF THE STUTTGART PACKAGE AND COULD NOT BE IMPLEMENTED IN ADVANCE OF THE OTHER ELEMENTS. IT WAS TOO LATE TO TRY TO APPLY IT TO 1984. IT SHOULD BE THE SUBJECT OF A POLITICAL UNDERTAKINGS ONLY. ANYTHING LEGALLY BINDING WOULD BE UNWISE. HE AGREED WITH ARSENSIS THAT NATIONAL PROCEDURES COULD NOT BE APPLIED TO THE COMMUNITY. FEBRUARY WAS TOO SOON TO FIX THE FRAMEWORK. THE AGRICULTURAL GUIDELINE SHOULD NOT BE UNDULY RESTRICTIVE AND HE ARGUED AGAINST FINANCE MINISTERS BECOMING TOO INVOLVED IN THE BUSINESS OF THE AGRICULTURAL COUNCIL OR IN THE IMPLEMENTATION OF THE BUDGET. HE SUPPORTED AN AGRICULTURAL RESERVE.

10. EMMANUELI (FRANCE) SAID IT WAS NOT THE ECOFIN COUNCIL'S JOB TO IMPOSE GUIDELINES ON OTHERS. THEY DID NOT WANT CHANGES IN THE TREATY AND DID NOT THINK THE REFERENCE FRAMEWORK SHOULD PREJUDICE THE SUBSEQUENT BUDGET PROCEDURE. THE AGRICULTURAL GUIDELINE SHOULD NOT THREATEN THE OBLIGATORY NATURE OF AGRICULTURAL SPENDING AND NON-OBLIGATORY EXPENDITURE SHOULD REMAIN SUBJECT TO TREATY RULES. THEY WERE QUITE INTRANSIGENT ABOUT EQUALITY OF DISCIPLINE BETWEEN THE TWO CATEGORIES OF EXPENDITURE. THEY FAVOURED IMPLEMENTATION BY POLITICAL COMMITMENTS ONLY. THE FRAMEWORK SHOULD BE FIXED IN FEBRUARY, PREFEREABLY AFTER CONSULTING THE PARLIAMENT. THE AGRICULTURAL GUIDELINE SHOULD ALLOW FOR UNEXPECTED FLUCTUATIONS IN EXPENDITURE AND IT WAS NECESSARY TO CONSIDER HOW TO DEAL WITH CARRY-OVERS, LARGE DESTOCKING PROGRAMMES ETC. THEY FAVOURED A RESERVE. THE GUIDELINE SHOULD APPLY TO NET AGRICULTURAL EXPENDITURE SINCE OTHERWISE NO ALLOWANCE WOULD BE MADE FOR THE SACRIFICES ALREADY MADE IN SOME SECTORS BY THE INTRODUCTION OF CORRESPONSIBILITY LEVIES ETC.

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11. TUGENDHAT NOTED THAT THE MAJORITY OF DELEGATIONS FAVOURED FIXING THE FRAMEWORK IN FEBRUARY. THE COMMISSION WOULD GO ALONG WITH THIS BUT, SINCE THIS PRE-DATED THE AGRICULTURAL PRICE FIXING, FINANCE MINISTERS SHOULD RESOLVE EITHER TO KEEP THE PRICE FIXING WITHIN THE GUIDELINE OR, IF THIS FAILED, TO ADJUST THE FRAMEWORK.

12. DELORS, SUMMING UP, SAID THAT THE PRESIDENCY AND COUNCIL SECRETARIAT WOULD PREPARE A REPORT OF THE FOREIGN AFFAIRS COUNCIL ON 18/19 JUNE. THIS WOULD MENTION THE LINK BETWEEN BUDGET DISCIPLINE, BUDGET IMBALANCES AND OWN RESOURCES. TWO GENERAL CONCLUSIONS WOULD BE DRAWN. FIRST MOST DELEGATIONS HAD RECOGNISED THAT BUDGET DISCIPLINE MUST OPERATE IN A POLITICAL CONTEXT: THERE HAD TO BE A BALANCE BETWEEN DISCIPLINE AND THE DEVELOPMENT OF POLICIES. SECOND, THE ECOFIN COUNCIL HAD NOT TAKEN A VIEW ON INTER-INSTITUTIONAL RELATIONSHIPS BUT IF THESE WERE THOUGHT LIKELY TO HINDER BUDGET DISCIPLINE THIS SHOULD BE DRAWN TO THE ATTENTION OF THE EUROPEAN COUNCIL. DELORS NOTED THAT THE BALANCE OF POWERS HAD BEEN ALTERED IN THE PAST. THE REPORT WOULD HIGHLIGHT THE FOUR MAIN OUTSTANDING POINTS: WHETHER THERE SHOULD BE AN AGRICULTURAL RESERVE: THE TIMETABLE FOR FIXING THE REFERENCE FRAMEWORK: THE EXACT ROLE OF FINANCE MINISTERS: AND THE OPTIONS FOR IMPLEMENTING BUDGET DISCIPLINE. AS OPTIONS HE LISTED TREATY AMENDMENT, A REGULATION, A COUNCIL RESOLUTION AND POLITICAL UNDERTAKINGS.

13. DELORS SAID TO THE CHANCELLOR PRIVATELY THAT HE SAW THE REFERENCE TO THE FOREIGN AFFAIRS COUNCIL AS A FORMALITY.

FCO ADVANCE TO:

- FCO - RENWICK, FAIRWEATHER, WALL
- CAB - WILLIAMSON, STAPLETON, DURIE
- TSY - PS/CHANCELLOR, UNWIN, FITCHEW, BOSTOCK

ADVANCED AS REQUESTED

UKREP BRUSSELS - BUTT, BROUCHER, S-WALWYN / AGR, ECON

MAUD

FRAME ECONOMIC
ECD(1)

COPIES TO:

- MR WALL ECD(1)
- MR WILLIAMSON } CABINET OFFICE
- MR STAPLETON } CABINET OFFICE
- MR DURIE } CABINET OFFICE
- PS/CHANCELLOR } HM TREASURY
- MR UNWIN } HM TREASURY
- MR FITCHEW } HM TREASURY
- MR BOSTOCK } HM TREASURY

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FRAME ECONOMIC

FM LUXEMBOURG 041350Z JUN 84

TO IMMEDIATE FCO

TELEGRAM NUMBER 131 OF 4 JUNE

AND TO IMMEDIATE UKREP BRUSSELS

INFO BRUSSELS COPENHAGEN THE HAGUE ROME DUBLIN PARIS BONN
ATHENS.

FROM UKREP BRUSSELS.

ECOFIN COUNCIL : 4 JUNE 1984.

SUMMARY TELEGRAM.

1. THE CHANCELLOR OF THE EXCHEQUER REPRESENTED THE U K AT TODAY'S
ECOFIN COUNCIL IN LUXEMBOURG.

BUDGETARY DISCIPLINE.

2. FAIRLY CONSUTRUCTIVE DISCUSSION LEADING TO HELPFUL PRESIDENCY
SUMMING UP. REPORT TO BE MADE TO FOREIGN AFFAIRS COUNCIL. IN PRE-
PARATION FOR EUROPEAN COUNCIL, HIGHLIGHTING MAIN OUTSTANDING POINTS.
OPTION FOR IMPLEMENTATION TO INCLUDE TREATY AMENDMENT AND REGULA-
TIONS.

LONDON ECONOMIC SUMMIT.

3. EXCHANGE OF VIEWS CONCENTRATING ON A U S INTEREST RATES AND
INDEBTEDNESS. MONETARY COMMITTEE TO STUDY DEBT PROBLEM OVER THE
MEDIUM TERM.

COMMUNITY LOAN MECHANISM.

4. COUNCIL AGREED IN PRINCIPLE TO INCREASE CEILING FOR COMMUNITY
LOANS TO 3 BILLION ECU. POSSIBLE OFF-SETTING REDUCTION IN MEDIUM
TERM FINANCIAL ASSISTANCE (MTFA) TO BE CONSIDERED BY MONETARY
COMMITTEE AND INFORMAL ECOFIN COUNCIL IN SEPTEMBER.

INNOVATION LOANS.

5. PRESIDENCY FLOATED A COMPROMISE PROPOSAL WHICH ALL DELEGATIONS,
WITH THE EXCEPTION OF THE U K, WERE ABLE WITH VARYING DEGREES OF EN-
THUSIASM TO ACCEPT. PRESIDENCY CONCLUDED THAT THE COMMISSION'S
PROPOSAL WAS WITHDRAWN.

FISCAL MATTERS.

6. THE DUTCH REFUSED TO ACCEPT THE SOLUTION ON GERMAN WITHHOLDING
TAX. THE GERMAN'S TEXT ON MITBESTIMMUNG (WORKER PARTICIPATION) AND
MAJORITY VOTING RIGHTS IN CASES OF EXCHANGE OF SHARES SEEMED TO BE
ACCEPTABLE BUT THE PRESIDENCY CONCLUDED THAT THERE HAD NOT BEEN
ENOUGH PROGRESS TO WARRANT THE ADOPTION OF TEXTS UNDER THE FRENCH
PRESIDENCY AND BEQUEATHED THE WORK TO HIS SUCCESSOR.

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17.

Tax missing!
(initials)

①

From: J B UNWIN
5 June 1984

For information:

MR INGHAM

cc Miss Simpson
Mr Littler
Mr Bostock
Mr Culpin
Mr Hopkinson
Mr Mortimer
Mr Lennon
Mr Peet

Mr Gordon

COPY FOR

ECOFIN, 4 JUNE 1984

The telegrams will report fully on yesterday's ECOFIN. But herewith a few additional comments.

Budgetary discipline

2. A pretty discouraging discussion on the whole. The Germans were wet, and the Dutch did not support as strongly as their representative had in the high level official group. The Chancellor registered all our key points speaking from the summary note attached. The only "plus" points were:-

- in his summing up right at the end Delors said that in the report to go to the next Foreign Affairs Council (which Delors told the Chancellor privately afterwards he regarded as only a transmission mechanism for onward reporting to the European Council) all the different proposals for introducing the new procedures should be set out, including Treaty amendment;
- there was general support for setting the reference framework in February rather than April so that it would be in place before the Agricultural price fixing.

3. I do not think there will be any further work before the European Council. We shall need to judge nearer that Council whether to lie low on the basis of further work, or to make a fuss at lack of substantive progress (if the rest of the package is also going wrong). So far as public perception is concerned, we must avoid being too hooked on the notion of Treaty amendment. Our aim is to make the new procedures "binding"; Treaty amendment would be the ideal method, but it is one of various options that must be considered.

Innovation loans

4. Although the Germans and Dutch expressed reservations, they declared themselves able to accept the Presidency compromise proposals. The Chancellor was thus isolated, and finally vetoed the proposal which was in consequence withdrawn. There were no immediate recriminations and Mr Ruding afterwards told the Chancellor that he shared most of his views but for tactical reasons had not joined him in voting against the proposal. There may be an attempt to gang up on us on this, as yet another example of British "intransigence". For this reason, in a press conference afterwards the Chancellor made the most of the German and Dutch objections; and this comes out well in the account of the Chancellor's press conference in today's Financial Times.

5. I am sure that Ortoli and the Commission will return to the charge on this. Mr Appleyard collared me afterwards and asked how best they might come back to it. I told him to let the dust settle; but, if they really had to take it up again, talk to DTI rather than the Treasury.

Community loan mechanism

6. The conditions attached to increasing the amount to 8 billion ecu (with at 50% maximum for any member state) were left rather fuzzy. Both the Chancellor and Tietmeyer raised the question of a pro tanto reduction of the MTFA, but no assurances were given. In view of the difficulty of his position on innovation loans, the Chancellor did not press the position, but we ought to watch this in the follow up and concert our position with the Germans (probably in the Monetary Committee).

Press conference

7. The Chancellor had a very useful press conference towards the end of the day, which (as above) is helpfully reflected in today's Financial Times. He took the standard line on the summit and debt, and no difficulties arose. On Community affairs, the sensitive points were (again, as above) the question of Treaty amendment on budgetary discipline, and isolation on the innovation loans proposal. If the latter does rear its head again, we must play up the difficulties which other member states have seen in the scheme, particularly the Dutch and Germans (despite their unwillingness to go over the top with us yesterday).

8. One of the press representatives complained about the absence of the Chancellor's new Press Secretary. I do not think this mattered at all yesterday,

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But, as previously discussed with Mr Culpin, I think it would be tactful if he planned to attend the next meeting in July, but without any presumption that he will be a regular attender.



J B UNWIN

Ecofin - 4 June

BUDGETARY DISCIPLINE

Useful start. Welcome role of Ecofin. But on substance much more needs to be done if measures to be "effective". In particular:-

Global Framework: must settle precise procedure for fixing this; and how to make it binding. Do not believe political undertaking enough.

Must consider further:-

- Council ~~rules~~ of procedure *or Regulation*.
- incorporate in new Own Resources decision
- TREATY AMENDMENT

Agriculture Guideline: must settle precise procedure for setting guideline (same data with different procedures would give very different results);

how to make binding (I favour regulation).

Procedure:

- ad hoc group continue (? report to July Ecofin).
- Presidency report progress to Euro Council.

Note used by Chancellor
15 Eofm on
4 June

INNOVATION LOANS

Have carefully considered further work. But have to say that still cannot see merit in proposal. In Particular:-

- single scheme not feasible (needs and conditions of member states vary);
- action at Community level better directed to liberalising capital markets;
- strongly suspect this scheme lead to significant losses (if UK experience: £40 m losses to date; premium recently raised to 5 per cent);
- quite wrong in current circumstances to take extra liability on EC budget when already faced with serious overspending problem.

In short:

- proposal still impracticable;
- unlikely to be cost effective;
- wrong for Finance Ministers to be proposing extra spending (how square with budgetary discipline?)

Suggest we now drop it

∟If necessary, look at EIB possibilities∟

COVERING RESTRICTED

(Handwritten initials)

CHANCELLOR OF THE EXCHEQUER

c Mr Littler
Mr Unwin
Mr Bottrill
Mr G Ingham

ECOFIN LUNCH: 4 JUNE

I enclose the notes I made on the discussion on the London Summit at yesterday's lunch. I am afraid it is rather light on the Francophone contributions.

(Handwritten initials)

I C R BYATT

5 June 1984

P.S. As I handed my notes to UKREP last night, the record has also appeared in telegram no. 133 of 4 June.

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ECOFIN: 4 JUNE 1984

London Summit

Ortoli introduced. Would be a stocktaking summit. Problems were recovery, international financial situation and protectionism. Concentrated on second, especially effect of high interest rates on developing countries.

Discussion continued over lunch

2. Chancellor said main issue would be US budget position and interest rates. We should reaffirm soundness of our policies. Summit should discuss ways to make markets work better (internationally - trade) and domestically. Need for greater market flexibility as only lasting way to reduce unemployment. Important to persuade US to reduce its deficit as far as possible. US recognised need for action; getting some commitment to speed of action better than a dispute.
3. Need to avoid debtors' cartel. Could usefully distinguish between those countries which had made adjustments and those which had not. Consider reward for former group (Mexico, Brazil) in form of more rescheduling. World could deal with debt problem case by case.
4. Governments had a limited role. Fund and Bank should lead. Arsenis argued for new approach to debt issue. US interest rates were high because markets thought US not coping with structural budget problem. If US could convince markets this was not so, interest rates would fall. Fed could then relax. If interest rates remain high, cannot deal with debt problem country by country.
5. Doyle agreed with Arsenis. Part of problem was that US borrowers did not pay full interest rate (tax relief). Europe had adjusted fiscally, debtor countries were adjusting politically, US had not.
6. Ruding asked whether it was possible for the Summit to come up with new solutions. Interest rate capping needed positive decisions - were we willing to put up the money?

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Christophersen thought US banking system as a whole could do more to refinance debt.

7. de Clercq spoke of our collective responsibility to developing countries, said that firefighting was not enough and suggested more global action. Delors spoke of developing countries' need for an encouraging message from the Summit. He spoke of the dangers of escalation in their problems and the consequences for the rest of us. Delors said difference from last two summits was greater importance of problems of developing countries. Ortoli sided with Chancellor rather than Arsenis, argued the need to get the international financial system back to equilibrium.

8. Chancellor emphasised need for Summit communiqué to avoid unrealistic expectations. Did not want EC taxpayer to bail out US banks. Situation was better than a year ago. Interest rates were higher, but trade had increased (developing countries gained more from latter than they lost from former). Developing countries should be encouraged to welcome inward investment.

9. Stoltenberg said message from Summit should not be an unpleasant shock, but it should be realistic. Could not work out new solutions in a few days. Message should be:-

- (a) strong commitment to economic recovery in industrial countries;
- (b) help with interest rate problems by opening out markets to developing countries (trade);
- (c) on debt, support IMF, consider rescheduling, paying particular attention to those countries which had made adjustments.

Interest rate capping would produce problems. How could we ensure that commercial banks would go on lending? Heads of Government should recognise problems but not commit themselves to new solutions.

10. Arsenis said that at least developing countries should get encouraging message.

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11. Delors and Ortoli spoke of dangers of escalation of developing country position and risks of action by them which could frighten markets.

12. Chancellor thought only one or two developing countries were prepared to provoke turmoil in markets. It would take a long time for world to get out of difficulties caused by debt.

13. Delors concluded by suggesting a study by the Monetary Committee of the way the debt problem could develop over the medium term - 1985, 6, 7 and 8. This could fit in with work of G 10.

14. Camdessus agreed to undertake this. No easy solutions. (Interest rate capping exonerated US.) Would be ready to report by September. An issue for the informal Ecofin? Doyle did not comment.

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OK
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(PUP)

FROM: MISS R R WRIGHT

DATE: 6 June 1984

1. MR UNWIN
2. PRINCIPAL PRIVATE SECRETARY

cc Mr Hopkinson
Mr Ingham

EC FINANCE COUNCIL, 4 JUNE: PARLIAMENTARY QUESTION

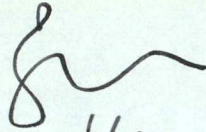
I attach a draft reply to an arranged PQ which has been put down for answer on Thursday 7 June on the EC Finance Council.

2. I would be grateful if the Chancellor's Office would forward it to the Parliamentary Clerk after approval.

R R Wright

MISS R R WRIGHT

Subject to the small additions below,
I think this low key summary report is
right.


6/6

WRITTEN
7 June 1984

To ask Mr Chancellor of the Exchequer if he will make a statement about the meeting of the European Community Finance Council in Luxembourg on 4 June.

DRAFT REPLY

I represented the United Kingdom at this Council.

Ministers exchanged views on issues to be discussed at the London Economic Summit, including the US budget deficit, interest rates and ~~indebtedness.~~ *international debt.*

The Council agreed in principle to increase the ceiling on the Community Loan Mechanism ^{from 6 billion} to 8 billion ecu (£4.8 billion).

Ministers also discussed: the options for implementing a system of ^{stricter} budgetary discipline; tax measures to encourage co-operation between undertakings in different member states; European innovation loans; and non-life insurance services.

as
provisionally
agreed
at the
March
European
Council



CHIEF SECRETARY	
REC.	-6 JUN 1984
ACTION	Mr F. K. Jones
COMMENTS	PPS, PST, MST, EST
	Sir Peter Middleton
	Mr Bailey, Mr Anson
	Miss Kelly, Mr Mountfield
	Mr Fitcham, Mr St. Clair

(2)

PRIVY COUNCIL OFFICE
WHITEHALL LONDON SW1A 2AT

6 June 1984

Mr Redley
Mr Lord.

I have seen a copy of Leon Brittan's letter of 30 May to you about changes in passport arrangements. Perhaps I may offer some suggestions on the Parliamentary handling of the required announcement.

I have no objection in principle to making the announcement by written answer. But the issue is likely to attract a disproportionate amount of attention in the media and elsewhere, and I suspect that the unheralded delivery of a written answer could cause adverse comment. I suggest, therefore, that we prepare the ground by arranging for a suitable back-bencher to raise the matter on the adjournment. The Minister replying to the debate could then indicate that he hoped to make an announcement soon, and the answer could be given shortly thereafter.

I do not think that we can hope to avoid having a debate in Government time on this subject, perhaps in a wider context, in view of the Prime Minister's assurance, at the time the decision to adopt a common format passport was made, that the House would have an opportunity to debate the matter. There would therefore be no harm in making clear in the written answer that a debate will be forthcoming, and I shall endeavour to find a suitable opportunity, perhaps on a Friday, before the House rises for the summer.

Copies of this letter go to the recipients of yours.

JOHN BIFFEN

Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign and Commonwealth Affairs

ppp

From: J B UNWIN
6 June 1984

COPY FOR

MR CULPIN

cc PS/Chancellor
PS/Economic Secretary
Sir Peter Middleton
Mr Littler
Mr Gordon
Mr Hopkinson
Mr Mortimer
Mr Peet
Mr Ridley

ECOFIN, 4 JUNE

You will have seen the unfriendly article in today's Times about Monday's ECOFIN. This reflects briefing by the French Finance Minister, Delors, who was miffed at not getting various proposals (notably Community innovation loans) through on Monday, and also no doubt at the Chancellor's success in getting in his retaliation first at a press conference on Monday afternoon which was reflected in yesterday's helpful Financial Times article which made the early Frankfurt edition.

2. I see no point in stirring this up or engaging in any slugging match - there will be more of this in the build up to the end June European Council - but if you are questioned you may wish to draw, as you think appropriate, on the following points:-

(i) General: absurd to portray the UK as the odd man out. True, along with the Germans and Dutch, we criticised the Commission's innovation loans scheme. But we supported the increase in the Community Loan Mechanism; and were ready to accept a package of company tax proposals (to do with mergers etc) which another member state (the Dutch) shot down;

(ii) Budget discipline: can't understand Delors' apparent attitude. France itself keenly interested in effective discipline and we have strongly supported Delors' proposal for overall budgetary envelope. Discussion was useful start, but much work remains to be done on making system provisionally approved by March European Council effective. Delors himself agreed that the option of Treaty amendment should be put forward with others for further consideration;

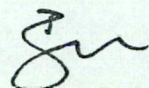
(iii) Innovation loans: quite untrue to suggest that only UK saw problems. Both Dutch and Germans saw and expressed serious objections

which UK shares. Fact is that scheme is ill conceived and would put extra contingent risk on already over-strained Community budget;

(iv) Insurance: we are glad that French Presidency has worked on this. But frankly no serious progress has been made in getting any way near genuine liberalisation. Can understand reluctance of French and other member states to open their markets (as already required by Treaty) to efficient UK insurance industry. But foolish to pretend that genuine progress has been made or there is any trade off here between this and other proposals on agenda;

(v) Community loan mechanism: despite some reservations (first voiced by Germans and others) on precise conditions to be attached, UK agreed to increase in CLM to 8 billion ecu (following allocation to France early last year of 4 billion of previous 6 billion facility). So absurd again to portray UK as only one out of European step.

3. You may also like to pass this on to the Press people at No 10.


J B UNWIN

Ministère de l'Économie
des Finances et du Budget

République Française

Le Ministre

N° 50157

Paris, le

22 JUIN 1984

pour André J.
(avec sa femme
Wm de).
M.

Monsieur le Ministre et Cher Collègue,

J'ai été heureux de vous accueillir à Rambouillet lors du Conseil informel des Ministres de l'Économie et des Finances de la Communauté les 12 et 13 mai derniers.

Je tenais à vous adresser ces quelques photographies en souvenir de notre amicale rencontre.

Veillez croire, Monsieur le Ministre et Cher Collègue, à l'assurance de mes sentiments les meilleurs.

Monsieur Nigel LAWSON
Chancelier de l'Échiquier
Great Georg Street
LONDRES S.W.1.

Jch.
Jacques DELORS

purp



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

28 June 1984

Monsieur Jacques Delors
Minister of the Economy
Finance and the Budget
93 rue de Rivoli
75056 Paris
FRANCE

Alan Jacques

Thank you for your letter of 22 June with the enclosed
photographs of our meeting at Rambouillet last month.

John
Nigel

NIGEL LAWSON