PO-CH/NL/0086

PART A

Part. A.

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Begins: 24/6/87.
Ends: 27/11/87.

PO -CH /NL/0086

PART A

PO -CH /NL/0086
PART A

Chancellor's (Lawson) Papers:

EUROPEAN COUNCIL
COPENHAGEN DECEMBER 1987

Disposal Directions: 25 Years

31/7/95.

FROM: JANET BARBER
DATE: 24 JUNE 1987

1. MR LAVELLE

2. CHANCELLOR

cc Mr Edwards
Mr Crabbie
Mr Mortimer
Mr Bonney
Mr Kelly
Mr Donnelly
Mr Dyer
Mr Neilson
Miss Wright

Mr Green DTI
Mr Ashcroft DTI
Mr Thomas - MAFF
Mr Bostock - UKREP

ECOFIN/JOINT COUNCIL 15 JUNE

I attach a draft arranged PQ to report these Councils to Parliament.

2. In order to avoid any possible awkward interaction, in respect of Community financing, with the Prime Minister's report to Parliament on the European Council, we suggest that the question be answered as soon as possible. We understand that this would mean putting the question down tomorrow (Thursday) for answer on Friday.

3. The credit insurance and listing particulars directives were adopted at the Foreign Affairs Council on 22 June. This is being reported to Parliament in the PQ on the Foreign Affairs Council.

4. Perhaps your office could let Parliamentary section know if you are content with the draft.

Janet Barber

JANET BARBER
EC1

Ch
Content with arranged PQ (in your name)?

in Luxembourg

ECOFIN ARRANGED PQ

No.........To ask the Chancellor of the Exchequer if he will make a statement on the European Community's Economic and Finance Council's meeting, and its joint meeting with the Agriculture Council, on 15 June.

HM

The July

DRAFT REPLY

~~These meetings were held in Luxembourg.~~ The United Kingdom was represented at the joint Council by myself and my Rt Hon Friend the Minister of Agriculture. I then attended part of the Economic and Finance Council, and ~~our~~ Permanent Representative to the European Communities represented the UK thereafter.

The joint Council discussed the Community's budgetary situation and this year's agricultural price fixing exercise. We stressed the need for the price fixing to make significant contributions to reducing the expenditure overruns anticipated for this year and next, and, more generally, to move the Community towards a more market oriented agriculture policy. We reiterated our firm opposition to the Commission's proposal for an oils and fats tax. We argued that the Community's arrangements for handling the agricultural consequences of currency realignments must be radically reformed and that the switch proposed by the Commission from advances to reimbursement of agricultural guarantee expenditure would be an essential element in solving the Community's budgetary problems in the current year. Discussion of these issues continues in the individual Councils.

The Economic and Finance Council formally adopted the reference framework for the 1988 Community budget on the basis of the common position reached at its meeting on 11 May.

The Council heard progress reports on the work being carried out by the Monetary Committee and the Committee of EC Central Bank Governors on strengthening the European Monetary System.

The Council discussed draft directives on credit and suretyship insurance, and mutual recognition of listing particulars to be issued when securities are admitted to official stock exchange listings. Both directives were referred to later Councils for further consideration.

The Council considered the Commission's formal report on the financial effects for Spain and Portugal of the Council's decision to delay reimbursement to member states of losses incurred on the disposal of butter stocks. The Council asked permanent representatives to examine the report in preparation for a substantive discussion at its July meeting.

The Council met a delegation from the European Parliament to discuss some technical amendments to a Community own resources Regulation, on which the Council had previously reached a common position. Significant progress was made towards agreement.

BRIEF 2D
REF D

COMMISSION OF THE EUROPEAN COMMUNITIES

Revised version

COM(87) 376 final/2

Brussels, 24 August 1987

REFORM OF THE STRUCTURAL FUNDS

1. Commission Communication

2. Comprehensive proposal pursuant to Article 130 D of the EEC Treaty

COM(87) 376 final/2

1

REFORM OF THE STRUCTURAL FUNDS

Commission Communication

CONTENTS

INTRODUCTION

Article 130D of the Treaty calls upon the Commission to submit a comprehensive proposal to the Council, the purpose of which will be to make such amendments to the structure and operational rules of the existing structural Funds (European Agricultural Guidance and Guarantee Fund (Guidance Section), European Social Fund, European Regional Development Fund) as are necessary to clarify and rationalize their tasks in order to contribute to the strengthening of the Community's economic and social cohesion and, in particular, to reduce the gap between its different regions and the backwardness of the least favoured regions. The Commission is also invited, in the process, to see how the efficiency of the Funds can be increased and their activities coordinated, both among themselves and with the operations of the existing financial instruments.

The Commission is responding to this request by putting forward to the Council a proposal for a framework Regulation. This sets out the priority objectives for Community action through the structural Funds and determines the contribution which the Funds will make to the furtherance of these objectives, given their allocated tasks; it also explains the general method of implementing structural assistance; finally, it sketches out what the Community is doing to achieve each of the priority objectives.

The Treaty provides for the Council to act unanimously on this proposal within a period of one year, after consulting the European Parliament and the Economic and Social Committee.

The reform proposed will subsequently give rise to implementing regulations, on which the Council will act by a qualified majority.

In this communication, the Commission builds on the guidelines already outlined in its communication "Making a success of the Single Act"[1] and describes the key concepts underlying its proposals for reforming the Funds, and in particular for:

1. concentrating the activities of the Funds on specific objectives;

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[1] COM(87)100 of 15.2.1987.

2. providing the Funds with adequate financial resources to deal with the problems arising;

3. establishing a new method of operation based on complementarity, partnership and programming;

4. simplifying procedures and improving coordination.

I. CONCENTRATING THE ACTIVITIES OF THE FUNDS ON SPECIFIC OBJECTIVES

A. Five priority objectives

On the basis of the guidelines it has proposed for the financing of the Community budget[2] and bearing in mind the subsidiarity principle, the Commission has selected five priority objectives on which the activities of the Funds, the EIB and the other financial instruments should henceforth be concentrated. The attainment of these objectives, set out in Article 1 of the framework Regulation, would satisfy the requirements of the Treaty, particularly Articles 130A and 130C thereof, and would help to exploit the Community's economic potential, and in particular its human resources, to the full.

1. The objective of getting the less developed regions to catch up is designed to help boost productive investment and raise productivity growth in these regions to a level above the Community average.

The Community's enlargement and changing economic circumstances have in their different ways made the Community more heterogeneous and more vulnerable than in the past.

The gradual opening up of the peripheral economies has highlighted structural weaknesses which are felt all the more keenly today as those economies are confronted with the challenge of becoming integrated in the large internal market.

2. The objective of converting the declining industrial regions concerns a large number of regions, employment areas and urban communities throughout the Community which are hard hit by crisis in the old-established industries. The sudden collapse of certain sections of industry in the Community is rapidly

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[2] COM(87)101 of 28.2.1987.

destroying the economic base of these areas and making it necessary to convert to new activities which offer alternative employment.

In those areas and in industries such as steel, coal, shipbuilding, textiles, etc. which are particularly affected by restructuring and in which the Community has launched a policy for correcting the malfunctions of the market, the conversion drive must be underpinned by structural action designed to reintegrate them fully into a developing Community economy.

3. Combating long-term unemployment and facilitating the occupational integration of the young are two priority objectives which reflect the need, in the current economic and social climate, to help particularly vulnerable sections of the population. The action taken to help them must focus on the employment situation of such persons throughout the Community. In that way, the Community hopes to give practical shape not only to a form of solidarity but also to efforts to utilize its human resources to the full.

4. The adjustment of agricultural structures and the development of rural areas are two aspects of a single objective closely linked to the reform of the common agricultural policy. Major changes are currently being made to that policy to ensure that it remains one of the mainstays of the Community. The tighter control of prices and markets which will result must be tempered and offset in such a way that the persons affected - farmers (particularly small producers) and the rural community in general - can accept it. At the same time, Community action will embrace rural areas not only for production purposes but also - and more fundamentally - in order to preserve an adequate human presence there. This means that the Community must help those living in rural areas to convert to alternative activities and, more generally, must contribute to the stimulation of economic activity there.

B. Demanding eligibility criteria

The concentration of Community structural action which thus stems from a political choice of a limited number of priority objectives will be reinforced by the selection of demanding eligibility criteria. These are in some cases geographical and in others functional.

1. **Geographical concentration**

1.1 The less-developed regions covered by the first objective towards which the Commission will be working are those whose per capita GDP, at administrative level NUTS II[3] and in purchasing power parities, is less than 75% of the Community average. However, it proposes to add Northern Ireland to the list of regions obtained in that way because of the special situation there. This geographical concentration means that some 20% of the Community population will be covered.This approach is also fully consistent with the definition of regions eligible for national regional aid under Article 92(3)(a) of the Treaty.

1.2 The declining industrial regions likely to benefit from Community support for conversion are those experiencing a high unemployment rate and serious industrial problems. Community assistance will be targeted on a defined geographical area to ensure that resources are used in a concentrated and effective manner. The Commission considers that these regions, employment areas and urban communities should therefore be defined selectively on the basis of those characteristics. The Commission will in particular seek to ensure consistency between the implementation rules for Article 92(3)(c) of the Treaty (regional aids) and assistance from the structural Funds for objective No 2. Community action could thus cover between 12% and 15% of the Community population if account is also taken of areas in which preventive measures are necessary because of sectoral restructuring which is foreseeable or beginning to be undertaken. This figure gives an idea of the sort of concentration the Commission would like to see and compares with the 21% or so of the Community population which currently benefits from ERDF assistance outside the less-developed regions.

1.3 The development of rural areas affected by the reform of the common agricultural policy will receive Community support according to criteria which will also ensure that there is appropriate geographical concentration. The task will be to take into account, in all their diversity, the problems of converting agricultural activities, the spatial constraints on economic activity in general and environmental needs.

2. **Functional concentration**

The other objectives apply to all twelve Member States. The pursuit of these objectives will have to be related to precise criteria reflecting the functional priorities of the aims to be achieved. Measures to combat long-term unemployment and place young people in employment must be rigorously

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[3] At level II, the Nomenclature of Statistical Territorial Units (NUTS) comprises 167 basic administrative units (e.g. regions, comunidades autónomas). See Eurostat Rapid Reports "Regions", 25.8.1986.

selected - this is vital to ensure that Community action will have the expected effects. Objective socio-economic data will be used and specific priorities established in the implementing provisions to help ensure a fair share-out of Community aid between the large numbers of people eligible under these objectives. As regards the adjustment of agricultural structures, Community action will concentrate on categories of recipients whose income is most affected and on types of measures linked to modernization and rationalization of farms.

II. ADEQUATE FINANCIAL RESOURCES

Concentration of Community measures is a necessary but not sufficient condition for stronger economic and social cohesion. Another vital need is to increase available finance and to spend the money in a more effective way. To deal with the problems arising, the Commission proposes that Fund resources be doubled and rules and techniques adopted to ensure better use of the appropriations.

1. Doubling Fund resources

If the budgetary resources of the structural Funds are doubled in real terms, they will rise from about 7 billion ECU in 1987 to 14 billion ECU in 1992.

The increase in financial resources fits into a coherent framework of restructuring and budgetary discipline. It reflects the importance of sustaining the Community's new momentum over the next five years: achieving growth, closely linked to balanced efforts to gradually complete the large internal market and strengthen economic and social cohesion in the Community.

The need for a large real increase between 1987 and 1992 in the budget resources of the Funds - comparable to that achieved from 1975 to 1983 - stems partly from the accession to the Community of Spain and Portugal. Just to maintain a level of service comparable to the average achieved by the three Funds for the Community of Ten would mean increasing expenditure by about 40% in real terms by 1992.

The Commission's proposals for doubling resources also take account of considerations specific to each objective.

(a) Helping structurally backward regions to catch up

Fund assistance to achieve the first objective must reach the critical mass needed to arrest the gradual deterioration of the last ten years and to develop the real potential of the backward regions.

Whatever indicators are used, it is clear that disparities in standards of living and labour productivity have increased since the early 1970s. Investment has developed less favourably in poor countries than on average for the Community. Indeed, the overall volume of investment in the less prosperous countries of the Community have declined since 1979.

Looking towards the future, we see that the Community's labour force will have grown by about 6.7 million by 1995, and that more than half of these extra workers will come from the backward regions.

The Commission considers that, if there is to be any real prospect of raising capital formation in the regions concerned to levels consistent with a gradual reduction of regional disparities, budgetary aid from the structural Funds of the Community (which is, after all, seeking to create a common economy), must represent at least 2% of regional GDP. This would be equivalent to no more than 0.3% of total Community GDP, a percentage that compares with substantially larger transfers granted by the federal States of the industrialized world to their most depressed regions.

(b) Assisting conversion in declining industrial regions

According to Commission estimates, a large number of Community regions are suffering from serious industrial decline, with major effects on their economic and social fabric. Situations vary widely, since the most acute problems may affect only individual employment areas or parts of urban communities.

Because of the need for further adjustment in the industrial sector, new areas will be affected, and other industrial sub-sectors will have to be restructured.

Although it is primarily up to Member States to take responsibility for remedying these situations, the Community cannot simply remain passive. It also has the benefit of many years' experience of dealing with market malfunctions in major sectors such as steel, coal or textiles, and has acted as a pathfinder by proposing a policy of regulation and aid towards restructuring.

Restructuring is now a highly topical issue. It requires substantially increased financial means, especially in view of the prospect of further extensive labour shedding, in particular in steel and shipbuilding, with other industrial sectors likely to be added. The Community must therefore reinforce support and conversion measures.

The problems are so serious that they cannot be attenuated, let alone solved, without considerable financial means. These will have to be targeted as a matter of priority on conversion in the hardest-hit areas or industrial sectors. The money should be used not only for workers' redeployment, but also for environmental improvement and the setting-up of new economic infrastructure.

(c) Helping the long-term unemployed and placing young people in jobs

There are between 5 and 6 million jobless from all age groups and all the Member States who have been out of work for over a year. Moreover, 5.5 million young people under 25 are out of work, many of whom have had no proper work experience since leaving school several years earlier. They often have no vocational skills.

It is very expensive to put a person back to work after a long period of unemployment; it is also very expensive to provide two years of training to give a young person a skill. The Community would like to demonstrate its solidarity with both long-term and young jobless. The Commission, having assessed the very high cost involved, feels justified in proposing a substantial increase in resources to meet these objectives.

(d) Assisting the adjustment of agricultural structures and the development of rural areas

In view of the process of structural readjustment in agriculture associated with reform of the CAP, and of the need for rural development incentives, a much stronger effort is clearly called for. A greater financial contribution than previously is now needed in the form of socio-structural measures closely linked with changes in products produced by farmers. At the same time, the Community must take on a key role in conversion and the economic stimulation of rural areas, both within and outside backward regions. The new role, which will not neglect the requirements of environmental protection, will mean wider coverage of rural development needs, especially as regards infrastructure and the promotion of activities other than agriculture.

Training needs will grow in the same way. As reform of the CAP leads to a further decline in the agricultural workforce (e.g. through milk quotas) or to greater specialization, increased needs for training will emerge: retraining in the first case, adjustment of skills in the second.

2. Using each ECU to best effect

If the demand that the resources of the Funds should be commensurate with the problems arising is to make real sense, each ECU spent by the Funds must be used to maximum effect. The rules governing the Funds should therefore be flexible enough to ensure that the various forms of assistance are used as judiciously and economically as possible to meet the corresponding needs.

(a) Varying the financial contribution

The Commission is seeking to increase the cost-effectiveness of structural assistance by varying the Community's contribution to the financing of measures. To this end, it proposes that account be taken of such factors as the seriousness of the problems to be solved, the financing capacity of the Member State concerned, and the special significance of the measure from the Community point of view.

(b) Combining grants and loans

To ensure the most efficient combination of loans and grants, the Funds should be able, in association with the EIB and the other lending instruments, to offer the entire range of financing arrangements appropriate to the type of operation and project concerned, i.e. grants, subordinated loans, loans at reduced interest rates, loans at market rates, guarantees granted on the basis of the type of risk encountered, etc.

Rules will be proposed for investment projects suitable for joint financing by loans and grants. To avoid excessive grant aid to projects capable of generating revenue, assistance in the form of grants will be subject to a ceiling, differentiated according to the type of project.

(c) Allocating the resources

With the Fund resources doubled, the Commission sees three aspects to their allocation: the share-out between priority objectives; the share-out between Member States; and the share-out between the structural Funds themselves.

The share-out of resources between **objectives** depends directly on the Commission's thinking on the strengthening of economic and social cohesion. For budgetary purposes, the political choice of the five priority objectives clearly makes it necessary to produce multiannual forecasts. This is a major task which must now be undertaken in a budgetary context that leaves little room for manoeuvre.

The Commission proposes an increase in the already substantial share of available resources which it allocates to structural measures to assist the backward regions - the central issue of cohesion - since the task here is to make up for the weakness of the financial, administrative and technical resources of the countries and regions concerned.

To this end, the Commission proposes that the resources devoted to structural measures should expand at least as fast as the total volume of appropriations put at the disposal of the structural Funds.

As to the share-out of resources between **Member States**, while the Commission is in principle opposed to prior allocation of budgetary appropriations, it does consider that for the achievement of objective No 1, some indicative share-out between the recipient countries should be established. The share-out would apply to a minimum amount of resources, absorbing 75% of the total allocated to objective No 1, and would be based on objective data that reflect the structural backwardness of the regions concerned.

The purpose is to give the recipient countries some certainty about the Community support that will be forthcoming; this will help them in implementing their development strategies.

The Commission intends that the remaining 25% of the total set aside for objective No 1 should be used mainly for measures of a **clear Community nature**. Indeed the Commission hopes in general, under all the priority objectives, to promote measures of particular relevance to the Community, notably transfrontier measures, measures encouraging cooperation between Member States, or measures involving the dissemination of innovative experiences.

The share-out of resources between the **Funds**, in accordance with their special tasks, will enable Community support to be channelled to recipients. The share-out will take account of three factors: complementarity between Community and national efforts; the political choice of the five priority objectives; and the measures selected under the Community support framework mentioned below, in response to the needs expressed by the Member States.

The development characteristics of the backward regions and especially their infrastructure need militate in favour of very concentrated ERDF participation in achieving objective No 1. The Commission therefore proposes that up to 80% of ERDF commitment appropriations should be allocated to that objective in the period to 1992.

In view of the features of declining industrial regions, the Commission considers that the task there is above all to mobilize the means for productive investment and for using available human resources to best advantage. A relatively substantial contribution from the Social Fund will therefore be needed in those regions to adjust skills to the development of technology and the needs of new firms.

The bulk of assistance for development or conversion measures in areas concerned by rural development (objective No 5) will come from the EAGGF (Guidance Section), but the ERDF and the ESF will also make their contributions.

These three types of resource share-out (by objective, by country, by Fund) provide an improved means of translating the Community's political choices into action through the structural Funds. However, they require powers which the Commission intends to exercise in full with the help of advisory committees. Each committee will contribute to guiding Community action in the light of the objectives pursued.

The budgetary authority will participate in the definition of the financial framework for the use of the Funds, through the joint preparation of the multiannual financial forecasts and via the annual budget procedure. These two processes will make it possible to determine, for the medium and the short term, the volume and share-out of the financial resources available for the priority objectives.

III. A NEW WAY OF OPERATING: COMPLEMENTARITY, PARTNERSHIP AND PROGRAMMING

The Commission takes the view that although it has steadily improved the working of the structural Funds over the last few years there are still shortcomings which impair the effectiveness and impact of Community assistance. To achieve a real economic impact, not only must the objectives be clearly defined and the resources sufficient: the method used must be appropriate too.

As it promised in its Communication of 15 February 1987, "Making a success of the Single Act", the Commission is proposing a new method. This is based on three concepts: complementarity, partnership and programming.

1. Complementarity

The Commission takes the view that, in accordance with the subsidiarity principle, one major feature of Community action through the structural instruments must be that it should seek to complement the national measures being taken. It should be a response to needs put forward by the Member States, backed up by appropriate analysis and evidence. In the light of the priorities which the Community sets and the limited budgetary resources it can mobilize, the Commission must be able to engage in close consultation with the Member States so as to arrive at a division of tasks between the Community and the national level.

2. Partnership

The Commission hopes that the process of consultation just mentioned will form the foundation for genuine partnership at all levels, from the planning of operations through the various stages of implementation and right down to the assessment of results.

For the recipients of Community assistance partnership represents a guarantee of effectiveness. It requires on the one hand that the Commission will make an effort to ensure simplification and transparency, and will provide technical assistance where it is needed; and on the other that the Commission's partners will make good use of the framework of preparation, monitoring and assessment which is intended to ensure that the measures they take have maximum economic impact.

3. Programming

Programming should make it possible to give Community action the necessary depth and width, while at the same time allowing greater flexibility. Community operations spread over a number of years, with joint action by the Funds, the EIB and the other financial instruments, will be better able to respond to changing economic and social realities. From the point of view of management, the recourse to programming and the gradual disappearance of Community assistance to small projects will make it possible to take a coherent overall medium-term view of the operations to be mounted in pursuit of each priority objective, and to establish a framework for the coordination of these operations.

Community action - a three-stage process

(a) Member States will submit plans explaining their policy and setting out their intentions, notably regarding the use of the Community structural instruments.

(b) The Commission will assess these plans and, in consultation with the Member States and where necessary the regional or local authorities will determine the broad lines of the technical and financial assistance to be supplied by the Community.

This Commission response to the plans put forward by the Member States will take the form of a Community support framework. This framework will reflect the priority attached to the development schemes or conversion measures proposed by the Member States, in the light of Community priorities. The Commission will seek in particular to ensure that these schemes and measures and the action they call for form a coherent whole, and do not run counter to Community policies or become an obstacle to the application of Community legislation. At this stage the Commission might also draw attention to particular measures where prior assessment by the national authorities would help to avoid a negative impact on the environment.

Community support will thus be spread over a period of several years. It will handle each of the measures to be financed in a way appropriate to each of the objectives. It will allow identification of the Funds to be used, the technical assistance needed and the necessary financial resources.

It is also in this Community support framework that discussion between the Community and its partners may in specific cases reveal the usefulness of an **integrated programme**. An integrated programme would seek to achieve synergy between different measures and to ensure organized convergence of the efforts of different partners with different backgrounds and different responsibilities.

(c) As regards the assistance itself, the Commission proposes that for each objective the emphasis should be on operational programmes. But other forms of assistance would be possible: global grants, part-financing of aid schemes or major projects, and the wide range of lending and financial engineering techniques.

The use of operational programmes would have as its corollary an intensification of **monitoring** and **evaluation**. Experience with the management of the various Community Funds and financial instruments shows that the only way to ensure that Community measures are effective in achieving the objectives pursued is constantly to monitor performance and if necessary to reshape the measures in progress in the light of the needs which have emerged.

The Commission also intends to intensify the monitoring of the quality of operations receiving structural Fund assistance, particularly in order to allow full assessment of the provisions covered by the new financial Regulation which it has proposed to the Council.

More frequent use of operational programmes will allow the Community to be a great deal more involved and to maintain a higher profile than in the past in the regions and social groups which most need its help. Community assistance will be better integrated into national, regional or local initiatives, allowing the Community to circulate information and to pass on the lessons of successful schemes to business and labour, thus bringing the "Community multiplier" into play.

IV. SIMPLIFYING PROCEDURES AND IMPROVING COORDINATION

Taking all Funds together, the Commission is currently managing more than 7 000 million ECU in commitment appropriations every year. The fresh grant applications submitted every year by the Member States, taken together with the innumerable payment claims, some of them relating to very small projects of the order of 1 000 ECU, amount to several tens of thousands of cases handled each year by the Commission departments.

These applications are drawn up according to very different criteria and requirements; they are by no means equal in importance from the point of view of their economic impact or their political significance; but every one of them means that something is expected of the Community.

The purpose of the reform of the structural Funds which has been outlined here is to enable the Community better to respond to that expectation. This will also mean simplifying the working of the various structural assistance instruments.

Management by objectives, programming, and the establishment of partnership between the Commission and the national, regional and local authorities are moves in this direction. Closer alignment of the technical rules and procedures will complete the process.

But simplifying does not mean relaxing. Indeed the Commission will be proposing greater rigour in financial management. The Community should be in a position to offer technical assistance to Member States who ask for it in order to enable them to take full advantage of the support it gives them. And by means of multiannual budget management of the Funds as a whole,the Commission will seek to ensure overall consistency in the Funds' activities, using its powers of management and following the guidelines established in the framework Regulation.

To give practical shape to such budget management, the Commission does not intend to propose any substantial changes to the principles and rules governing the preparation or presentation of the budget in respect of the structural Funds. However, the Commission will be proposing provisions enabling the Council to entrust the Commission with the task of ensuring that the financial guidelines of the framework Regulation are observed, and specifying the arrangements for keeping the budgetary authority informed.

The common provisions should in particular facilitate implementation of the budget. The present situation is that each Fund commits appropriations at its own pace. Over the years, despite the efforts made to simplify procedures, the mechanisms for the commitment of appropriations have been consolidated or amended in the light of what were considered to be the administrative needs of each Fund. The disparity between the rules is now such that it threatens to impede joint action by the Funds where that would be desirable.

Improvements to the widely varying arrangements for making commitments, for example, which in turn determine payments, will permit better organization of the Commission's work. The switch to management based more on operational programmes offers an opportunity in this regard for improving the procedures for the commitment of appropriations. However, this requires better monitoring of the obligations of the Member States. The Commission will therefore move towards a system which will preserve both a sufficient measure of flexibility (several blocks annually according to a predetermined timetable) and a minimum degree of discipline in the submission of grant applications, particularly in order to avoid an excessive bunching of commitment and payment operations at the end of the financial year.

There will also have to be improved coordination of advances, instalments and the payment of balances. In areas where there is currently some diversity, the Commission plans to coordinate the method of financially administering (differentiated appropriations) the multiannual programmes, which should predominate. This coordination should cover the procedures for commitment decisions, the number and amount of possible instalments and the arrangements for the settlement of balances.

All the Funds inevitably have commitments which drag on and which are finally not executed or executed only in part. These are what are commonly referred to as "dormant commitments", which give rise to decommitment. The possible reutilization of appropriations decommitted in this way has hitherto been based on arrangements which differ from one Fund to another. The Commission intends to harmonize between the three Funds the conditions for decommitment and for the reuse of the appropriations in question.

In order to ensure that the appropriations available are used as effectively as possible on the operations financed and that the Community's overall structural policy actually contributes to the cohesion process, the Commission intends to carry out both specific and general analyses of effectiveness. On that basis, it should gradually be possible to draw conclusions from the action taken by the Community and to make any necessary adjustments.

To ensure better consistency between the activities of the structural Funds, the Commission intends to incorporate into the body of legislation governing them the principle that the Community's financial entitlements and obligations should be expressed in ECU, so as to move towards general implementation of the budget in ECU, except where there are specific reasons for doing otherwise.

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Leaving aside the rules, there must also be better coordination of the measures themselves. By making large-scale use of Community support frameworks, the Commission will seek wherever possible to ensure complementarity between the measures taken and to achieve synergy.

Coordination of this kind must go on at all levels of Community action, particularly on the ground. The Commission therefore considers that regional and local authorities and local business should in future be involved to a greater extent in the management of Community measures.

The reform of the structural Funds should serve to improve the positive image of the Community among the authorities concerned and among business leaders and the public in general. This can be done only through clear political choices which reflect a fair distribution of Community support, combined with more streamlined organization, and through operational assistance in a simplified form. Reform of this kind, aimed at securing greater effectiveness particularly through the emphasis placed on programmes, necessarily requires wider delegation of management responsibilities to the Commission. The Commission is accordingly proposing that the advisory committee procedure be adopted to help it in performing its duties, here as in all the other policies serving to underpin achievement of the large internal market.

REFORM OF THE STRUCTURAL FUNDS

Comprehensive proposal pursuant

to Article 130 D of the EEC Treaty

Proposal
for a
Council Regulation (EEC) No of
on the tasks of the structural Funds and their effectiveness
and on coordination of their activities between themselves and
with the operations of the European Investment Bank and the other
financial instruments

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community, and in particular Article 130 D thereof,

Having regard to the proposal from the Commission,

Having regard to the opinion of the European Parliament,

Having regard to the opinion of the Economic and Social Committee,

Whereas Article 130 A of the Treaty provides for the Community to develop and pursue its actions leading to the strengthening of its economic and social cohesion and in particular for it to aim at reducing disparities between the various regions and the backwardness of the least-favoured regions;

Whereas Article 130 C states that the European Regional Development Fund (ERDF) is intended to help redress the principal regional imbalances in the Community through participating in the development and structural adjustment of regions whose development is lagging behind and in the conversion of declining industrial regions;

Whereas, to that end, Article 130 D of the Treaty provides for a comprehensive proposal the purpose of which will be to make such amendments to the structure and operational rules of the European Agricultural Guidance and Guarantee Fund, Guidance Section (EAGGF Guidance Section), the European Social Fund (ESF) and the ERDF as are necessary to clarify and rationalize their tasks in order to contribute to the achievement of the objectives set out in Articles 130 A and 130 C of the Treaty, to increase their efficiency and to coordinate their activities between themselves and with the operations of the existing financial instruments;

Whereas, in parallel with the other means referred to in Article 130 B, Community operations under the structural Funds, the European Investment Bank (EIB) and the other existing financial instruments must be in support of the objectives set out in Articles 130 A and 130 C;

Whereas it is necessary, in order to achieve the aim set by Article 130 D, to direct all Community activity in this field towards attainment of priority objectives which are clearly defined in the light of that aim;

Whereas it is necessary to specify which Funds are to contribute - and to what extent and under what conditions they are to do so - to achievement of each of the priority objectives and to determine the conditions under which the EIB and other existing Community financial instruments can make their contributions, particularly in conjunction with operations under the Funds;

Whereas the ERDF is the main instrument for achieving the objective of ensuring the development and structural adjustment of regions whose development is lagging behind and whereas it plays a central role in the conversion of regions, employment areas and urban communities seriously affected by industrial decline;

Whereas the main tasks of the Funds must be defined so as to specify the broad categories of tasks assigned to each of them for the purpose of achieving the priority objectives;

Whereas achievement of the priority objective of ensuring the structural adjustment of the less-developed regions necessitates a significant concentration of the resources of the Community's structural Funds on that objective;

Whereas the regions and individuals in the Community eligible for Community structural assistance in connection with the various priority objectives should be determined;

Whereas Community action is intended to be complementary to action by the Member States and whereas, in order to impart value added to their own initiatives at the appropriate territorial level, close consultations should be instituted between the Commission and the national authorities, where appropriate in association with the regional and local authorities or other agencies acting as partners in the pursuit of a common goal;

Whereas it is necessary to specify the principal forms of structural assistance to be provided by the Community for the purposes of the objectives set out in Articles 130 A and 130 C of the Treaty; whereas those forms of assistance must add to the effectiveness of the measures taken by it and at the same time satisfy the needs of the different situations that may arise;

Whereas the main emphasis must be placed on assistance in the form of multiannual operational programmes;

Whereas, in order to secure joint action between one or more Funds, the EIB and one or more of the other financial instruments, those programmes may be drawn up and implemented on the basis of an integrated approach to the measures involved;

Whereas mechanisms should be established for varying Community assistance in line with the particular features of the measures to be supported and in the light of the context in which they are to be carried out and the financing capacity of the Member State concerned;

Whereas, in implementing this Regulation, it is necessary to establish procedures for ensuring close cooperation between the Commission and the national, regional and local authorities in Member States;

Whereas it is necessary to establish effective methods of monitoring, assessing and carrying out checks in respect of Community structural operations and to ensure that those methods are adapted to the tasks of the different Funds as clarified by this Regulation;

Whereas it is necessary to lay down in subsequent implementing legislation the detailed rules governing the individual Funds, together with the arrangements for the coordination and joint deployment of the Community's various structural Funds and instruments, and the necessary transitional provisions;

Whereas, while performing the tasks assigned to it by Articles 129 and 130 of the Treaty, the EIB is to cooperate in achieving the objectives set out in this Regulation in accordance with the procedures laid down in its Statute,

HAS ADOPTED THIS REGULATION:

I. OBJECTIVES AND TASKS OF THE STRUCTURAL FUNDS

Article 1

Community operations under the structural Funds, the European Investment Bank (hereinafter referred to as the "EIB") and the other financial instruments shall support the achievement of the general objectives set out in Articles 130 A and 130 C of the Treaty by contributing to the attainment of five priority objectives:

1. Promoting the development and structural adjustment of the less-developed regions (hereinafter referred to as "Objective No 1");

2. Converting the regions, employment areas and urban communities seriously affected by industrial decline and facilitating restructuring of declining industries (hereinafter referred to as "Objective No 2");

3. Combating long-term unemployment (hereinafter referred to as "Objective No 3");

4. Facilitating the occupational integration of young people (hereinafter referred to as "Objective No 4");

5. With a view to reform of the common agricultural policy, speeding up the adjustment of agricultural structures and promoting the development of rural areas (hereinafter referred to as "Objective No 5").

Article 2

1. The structural Funds (the European Agricultural Guidance and Guarantee Fund, Guidance Section, hereinafter referred to as the "EAGGF Guidance Section"; the European Social Fund, hereinafter referred to as the "ESF"; the European Regional Development Fund, hereinafter referred to as the "ERDF") shall contribute, each according to the specific provisions governing its operations, to the attainment of Objectives Nos 1 to 5 on the basis of the breakdown given below:

- Objective No 1: ERDF, ESF, EAGGF Guidance Section;
- Objective No 2: ERDF, ESF;
- Objective No 3: ESF;
- Objective No 4: ESF;
- Objective No 5: EAGGF Guidance Section, ESF, ERDF.

2. The EIB, while performing the tasks assigned to it by Articles 129 and 130 of the Treaty, shall cooperate in achieving the objectives set out in Article 1 in accordance with the procedures laid down in its Statute. The other financial instruments may contribute, each according to the specific provisions governing its operations, to any measure supported by one or more of the structural Funds in connection with one of the abovementioned five objectives.

Article 3

1. The ERDF shall perform the tasks entrusted to it by Article 130 C of the Treaty by providing support in particular for:

(a) productive investment;

(b) the creation or modernization of infrastructures essential to the development or conversion of the regions, employment areas and urban communities concerned;

(c) measures to exploit the potential for internally generated development of the regions, employment areas and urban communities concerned;

(d) studies or pilot schemes concerning physical planning at Community level, especially where frontier areas are involved.

2. With a view to fostering employment and in connection with the task assigned to it by Article 123 of the Treaty, the ESF shall provide support for measures, notably in the field of vocational training, aimed at:

(a) securing better use of, and adapting, human resources;

(b) expanding employment opportunities.

Such support shall take account of labour-market requirements and of the need for a consistent selection of measures tailored to the priorities laid down in Community and national employment policies.

3. Assistance from the EAGGF Guidance Section shall be geared in particular to performing the following tasks, having due regard for the principles laid down in Article 39 of the Treaty:

(a) strengthening and reorganizing agricultural structures, including those for the marketing and processing of agricultural and fishery products, in particular in the context of the reform of the Community's common agricultural policy;

(b) converting agricultural activities, inter alia through measures to create alternative activities in rural areas;

(c) ensuring a fair standard of living for those who continue in farming;

(d) helping to develop the social fabric of rural areas, to protect the environment, to preserve the countryside and to offset the effects of natural handicaps on agriculture.

4. The specific provisions governing operations under each structural Fund shall be laid down in the implementing decisions adopted pursuant to Article 43, 127 or 130 E of the Treaty. They shall establish in particular the procedures for providing assistance in one of the forms defined in Article 5(2), the conditions of eligibility and the rates of assistance. Without prejudice to paragraph 5, they shall also establish the arrangements for the monitoring, assessment, financial management and checking of measures and the necessary transitional provisions.

5. The Council, acting on the basis of Articles 43, 127 or 130E of the Treaty, shall adopt the provisions necessary for ensuring coordination between the different Funds, on the one hand, and between them and the EIB and the other financial instruments, on the other. The Commission and the EIB shall establish by mutual agreement the practical arrangements for coordinating their operations.

6. The implementing decisions referred to in paragraphs 4 and 5 above shall lay down the transitional provisions necessary in relation to existing rules.

7. The implementing decisions referred to in paragraphs 4 and 5 may provide for Community financing of operations permitting the exchange of information between Member States based on the assessment of operational programmes and of innovative operations involving a number of Member States.

II. ARRANGEMENTS FOR STRUCTURAL OPERATIONS

Article 4

Complementarity, partnership, assistance

1. Acting in accordance with the provisions of this Regulation and with the provisions referred to in Article 3(4) and (5), the Commission shall take the steps and measures necessary to ensure that Community operations are in support of the objectives set out in Article 1 and impart to national initiatives the necessary value added.

2. Community operations shall be such as to complement corresponding national operations. They shall be established through close consultations between the Commission and the Member State concerned acting as partners in pursuit of a common goal. These consultations are hereinafter referred to as the "partnership". They shall, where appropriate, bring together the regional, local or other authorities designated by that Member State. The partnership shall cover the preparation, financing, monitoring and assessment of operations.

3. Within the framework of the partnership, the Commission may, in accordance with procedures laid down in the provisions referred to in Article 3(4), contribute to the preparation, implementation and adaptation of operations by financing preparatory studies and technical assistance operations lcoally, in agreement with the Member State concerned or with the authorities referred to in paragraph 2;

4. For each objective, tasks shall be shared between the Commission and the Member States during the preparation of operations in accordance with Articles 8 to 11.

Article 5

Financial assistance

1. Financial assistance under the structural Funds, the EIB and the other Community financial instruments shall be provided in a variety of forms that reflect the nature of the operations to be carried out.

2. In the case of the structural Funds, financial assistance shall be provided in one of the following forms:

(a) part-financing of operational programmes;

(b) part-financing by the Community of an aid scheme;

(c) provision of general grants managed by an intermediary and allocated by the latter in the form of individual grants to final beneficiaries;

(d) part-financing of major projects;

(e) support for technical assistance or studies in preparation for operations;

Other forms of assistance may be taken into consideration in the light of the development of financial engineering techniques.

3. In the case of the EIB and the other financial instruments, each observing its own specific rules, financial assistance shall be provided in one of the following forms:

- loans or other forms of part-financing specific investment projects;
- global loans;
- part-financing of technical assistance or of studies in preparation for operations;
- guarantees.

4. An operational programme within the meaning of paragraph 2(a) shall consist in a series of consistent multiannual measures which may be implemented through recourse to one or more of the forms of financial assistance described in paragraph 2(b) to (e) or in paragraph 3, to one or more Funds and to one or more of the other financial instruments.

Operational programmes shall be undertaken on the initiative of the Member States or of the Commission.

Where an operational programme involves operations under more than one Fund and/or more than one other financial instrument, it may be implemented in the form of an integrated approach the details of which shall be determined by the provisions referred to in Article 3(5).

Article 6

Monitoring and assessment

1. Community operations shall be monitored to ensure that the commitments entered into as part of the objectives set out in Articles 130 A and 130 C of the Treaty are effectively honoured. Such monitoring shall, where necessary, make it possible to adjust operations in line with requirements arising during implementation.

2. In order to gauge their effectiveness, Community structural operations shall be the subject of an ex ante and an ex post assessment designed to highlight their economic impact and to analyse their effects on specific structural problems.

3. The procedures for monitoring and assessing Community operations shall be established by the provisions referred to in Article 3(4) and (5) and, in the case of the EIB, in the manner provided for in its Statute.

Article 7

Compatibility and checks

1. Measures part-financed by the structural Funds or receiving assistance from the EIB or from another financial instrument shall be in keeping with the provisions of the Treaty, with the instruments adopted pursuant to the latter and with the objectives of Community policies, notably with regard to the rules on competition, the award of public contracts and protection of the environment.

2. Without prejudice to the provisions of the Financial Regulation, the provisions referred to in Article 3(4) and (5) shall lay down harmonized rules for strengthening checks on structural operations. They shall be adjusted to reflect the special nature of the financial operations concerned. The procedures for carrying out checks on operations undertaken by the EIB are set out in its Statute.

III. PROVISIONS RELATING TO THE SPECIFIC OBJECTIVES

Article 8

Obejctive No 1

1. As soon as this Regulation has been adopted, the Commission shall decide on a list of the structurally less-developed regions concerned by Objective No 1.

2. The Commission shall, in accordance with the procedures referred to in Article 16, draw up the list referred to in paragraph 1 on the basis of percapita GDP in the regions of administrative level NUTS II as compared with the Community average. Regions that, taking the figures for recent years, have a per capita GDP 75% lower than that average shall be included in the list.

Northern Ireland and the French overseas departments shall be included in the list of structurally less-developed regions.

The list shall be valid for five years. On expiry of the five-year period, the Commission, acting in accordance with the procedures referred to in Article 1#, shall decide on a new list.

Member States shall communicate to the Commission any information likely to be of assistance in drawing up the list.

3. The Member States concerned by the list referred to in paragraph 1 shall submit their regional development plans to the Commission. Those plans shall include in particular:

- a description of the regional development priorities selected and of the corresponding measures;
- an indication of the use that the competent national authorities intend to make of assistance available under the Funds, the EIB and the other financial instruments in implementing the plans.

Where appropriate, the regional development plans shall be supplemented, at the Commission's request or on the initiative of Member States, by other relevant information relating in particular to operations to be carried out at national, sectoral or interregional level.

4. The Commission shall examine the proposed plans to determine whether they are consistent with the objectives of this Regulation and with the provisions and policies referred to in Articles 6 and 7. It shall establish, in consultation with the competent authorities in the Member State concerned and in accordance with the procedures referred to in Article 16, the Comunity support framework for Community structural operations.

The Community support framework shall cover in particular:

- the regional development priorities adopted for Community assistance;
- the forms of assistance;
- the financing plan, with details of the amount of assistance and its source;
- the duration of the assistance.

The Community support framework may, if necessary, be revised and adjusted to take account of new relevant information and of the results obtained during implementation of the operations concerned.

5. The arrangements for the preparation and submission of regional development plans and for the Community support frameworks shall be laid down in the provisions referred to in Article 3(4) and (5).

6. Assistance in respect of Objective No 1 shall be predominantly in the form of operational programmes.

7. With a view to facilitating the programming of operations in the regions concerned, the Commission shall, as a guide, share out between Member States for a period of five years 75% of the commitment appropriations allocated to the structural Funds for the purposes of Objective No 1. This share-out shall be based on socio-economic criteria typifying the structural backwardness of the regions. The resources not shared out in this way shall be used by the Commission, in support of attainment of Objective No 1, to promote operations of significant interest to the Community.

The Member States concerned and the Commission shall, as part of their consultations, check on the quality and pace of implementation of the proposed operations.

8. The operations eligible for assistance under the various Funds contributing to attainment of Objective No 1 shall be specified in the provisions referred to in Article 3(4).

Article 9

Objective No 2

1. As soon as this Regulation has been adopted, the Commission shall decide on a list of the regions, employment areas and urban communities concerned by Objective No 2. The list may be amended in the light of the changing situation in the regions, employment areas and urban communities concerned.

2. The Commission shall, in accordance with the procedures referred to in Article 16, draw up the list referred to in paragraph 1 on the basis of objective socio-economic criteria that take account among other things of the seriousness and changing pattern of the industrial problems and unemployment. Those criteria shall be set out in the provisions referred to in Article 3(4) and (5).

Member States shall communicate to the Commission any information likely to be of assistance in drawing up the list.

3. The Member States concerned by the list referred to in paragraph 1 shall submit their regional conversion plans to the Commission. Those plans shall include in particular:

- a description of the conversion priorities selected for the regions, employment areas and urban communities concerned and of the corresponding measures;

- an indication of the use that the competent national authorities intend to make of assistance available under the Funds, the EIB and the other financial instruments in implementing the plans.

Where appropriate, the conversion plans shall be supplemented, at the Commission's request or on the initiative of Member States, by other relevant information relating in particular to operations to be carried out at national, sectoral or interregional level.

4. The Commission shall examine the proposed plans to determine whether they are consistent with the objectives of this Regulation and with the provisions and policies referred to in Articles 6 and 7. It shall establish, in consultation with the competent authorities in the Member State concerned and in accordance with the procedures referred to in Article 16, the Community conversion support framework for Community structural operations.

The Community framework in support of regional conversion shall cover in particular:

- the conversion priorities adopted for Community assistance;
- the forms of assistance;
- the financing plan, with details of the amount of assistance and its source;
- the duration of the assistance.

The Community support framework may, if necessary, be revised and adjusted to take account of new relevant information and of the results obtained during implementation of the operations concerned.

5. The arrangements for the preparation and submission of regional conversion plans and for the Community support frameworks shall be laid down in the provisions referred to in Article 3(4) and (5).

6. In order to facilitate the restructuring - endorsed by the Community - of declining industries, the ESF may operate outside the regions referred to in paragraph 1 to help workers directly affected by such restructuring.

Article 10

Objectives No 3 and No 4

1. Within the framework of the provisions implementing this Regulation, the Commission shall establish for a period covering a number of years general guidelines that set out and clarify the Community choices and criteria concerning action to combat long-term unemployment (Objective No 3) and to facilitate the occupational integration of young people (Objective No 4).

2. Member States shall submit their plans for combating long-term unemployment (Objective No 3) and for facilitating the occupational integration of young people (Objective No 4) to the Commission. Those plans shall include in particular:

- information on the employment and labour market policy implemented at national level;
- an indication of the priority operations already under way or to be carried out for a specific number of years to help those sections of the population concerned by Objectives No 3 and No 4, that is those operations corresponding to the general guidelines laid down by the Commission;

- an indication of the use that the competent national authorities intend to make of assistance available under the ESF - where appropriate, in conjunction with assistance from the EIB or other Community financial instruments - in implementing the plans.

3. The Commission shall examine the proposed plans to determine whether they are consistent with the objectives of this Regulation, with the general guidelines laid down by it and with the provisions and policies referred to in Articles 6 and 7. It shall establish for each Member State, in consultation with the competent authorities and in accordance with the procedures referred to in Article 16, the Community support framework for the attainment of Objectives No 3 and No 4.

The Community support framework shall indicate in particular:

- the Community priorities;
- the particular objectives adopted for Community assistance in respect of the sections of the population concerned by Objectives No 3 and No 4;
- the forms of assistance;
- the financing plan, with details of the amount of assistance and its source;
- the duration of the assistance.

The Community support framework may, if necessary, be revised and adjusted in the light of relevant new information and of the results obtained during implementation of the operations concerned.

4. The arrangements for the preparation and submission of plans for combating long-term unemployment and facilitating the occupational integration of young people and for the Community support frameworks shall be laid down in the provisions referred to Article 3(4) and (5).

5. Assistance in connection with Objectives No 3 and No 4 shall be predominantly in the form of operational programmes.

6. The operations eligible for ESF assistance in connection with Objectives No 3 and No 4 shall be specified in the provisions referred to in Article 3(4).

Article 11

Objective No 5

1. The arrangements for the implementation of operations connected with the accelerated adaptation of agricultural structures shall be decided on within the framework of the provisions adopted pursuant to Article 3(4) and (5).

2. The Commission may, in the light of the needs expressed by Member States, propose operations connected with rural development. Those operations may form part of rural development plans for geographical areas at the territorial level deemed appropriate. Those plans shall include in particular:

- a description of the rural development priorities and of the corresponding measures;

- an indication of the use that the competent national authorities intend to make of assistance available under the different Funds, the EIB and the other financial instruments in implementing the plans.

The Commission shall examine the proposed plans to determine whether they are consistent with the objectives of this Regulation and with the provisions and policies referred to in Articles 6 and 7. It shall establish, in consultation with the competent authorities in the Member State concerned and in accordance with the procedures referred to in Article 16, the Community support framework for rural development.

The Community support framework shall cover in particular:

- the rural development priorities adopted for Community assistance;

- the forms of assistance;

- the financing plan, with details of the amount of assistance and its source;

- the duration of the assistance.

The Community support framework may, if necessary, be revised and adjusted in the light of new relevant information and of the results obtained during implementation of the operations concerned.

The arrangements for the preparation and submission of rural development plans by Member States shall be laid down in provisions referred to in Article 3(4) and (5).

3. The part-financing of national aids and operational programmes shall be the preferred form of assistance.

4. The operations eligible for assistance under the different Funds in connection with Objective No 5 shall be specified in the provisions referred to in Article 3(4). In the case of the EAGGF Guidance Section, those provisions shall distinguish between operations to be financed in connection with the adaptation of agricultural structures and operations to be financed in connection with rural development.

IV. FINANCIAL PROVISIONS

Article 12

Within the framework of the multiannual budget forecasts, the Commission shall present each year a five-year projection of the appropriations needed for the three structural Funds taken together. The projection shall be accompanied by an indicative breakdown of the commitment appropriations to be assigned to each objective. In drawing up each preliminary draft budget, the Commission shall, where the allocation for the structural Funds is concerned, take account of the indicative breakdown for each objective.

The commitment appropriations for the structural Funds taken together shall be doubled in real terms between 1987 and 1992.

A major effort shall be made to concentrate budgetary resources on Objective No 1 (less-developed regions). The annual increase in the commitment appropriations assigned to Objective No 1 shall be at least equivalent to the overall annual increase in the commitment appropriations for the structural Funds. The ERDF may devote up to 80% of its appropriations to Objective No 1.

Article 13

The Community contribution to the financing of operations shall be differentiated in the light of the following:

- the seriousness of the specific , notably regional, problems to be tackled;

- the financing capacity of the Member State concerned;
- the special importance attaching to measures from a Community viewpoint;
- the special importance attaching to measures from a regional and a sectoral viewpoint;
- the particular characteristics of the types of measure proposed.

Such differentation shall take account of the planned link between grants and loans mobilized. The purpose of combining loan and grant elements shall be to maximize the stimulus provided by Community assistance while at the same time limiting its budgetary cost.

V. COMBINATION AND OVERLAPPING OF ASSISTANCE

Article 14

1. For any given period, an individual measure or operation may benefit from assistance from only one Fund at a time.

2. An individual measure or operation may benefit from assistance from a Fund or other financial instrument in respect of only one of the objectives set out in Article 1 at a time.

3. When implemented in the less-developed regions, operations in connection with Objective No 2 shall be planned and financed within the framework of Objective No 1.

4. The arrangements governing the combination and overlapping of assistance shall be laid down in the provisions referred to in Article 3(4) and (5).

VI. FINAL PROVISIONS

Article 15

1. The Commission shall be responsible for the implementation of this Regulation.

2. Before 1 November of each year, the Commission shall present to the Council, to the European Parliament and to the Economic and Social Committee a report on the implementation of this Regulation during the preceding year.

Article 16

1. In implementing this Regulation, the Commission shall be assisted by three advisory committees dealing respectively with:

- Objectives No 1 and No 2;

- Objectives No 3 and No 4;

- Objective No 5.

2. The provisions setting out the arrangements relating to the functioning of the committees referred to in paragraph 1 and the transitional provisions concerning the existing committees responsible for managing the Funds shall be laid down in accordance with Article 3(4), (5) and (6).

Article 17

This Regulation shall enter into force on 1 January 1989.

The date of entry into force may be deferred by the Council, acting by a qualified majority on a proposal from the Commission, to allow for the entry into force of the provisions referred to in Article 3(4) and (5).

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

Done at

For the Council,

STRUCTURAL FUNDS RECEIPTS 1985-1987

	1985		1986		1987	
	mecu	**%**	**mecu**	**%**	**mecu**	**%**
Italy	961	25.5	1400	24.5	1234	20.5
UK	892	24.0	1168	20.5	1071	18.0
Spain	-	-	489	8.5	828	14.0
France	647	17.5	752	13.0	813	13.5
Greece	434	11.5	514	9.0	640	10.5
Portugal	-	-	318	5.5	479	8.0
Ireland	348	9.5	385	7.0	385	6.5
Germany	246	6.5	346	6.0	294	5.0
Netherlands	62	1.5	83	1.5	114	2.0
Denmark	69	2.0	123	2.0	98	1.5
Belgium	78	2.0	121	2.0	66	1.0
Luxembourg	3	0.1	3	0.05	9	0.15
TOTAL	3739		5702		6039	

Source : Commission (in confidence)

EUROPEAN COMMUNITIES
THE COUNCIL

Brussels, 21 September 1987 (2k)

8386/87	
	RESTREINT

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RECH 59
ATO 75

COUNCIL DECISION MASTER COPY
of

concerning the framework programme for
Community activities in the field of research
and technological development (1987-1991)

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community, and in particular Article 130 Q(1) thereof,

Having regard to the Treaty establishing the European Atomic Energy Community, and in particular Article 7 thereof,

Having regard to the proposal from the Commission (1),

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

Having regard to the Opinion of the Economic and Social Committee (3),

Having regard to the opinion of the Scientific and Technical Committee,

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(1) OJ No C 275, 31.10.1986, p. 4.
(2) OJ No C 7, 12. 1.1987, p. 19.
(3) OJ No C 333, 29.12.1986, p. 45.

.../...

Whereas Article 2 of the Treaty establishing the European Economic Community assigns to the Community, inter alia, the task of promoting throughout the Community a harmonious development of economic activities, a continuous and balanced expansion and an accelerated raising of the standard of living;

Whereas, in order to encourage the development of the international competitiveness of European industry, it is necessary to promote scientific research and technological development at Community level in order to strengthen the scientific and technological basis of its industry, thereby complementing the activities carried out in the Member States;

Whereas it is necessary to encourage undertakings, including small and medium-sized undertakings, research centres and universities in their research and technological development activities as well as to support their efforts to co-operate with one another;

Whereas it is recognized that small and medium-sized enterprises are able to make a significant contribution to the innovative process and should play a substantial role in the implementation of Community R&TD, thereby contributing to the improvement of industrial competitiveness; whereas, therefore, particular attention should be paid to the specific needs of such enterprises in order to encourage their access to information, their effective participation in Community programmes and their ability to exploit the results of Community research;

Whereas it is necessary to promote the overall harmonious development of the Community with a view to strengthening its economic and social cohesion; whereas it is intended that the implementation of common policies of the Community, and its strategy for research and technological development, shall contribute to this objective; whereas a Community Framework Programme should play its part, along with other Community instruments, in contributing to strengthening scientific and technological infrastructure and potential throughout all parts of the Community;

Whereas it is necessary to associate the implementation of the Community strategy for science and technology with the completion of the internal market, particularly through increased research and development efforts enabling the definition of common standards to be applied throughout Europe; whereas this process will enable undertakings to take full advantage of the potential of the internal market; whereas this strategy should take into account, in particular, the implementation of common policies on competition and trade;

.../...

Whereas, in order to present as comprehensive an overall view as possible of its science and technology strategy undertaken under the Treaties of Rome, the Community intends to adopt a multiannual framework programme laying down the scientific and technical objectives of its activities, defining their respective priorities, setting out the main lines of the activities envisaged, estimating the necessary amount and drawing up detailed rules for financial participation by the Community in the programme as a whole and the breakdown of this amount between the various activities envisaged; whereas, nevertheless, the Commission is undertaking autonomous activities under the Treaty of Paris in the coal and steel sectors which are not financed by the general budget of the European Communities and cannot therefore be included in the Framework Programme;

Whereas on 25 July 1983 the Council adopted a first four-year Framework Programme 1984-1987 to be reviewed during the course of its execution; whereas a five-year period running from 1987 to 1991 appears, in the light of experience, more appropriate for the second Framework Programme;

Whereas the amount deemed necessary for a multiannual Framework Programme is the sum of the amounts deemed necessary for the specific programmes to be decided on during the reference period;

Whereas the relationship between the Framework Programme and the specific programme leads, in practice, to a time-lag between the reference period of the Framework Programme and the period during which the amount deemed necessary will be committed in the budget;

Whereas, owing to this time-lag, there is an amount of 1084 MECU to be committed in respect of research programmes already decided on or under way and which cannot be included in the amount deemed necessary for the Framework Programme 1987-1991;

.../...

Whereas, for the same reason, it may be expected that part of the amount deemed necessary for the Framework Programme 1987-1991, 863 MECU, will have to be committed in the budget after the reference period of the Framework Programme ;

Whereas it proved necessary, in the light of the evolution of scientific and technical objectives and of the accession of two new Member States on 1 January 1986, to revise the criteria governing the selection of Community R&D activities as set out in the Council Resolution of 25 July 1983;

Whereas the Framework Programme must be implemented through specific programmes developed within each line of activity, the methods, duration and finance deemed necessary being open to a decision at the time of adoption of those programmes;

Whereas it may be appropriate to allow for some of these programmes to take the form of supplementary programmes;

Whereas, in the same spirit, provision should be made to allow the specific and supplementary programmes to include a Community contribution to research and development programmes undertaken by several Member States;

Whereas the detailed rules for implementing the Framework Programme provided for above should not rule out the possibility of Community co-operation with third countries or international organizations with a view to pursuing the scientific and technical objectives established by the Framework Programme;

.../...

Whereas COST activities and those of the Community should operate in a mutually beneficial way; whereas COST activities could contribute to the implementation of the Framework Programme and pursue a specific and complementary role by encouraging scientific and technical co-operation between the Community and the members of COST by means of research projects of a multilateral character;

Whereas it is appropriate for projects carried out in the context of Eureka and specific activities undertaken within the Framework Programme to operate in a complementary manner and to their mutual advantage; whereas it may be necessary in the implementation of the Framework Programme to provide for an appropriate Community participation in certain Eureka projects;

Whereas it may be appropriate to review customary arrangements for levels of Community contributions to projects and to consider the use of varying levels of such contributions, depending inter alia on the nature of the participants, the degree of precompetitiveness of the project and the progress of the research on the one hand, and the available resources on the other; whereas, if flexibility of this type were to prove necessary, the specific programme decisions would set out the provisions governing the level of Community contribution in a manner consistent with the optimal achievement of scientific and technical objectives;

Whereas the adoption of a five-year Framework Programme does not in any way preclude amendments or additions to the programme on the basis of the continually changing scientific and technological context; whereas it is appropriate and desirable that the Commission should carry out an evaluation of the execution of the programme and a general review from the third year of execution;

Whereas the Scientific and Technical Research Committee (CREST) has been consulted;

.../...

HAS DECIDED AS FOLLOWS:

Article 1

1. The Framework Programme for Community activities in the field of research and technological development (hereinafter referred to as the "Framework Programme") shall cover the period 1987-1991.

2. The Framework Programme shall provide for the following activities:

   (1) Quality of Life
   (2) Towards a large Market and an Information and Communications Society
   (3) Modernization of Industrial Sectors
   (4) Exploitation and optimum use of biological resources
   (5) Energy
   (6) Science and Technology for Development
   (7) Exploitation of the seabed and use of marine resources
   (8) Improvement of European S/T Co-operation.

3. Without prejudice to the amount of 1084 MECU deemed necessary in respect of research programmes already decided on or under way, the total amount deemed necessary for Community participation in the achievement of the scientific and technical objectives set out in Annex II, and therefore the sum to be allocated to specific programmes to be decided on during that period, shall be 5396 MECU, of which no more than 4533 MECU are deemed necessary to be committed for the execution of specific programmes before the end of 1991.

   Of the abovementioned amount of 5396 MECU, the amount deemed necessary for specific programmes to be decided on during 1987-1991 shall provisionally, and pending the Council Decision referred to in the third subparagraph, be fixed at 4979 MECU.

   The Council, acting unanimously, will subsequently decide on the addition of the remaining amount of 417 MECU to the amount of 4979 MECU.

.../...

4. The breakdown of the amount deemed necessary between the activities listed in paragraph 2 is set out in Annex I.

5. The main lines of the activities envisaged and their scientific and technical objectives are set out in Annex II.

6. The selection criteria to be applied in the implementation of the programme are set out in Annex III.

Article 2

1. The Framework Programme shall be implemented through specific programmes developed within each of the activities set out in Article 1(2). It may also be implemented, where appropriate, by supplementary programmes.

   In implementing the Framework Programme, provision may be made for Community participation in activities undertaken by several Member States and for Community co-operation with third countries or international organizations.

2. Each specific programme shall:

   - define the detailed rules for implementing it, fix its duration and provide for the means deemed necessary;

   - state its precise objectives and provide for an evaluation of results achieved in relation to these objectives;

   - be evaluated in the light of all the selection criteria set out in Annex III, which include that of contributing to the strengthening of the economic and social cohesion of the Community;

- define the rate or rates of the Community's financial participation.

3. The Council shall define the detailed arrangements for the dissemination of knowledge resulting from the programme, in particular in the context of the adoption of specific programmes.

Article 3

The detailed rules for financial participation by the Communities in the Framework Programme as a whole shall be those provided for in Article 87 of the Financial Regulation applicable to the general budget of the European Communities, without prejudice to the charging to the budget of any contributions from the Communities to national or multinational activities or projects.

Article 4

During the third year of execution of the Framework Programme the Commission shall assess its progress. It shall examine, in particular, whether the objectives, priorities, activities envisaged and financial resources are still appropriate to the changing situation. In the light of this review, it shall make proposals for the revision of the Framework Programme.

Done at

For the Council
The President

FRAMEWORK PROGRAMME OF COMMUNITY ACTIVITIES IN THE FIELD OF RESEARCH AND TECHNOLOGICAL DEVELOPMENT (1987-1991)

Breakdown of the amount deemed necessary between the various activities envisaged

million ECU

1. Quality of life		375
1.1. Health	80	
1.2. Radiation protection	34	
1.3. Environment	261	
2. Towards a large market and an information and communications society		2 275
2.1. Information technologies	1 600	
2.2. Telecommunications	550	
2.3. New services of common interest (including transport)	125	
3. Modernization of industrial sectors		845
3.1. Science and technology for manufacturing industry	400	
3.2. Science and technology of advanced materials	220	
3.3. Raw materials and recycling	45	
3.4. Technical standards, measurement methods and reference materials	180	
4. Exploitation and optimum use of biological resources		280
4.1. Biotechnology	120	
4.2. Agro-industrial technologies	105	
4.3. Competitiveness of agriculture and management of agricultural resources	55	
5. Energy		1 173
5.1. Fission: nuclear safety	440	
5.2. Controlled thermonuclear fusion	611	
5.3. Non-nuclear energies and rational use of energy	122	
6. Science and technology for development	80	80
7. Exploitation of the seabed and use of marine resources		80
7.1. Marine science and technology	50	
7.2. Fisheries	30	
8. Improvement of European S/T co-operation		288
8.1. Stimulation, enhancement and use of human resources	180	
8.2. Use of major installations	30	
8.3. Forecasting and assessment and other back-up measures (including statistics)	23	
8.4. Dissemination and utilisation of S/T research results	55	
TOTAL		5 396

(2R)
B

STATEMENTS FOR THE COUNCIL MINUTES

Ad Article 1, Paragraph 3:

(a) The UK-delegation considers that the Council can only decide on the 417 mecu referred to in sub-paragraph 3 when the decisions set out on Page 12 of the conclusions circulated by the Presidency after the European Council meeting on 29/30 June 1987 (doc. SN 2279/3/87) have been taken.

On the assumption that the above-mentioned decisions are taken at the Copenhagen meeting of the European Council (4/5 December 1987), the UK-delegation will agree to a decision adding the amount of 417 mecu not later than 31.12.1987.

Without prejudice to their positions set out in the conclusions circulated by the Presidency after the European Council (doc. SN 2279/3/87), 11 delegations and the Commission consider that the decision on the addition of the 417 mecu must in all circumstances be taken no later than 31 December 1987.

The Council and the Commission note that in any case the implementation of the Framework Programme will respect the equilibria as set out in Annex 1.

(b) Taking into account the normal time-lag between the reference period for the Framework Programme and the actual duration of specific programmes, the Commission agrees that an amount deemed necessary corresponding to 863 mecu of the amount deemed necessary for the Framework Programme under sub-paragraphs 1 & 2 of Article 1 & 3 will have to be committed in the budget after 1991 and the contribution to this amount will be identified in specific programmes when they are brought forward.

This must not prevent the balanced start and development of the new programme within a reasonable period.

MDAAGE,1

The Council takes note of this statement and finds that there is unanimous agreement within the Council to act accordingly.

Ad Article 2, Paragraph 2 (Evaluation of Programmes):

(c) The Council and the Commission, welcoming the agreement that all specific programmes to be agreed under this Framework Programme will be evaluated in relation to their precise objectives, agree that the specific programmes, when they are brought forward for adoption, will set out the procedures to be followed and identify the estimated resources to be made available for carrying out these evaluations.

(d) Joint Research Centre

The Council and the Commission reaffirm the Community character of the JRC.

The Commission states its intention to reflect the main recommendations of the Panel of Senior Industrialists and the opinions of the JRC Board of Governors in its formal proposals for the future programme of the JRC; these will take into account inter alia activities to be carried out for Commission Services as well as outside customers.

The Council and Commission agree that such proposals should be finalized within a short time.

(2k)

C

WORK PROGRAMME AND PROCEDURE

The European Council requests the Council, on the basis of the Commission communication entitled "Making a success of the Single Act", and in the light of the guidelines defined above to:

(1) prepare, on a proposal from the Commission, the binding legal provisions referred to in paragraphs 4 to 8 above to establish budgetary discipline for both agricultural and non-compulsory expenditure. These provisions will include the supplementary measures, for inclusion in the common agricultural policy judged necessary in the light of the inventory referred to in paragraph 11;

(2) prepare a decision on the comprehensive Commission proposal for reform of the Structural Funds including the financial objective for appropriations to the Funds to be reached in 1992 (see paragraph 2 above);

(3) prepare , on a proposal from the Commission, in conjunction with the above decisions, the level of the new ceiling on own resources for 1992;

(4) prepare , on a proposal from the Commission, detailed guidelines on the new system of own resources, following the indications in paragraph 9 above, and on the correction of budgetary imbalances.

All the decisions to be taken on the four points above form an indivisible whole.

The European Council will adopt its final position on all these matters at its meeting in Copenhagen in December 1987.

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UNCLASSIFIED
FM PARIS
TO IMMEDIATE FCO
TELNO 1179
OF 191906Z NOVEMBER 87
INFO IMMEDIATE HOME OFFICE, DHSS, DEPARTMENT OF EMPLOYMENT
INFO IMMEDIATE CABINET OFFICE, UKREP BRUSSELS AND OTHER EC POSTS

PWP

FRAME GENERAL

EUROPEAN COUNCIL : FRENCH PAPER ON EUROPEAN DEMOGRAPHY

SUMMARY
1. THE FRENCH HAVE GIVEN US AN ADVANCE COPY OF A PAPER ON EUROPEAN DEMOGRAPHY WHICH THEY WILL PRESENT AT THE EUROPEAN COUNCIL TO DRAW ATTENTION TO THEIR CONCERN THAT FAILURE TO TACKLE EUROPE'S DEMOGRAPHIC DECLINE WILL ENDANGER ECONOMIC PROGRESS. THE PAPER SAYS THAT SPECIFIC MEASURES SHOULD BE LEFT TO THE DISCRETION OF NATIONAL GOVERNMENTS: THE ESSENTIAL OBJECTIVE IS TO MAINTAIN DEMOGRAPHIC STABILITY.

DETAIL
2. THE PAPER SETS OUT THE DIFFERENCES BETWEEN DEMOGRAPHIC TRENDS IN EUROPE AND THE REST OF THE WORLD TO 2020, AND POINTS TO DECLINING BIRTH RATES, FALL IN THE NUMBER OF LARGE FAMILIES (THREE CHILDREN OR MORE), STABILISING OF MORTALITY RATES AND CUT-BACK ON IMMIGRATION. IT CLAIMS THAT THE EC SHARE OF WORLD POPULATION WILL FALL FROM 6.2 PERCENT IN 1990 TO 5.4 PERCENT IN THE YEAR 2000, WITH A MUCH SLOWER RATE OF INCREASE (1.8 PERCENT) FROM NOW TO THE END OF THE CENTURY THAN THE RATES PROJECTED FOR THE UNITED STATES, JAPAN AND THE SOVIET UNION. WITHIN EUROPE IT POINTS OUT THAT FROM NOW TO THE YEAR 2020 ONLY FRANCE AND THE UK WILL SEE THEIR POPULATIONS GROW. AMONG CONSEQUENCES OF A DECLINING AND AGEING POPULATION IT POINTS TO HEALTH CARE COSTS, LABOUR SUPPLY PROBLEMS AND GENERAL EFFECT ON COMPETITIVITY. CULTURAL AND POLITICAL CONSEQUENCES ARE MENTIONED BUT NOT SPELLED OUT.

3. THE DEMOGRAPHIC ISSUE WAS RAISED BY THE FRENCH PRESIDENCY AT THE SOCIAL AFFAIRS COUNCIL IN 1984. NO CONSENSUS WAS THEN POSSIBLE, BUT THE PAPER NOTES THAT DEVELOPMENTS SINCE INCLUDE THE SECOND COUNCIL RESOLUTION ON WOMEN'S EQUALITY, THE DRAFT DIRECTIVE ON PARENTAL LEAVE, AND THE PROPOSALS IN THE COMMISSION COMMUNICATION OF 24 JULY 1986 ON SOCIAL SECURITY PROBLEMS.

4. GOVERNMENTS ARE URGED TO TAKE ALL NECESSARY MEASURES, ADAPTED AS APPROPRIATE TO NATIONAL SITUATIONS, TO CREATE A FAVOURABLE ENVIRONMENT FOR FAMILIES. THE ESSENTIAL OBJECTIVE IS A BIRTHRATE COMPATIBLE WITH DEMOGRAPHIC STABILITY.

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MDHIAN 6659

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TELNO 3895
OF 191115Z NOVEMBER 87
INFO PRIORITY COPENHAGEN, PARIS, BONN

FRAME ECONOMIC

EUROPEAN COUNCIL : PRESIDENCY, COMMISSION AND EP PLANS

AT A LUNCH IN STRASBOURG YESTERDAY BETWEEN DELORS, ELLEMAN-JENSEN AND PLUMB, THE FOLLOWING POINTS EMERGED (PLEASE PROTECT):

I) OWN RESOURCES: DELORS SAID THAT HE COULD ACCEPT ANY SOLUTION WHICH PROVIDED MORE RESOURCES ON A BASIS WHICH RELATED MORE FAIRLY TO RELATIVE PROSPERITY. ELLEMAN-JENSEN ARGUED THE DANISH CASE FOR A FIXED FOURTH RESOURCE AND A VARIABLE VAT RATE:
II) UK ABATEMENT: ELLEMAN-JENSEN THOUGHT THAT IT WOULD BE POLITICALLY DIFFICULT (AND UNACCEPTABLE TO THE DUTCH) TO COMBINE THE FONTAINEBLEAU MECHANISM WITH THE COMMISSION'S PROPOSED FOURTH RESOURCE. DELORS WAS URGED TO DEMONSTRATE THAT THE EFFECT OF THE COMMISSION'S PROPOSALS WAS BROADLY EQUIVALENT TO THAT OF THE FONTAINEBLEAU MECHANISM:
III) PRE-COUNCIL CONTACTS: ELLEMAN-JENSEN HAD HEARD OF PLANS FOR A FRANCO-GERMAN SUMMIT BETWEEN THE CONCLAVE AND THE EUROPEAN COUNCIL. DELORS COMPLAINED THAT CHIRAC WOULD NOT BE ABLE TO SEE HIM BEFORE THE COUNCIL:
IV) PROCEDURE: ELLEMAN-JENSEN REULED OUT THE IDEA THAT PLUMB MIGHT REJOIN THE EUROPEAN COUNCIL LATER ON IN ITS DISCUSSIONS. DELORS ARGUED STRONGLY THAT HEADS OF GOVERNMENT/STATE SHOULD HAVE A PRE-MEETING OVER DINNER ON 3 DECEMBER, (TO WHICH PLUMB MIGHT BE INVITED) TO SET THE COUNCIL IN ITS POLITICAL CONTEXT:
V) INTERNATIONAL CONTEXT: DELORS ARGUED THAT THE FINANCIAL CRISIS AND THE GORBACHEV/REAGAN SUMMIT MADE IT THE MORE ESSENTIAL TO RESOLVE THE COMMUNITY'S INTERNAL BUDGETARY PROBLEMS AT COPENHAGEN. FAILURE WOULD BE THE END OF THIS COMMISSION. THE OTHERS DISCOURAGED SUCH AN APOCALYPTIC VIEW, POINTING OUT THAT THE COMMUNITY WOULD SURVIVE AN UNSUCCESSFUL OUTCOME FROM COPENHAGEN.

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TELNO 394
OF 231430Z NOVEMBER 87
INFO PRIORITY UKREP BRUSSELS

COPENHAGEN EUROPEAN COUNCIL : DANISH FOREIGN MINISTER'S COMMENTS TO THE PRESS

1. THE DANISH PRESS OF 20 NOVEMBER REPORTED THAT AT A PRESS CONFERENCE THE PREVIOUS DAY THE DANISH FOREIGN MINISTER PREDICTED THAT THE US-SOVIET SUMMIT MIGHT HELP TO SECURE A FAVOURABLE OUTCOME AT THE COPENHAGEN EUROPEAN COUNCIL. ELLEMANN-JENSEN SAID IT WOULD BE AN ADMISSION OF FAILURE ON THE PART OF EUROPE IF THE EC WERE UNABLE TO AGREE ON SHARING A MODEST BILL WHILE EAST AND WEST WERE APPROACHING EACH OTHER IN A HISTORIC WAY.

A somewhat eccentric linkage.

2. ELLEMANN-JENSEN IDENTIFIED THE FIVE MAIN PROBLEMS TO BE SETTLED AS :

- INCREASED FINANCING

- INCOME MECHANISMS

- MECHANISMS CONNECTED WITH BUDGETARY DISCIPLINE

- ECONOMIC SOLIDARITY

- BUDGETARY DISPARITIES, WHICH ELLEMANN-JENSEN TERMED ''A EUPHEMISM FOR THE BRITISH BUDGETARY PROBLEM''.

3. ELLEMANN-JENSEN SAID HE WAS OPTIMISTIC ABOUT THE OUTCOME BECAUSE HE EXPECTED THAT ''POLITICAL WILLINGNESS'' WOULD ALLOW A COMPROMISE TO BE ACCEPTED. HE WAS PREPARED TO BET THAT SUCH WILLINGNESS WOULD EXIST AT THE COPENHAGEN MEETING, ADDING THAT IT WAS TRADITIONAL FOR MAJOR PROBLEMS NOT TO BE SOLVED UNTIL THE 11TH HOUR.

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ADDITIONAL 3

LORD PRESIDENT OF THE COUNCIL,HSE OF LORDS ADDITIONAL FRAME

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Foreign and Commonwealth Office

London SW1A 2AH

CH/EXCHEQUER
REC. 23 NOV 1987 23/11
ACTION MR AJC EDWARDS
CST PMG
SIR P. MIDDLETON
SIR G. LITTLER
MR ANSON
MR MONCK MR BURGNER
MR TURNBULL MR APEVANS
MR BONNEY MR MERCER MR CB EVANS MR IRIE
MR MORTIMER MR CONNELLY MRS IMBER MR DODDS.

23 November 1987

Dear Charles

The European Council and the Dutch

As the Prime Minister knows, the Dutch are, with the Commission, our strongest allies in the current debate on CAP reform. They strongly oppose any watering down of the stabilisers package, and it is their Commissioner-Andriessen - who has with Christophersen worked hardest to keep the Commission sound on the issue. (They also oppose the oils and fats tax, though Andriessen supports it.)

The Foreign Secretary believes that it will be very helpful at Copenhagen if the Dutch remain shoulder to shoulder with us; and believes that we must make every effort to ensure this. He will accordingly be meeting Mr Van den Broek before Copenhagen, and Mrs Chalker will visit The Hague on 26 November. But it would be helpful if the Prime Minister could send an early message to Mr Lubbers. I attach a draft, which covers CAP reform, the oils/fats tax, and the abatement. You will see that the final sentence raises the possibility of a pre-Copenhagen meeting between the Prime Minister and Mr Lubbers. The Foreign Secretary has asked me to say that he regards this as an optional extra - desirable but not essential. If the Prime Minister could find time to invite Mr Lubbers to London for a short meeting, or could arrange to see him in Copenhagen before the Council starts, that would be excellent (though a Copenhagen meeting is obviously a lower priority than a meeting there with Chancellor Kohl). The message would in any case be helpful even if shorn of its penultimate sentence.

I am sending copies of this letter to Alex Allen (HMT), Shirley Stagg (MAFF) and Trevor Woolley (Cabinet Office).

Yours ever,

Tony Galsworthy

(A C Galsworthy)
Private Secretary

C D Powell Esq
10 Downing Street

CONFIDENTIAL

OUT TELEGRAM

Classification	Caveat	Precedence
CONFIDENTIAL		IMMEDIATE

ZCZC — ZCZC
TC — CONFIDENTIAL
CAVEAT
FM — FM FCO
TO — TO IMMEDIATE THE HAGUE
TELNO — TELNO
OF — OF 171020Z NOVEMBER 87
AND TO — INFO PRIORITY UKREP BRUSSELS

FRAME ECONOMIC

EUROPEAN COMMUNITY: FUTURE FINANCING

1. Please pass the following message from the Prime Minister to M Lubbers at the earliest opportunity:

BEGINS

As we approach the key Copenhagen European Council I have been delighted - and not surprised - to see how closely our two teams are working together on the key issue of securing effective control of EC spending. I know that you share my determination to make a reality of the reforms we started in 1984: it is vital for the Community that we succeed.

With the Commission's help, we have made much progress since the summer on the key requirement: specific, quantified stabilisers in all agricultural commodity regimes. I hope that we shall be able to finish the job in Copenhagen. But I suspect that you and I will then come under pressure to settle for a weaker stabilisers regime, which would not in practice stop

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File number: JK6ACT	Dept: AUSS(EC)	Drafted by (Block capitals): J O KERR	Telephone no: 270 2207

Authorised for despatch by:	Initials	Date/time

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OUT TELEGRAM (CONT)

Classification	Caveat	Precedence
CONFIDENTIAL		IMMEDIATE

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unplanned excess spending, and bring stability and sense to Community finances. I hope you agree with me that we shall have to resist such pressures, and make full use of the leverage created by the need to consider an increase in Community own resources. I am of course ready to agree to such an increase: but only if we secure proper CAP spending control. I hope we shall do so at Copenhagen: but if the task has to take longer, so be it. To settle for a partial solution would be to fail the Community.

I hope that we also see eye-to-eye on the need again to reject the proposed regressive oils and fats tax. It would fly in the face of our Punta del Este commitments, would damage developing countries, and would evoke retaliation, so encouraging US protectionism. I understand that Helmut Kohl's views remain similar: I hope that the three of us can persuade others not to waste time on this issue at Copenhagen.

Finally, there is of course one subject on which you and I have differed in the past - the UK abatement mechanism. We both remember the negotiations which led up to the Fontainebleau agreement. That agreement still leaves Britain as the second largest net contributor to the Community budget, though our relative prosperity is lower than, for example, the Netherlands'. The Fontainebleau agreement recognised that an inequitable situation existed, and needed a remedy. The conditions which justified it then continue to justify it now: indeed our underlying budgetary imbalance has more than doubled. I believe I owe it to you to tell you in advance that I could not agree in Copenhagen to anything which made our burden worse, and that the continuation of the Fontainebleau mechanism will therefore be crucial to an agreement there.

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[If you thought there would be advantage in our meeting to discuss these or other Community issues before the European Council meeting, we might ask our offices to be in touch about

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Catchword:

OUT TELEGRAM (CONT)

Classification	Caveat	Precedence
CONFIDENTIAL		IMMEDIATE

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possible dates. But in any case] I look forward to seeing you at Copenhagen.

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23/11/87.

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

26/11 23 November 1987

26 NOV 1987

MR A.J.C. EDWARDS
CST FST PMG EST
SIR P. MIDDLETON
SIR G. LITTLER SIR T. BURNS
MR MONCK MR CASSELL
MR BYATT MR BURGNER
MR SCHOLAR MR MORTIMER
MR MERCER MR BORNEY

EUROPEAN COUNCIL

The Prime Minister mentioned to the Foreign Secretary this afternoon that Ministers principally concerned would need to meet before the European Council to consider by how much they were prepared to see the European Community's own resources increased, in the context of a satisfactory agreement on all other issues. They would also need to obtain proper authority from Cabinet colleagues, either in OD or possibly full Cabinet.

I propose to look for a time next week when the Prime Minister, Foreign Secretary, the Chancellor and the Minister of Agriculture could consider this question. But you will wish to bear in mind the possible need for the Foreign Secretary and the Chancellor to circulate a short paper to OD or Cabinet next week setting out the main issues at Copenhagen, including the scale of a possible increase in own resources, and seeking negotiating authority.

I am copying this letter to Alex Allan (HM Treasury), Shirley Stagg (Ministry of Agriculture, Fisheries and Food) and Trevor Woolley (Cabinet Office).

Charles Powell

Lyn Parker Esq
Foreign and Commonwealth Office.

569/162

ANNEX 1

THE COST OF A FUTURE FINANCING AGREEMENT

Mecu, 1987 prices

	1987	1988	1989	1990	1991	1992
A. Best attainable outcome						
Agriculture (d) Guideline	26860	26240	26670	27100	27540	27980
(b) Stock disposals		1170	1360	1360	1360	1360
Structural funds	6200	6780	6820	6930	7100	7250
Other (including expenditure effect of abatement)	8790	9870	10100	10080	9850	9710
Total (abatement inclusive)	41850	44060	44950	45470	45850	46300
% of GNP	1.17	1.20	1.20	1.18	1.16	1.14
Increase in UK net contribution (compared to Autumn Statement)	+97	+221	+206	+220	+216	+191
(£m)	(+71)	(+162)	(+151)	(+161)	(+158)	(+140)
B. Effect of letting DNO grow at 1½ times maximum rate						
Additional expenditure (all on structural funds)	-	330	620	950	1290	1670
Total budget (abatement inclusive)	41850	44380	45590	46460	47210	48080
% of GNP	1.17	1.21	1.21	1.20	1.19	1.18
Increase in UK net contribution (compared to A)	-	+13	+17	+35	+43	+69
(£m)	-	(+10)	(+12)	(+26)	(+32)	(+51)
C. Fourth resource: effect of 1.25% VAT plus GNP (assuming DNO grows at 1½ times maximum rate)						
Gross benefit	103	129	142	142	142	141
Net benefit	9	14	15	15	17	16
Net benefit (£m)	(7)	(10)	(11)	(11)	(12)	(12)

Note: all sections assume 1.25% VAT plus GNP contributions plus a modified Fontainebleau abatement system giving 66% of our average VAT + GNP expenditure gap. In section C, the net benefit of the fourth resource takes account of the loss of abatement as a result of modifying the Fontainebleau mechanism.

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MDHIAN 7429

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TO IMMEDIATE FCO
TELNO 3976
OF 241638Z NOV 87
INFO PRIORITY EUROPEAN COMMUNITY POSTS, MOSCOW

FRAME GENERAL

FOREIGN AFFAIRS COUNCIL: BRUSSELS : 24 NOVEMBER
PREPARATION FOR THE EUROPEAN COUNCIL.

SUMMARY.

1. AGREEMENT THAT ABSOLUTE PRECEDENCE SHOULD BE GIVEN TO FUTURE FINANCING. SOME DISCUSSION ENVISAGED OF THE ECONOMIC SITUATION AND OF POLITICAL COOPERATION (ESPECIALLY EAST/WEST RELATIONS). BUT UNCERTAINTY ABOUT HOW FAR THE COUNCIL WILL ISSUE STATEMENTS ON THESE SUBJECTS.

DETAIL.

2. AFTER VARIOUS DISCUSSIONS DURING THE FAC, THE PICTURE IS STILL NOT CLEAR, BUT THE PRESIDENCY'S CURRENT PLANS SEEM TO BE AS FOLLOWS:

FUTURE FINANCING:

3. THE PRESIDENCY ARE DETERMINED THAT THIS SHOULD HAVE PRECEDENCE OVER OTHERS SINCE AGREEMENT ON THIS CLUTCH OF SUBJECTS WILL BE THE MOST EFFECTIVE SIGNAL WHICH THE COMMUNITY CAN GIVE IN THE CONTEXT OF THE WORLD ECONOMY AND OF EAST/WEST RELATIONS. THEY WILL PRODUCE DRAFT CONCLUSIONS FOR THE CONCLAVE AND WILL REVISE THEM FOR THE EUROPEAN COUNCIL. ELLEMANN-JENSEN (PRESIDENCY) SHOWED AN INCLINATION TO NARROW DOWN THE OPTIONS IN HIS CURRENT NON-PAPER. WITH STRONG SUPPORT FROM VAN DEN BROEK (NETHERLANDS) YOU ARGUED THAT, IF THE EUROPEAN COUNCIL WAS TO HAVE BEFORE IT THE BASIS FOR AN AGREEMENT, IT WOULD BE ESSENTIAL TO RETAIN THE TOUGHER OPTIONS, EVEN WHERE THEY DID NOT ENJOY MAJORITY SUPPORT.

ECONOMIC SITUATION.

4. DELORS WILL BE INVITED TO INTRODUCE HIS TWO PAPERS ON THE WORLD ECONOMIC SITUATION AND THE EMS OVER PRE-DINNER DRINKS ON 4 DECEMBER. DELORS ARGUED THAT THE LACK OF EUROPEAN REACTION TO THE RECENT US BUDGET DECISIONS HAD CAUSED SOME SURPRISE. WHATEVER PRIVATE DOUBTS WERE FELT, THE COMMUNITY SHOULD SAY THAT THE US HAD TAKEN THE RIGHT STEPS. IT WAS LEFT UNCLEAR WHETHER THE EUROPEAN COUNCIL WOULD ISSUE A STATEMENT.

CONFIDENTIAL

CH/EXCHEQUER
REC. 24 NOV 1987
ACTION MR A J C EDWARDS
COPIES TO CST PMG
SIR P MIDDLETON SIR G LITTLER
MR ANSON MR MONCK
MR BURGNER MR TURNBULL
MR H P EVANS MR BONNEY
MR MERCER MR C B EVANS
MR MORTIMER MR CONNELLY
MRS IMBER MR TURIE
MR DODDS.

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

24 November 1987

THE EUROPEAN COUNCIL AND THE DUTCH

Thank you for your letter of 23 November proposing that the Prime Minister should send a message to the Dutch Prime Minister in advance of the forthcoming European Council.

I enclose a slightly amended version of the letter which the Prime Minister has signed. There is, I fear, no possibility of the Prime Minister being able to see Mr. Lubbers in the week before the Council. But we will try to arrange a meeting soon after her arrival in Copenhagen, once we have confirmation of the timing of the meeting with Chancellor Kohl.

I am sending copies of this letter and enclosure to Alex Allan (H.M. Treasury), Shirley Stagg (Ministry of Agriculture, Fisheries and Food) and to Trevor Woolley (Cabinet Office).

CHARLES POWELL

A. C. Galsworthy Esq., C.M.G.,
Foreign and Commonwealth Office.

10 DOWNING STREET

LONDON SW1A 2AA

THE PRIME MINISTER

24 November 1987

I know that you share my aim of securing effective control of EC spending and I am pleased that our two governments have been able to work together closely on this in Brussels in the preparations for the European Council. I think that we can claim to have made good progress, particularly on the all important agricultural stabilisers. We shall no doubt come under pressure in Copenhagen to settle for weaker measures than those which the Commission have proposed. I want you to know that, while I shall be going to Copenhagen with the intention of making a genuine effort to reach a solution to the problem of the Community's future financing, I am not prepared to settle for half measures which will only mean the re-emergence of all the problems we have experienced in recent years. The Community must face up to its problems, and bring to a conclusion the reforms on which we started at Fontainebleau in 1984. I hope you will agree that we must not let this opportunity slip but should make full use of the leverage created by the need to consider an increase in the Community's own resources.

I hope that we can also stand firmly together again in rejecting an oils and fats tax. I know that Helmut Kohl remains firm in his opposition to this and I hope that the three of us can persuade others not to waste time on this issue at Copenhagen.

There is one issue on which we have differed in the past and that is the UK abatement. Despite what was agreed at Fontainebleau, Britain remains the second largest net contributor to the Community budget, although our relative prosperity is lower than, for example, the Netherlands'. The conditions which justified the Fontainebleau agreement in 1984 continue to justify our receiving an abatement now. Indeed our underlying budgetary imbalance has more than doubled. You should know that I shall not in Copenhagen agree to anything which makes our financial burden worse and that continuation of the Fontainebleau abatement mechanism will be crucial to an agreement there.

I am sure that you are no less busy than I am in the run up to the Council and it may not be possible for us to get together in advance of it. If that is so, perhaps we can try to meet in Copenhagen at an early stage of the proceedings.

With warm good wishes,

(sgd) MT

His Excellency Dr. Rudd F.M. Lubbers

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

25 November 1987

Dear Lyn.

PRIME MINISTER'S MEETING WITH
THE PRESIDENT OF THE EUROPEAN PARLIAMENT

The Prime Minister had a meeting this morning with Lord Plumb. The talk covered two subjects: preparations for the European Council and Lord Plumb's proposed world food conference.

Preparation for the European Council

The Prime Minister welcomed the robust line taken by the European Parliament on agricultural issues. Unfortunately, we were simply not getting the progress we needed on agriculture in the Council of Ministers. The basic problem was that France and Germany wanted to go on producing agricultural surpluses regardless of the cost. We were ready to make a major effort to reach agreement at Copenhagen, but only on the basis of adopting sane, sound and sensible policies which would get results. Following this week's meeting in Brussels, she was increasingly pessimistic about the prospects. It was no good other Member States thinking that a solution would become easier if it was postponed for a few months. The arguments which we would put forward at Copenhagen would be just as valid when it came to Hanover or to Athens. We were not going to move on the essentials of our position. The Prime Minister noted that she had had a difficult session with Conservative backbenchers on the subject of the Community's finances the day before. They could not understand why, if we succeeded in getting reforms of the CAP, there was any need to increase the 1.4 per cent ceiling on own resources.

Lord Plumb said that the Parliament saw eye-to-eye with Britain on the need for reform of the Community's agricultural policy and the need for budget discipline. Personally, he had liked the clean slate approach proposed by the Prime Minister for the disposal of existing surpluses. His own view was that the French and Germans would give in at Copenhagen. The Germans would not want to have to deal with all these problems under their Presidency. There would be a very difficult situation if no agreement was reached. The Community would have to go to provisional twelfths. This would not make much impact on agricultural spending in the first six months of next year but would affect other spending. He thought the oils and fats tax could be killed off, although he was slightly dubious whether Germany would stand firm on this. His general impression was that most people in the Community realised that the Prime Minister was in the driving seat on this whole nexus of issues and that what she was trying to achieve, in terms of bringing agricultural spending under control, was basically right. She should stand absolutely firm. The Prime Minister said that this was what she intended to do.

Lord Plumb continued that the Parliament would want to play a part in budget discipline. It should be possible to move towards a multi-annual budget rather than the usual annual wrangle. But this was something to be addressed once the decisions on future Community financing had been taken and agricultural stabilisers were in place. The Parliament supported the Commission over the doubling of the Structural Funds although he realised perfectly well that this was not a realistic target. Delors was taking a very strong line on it (empire-building interjected the Prime Minister). Lord Plumb said that he intended to remain in Copenhagen during the European Council and would be available if the Prime Minister wanted to consult him.

World Food Conference

Lord Plumb referred to the world food conference which he was organising in Brussels in April next year. He would ensure that the Prime Minister saw the draft agenda. His intention was to bring together 150 top agricultural experts from all round the world. The United States had responded particularly well to his proposal.

The Prime Minsiter wondered precisely what the conference was intended to achieve and whether it did not risk cutting across negotiations in the GATT. Lord Plumb said that the Secretary General of GATT was enthusiasatic about it. If he thought that this conference would damage the GATT negotiations, he would certainly not go ahead with it. What he most wanted to achieve was recognition on the part of all the industrialised countries that they must put their house in order and reduce the level of agricultural subsistence. He was convinced that, if this could be achieved, world prices would rise. This would benefit both the developing countries and the Community budget. The Prime Minister warned of the risk that developing countries would seek financial compensation if their prices fell. She urged Lord Plumb to define the objectives of the conference very carefully.

I am copying this letter to Shirley Stagg (Ministry of Agriculture, Fisheries and Food), Alex Allan (H. M. Treasury), Alison Brimelow (Department of Trade and Industry) and Trevor Woolley (Cabinet Office).

Yours sincerely
Charles Powell

CONFIDENTIAL (CHARLES POWELL)

Lyn Parker, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

26/11 25 November 1987

CH/EXCHEQUER

REC.	26 NOV 1987
ACTION	MR A.J.C. EDWARDS
COPIES TO	CST FST PMG EST SIR P. MIDDLETON SIR G. LITTLER SIR T. BURNS MR MONCK MR CASSELL MR BYATT MR BURGNER MR SCHOLAR MR MORTIMER MR MERCER MR BONNEY

POWELL → PARKER 25/11

EUROPEAN COUNCIL

The Prime Minister mentioned to the Foreign Secretary this afternoon that Ministers principally concerned would need to meet before the European Council to consider by how much they were prepared to see the European Community's own resources increased, in the context of a satisfactory agreement on all other issues. They would also need to obtain proper authority from Cabinet colleagues, either in OD or possibly full Cabinet.

I propose to look for a time next week when the Prime Minister, Foreign Secretary, the Chancellor and the Minister of Agriculture could consider this question. But you will wish to bear in mind the possible need for the Foreign Secretary and the Chancellor to circulate a short paper to OD or Cabinet next week setting out the main issues at Copenhagen, including the scale of a possible increase in own resources, and seeking negotiating authority.

I am copying this letter to Alex Allan (HM Treasury), Shirley Stagg (Ministry of Agriculture, Fisheries and Food) and Trevor Woolley (Cabinet Office).

Charles Powell

Lyn Parker Esq
Foreign and Commonwealth Office.

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Brussels, 26 November 1987

LETTER FROM PRIME MINISTER POUL SCHLUTER TO HIS COLLEAGUES

Dear Colleague,

The European Council will meet next week in Copenhagen at a moment when the need for unity and solidarity among members of the European Communities is more than ever called for. The consequences for Europe of the ongoing arms reductions talks and the recent turmoils in the international monetary and financial markets clearly prove, if need be, that we cannot afford the luxury of disagreeing on basic issues relating to the future development of the Community. My recent visits to colleagues have shown that we all agree on this point.

I am therefore counting on your help in the European Council to solve the difficult issues with which we are confronted.

I intend to concentrate our deliberations over the two days we will meet in Copenhagen on the Delors package, which hopefully after our meeting next week will come to be known as the Copenhagen Decisions. Work on this subject will start on Friday at 10 o'clock with an informal meeting where Lord Plumb will present Parliament's views on the Commission's proposal and I plan to continue most of Friday on this subject. I suggest that we discuss also the world economic situation and the European Monetary System. Mr Delors has helpfully promised to provide us with a paper on European monetary cooperation and an oral presentation of the world economic and financial situation. Mr Delors has agreed to present them and make his comments when Heads of State and Governments have their drinks before dinner on Friday. We should also plan for an exchange of views on certain matters dealt with in the framework of European political cooperation and the perspective of the upcoming US/USSR summit meeting.

I have been informed that the French delegation intends to raise the question of the demographical situation in the Member States of the Community. I understand that the French delegation does not expect a substance debate on this issue.

With regard to the main topic it is now a year since President Delors outlined for us in London the basic thrust of the Commission's ideas and we have had the Commission's proposals on the table since February. Intensive work has been going on since then. It is now for us to draw the final conclusions.

In my opinion we will only be able to reach agreement in Copenhagen if we maintain the intentions of the Commission and preserve the balance inherent in its proposals. My conviction on this point was reinforced by the outcome of the European Council in Brussels. I am sure that Mr Martens shares this point of view. The European Parliament's recent endorsement of the broad lines of the Commission's proposal goes in the same direction. In this spirit I invite my colleagues to consider the proposals which the presidency is hereby submitting (see annex) as a package. I believe it to be important that not only the same, but also an appropriate high level of ambition should be applied to each of its main elements. We will gain nothing if we seek to avoid the difficult decisions which are needed if we wish to reach agreement on a global package acceptable to all and likely to lead to the objectives on which we agreed in the Single Act.

Let me draw your attention to the following points:

On budgetary discipline: We have retained the basic elements in the Commission's approach, that is

i) Annual sub-ceilings for own resources as binding as the overall ceiling and which Community expenditure cannot exceed.

ii) On agricultural expenditure a balance between on the one hand effective application of the agricultural guideline through agricultural stabilizers in all market organisations and the necessary reinforcement of budgetary management and on the other hand a realistic base and growth rate for calculating ceilings for agricultural expenditure year by year.

iii) On growth of other expenditure clear improvements in budgetary management and an invitation to the European Parliament, the other branch of the budgetary authority, to join the Council in finding ways and means to ensure that growth in non-compulsory expenditure are kept within the limits necessary to ensure that the multiannual commitments of the Community are honoured without being exceeded. Clearly the position of the Council in a discussion with the Parliament must be thoroughly prepared when the time comes and contain the necessary orientation in accordance with the conclusions we reach in the European Council.

In relation to agricultural discipline I would like to stress that the key to an effective budgetary discipline is effective agricultural stabilizers in all market organisations. The Commission has put forward a number of proposals, which the presidency on the whole has taken on board. It is my judgement that the global effects of these proposals are a vital component of the package. The Presidency regrets that it has not been possible for the Agricultural Council to reach agreement on these proposals. With regard to most products and the question of "set aside" of arable land, we consider the Presidency's proposals to be acceptable in a global package. On stabilization measures in the cereals, oil seeds and protein products sectors, positions of delegations are still divergent. The Presidency will reflect with the Commission over the coming days on how these divergences might be overcome while preserving the objective of effective stabilization measures in these sectors.

On Structural Funds : In line with the conclusions of the European Council in Brussels we now have to decide on the amounts to be used for this purpose over the coming five years. In addition there is the question of geographical concentration. There are of course a number of other questions which have been raised. Given the state of negotiation on the Commission's proposal for a comprehensive regulation, there is no other realistic possibility than to instruct the Council to reach agreement on this regulation within an appropriate delay, e.g. 31st March 1988. These other questions will be dealt with in this context.

On the amounts to be used we should realise the importance of this element both in relation to the global package - in particular the rules on budgetary discipline - and to the future balanced development of the Community's policies, aspects which the Commission clearly has had in mind in presenting its proposal.

With regard to geographical concentration the presidency in its proposal has tried to strike a reasonable balance between on the one hand the need to ensure that the objective of increased geographical concentration as laid down in Brussels in June will be fulfilled and on the other hand the preservation of sufficient flexibility to achieve efficiency in the operation of the Funds.

On own resources we will have to fix the overall ceiling for own resources expressed as a percentage of Community Gross National Product. Once again I don't think it will be possible to divert significantly from the Commission's intentions. That being said we must of course decide this essential question in conformity with our decisions on the other elements of the package. We should agree that annual sub-ceilings for own resources will be part of the Own Resources decision. For technical reasons it will be difficult to fix the exact ceilings for the individual years in Copenhagen. This will have to be done by the Council on the basis of specific, sufficiently binding criteria laid down by us.

The proposed change in the system of own resources has retained a lot of attention. We agreed in Brussels on a clear objective, that is "to take greater account of the proportionality of contributions in accordance with the relative prosperity of Member States." I believe that recent discussions have convinced most Member States of the need for a smooth transition as far as the new element in the own resources system is concerned. This is why the presidency is proposing for the new 4th resource financial needs in excess of 1.25% VAT. The present ceiling of 1.4% in reality provides only 1.25% VAT for the Community budget because of the method chosen for financing the UK compensation. We also suggest that the Council should evaluate in 1992 to which extent the aforementioned objective has been fulfilled.

The question of correcting imbalances has occupied the time of many European Councils and blocked decisions on many important questions. The presidency sincerely hope that this will not be the case in Copenhagen. The presidency shares the appreciation of the Commission that the various considerations which persuaded the European Council in Fontainebleau to adopt a correction mechanism are still valid. The Commission's proposal reflects the fact that the main reason for the UK imbalance is its structural situation under the Common Agricultural Policy.

I propose we concentrate our discussion in the European Council on the three following points:

a) I think it is obvious that any benefit from the introduction of a fourth resource to the UK should automatically lead to a reduction of the UK compensation. Furthermore, the European Council will have to decide whether the UK compensation should be reduced at the outset to reflect the United Kingdom's relative position within the Community of Twelve. The result of the Commission's proposal is a reduction to cover this aspect of 200-300 MECU per year.

b) Can we agree that the result of a new compensating mechanism should not lead to a financial result that deviates significantly from the result of the present mechanism taking into account what is decided under point a) ?

c) The method of financing and the distribution key. On this point the Presidency would tend to think that since the UK compensation is based mainly on the political considerations agreed in Fontainebleau, it should continue to be financed so that all Member States should contribute, the Federal Republic of Germany would benefit from a special reduction, and the present system of deducting the UK compensation from its payments to the Community would continue. We should, however, introduce provisions to ensure that compensation does not reduce the amount of own resources available for Community policies as is the case at present.

If we can agree on these points it should be fairly easy to agree on the necessary mechanism.

The European Council is only one week away and useful work needs to be done in the meantime. The presidency has decided to convene an informal meeting ("conclave") of Foreign Ministers on 29-30 November to have a first look at the presidency compromise and thereby prepare our deliberation in Copenhagen. The recent Council meetings clearly demonstrate that all delegations must come to the conclave with much more flexible positions if progress is to be achieved. It is essential that the conclave clarifies and simplifies the outstanding problems to a limited number of clear issues permitting the European Council to concentrate its discussion on the few questions of primary importance. The presidency will circulate possible adjustments to its global proposals immediately after the conclave.

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FRAME GENERAL

EUROPEAN COUNCIL: FRENCH CONTACTS WITH DANISH PRESIDENCY.

SUMMARY

1. DANISH PRIME MINISTER MEETS CHIRAC AND MITTERRAND (WHO SING THE SAME TUNE) TO PREPARE FOR THE EUROPEAN COUNCIL. AGRICULTURE PREDOMINATES. SCHLUTER STRUCK BY STRENGTH OF FRENCH WISH FOR A SETTLEMENT AT COPENHAGEN AND BY FRENCH EMPHASIS ON THE NEED TO KEEP GERMANS ON-BOARD IF A SETTLEMENT IS TO BE ACHIEVED. DANES RESIST (FOR THE MOMENT) FRENCH PRESSURE TO MOVE IN THEIR DIRECTION ON STABILISERS.

DETAIL

2. DANISH PRIME MINISTER SCHLUTER VISITED PARIS ON 25 NOVEMBER FOR TALKS WITH BOTH CHIRAC AND MITTERRAND TO PREPARE FOR THE COPENHAGEN SUMMIT.

3. THE DANISH AMBASSADOR TOLD US TO-DAY THAT SCHLUTER HAD BEEN STRUCK BY THE IDENTITY OF VIEWS EXPRESSED BY MITTERRAND AND CHIRAC, AND BY FRENCH INSISTENCE ON GETTING THE GERMANS ON BOARD IF A SETTLEMENT WERE TO BE ACHIEVED AT COPENHAGEN. WE HAVE ALSO HAD THE FOLLOWING MORE DETAILED ACCOUNT FROM MADAME MOLLER AND TORNOE (ECONOMIC AND AGRICULTURAL COUNSELLORS AT DANISH EMBASSY).

4. MADAME MOLLER SAID THE FRENCH HAD ARGUED STRONGLY THAT THERE MUST BE AGREEMENT AT COPENHAGEN, BUT THAT IN ORDER TO ACHIEVE IT, THE PRESIDENCY WOULD HAVE TO MOVE CLOSER TO FRENCH IDEAS. THAT WAS THE ONLY WAY TO KNIT THE GERMANS INTO THE AGREEMENT. SHE SAID THAT SCHLUTER'S IMPRESSION WAS OF FREQUENT AND INTENSIVE CONTACTS BETWEEN THE FRENCH AND GERMANS, BOTH NOW AND IN THE RUN UP TO COPENHAGEN, AT BOTH OFFICIAL AND MINISTERIAL LEVEL. (IT HAS SINCE BEEN ANNOUNCED THAT GENSCHER AND RAIMOND WILL MEET HERE ON 27 NOVEMBER TO DISCUSS COMMUNITY ISSUES.)

5. TORNOE SAID THAT ALTHOUGH IT HAD NOT BEEN SCHLUTER'S INTENTION TO FOCUS DISCUSSION EXCLUSIVELY ON AGRICULTURE, INEVITABLY IT DOMINATED THE DISCUSSIONS, ESPECIALLY WITH CHIRAC. HE HAD OBSERVED NO SIGNIFICANT DIFFERENCE OF APPROACH ON THIS BETWEEN CHIRAC AND MITTERRAND OTHER THAN THE CLEAR PRIORITY WHICH CHIRAC ACCORDED TO IT AMONGST THE ISSUES TO BE ADDRESSED AT COPENHAGEN. CHIRAC HAD DEFENDED THE FRENCH COMPROMISE PROPOSAL ON AGRICULTURAL STABILISERS ON THE GROUNDS THAT IT WAS THE ONLY PROPOSAL TO WHICH THE GERMANS WOULD SUBSCRIBE AND THAT WITHOUT THE GERMANS NO SETTLEMENT WAS POSSIBLE. HE HAD THEREFORE URGED THE PRESIDENCY TO FOCUS ON THE FRENCH COMPROMISE RATHER THAN CONTINUE TO INSIST ON MEASURES TO WHICH THE MAJORITY WOULD NEVER RALLY. MADAME MOLLER INDICATED THAT DESPITE FRENCH PRESSURE, THE DANISH GOVERNMENT WAS NOT, AT LEAST FOR THE MOMENT, DISPOSED TO CHANGE ITS OWN POSITION ON THE STABILISER PROPOSALS.

6. APART FROM AGRICULTURE, THERE WAS BRIEF DISCUSSION BETWEEN SCHLUTER AND THE FRENCH ON STRUCTURAL FUNDS, WHICH NEITHER FORESAW AS A MAJOR DIFFICULTY, AND ON THE LEVEL OF OWN RESOURCES. ON THE LATTER POINT, THE FRENCH HAD SPOKEN OF A POSISBLE MOVE TO 1.1 PER CENT GNP.

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FRAME
EUROPEAN COUNCIL: MONETARY CO-OPERATION

SUMMARY
1. GISCARD IS LOBBYING FOR MONETARY CO-OPERATION, IE A MOVE TOWARDS THE ADOPTION OF THE ECU AS A COMMON EUROPEAN CURRENCY, TO BE DISCUSSED AT COPENHAGEN.

DETAIL
2. AT A DANISH PRESIDENCY LUNCH FOR EC AMBASSADORS GIVEN IN HIS HONOUR ON 26 NOVEMBER, FORMER PRESIDENT GISCARD D'ESTAING SAID THE TIME HAD COME FOR A FORMAL STEP TOWARDS CLOSER EUROPEAN CO-OPERATION. HE MADE IT CLEAR BY THIS THAT HE MEANT SOME MOVE TOWARDS THE ADOPTION OF THE ECU AS A COMMON EUROPEAN CURRENCY. IT EMERGED THAT HE HAD WRITTEN FORMALLY TO THE DANISH PRESIDENCY SUGGESTING THAT THE SUBJECT MIGHT BE RAISED AT COPENHAGEN, AND THAT HE WOULD PRESS MITTERRAND, WHOM HE WILL SEE ON 2 DECEMBER, TO DO SO. GISCARD SAID (REFERRING TO THE PRIME MINSISTER'S RECENT FINANCIAL TIMES INTERVIEW) THAT HE SUPPOSED THAT THE UNITED KINGDOM MIGHT PREFER NOT TO TAKE PART IN A MOVE IN THIS DIRECTION, BUT THE TIME HAD PERHAPS COME FOR THE OTHER EUROPEAN PARTNERS TO MOVE FORWARD ON THEIR OWN ACCOUNT.

3. COMMENT
THERE IS ALREADY PLENTY ON THE COPENHAGEN AGENDA IN WITHOUT THIS. BUT MITTERRAND HAS MADE SIMILAR STATEMENTS HIMSELF RECENTLY, AND MIGHT BE PREVAILED UPON TO RAISE THE SUBJECT, PERHAPS IN THE DISCUSSION OF DELORS' PAPER ON THE EMS OVER PRE-DINNER DRINKS ON 4 DECEMBER (UKREP BRUSSELS TELNO 3976 PARA 4).

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OF 271700Z NOVEMBER 87
INFO IMMEDIATE UKREP BURSSELS, COPENHAGEN

COPENHAGEN TELNO 397: EUROPEAN COUNCIL

SUMMARY

1. THE IRISH WANT AGREEMENT AT THE COUNCIL. THEIR INTERESTS DIVERGE FROM OUR'S BUT THEY ARE OPEN TO COMPROMISE.

DETAIL

2. THE TAOISEACH TOLD THE DANISH PRIME MINISTER ON 11 NOVEMBER THAT THE PRINCIPAL IRISH INTEREST WAS TO ACHIEVE AGREEMENT AT THE COUNCIL. HE KNEW THAT THIS WOULD REQUIRE COMPROMISE FROM IRELAND AS WELL AS FROM OTHERS.

3. HIS OFFICIALS ARE ACTIVELY EXAMINING POSSIBLE COMPROMISES. THE DEPARTMENT OF FOREIGN AFFAIRS ARGUE THAT THEY HAVE ALREADY MADE CONCESSIONS. BUT THEY ARE PREPARED TO BE CONSTRUCTIVE WITHIN THE CONCLUSIONS OF THE BRUSSELS EC COUNCIL. CURRENT CONCERNS ARE AS FOLLOWS:

A. BUDGET DISCIPLINE

4. THE MAIN PROBLEM IS THE BASE YEAR FOR AGRICULTURAL EXPENDITURE, WHICH OUGHT TO BE INCREASED BY 1 TO 1.5 BECU OVER THE PRESIDENCY SUGGESTION OF 26.9 BECU IN ORDER TO TAKE ACCOUNT OF REASONABLE ESTIMATES FOR NOVEMBER AND DECEMBER 1987 AND THE LACK OF REVENUE FROM OILS AND FATS TAX.

5. THE RATE OF GROWTH IN CAP EXPENDITURE SHOULD BE 2.7% IN PARALLEL WITH ANTICIPATED GDP GROWTH OVER THE NEXT FIVE YEARS.

6. ON 'EXCEPTIONAL CIRCUMSTANCES', THE PRESIDENCY PAPER REFERRED TO MONETARY CRITERIA, BUT IRELAND HELD THAT PRODUCTION FACTORS HAD TO BE CONSIDERED ALSO. IRELAND WOULD BE PREPARED TO CONCEDE ''CLAWBACK'' IN SUBSEQUENT YEARS FOR OVER-PRODUCTION, NOT ON AN AUTOMATIC BASIS BUT RATHER AS A RESULT OF A COUNCIL DECISION, PREFERABLY AT THE BEGINNING OF A MARKETING YEAR. IRELAND WOULD

HOWEVER OBJECT TO CLAWBACK WERE THE OVERRUN CAUSED BY MONETARY CONSIDERATIONS.

B. OWN RESOURCES

7. IRELAND SUPPORTED THE COMMISSION SYSTEM BUT COULD ACCEPT THE FRENCH TRANSITIONAL SYSTEM, WHICH WAS A GOOD SUGGESTION.

C. UK ABATEMENT

8. THE FOURTH RESOURCE PLUS THE GDP SYSTEM WENT HALFWAY TO SOLVING THE UK ABATEMENT. IRELAND PREFERRED THE COMMISSION PROPOSAL, BUT HAD TRADITIONALLY NOT BEEN DIFFICULT ON THIS ISSUE AND WOULD NOT BE DIFFICULT AT COPENHAGEN.

D. COHESION

9. THE REFERENDUM DEBATE ON THE SINGLE EUROPEAN ACT HAD COMMITTED IRELAND IN DOMESTIC POLITICAL TERMS TO A DOUBLING OF THE STRUCTURAL FUNDS. CONCENTRATION REMAINED VERY IMPORTANT TO IRELAND, GIVEN HER ''DISADVANTAGED'' AREAS WITH GDP LESS THAN 75% OF THE EC AVERAGE.

10. IRELAND WOULD THEREFORE CONTINUE TO OPPOSE THE UK-SUPPORTED FRENCH PROPOSAL TO RESTRICT ADDITIONAL FUNDS TO THE TWO NEWCOMERS: 15 REGIONS OF SPAIN WERE MORE PROSPEROUS THAN IRELAND. THE CREATION OF ANOTHER BRAND OF IMPS WAS TOTALLY UNACCEPTABLE, AS WELL AS BEING DIFFICULT TO ADMINISTER.

COMMENT

11. THE IRISH GREATLY DESIRE AGREEMENT AT COPENHAGEN. THEY ARE DISCOURAGED BY THE FAILURE OF THE AGRICULTURE COUNCIL, BUT REMAIN HOPEFUL. MR HAUGHEY WILL SUPPORT THE ''SOUTHERN'' CAUSE BUT WILL WORK FOR COMPROMISE AND MAY BE WILLING TO BE HELPFUL AT THE MARGIN IN AVOIDING BREAKDOWN.

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PRIME MINISTER

Future Financing of the EC: Review of the Structural Funds

1. As you know the Commission have proposed that commitments appropriations for the Structural Funds should be doubled in real terms by 1992 (equivalent to an increase in payments of 87%). With the other northern member states, we have resisted this. But the issue will be on the table at Copenhagen, for the Commission are sticking to their guns, the southern member states (and Ireland) will press hard, and at Brussels in June all but we agreed that a "financial objective" for the level the funds should reach in 1992 "in order to strike a balance between achieving the internal market and strengthening cohesion" should be fixed.

2. On 12 November OD(E) met to consider our tactics on this issue, on the basis of a memorandum by the Secretary of State for Trade and Industry. We concluded that our objectives should be:

- to press hard for an outcome which would hold total non-obligatory expenditure within the maximum rate: if other non-obligatory expenditure, eg on R and D and "new" policies, were sufficiently constrained this would still allow an increase in payments from the Funds by 1992 of some 15-20% in real terms (35% in money terms);

- to improve the negotiability of such an outcome by suggesting directing the additional resources principally to the poorer member states, if possible concentrating on Spain and Portugal,
- to protect as far as possible the present UK share of receipts from the funds, within the overall aim of keeping our net contribution as low as possible.

3. We have to recognise that concentration of the Regional Fund on the most backward regions and declining industrial areas would mean that some areas of the United Kingdom (Devon and Cornwall, mid-Wales and the Highlands and Islands) which have hitherto benefitted from that fund might no longer do so. Nevertheless they will still have access to the Social Fund and the Agricultural Guidance Fund. Northern Ireland would still be included in the Regional Fund as a backward region.

4. Further contacts, post OD(E), with France, Germany and the Netherlands confirm that they agree with us in resisting doubling, and arguing for concentration on the poorest member states. France prefers concentration on Spain and Portugal alone: Germany believes that Greece and Ireland will have to benefit too: we prefer the French approach but could accept whichever seems more likely to help us meet our basic objectives.

5. On our calculations it would be possible to provide for an increase of some 45% in real terms (70% in money terms) for the four poorest member states (<u>not</u> the Funds as a whole) without conceding growth in total non-obligatory expenditure above the maximum rate. This would be a satisfactory outcome, provided that the way

/concentration

concentration is achieved is satisfactory in terms of our take. (Since we benefit mainly from the Social Fund, we shall have to resist pressure to bias it towards backward regions: otherwise the cost of concentration might exceed that of going over the maximum rate).

6. But it is not clear that France and Germany rule out an increase which exceeds the maximum rate. Indeed the Germans have been talking of 50%, apparently in real terms. M. Chirac told you that he hoped for UK/German/French agreement to limit any increase to 40%. There would be considerable tactical advantage in an alliance on this issue. But an increase in the funds of 40% in real terms would be generous, particularly if it threatened an otherwise acceptable own resources ceiling. However an alliance if it held would dictate the outcome at Copenhagen, and ensure that it stuck in subsequent Budget Councils, where the UK, France and Germany would constitute a blocking minority. But since it might entail our accepting, as a fallback, an increase beyond the maximum rate, we would have to make clear to both that would only do so if the overall package of decisions on future financing were favourable to us, and provided we could limit the risk of meddling by the European Parliament. Under the Treaty, the Parliament can add half the maximum rate to whatever level of non-obligatory expenditure the Budget Council decides, up to one and a half times the maximum rate. Thereafter, any increase over one and a half times the maximum rate can only be decided by agreement between the Council and the Parliament. It is therefore crucial that any settlement should be within one and a half times the maximum rate.

7. OD(E) called for work on fallback options: a range are set out at Annex A, with an assessment of their costs at Annex B. Option (a) would be least damaging: it would mean special extra provision of 1.5 to 2 becu (£1.1 - 1.4 billion) at 1987 prices between 1987 and 1992 for the poorest member states but <u>within</u> the structural funds; this would provide a "headline" figure for growth in the structural funds as a whole of the order of 40% in money terms or 25% in real terms. But we shall come under heavy pressure to which the French and Germans will be susceptible, to accept a specific <u>overall</u> increase in real terms by 1992, ie the Commission's approach. This would be costly, and we should stop short of one and a half times the maximum rate, which would produce an overall "headline" increase of some 35-45%, in real terms.

<u>Conclusions</u>

8. Clearly our aim must be to achieve an outcome on the Funds that does not cut across our objectives on budgetary discipline. The outcome suggested at paragraph 5 above would meet this criterion in full, and would provide for the poorest member states an increase which even in real terms is in the area the French and Germans are considering for the Funds as a whole. We should continue to explore the options for concentration before we contemplate going over the maximum rate. But the southern member states, supported by the Commission, are looking for much more; and the French and Germans will be ready, if a settlement at Copenhagen seems possible, to concede rather more, along the lines set out at Annex A, which would take us beyond the maximum rate. Option (a)

/would

would be least damaging. I certainly think we must stop short of one and a half times the maximum rate, and I am clear that anything of that order should only be accepted in the context of an agreement that in all other major respects was satisfactory to us.

9. At the weekend Conclave of Foreign Ministers, I shall therefore continue to argue against the setting of an overall target for the increase in the Funds; press hard for containing their growth within the maximum rate; and try to keep the French and Germans to that line. I will also make it clear to the French and Germans that we want to work closely with them through the European Council to achieve a result consistent with the control of non-obligatory expenditure to which they, like us, attach importance.

10. I am sending copies of this minute to the members of OD(E), to Peter Walker, Tom King, Malcolm Rifkind, and Nicholas Ridley, and to Sir Robert Armstrong.

Lyn Parker

p.p. (GEOFFREY HOWE)

(Approved by the Foreign Secretary and signed in his absence).

Foreign and Commonwealth Office
27 November 1987

17/G/JN/8/036

Confidential

FROM: M PARKINSON
DATE: 27 November 1987

MR J TAYLOR

cc Sir Geoffrey Littler
Miss O'Mara
Mr S Matthews
Mr Mortimer

BRIEF FOR EUROPEAN COUNCIL ON INTERNATIONAL ECONOMIC SITUATION/EMS

PARKINSON → TAYLOR 27/11

As the Chancellor was not available, Sir Geoffrey Littler approved the attached brief commissioned by the FCO as part of their briefing for the Prime Minister for the European Council on 4/5 December. The brief was prepared with Miss O'Mara.

2. The brief will be kept under review and updated if necessary before the Council.

Mark Parkinson

M PARKINSON

EHG (C)(87)(1)

EUROPEAN COUNCIL, COPENHAGEN, 4/5 DECEMBER 1987

BRIEF IL

INTERNATIONAL ECONOMIC SITUATION AND EMS/LIBERALISATION OF CAPITAL MOVEMENTS

UK Objectives

1. To avoid substantive new declarations on international situation, or on future European monetary developments.

2. On capital movements, to support Commission's aim of full liberalisation.

Opening Speaking Note

On the world economic situation, the UK and others have already warmly welcomed the action the US has announced to reduce its budget deficit, with cuts in all major spending programmes and increases in taxation. We now look to the surplus countries, including Japan and Germany, to take further action to improve their economic momentum. As Finance Ministers agreed at ECOFIN in November we must continue the fiscal and monetary co-operation agreed at the Louvre to ensure a more stable development of world financial and foreign exchange markets. At this stage, I do not think a further EC statement would be valuable.

On developments within Europe, the UK welcomed the measures agreed at the September informal ECOFIN to strengthen the EMS. It is good to see the practical development in recent weeks of cooperation on the lines they agreed - especially important in a difficult world climate. We are prepared to play our part in improving conditions in Europe for further internally-generated non-inflationary growth.

I am pleased also that progress is being made towards achieving full abolition of exchange controls. This is an important aspect of completing the internal market by 1992 and should be given high priority.

Others' Objectives

International economic situation

The Germans and French are likely to share the UK view that there is no need for a specific EC statement on the economic situation at present. The Italians, as members of G7, will probably react in the same way. The smaller countries and the Commission may want to express an EC view, although they had and took the opportunity to do so at the ECOFIN in November.

Capital liberalisation

On liberalisation of capital movements, the Commission presented to ECOFIN in November a package containing 3 proposals. Two of them (on liberalisation itself and on balance of payments support) are broadly along lines we can endorse but we object strongly to the third proposal for strengthening the 1972 Directive on regulating international capital flows. This last would, inter alia, oblige member states to have in place enabling measures to impose temporary exchange controls and give the Commission power to recommend they should be activated.

All member states are in favour of liberalisation in principle. But some of those who have not yet liberalised (eg Greece and Ireland) would like balance of payments assistance to be made available specifically to those countries who embark on capital liberalisation while their balance of payments remains "fragile". France supports this view but Germany, like the UK, sees no need for the link. Views on the overall size of the financing facility vary widely, with Germany and the UK at the bottom end. No member state actively supports revision of the 1972 Directive and most would prefer outright abrogation. Pressure for a revised Directive comes solely from the Commission.

The Commissions's paper on capital liberalisation (renamed "creation of a European financial area") raises three points for further consideration. First they argue that capital liberalisation makes the question of sterling participation in the ERM more urgent. Second, they see a need for measures on company tax approximation and tax evasion; and, third, they call for the harmonisation of financial supervisory rules. But it is accepted that none of these should be regarded as a precondition for capital liberalisation.

Our response

International economic situation

All countries have responsibility to promote world economic stability in wake of action US has announced. International co-operation is only sure way to keep world economy on even keel. [UK already growing rapidly with good prospects for growth in 1988 too. But have indicated that may be able to reduce interest rates further, if other countries move down too. Particularly important that <u>other</u> major countries, especially Germans, should commit themselves to further action to improve economic momentum].

Capital liberalisation

On safeguards for temporary exchange controls, disappointed with proposal to retain and extend 1972 Directive. Agreed by Finance Ministers at Nyborg in September that this Directive was obsolete.

Agree with the Commission that harmonising supervisory structure on financial services, company tax issues and UK membership of the ERM must not be regarded as preconditions for capital market liberalisation.

UK position on ERM well known - membership kept under review, will join when balance of argument in favour. Capital liberalisation does not necessitate membership of ERM. UK liberalised capital markets earlier than other EC members.

Should be no barriers to use of private ECU but otherwise further developments best left to markets.

EHG (L)(87)(2)

EUROPEAN COUNCIL, COPENHAGEN, 4/5 DECEMBER

ITEM 2L INTERNATIONAL ECONOMIC SITUATION AND EMS/CAPITAL MARKET LIBERALISATION

References:

a. press briefing text on the international economic and monetary situation agreed at 16 November ECOFIN meeting.

b. text of PQ announcing measures to strengthen EMS agreed in September.

Background

International economic situation

1. The fullest recent account of the UK position was set out by the Chancellor in his speech to the American Chamber of Commerce on 24 November. He warmly welcomed the agreement reached in the US to reduce the size of the budget deficit, urged further action from the two big surplus countries, Japan and Germany, to improve their economic momentum and emphasised the need for concerted action designed to ensure a further period of exchange rate stability, albeit one that took into account the decline in the dollar to date. In a passage clearly directed at the Germans, he emphasised that problems of the world economy were unlikely to be solved if countries gave overriding weight to domestic indicators of monetary policy to the exclusion of external indicators. He reaffirmed that the UK would be prepared to play a full part in any wider international agreement which might follow on the completion of the US measures but stressed that there would be little point in a G7 meeting unless all those involved were prepared to contribute wholeheartedly to the stabilisation of the dollar.

2. The Council discussed the international monetary and economic situation at its November ECOFIN meeting. A press briefing text

[A]s agreed, urging continuation of the international fiscal and monetary co-operation agreed at the Louvre; promising a contribution to that process by European countries; noting the urgency of decisions on the US budget deficit; and reaffirming the objectives on completing the internal market and strengthening the EMS. In advance of any G7 meeting along the lines proposed by the Chancellor, any further specifically EC comment is likely to be premature.

3. Recent comments by the Commission on international economic issues have not proved helpful. It was President Delors' speech of 27 October to the European Parliament, suggesting a lack of commitment by the US to the Louvre Accord which provoked one of the heaviest bouts of dollar selling.

Capital liberalisation and EMS

4. At the informal meeting of Finance Ministers at Nyborg on 12/13 September, Ministers welcomed the agreement by the Committee of Central Bank Governors on 8 September on measures to strengthen the operating mechanisms of the EMS. The Governors also agreed to strengthen the procedures for joint monitoring of economic and monetary developments and policies.

5. On capital market liberalisation (renamed by the Commission 'creation of a European financial area') the Commission presented to the 16 November ECOFIN meeting a three proposal package. ECOFIN agreed that it should be submitted to the Monetary Committee and the Committee of Central Bank Governors for their opinions as soon as possible. The Monetary Committee is meeting on 15 December.

6. The three proposals are:

i. a directive for the full liberalisation of capital movements, subject to safeguard clauses.

ii. amendments extending the 1972 Directive which allows restrictions on capital movements to be imposed for monetary policy reasons, and including a statement of intent to liberalise flows with third countries.

iii. changes to Community instruments for medium term balance of payments assistance.

We welcome full liberalisation, but oppose unnecessary safeguard clauses allowing for derogations in certain circumstances and any attempt to inject fresh life into the the 1972 Directive, and are wary about extending balance of payments support in the liberalisation context. Our concerns are shared by Germany and some other Northern states.

7. In their presentation to ECOFIN, the Commission raised three complementary questions relating to company tax approximation and tax evasion, UK participation in the ERM, and harmonised supervisory rules for the protection of savers and depositors. Fortunately the Commission do not regard solutions to these issues as a precondition for capital market liberalisation; it is in our interests to maintain this decoupling.

8. The Commission has produced a report on general progress on the EMS and liberalisation of capital markets, including the development of the ECU market, as requested at the Luxembourg European Council in December 1985. This is essentially a stocktaking of the present position and existing Commission proposals, in view of recent progress in ECOFIN on the EMS and liberalisation.

Reference A

ECOFIN COUNCIL 16 NOVEMBER

International Economic and Monetary Situation

The text below was agreed by EcoFin this morning and will be used by the Presidency in briefing the press.

2. An attempt by the Southern Member States to include a reference to "cohesion" was seen off, as were efforts by the Belgians and Italians to refer explicitly to interest rate policy and tax reform.

3. The Presidency agreed, at the Chancellor's suggestion, to brief the press in addition that Ministers had underlined the need for all countries to resist pressures for protectionism.

> "Within the framework of the EEC-EcoFin-Council the European Finance Ministers today discussed the most recent developments on the financial and foreign exchange markets.
>
> Taking note of some improvements during the last days they agreed that a more stable market situation is very important for the further economic development in Europe and worldwide.
>
> For this purpose common and coordinated efforts by all countries are needed.
>
> It is of high importance that the fiscal and monetary cooperation agreed at the Louvre be continued and the commitments undertaken implemented by all parties in full and without delay. Especially urgent are early and appropriate decisions on a further substantial reduction of the US budget deficit for fiscal 1988 and fiscal 1989. A further decline of the dollar would aggravate the disadvantages for the world economy including the US.

The European countries are determined to improve the conditions for further internally-generated non-inflationary growth and to contribute to the reduction of external imbalances. The European countries intend to cooperate actively with other countries in decisions to ensure a more stable development of world financial and foreign exchange markets.

The events of the last weeks have emphasised the advantages within the context of the objectives of the European Single Act of setting up a large integrated European market of goods and services and capital. The progressive realisation of these objectives will create in the coming years new opportunities for growth in Europe.

The EMS has played and will play an important role in the coordination of policies between the member countries and in preserving stable relationships between European currencies. All member countries will continue to meet in full their obligations within the existing margins of the EMS. Recent developments have demonstrated that the EMS has been strengthened in appropriate ways by the September decisions of Basle and Nyborg."

REFERENCE B

PQ OF 22 OCTOBER 1987 ANNOUNCING STRENGTHENING OF EMS

To ask Mr Chancellor of the Exchequer whether any changes have been made to the agreement of 13 March 1979, as amended by the Instrument of 10 June 1985, between the central banks of the European Community which lays down the operating procedures for the European Monetary System.

REPLY

At their monthly meeting on 8 September 1987, the Governors of the central banks of the member states of the European Community agreed on a number of measures to strengthen the operating mechanisms of the European Monetary System. These relate to the duration of the very short-term financing on which central banks can draw through the European Monetary Cooperation Fund (EMCF), the availability in certain circumstances of very short-term financing for intra-marginal interventions, and the acceptance of the official ecu in settlement of outstanding claims resulting from very short-term financing. The Governors also agreed to strengthen the procedure for joint monitoring of economic and monetary developments and policies. The details are set out in a communiqué from the Committee of Central Bank Governors dated 18 September, a copy of which is in the House of Commons Library.

INTRO

27/11/87.

EHG (C)(87)[1A)

EUROPEAN COUNCIL, COPENHAGEN, 4/5 DECEMBER

INTRODUCTION

1. The Council will focus almost exclusively on future financing. Briefing is provided on each of the separate issues which will form part of that discussion (agriculture, budgetary discipline, budgetary management, Structural Funds and own resources). The European Council is being prepared by a Conclave of Foreign Ministers on 29/30 November. Immediately after the Conclave the Presidency plan to circulate a text which will form the basis for discussion by Heads of Government. Additional briefing will be provided after the Conclave.

2. The Presidency have made clear that they will keep other points to the absolute minimum. The Commission will be reporting on the international economic system and on developments in the European Monetary System; there may be some discussion of these points over dinner. The French have circulated a paper on the demographic situation in Europe and will presumably

draw attention to it at some point. Background briefing is provided on international trade questions, the Single European Market and relations with the Gulf Cooperation Council in case they come up.

3. Separate briefing is provided on political co-operation subjects.

27/11/87.

CAP REFORM

EHG(C)(87)(1B)

EUROPEAN COUNCIL, COPENHAGEN, 4/5 DECEMBER

CAP REFORM

Objectives

- To secure agreement on the introduction of stabilisation mechanisms for all agricultural commodities, which ensure that expenditure is kept within the budgetary framework.

- To agree on the details of these mechanisms, including the conditions to trigger their operation and the nature and size of the required adjustment; and to ensure that it is clear that the Commission has a duty to take action should a budgetary overrun threaten.

- To agree on the dates for introduction of each stabilisation mechanism.

- To continue to block the introduction of an oils and fats tax.

SPEAKING NOTE

- We have all agreed on the need for agricultural reform. We started down the road we are now on under Chancellor Kohl's leadership at Stuttgart in 1983. We first discussed milk quotas in detail in Athens that December. We eventually reached a fully workable and effective scheme in December last year. That agreement has not been easy for farmers. But it has at last given them some certainty in planning production from one year to the next. And it has started to reduce the butter mountain.

Stabilisers

- The need to adopt additional production/stabilisation arrangements to enable the Commission "to keep the level of expenditure within the budget framework" was agreed at Brussels in June.

- The need for the market to play a greater role in agriculture was also agreed.

- The need for budgetary discipline, binding on all institutions, to be applied to all the Community's expenditure, was also agreed.

- To fulfil that mandate we must now agree on stabilisation mechanisms for all commodity regimes.

- If we can do so at this meeting, I believe we can settle all the Future Financing issues we face.

- And we must do so, for reining in the runaway growth of CAP spending is crucial to the Community's financial health and public standing: the soaring cost of storage of surplus stocks is widely seen as a scandal: it is harmful both to the Community's image and to its finacnes - we can - and we must put that right.

- The details on which we must agree are:

  - the maximum guarantee quantities or other mechanisms in each regime which will "trigger" the stabiliser;

  - the price reductions or other actions to apply in each regime;

- the mechanisms - and any adjustments needed in the Commission's powers - to ensure that in-year price adjustments can be made swiftly, and where appropriate, automatically;

- We must also agree that the Commission should monitor expenditure on each commodity and be given the duty to take specific remedial action when expenditure on any commodity threatens to exceed its budgetary provisions.

- Only by agreeing on all these detailed provisions can we ensure that agricultural stabilisers will prove an effective means of budgetary control.

For Subsequent Discussion

If set-aside is proposed:

- Recognise the hardship involved for farmers in adapting production to the market-place. But stabilisers are designed to control the growth of production. They will not be a complete straitjacket as some suggest.

- Clearly some farmers, particularly at the margin, will face problems of adaptation and we should be ready to help them do so.

- We are prepared to consider a set-aside scheme. But it must be based on the approach in the extensification scheme which member states are to apply from April next year and must down lay down common rules of application at Community level, including, eg, minimum rates of payment and strict criteria so that it applies equally effectively in all member states.

OBJECTIVES OF OTHER MEMBER STATES

Germany: To weaken the stabilisers package sufficiently to avoid cuts in German farm incomes. Wants to limit price cuts, particularly in the arable sector, and ensure that stabilisers are accompanied by structural support - set aside being the preferred measure. Still opposes oils/fats tax.

France: Ready to accept stabilisers in all commodities, but wants price cuts limited to offsetting increases in productivity rather than total production . Wants arable sector treated "globally." Wants package to take account of imports (eg sheepmeat) and to link implementation to parallel concessions by others (eg US, Japan) in GATT round. Prepared to see set aside and prepension in overall package but not income aids. Still pushing for oils/fats tax.

Belgium and Luxembourg: Support principle of stabilisers. But want to weaken Commission proposals and shift emphasis to production-reducing, rather than price-reducing, mechanisms. Support oils/fats tax.

Netherlands: With UK, strongest advocate of stabilisers. Wants package at least as strong as Commission proposals. Still opposes oils/fats tax.

Italy: Wants stabilisers modulated according to surplus/deficit position of commodity and, for arable sector, national yields; and to encourage high quality produce. Wants to soften Commission proposals on southern products - eg wine, tobacco. Not interested in income aids if nationally financed. Equivocal on oils/fats tax.

Spain and Portugal: Want to soften Commission proposals (thresholds and price cuts) and avoid restrictions on deficit commodities. Want proposals modulated for poorer farmers in backward regions, and accompanying structural measures - including income aids. May support oils/fats tax. Portugal may ask for special measures, possibly an extension of their transitional arrangements, to meet the difficulties stabilisers may cause their backward farmers.

Greece and Ireland: Limited interest in budgetary control, and therefore effective stabilisers. Want Commission proposals softened for less developed areas and small producers. Support oils/fats tax.

Denmark: Influenced towards compromise by their Presidency role. Go along with the principle of stabilisers but not rigourous supporters of CAP reform. Oppose oils/fats tax but wobbly.

OUR RESPONSE

Stabilisers

- Cannot accept that stabilisers should be introduced only in surplus commodities. Discipline must apply to all regimes. Expenditure has been rising and is expected to continue rising in many deficit regimes. Should not wait until they are in surplus to apply discipline. Expenditure on oilseeds for instance has risen from 650 mecu in 1984 to an expected 3.2 becu in 1987. Production up 70% this year compared with last year.

- Cannot leave the details of stabiliser mechanisms to be agreed in 1988 price fixing. We need certainty now. We know only too well how proposals can be weakened during the bargaining process eg as happened in 1985 - when the effect of the price cut following an overshoot of the cereals guarantee threshold was neutralised during the price-fixing negotiations.

- We agreed that the market must play a greater role in agriculture. This must mean giving precedence to price cuts rather than further levies. Price cuts get to the root of the current problem of market imbalance.

- If we are to achieve our objective of budgetary discipline we must achieve in-year control of spending. This means automatic adjustments. We must, of course, minimise the disruption to farmers. But farmers will get the message much more successfully if they feel the effect on prices/levies in the year in which a breach of the MGQ actually occurs.

- Automaticity must mean that the Commission has power to act to stabilise expenditure without reference to the Council. It would frustrate the purpose of stabilisation if necessary action were held up by disagreement in the Council. We must ensure that the Commission's powers are clearly defined and then leave them to manage.

- Share German (and others) concern to protect rural economies. But if we are to pay for schemes which assist structural adjustment we must curb surplus production, and thus growth in expenditure. This means substantial price cuts as a priority.

[Special measures for Portugal]

- Transitional arrangements in the Accession Treaty already provide special help for Portugal. Doubtful whether an extension of the transitional measures as such is called for, but willing to consider special measures if particular problems arise in Portugal.

Oils and Fats Tax

- Our position on the Commission proposal for an oils and fats tax has not changed. I oppose it totally. I believe I am not alone in doing so.

- I know that others amont us favour it. I understand their views, and know that they are deeply held - it follows that I do not think we shall persuade each other today. So time spent on the issue would be time better spent on issues where we might, and must, reach a conclusion. I suggest we agree to disagree.

If Necessary:

- The reasons for my firm opposition to the proposal are simple - the tax would be a revenue-raising measure. As such, it should only be introduced by unanimous agreement.

- Agricultural overspending should not be offset by a new and highly regressive tax on consumers.

- Because the tax would be levied at a flat rate, and would raise the price of an essential ingredient of a wide range of food stuffs, it would have greatest impact on the poorest consumers in the Community. In the UK it would force up the price of cheap margarine by some 30%.

- The introduction of such a tax would cause real hardship for developing countries which rely on exports of vegetable and marine oils to the Community. Not surprising that ACP states, ASEAN and Latin American states have protested.

- Even if the Commission is correct in saying that the tax would be non-discriminatory, and thus compatible with the GATT, its introduction would wo sen the climate for the Uruguay round, and would run counter to all our recent commitments on the liberalisation of trade - at the OECD meeting in Paris, at Punta del Este, and above all at the Venice Summit.

- Furthermore the Americans and other third countries have made it clear that they would claim compensation from the Community for impairment of benefits under GATT Article XXIII, since oils and oilseeds are currently subject to nil or low tariffs.

- As our then Italian colleague reminded us at Brussels, introducing an oils and fats tax would certainly provoke protectionists in the US congress, and weaken the President's ability to resist them. The Italian advice in June was that the proposal should be set-aside. Wise advice then: still wise now.

[If others argue that the revenue which the oils and fats tax would raise must be found from somewhere.]

- Fully accept that not introducing the tax has financing implications. But 1988 yield would be below the 2 becu originally suggested by the Commission.

- We achieved annual savings of 530 mecu in the oils and fats sector at this year's price fixing. We must concentrate on finding further savings in this and other sectors.

27/11/87.

EHG(C)(87)1B(i)

AGRI. STAB-ILISERS

EUROPEAN COUNCIL: 4-5 DECEMBER 1987

AGRICULTURAL STABILISERS

1. ARABLE CROPS

Speaking Note

- We need effective stabilisers for <u>all</u> arable crops, designed to stabilise expenditure in each sector.

- I can see the need to take account of the interchangeability of arable crops. But that does not mean that we can ignore increases in production, and consequently in expenditure, due to increases in area. French ideas for limiting application of stabilisers to productivity increases alone would not be effective in controlling expenditure.

- Expansion of area has accounted for most of the increase in production in recent years, particularly for oilseeds and protein crops. This has been largely through expansion into land used by crops which receive little or no FEOGA support.

- Stabilisers must therefore take account of production increases due to area as well as those due to yield. Otherwise we simply will not stop expenditure continuing to spiral on these crops.

- We need to operate through automatic price cuts linked to maximum guaranteed quantities. The mgqs proposed by the Commission, which are linked to existing price levels, are the maximum we can accept if we are to achieve our budgetary objectives.

Ministry of Agriculture Fisheries and Food

EHG(C)(87)1B(ii)

EUROPEAN COUNCIL: 4-5 DECEMBER 1987

AGRICULTURAL STABILISERS

1. USE OF LAND (SET ASIDE)

SPEAKING NOTE

- I can agree in principle to set-aside as a complement to an effective stabiliser policy.

- It is important that any set-aside arrangements should be compulsory for member States but optional for individual producers. I do not think that we can go beyond this and seek to agree a series of detailed guidelines. These would require more careful consideration by agriculture Ministers in the light of proposals which the Commission should be invited to make as soon as possible.

- Community budget should make only limited contribution to national schemes (preferably no more than 25 per cent as under "extensification" scheme agreed earlier this year): savings from set aside will go to the Member States as we~~o~~ll as Community budget, through reduced intervention.

Ministry of Agriculture, Fisheries and Food

EHG(C)(87)1B(iii)

EUROPEAN COUNCIL: 4/5 DECEMBER 1987

AGRICULTURAL STABILISERS

2. CEREALS

SPEAKING NOTE

Cereals is, after milk, the second most expensive CAP regime and would be the touchstone of the Council's resolution to apply effective stabilisers. Greatly regret it has proved so difficult to reach agreement.

The Commission have given us a firm basis to start on. We must set a maximum guaranteed quantity which offers a genuine prospect of controlling expenditure. The Commission and Presidency proposal of 155 million tonnes is the highest figure we should contemplate for this. It is higher than present Community consumption, and that is static; but it allows for exports to continue at recent levels.

We must also settle on automatic, proportionate reductions in support levels; and those must apply in the same year that the MGQ is exceeded.

Thirdly we should cut prices, not raise levies. Price cuts would encourage consumption, and avoid trade distortions that the levy involves.

[<u>**Fallback 1**</u>] I can agree to Presidency date for starting intervention; and that reducing the intervention period should not be one of the penalties for over-production.

[<u>**Fallback 2**</u>] I reluctantly accept Presidency proposal for combined use of price cuts and levy increases as stabilisers for cereals. In view of need to achieve substantial budget savings in this sector, combined effect of price and levy adjustments should not be less than Presidency's 10/15/15 in 1988, 1989 and 1990. Price cuts must come before levy increases.

If we can agree on effective stabilisation, then I see a role for other measures to make things easier for producers - and to bring about cuts in production quickly. A voluntary set-aside scheme could help in this. But it must complement, and not replace, action on prices.

Ministry of Agriculture, Fisheries and Food

G(C)(87)1B(iv)

EUROPEAN COUNCIL: 4/5 DECEMBER 1987

AGRICULTURAL STABILISERS

3. OILSEEDS (OILSEED RAPE, SUNFLOWER SEED AND SOYA)

SPEAKING NOTES

- We must get costs for oilseeds under control. Expenditure here has increased ten-fold from 1979 to 1986, from about 200 to 2,000 million ECUs. At current aid rates, the 1987 crop will cost 3,300 million ECUs to dispose of: about 65% more than last year. We just cannot afford this misuse of resources.

- These are very profitable crops and the Community should not pay out more than is necessary.

- I strongly support the Commission proposal to strengthen the maximum guaranteed quantity system for oilseeds, by taking off the limit on price cuts. It would still leave the Community paying 2,000 million ECUs annually to support these crops.

- [Presidency Proposal] The Presidency proposal to maintain a limit on price reductions would not achieve budgetary stabilisation.

- [French ideas] The French proposal to limit price reductions to increases in yield would not achieve stabilisation, either in the oilseeds sector or the arable sector as a whole. In recent years, at least 80% of the production increases in the oilseed sector have come from increased area, not yield; so the French proposal would totally fail to halt spiralling expenditure on oilseeds. (See Brief 1.)

Ministry of Agriculture, Fisheries and Food

G(C)(87)1B(v)

EUROPEAN COUNCIL, COPENHAGEN, 4/5 DECEMBER 1987

AGRICULTURAL STABILISERS

4. SHEEPMEAT

SPEAKING NOTES

- We need a stabiliser for the sheep regime, like all other regimes. But it must be on an equitable basis.

- Commission proposal will not do.

- Cannot accept a separate threshold for Great Britain. All stabiliser mechanisms must operate on common support prices. Separate stabiliser for GB is not justified on budget or production grounds.

- We could accept sharper price cut instead but it must be the same for all Member States.

- **[If appropriate]** Cannot accept that headage limits on ewe premium should be decided as part of this exercise. Present text is correct.

Ministry of Agriculture, Fisheries and Food

MG(C)(87)1B(vi)

EUROPEAN COUNCIL, COPENHAGEN, 4-5 DECEMBER 1987

5. **WINE : SPEAKING NOTES**

- The surplus from this year's wine production will be about 4½ billion litres. We must take positive action to restrain surplus wine production.

- We agreed in Dublin in 1984 that to reduce production the rights of producers to replant vineyards should be limited. This commitment will not be fulfilled by changing the voluntary abandonment scheme for vineyards, as the Presidency has suggested. Encouraging voluntary abandonment was a quite separate commitment in Dublin. We must agree on a compulsory scheme, without further delay.

- Phasing out the expensive Garantie de Bonne Fin (GDBF) distillation is essential. It actually encourages production. It should end altogether by the beginning of the 1989-90 wine year (ie September 1989) at latest.

- Reductions in payments under the Obligatory Distillation scheme are also essential if this is to be effective in discouraging production, as is intended. It is not enough to agree that reductions are necessary: we must also agree on figures.

Ministry of Agriculture, Fisheries and Food

EHG(C)(87)1B(vii)

EUROPEAN COUNCIL, COPENHAGEN, 4/5 DECEMBER

6. AGRICULTURAL STABILISERS

SPEAKING NOTES

MILK
SUGAR
PROTEINS
FRUIT AND VEGETABLES
TOBACCO
OLIVE OIL
COTTON
RICE

[If discussed as a bloc]

We think it essential that other commodities should be covered by stabilisers of the same kind as we have discussed for cereals and oilseeds. Council must reach firm agreement now that the details of these other stabilisers will be settled quickly ahead of bringing into effect any new own resources arrangements.

[If discussion develops on individual products]

Milk

- Do not favour quotas, but as this is the existing stabiliser mechanism, strongly support the Commission's proposal to keep it in place, at least until 1991.

- We are agreed on the need to retain the 5½% cut in quota. There is no justification however, for the proposed rates of compensation. The level should not be set at more than 6 ecu/100 kg for 1989/90 and 1990/91 and there should be no compensation at all thereafter.

Sugar

- Firmly support the Commission's "elimination levy" proposals which would ensure that the burden of surplus production does not fall on the Community taxpayer.

- Oppose any shift in burden of levy to 'A' quota.

Proteins (Peas, Beans & Lupins)	-	Support the Commission's proposed stabiliser for Protein Crops because we need to restrain the rapid growth in production and limit expenditure.
Fruit and Vegetables	-	Essential to decide all the figures in the post-Copenhagen phase.
Tobacco	-	This regime has the highest support costs per hectare. Regret the Presidency's increase in the figure originally proposed by the Commission. Could not accept any higher figure.
Olive Oil, Cotton and Rice	-	Regret there are no Commission proposals. Clearly, these gaps cannot be filled now but there should be a commitment to fill them as part of the process of implementing the European Council's conclusions.
Olive Oil	-	Olive oil expenditure is set to rise significantly. Stabilisation of this sector should be extended to cover the whole regime: that means a stabiliser for <u>consumption</u> aid as well as for <u>production aid.</u>
Cotton	-	We should tighten up the existing stabiliser for cotton so that it is properly effective.
Rice	-	Effective stabilisers must be introduced into all regimes. Mechanisms should be introduced for rice as for cereals.

27/11/87.

AGRI. GUIDELINE

EGH(C)(87)(1C)

EUROPEAN COUNCIL, COPENHAGEN, 4/5 DECEMBER

AGRICULTURAL GUIDELINE

OBJECTIVES

To ensure:

- that the guideline agreed is an effective and binding constraint on agricultural expenditure; and that Commission undertake not to make proposals which would breach it.

- that the guideline base should be the lowest possible figure not exceeding 1987 "needs" (26.9 becu) and costs of disposal of existing stocks, and the annual rate of increase be below, preferably by a specified fraction, the rate of increase of own resources;

- that any provision for exceptional circumstances is limited to significant and sustained $/ecu movements, and operates in both directions.

SPEAKING NOTE

General

- It was agreed in Brussels that budget discipline must be strengthened in the light of experience since 1984.

- I quote from the conclusions: The European Council considers that the arrangements decided upon at Fontainebleau must be strengthened in the light of experience. Budgetary discipline must be applied to all the Community's expenditure, both to payment appropriations and to commitment appropriations. It must be binding on all the institutions which will be associated with its implementation.

- The guideline is intended to represent the amount of agricultural expenditure the Community can afford. The Community can only achieve a better balance between agricultural expenditure on the one hand, and non-obligatory expenditure on the other, if the guideline works as a real limit on spending.

- In the past the guideline has not been effective. There has been no mechanism to enforce it: spending has in effect been wholly demand-led.

- Now we need to reinforce the guideline. Commission rightly believe it must in future be a limit on what can be spent, not a description of what has been spent. I believe that most member states agree.

The Guideline Limit

- Ready to agree to a realistic rebasing, provided we also agree binding mechanisms to ensure compliance.

- The level of the guideline depends upon a number of factors, not least what is done about stock disposal.

Growth in the Guideline Limit

- We must keep the figure for growth of the guideline to reasonable limits. Savings from reforms agreed in 1986 and those currently under consideration should substantially reduce the rate of growth of CAP spending in the medium term.

- It is not necessary to assume as the Commission have done, that the agricultural guideline should increase at the same rate as Community GNP. That would result in a rate of real growth some 1-2 percentage points greater than the present guideline permits. If we were to decide to express the Community's own resources in terms of GNP, we should therefore express the rate of growth of the guideline as a specific proportion of GNP growth. There is no reason why agricultural expenditure should grow faster than prices generally. $^2/_3$ GNP growth would be more than sufficient.

- The Commission have proposed a new system for the annual depreciation of stocks, together with measures to dispose of existing agricultural surpluses. This is a useful step towards budgetary common sense, although we need to find a way of accommodating the short-term costs.

- We should agree at this meeting to a formal change to a new system for annual depreciation of new stocks on entry, and to agree on a timetable for the disposal of existing surpluses.

- Money allocated for this purpose must not be diverted to other agricultural spending. We should keep within the guideline by phasing expenditure disposals of existing stock over the period until 1992, if necessary.

- Equally I would be ready to agree to taking disposals expenditure outside the guideline, provided that the guideline base and growth rate were reduced accordingly. The appropriate growth rate would certainly then be not more than $^{2}/_{3}$ GNP growth; and the guideline base should be reduced by at least 500 mecu.

Making the Guideline Stick

- Establishing an agricultural guideline and a maximum rate of growth is a worthless exercise unless we can be sure that they will be effective in controlling agricultural expenditure.

- We can make the guideline strong and effective:

- by incorporating it in a legally binding text, which will remain valid for as long as the new Own Resources decision;

- by introducing stabilisers for all commodities, which have quantified trigger mechanisms and are legally binding;

- by giving the Commission the powers needed to operate the stabilisers and to take such additional measures as may be required each year in order to ensure that the budget provision for each commodity is respected; and

- by ensuring that the guideline limit is not undermined by loopholes such as the exceptional circumstances which were built into the 1984 conditions and which made them ineffective in practice.

OTHERS' OBJECTIVES

- Almost all other member states are likely to support the Commission's proposal for a rebasing of the agricultural guideline on the basis of 1987 "real needs" [ie 26.9 becu]. Similarly, they are likely to go along with the Commission's proposal that the guideline limit should increase at the same rate as Community GNP.

- Our major allies on the need for tighter control of agricultural spending will be the Dutch and to a much lesser extent the French; some of the southern states may fear that increasing CAP expenditure may make it impossible for the Community to fund non-obligatory expenditure on areas which would particularly benefit them - principally, structural funds.

- Italy, Denmark, Ireland, and Belgium are likely to argue in favour of widely drawn exceptional circumstances (ie not limited to $/ecu movements) for exceeding the guideline. France will argue for exceptional circumstances triggered by any monetary movements (ie including EMS realignments). The FRG favour the introduction of a reserve to absorb the impact of currency fluctuations. Most other states will be aiming to retain some flexibility through one or other mechanism to permit the guideline limit to be exceeded in certain circumstances.

- The Dutch favour the transfer of increased management powers to the Commission in order to enhance the effectiveness of the guideline. Most other member states would probably accept some move in this direction, although the FRG are against.

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MLGALP,2

OUR RESPONSE

[If others argue for a higher guideline limit]

- The higher the guideline the greater the proportion of Community spending allocated to agriculture. That would leave less for other important areas of EC spending, such as the structural funds. This would penalise the poorest member states.

[If calls for increase in guideline in line with Community GNP]

- This would prevent any fall in the proportion of Community expenditure devoted to agriculture, and hence any increase in the proportion allocated to non-agricultural spending.

- CAP reforms already agreed in December 1986, new stabiliser proposals, and reduction in intervention stocks should all reduce expenditure on agriculture in medium term.

[If others argue in favour of loosely defined exceptional circumstances]

- Very sceptical about justification for any exceptional circumstances. The only circumstances beyond the Community's control are dollar/ecu movements. But right that farmers should adjust to exchange rate movements as others have to.

- Correct response should be to use the stabiliser mechanisms to stop unplanned increases in expenditure, whatever their cause. Only where the possibilities for in-year adjustment within the framework laid down are insufficient should there be any question of a change in the guideline figure. No change should take place until a franchise - 10% - had been reached. Otherwise short term fluctuations would be reflected in the guideline. Only the exchange rate movement beyond the franchise would be taken into account.

- Any such provision must work in both directions. A dollar appreciation would therefore lead to an automatic reduction in the guideline figure.

- This must be a genuine reduction in expenditure.

- It would, of course, be important to establish the reference and measurement periods which would be used to measure the variations in the ecu/dollar rate.

- If revised budget discipline arrangements to be effective, financial guideline must be absolute constraint on Community Expenditure on agriculture. Otherwise as in past, agricultural demands will pre-empt resources which should be available for other programmes.

- Appreciate that there are practical difficulties in controlling expenditure on any agriculture programme within rigid limits. Production stabilisers should help this process and the Commission should use its extensive management powers to restrain expenditure.

- If genuine pressures arise on guideline only way we can respect both Council's decisions on the size of the agricultural budget and the legitimate expectations of farmers and traders is by a temporary adjustment to the reimbursements to member states on the lines suggested earlier this year by President Delors.

27/11/87.

EHG(C)(87)(1D)

EUROPEAN COUNCIL, COPENHAGEN, 4/5 DECEMBER

STRUCTURAL FUNDS AND BUDGET DISCIPLINE

STRUCTURAL FUNDS + BUDGET DISC.

Objectives

- To strengthen the 1984 Fontainebleau conclusions on budget discipline.

- To limit any commitment by the Council to an increase in the Structural Funds to the minimum necessary (within the maximum rate or at most 1½ times the maximum rate) to secure agreement on satisfactory commitments on overall expenditure control.

- To avoid the Social Fund being concentrated on the poor regions of the Community rather than on tackling unemployment wherever it occurs.

MDAAGH,1

Speaking Note

- The Community has long been committed to the growth of the Structural Funds. They have grown by over two-thirds in payments terms since 1984. We would expect them to go on growing. But it makes no logical or financial sense to devise a figure unrelated to what the Community can afford, unrelated to GNP growth, and unrelated to the needs of the poorest member states who should be the principal beneficiaries from the Funds.

- Our purpose in this negotiation has to be to achieve the orderly development of Community policies. An important part of that process is to ensure that expenditure grows in line with what the Community can afford and that we achieve a sensible balance in our spending priorities.

- We agreed at the European Council in June to strengthen the budget discipline arrangements agreed at Fontainebleau. Those arrangements included provisions to ensure that the maximum rate provisions of the Treaty were not exceeded.

- Those provisions are not an arbitrary discipline. They are a reflection of the kind of growth of expenditure which the Community can afford in relation to GNP growth.

- We calculate that there is already scope for the Structural Funds to grow by about 35 per cent by 1992 without the maximum rate being exceeded.

- We are already looking at how the Funds can best be devoted to the areas of greatest need. If any increase in the Funds is not spread evenly among all member states but is devoted to the poorest member states then the increase for those member states could be that much larger. That would involve some adjustment by others. For our part we would be willing to play our part in that. This is the right way to define a financial objective for the Funds.

- Poorer member states such as Greece and Ireland have already benefitted extensively from the Funds and will continue to do so. Without neglecting their needs there is obviously a case for looking particularly closely at the requirements for the new member states given the difficulties that they are bound to face as they adjust to the transition to full membership of the Community.

- An approach of this kind would allow significant increases in the resources devoted to the neediest member states under the Funds. An increase for which we could reasonably set a financial objective while maintaining overall budgetary discipline. It would involve a real transfer of resources since the benefits of increased expenditure would not accrue to the wealthier member states. At the same time, it would represent a prudent use of our overall resources, something which must also be of concern to all of us.

Others' Objectives

- At the Brussels European Council all other member states agreed to fix a financial objective for the Structural Funds to be reached in 1992.

- The Southern member states and Ireland consider the Commission's proposals for a doubling in the size of the Funds to be a minimum requirement, arguing that this is required to compensate for the benefits to the other member states of the completion of the internal market. The Irish, in particular, will also argue that it is a requirement if they are to agree to restraint in agricultural expenditure.

- In addition to doubling the Funds, the Southerners will also want to increase the level of concentration of the Funds on the poorest member states.

- The French may also propose concentration specifically on Spain and Portugal, possibly in the form of Integrated Programmes on the lines of the IMPs agreed for France, Greece and Italy in 1985.

- The Presidency may propose an increase of 75% as a compromise between the 100% proposed by the Commission and supported by the Southerners, and the 50% which a German spokesman indicated would be acceptable to the FRG at the June European Council.

- While <u>France</u>, <u>Germany</u> and <u>Netherlands</u> want to constrain expenditure within the maximum rate they will be prepared to go beyond it to secure a settlement. At their recent meeting M Chirac proposed to the Prime Minister that the UK, France and FRG should establish a joint position based on a 40% increase. The Dutch envisage allowing expenditure to exceed the maximum rate for one or two years only with the addition being concentrated on Spain and Portugal. The Germans too have been considering this idea.

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<u>Our Response</u>

- Do not understand the advantage of a <u>global</u> financial objective for the Funds. What is needed is more effective use of the Funds plus greater concentration on areas in greatest need. The UK would therefore support financial objectives for the increase in the Funds to be devoted to the poorest member states.

- UK agrees that the current balance of the budget is wrong. But the wrong way to achieve a balanced budget is simply to spend more in the area of Community spending where budget discipline has applied until now.

[In response to argument that cohesion is necessary balance to internal market]: Cohesion will be <u>strengthened</u> by the removal of internal barriers, and all member states should benefit from the single market. Nevertheless, as I have made clear, we recognise the problems of the poorest member states and have proposed that we should set a financial objective specifically to meet their needs.

- We can accept greater concentration of the Funds on the poorest member states, but the other priority objectives proposed by the Commission must not be ignored. In particular, we attach considerable importance to the needs of industrially declining regions, which are now recognised in the Treaty, and also to the vital tasks of reducing long-term unemployment and improving youth training.

- An arbitrary percentage increase cannot be the basis for sensible financial planning. The maximum rate provides a measure of what the Community can afford. Within the maximum rate we need to consider how best we can address the problems of the poorest member states.

- [If others argue for an increase of one and a half times the maximum rate]: We agreed at Fontainebleau in 1984 to aim to keep expenditure within the maximum rate. This will allow expenditure to grow by 7% a year.

- [If all others could accept an increase to one and a half times maximum rate and all other parts of the package were agreed - UK could accept too - see ready reckoner attached].

- (A 40% increase in real terms could be constrained within one and a half times the maximum rate).

[If Integrated Programmes for Spain and Portugal suggested]: Would be a logical follow up to IMPs. The latter were intended to enable the other Mediterranean member states to cope with the problems of enlargement. As was pointed out at the time, problems of adjustment inevitably even greater for new members. Integrated programmes could, therefore, help the two new member states to adjust to membership. As non-obligatory expenditure, Integrated Programmes would be subject to the maximum rate discipline of the Treaty. They would need to be linked to the transitional period.

27/11/87.

BUDGET MANAG-EMENT

EHG(C)(87)(1E)

EUROPEAN COUNCIL, COPENHAGEN, 4/5 DECEMBER

Budget Management (including inter-institutional agreement)

Objectives

- To ensure that satisfactory provisions are agreed to enable legal texts to be drawn up tightening Community financial control in the following areas:

  - to limit negative reserves in the budget;

  - to tighten up on carryovers and recommitments of credits;

  - to get Council agreement to pro rata DNO cuts at second budget reading to ensure respect of maximum rate;

  - to restrict the action ponctuelle procedure;

  - to reject any multi-annual budget framework which undermines the 1984 budget discipline conclusions and weakens the Council's position in the annual budget procedure.

Speaking note

- As well as tightening up on overall budget discipline we need to improve the efficiency and transparency with which the Community's financial resources are managed.

- The Commission has put forward some very helpful suggestions in this area. We have also put forward our own ideas. Time now to take firm decisions.

- We need agreement on the following points:

- First, clear limits on the use of negative reserves and on the action ponctuelle procedure for spending money on projects not specifically approved by the Council;

- Second, tighter restrictions on the carryover and recommitment of budget credits.

- Third, some strengthening of the 1984 Budget Discipline conclusions. I believe that we should incorporate into the conclusions agreement that if no other way can be found to respect the statistical maximum rate at the Council's second reading, pro rata reductions would be applied to all the Parliament's proposed increases.

- This would only be to formalise a Council procedural agreement which has existed since 1979 and deals with a situation in which the Council might be potentially deadlocked between two opposing qualified majorities.

- These 3 improvements would implement the conclusion of the Brussels European Council that the 1984 budget discipline conclusions must be strengthened in the light of experience.

- Experience shows that a legal limit on negative reserves is vital to avoid the Council's budget control being completely undermined by the European Parliament. I suggest a 200 mecu limit on such reserves.

<u>Inter-institutional agreement</u>

- Can be no question of signing away our control over the budget for the next five years through a formal agreement with the Parliament. Even if we could arrive at such an agreement it would simply be taken as a base level for extra Parliamentary demands in later years.

- Right to stick to the letter of the budgetary procedure as set out in the Treaty. We have proposed additional Trilogue meeting of Presidents each year before procedure starts to iron out misunderstandings and seek agreement. This is the prudent way forward.

- Final outcome must be a strengthening of 1984 budget discipline conclusions and the annual reference framework set by the Council. Cannot accept any proposal which seeks to weaken what was agreed then or which detracts from the Council's responsibility to scrutinise spending closely every year.

Others' objectives

(a) Budget management

- No other member state attaches the same priority as the UK to improvements in budget management. The Dutch, French and, to a lesser extent, German delegations have provided us with general support, though the Germans have been hesitant about the need to limit the negative reserve procedure, which also exists in German national finances. Even the Dutch and the French do not support us on negative reserves because they claim our proposal lends the device legitimacy. But they are loath to propose the obvious alternative of banning it outright. The Italians and Greeks have been the most vocal opponents of measures which they see as designed to cut down the amount of money available to them.

- The Commission proposals in this area are good on objectives, and accept the need to tighten up the control of Community funds; however they do this by giving wider discretionary powers to the Commission. So we cannot be sure that the result would be a genuine tightening of procedure. We have argued that the

Our response

- We have made clear that we need progress in this area and in particular a clear agreement to limit negative reserves. A large negative reserve would not in any event be lawful, under the Treaty obligation to balance the budget.

- Our proposals are in line with the Commission's objectives but seek to clarify and make them more rigorous through amendments to the Financial Regulation. We are open to discussion on the detail of our proposals so long as the result leads to a real tightening of financial control.

- We should make clear that the pro rata rule is not in itself a means of restricting expenditure, rather a way of ensuring tht the Council's decisions are internally consistent. The original agreement already forms part of the acquis communautaire; it is right to now incorporate it formally into revised Budget Discipline conclusions.

OTHERS' OBJECTIVES

(b) Multi-annual framework

- The Northern member states and Presidency share our concern to avoid increasing the power of the Parliament and Commission over the budget at the expense of the Council. The Southern states are broadly sympathetic to the multi-annual framework proposal because they see it as an effective way of undermining budget discipline and the present annual reference framework procedure. There is also a feeling that the Parliament must now be associated in some way with budget discipline; the Italians argue strongly for this.

- The Commission see a multi-annual framework as giving them improved ability to plan ahead, and - probably - higher increases in non-obligatory expenditure. They argue, unconvinsingly, that it would reduce budgetary conflict between Council and Parliament.

Our response

- We support increased cooperation with the Parliament in the annual budget procedure. During our Presidency we maintained unprecedentedly close relations with the Parliament, to our mutual benefit.

- But budget procedure as set out in the Treaty is for one year only. Wrong to tie ourselves to future objectives which may prove unrealistic in changed circumstances.

- UK proposal for a Trilogue between Presidents of the three institutions - Council, Commission and Parliament - at start of budgetary year offers real prospect of avoiding unnecessary misunderstandings without undermining Council's Treaty responsibilities in the budget procedure.

[If Necessary]

- No question of agreeing to any proposals which would weaken rather than strengthen budget discipline, or the annual reference framework procedure. Must look for ways, such as our Trilogue proposal, which fit within budget discipline arrangements.

27/11/87.

EHG(C)(87)(1F)

EUROPEAN COUNCIL, COPENHAGEN, 4/5 DECEMBER

STRUCTURE OF OWN RESOURCES

STRUCTURE OF OWN RESOURCES

OBJECTIVES

- To acquiesce in any agreement on the Commission's proposal to limit VAT to 1% (or the Presidency proposal to limit it to 1.25%) and to introduce a new fourth resource, levied on the difference between the VAT base and GNP (Commission) or on GDP (Presidency). All such schemes would over time ensure that own resources more closely reflect relative prosperity, and would thus benefit us. But we should not press for such a scheme, for to do so would weaken our tactical position on the abatement.

- To maintain traditional own resources refunds.

- To accept, if this is the general wish, the Commission proposals that customs duties on products covered by the European Coal and Steel Community (ECSC) should in future become part of the Community's own resources.

KB5AIW,1

SPEAKING NOTE

- Agree that own resources should better reflect relative prosperity of member states. Simplest course would have been to move to a system based on member states' shares of Community GNP, and replacing - rather than supplementing - the present system based on shares of VAT.

- But the Commission's proposal to create a fourth resource based on the difference between a member state's GNP and its VAT contribution, and with the VAT rate dropping to 1% could represent a small step in the right direction. The Presidency's proposal to use a VAT rate of 1.25% with a fourth resource based on percentage GNP would be a still smaller step - and not a particularly logical one, for it introduces an element of double counting. VAT is already a component of GNP.

- But the UK could live with either outcome.

[As discussion develops]

- Recognise that the original Commission proposal caused difficulties for some member states. Presidency proposal presumably reduces these difficulties, but considerably reduces benefits to the UK. But have no wish to block an agreement in this area, as part of a satisfactory overall agreement.

- Own resources refunds - defray the very real costs of collecting own resources. See no justification for abolition.

ECSC Duties

- Ready to accept that ECSC duties should be included in own resources if that is the general wish.

OTHERS' OBJECTIVES

- France, Belgium, Luxembourg, Ireland, Greece and Portugal support the Commission's proposal limiting VAT to 1% and introducing a new fourth resource based on the difference between VAT and GNP shares. But France has floated an alternative whereby VAT would begin at 1.25% and reduce by 0.1% per year with the fourth resource growing until the two rates were equal. Italy, Denmark and less strongly The Netherlands are opposed.

- Italy is particularly against the proposed fourth resource because her share of Community GNP (estimated by the Commission at 17.8% in 1988) is much larger than her share of Community VAT (15.0%). By contrast, the UK's share of GNP for 1988 is estimated by the Commission at 15%, and our share of the VAT base at 18.1%.

- FRG would prefer to have the fourth resource based directly on GDP, rather than on the difference between GNP and VAT shares. Spain supports the Commission proposal provided the fourth resource and VAT are modulated according to GNP per capita.

- The Presidency have proposed VAT at 1.25% and the fourth resource based directly on GNP.

- While the Commission's proposal would benefit us, and the Presidency's rather less so, we should not take a prominent role in the discussion, for this would weaken our tactical position on the abatement. (See brief no 1H)

27/11/87.

EHG(C)(87)(1G)

EUROPEAN COUNCIL, COPENHAGEN, 4/5 DECEMBER

LEVEL OF OWN RESOURCES

OBJECTIVES

LEVEL OF OWN RESOURCES

- To prevent any agreement on an increase in the ceiling if a satisfactory agreement is not reached on budget discipline.

- Subject to that, to set a tough but realistic own resources ceiling, ie at a level which will cover expenditure in 1988 and will last at least until 1992.

- To smooth out the "hump" of demands on own resources which will arise in 1988. The principal means available is likely to be phasing the disposal of existing agricultural stocks (see Brief No 1C). One might also go for delay in oustanding IGA repayments, or in own resources refunds. It might also be possible to seek to have the UK abatement financed outside the own resources ceiling, though this is unlikely to be attainable, and is clearly not the most important abatement issue.

- To reject intermediate ceilings as inconsistent with budget discipline.

SPEAKING NOTE

- We want a decision on the level of own resources which will realistically reflect the requirements of the Community.

- The own resources ceiling must reflect both real needs and the requirements of real budget discipline. I am one of those - and there are several here - who find the proposal to increase the ceiling to 1.4% of GNP unrealistic. I note that the figures the Commission themselves circulated suggest that the real figure for expenditure, even on their own projections of how it might grow, would be less than 1.3% in 1992, let alone 1.4%.

- And the important point is that finance must determine expenditure, not vice versa. It is for us to determine what ceiling on Community resources would be appropriate, given our common responsibilities both to our national tax payers and for the Community's healthy development.

- I am ready to agree to an increase in the present ceiling, provided that we have also achieved agreement on binding measures which ensure that Community spending is firmly under control.

- The aim should be to set a new ceiling which will last. But it makes no sense to set it at a level geared to the exceptional problems of 1988 rather than to the Community's likely real needs thereafter.

- The fact is that the past build-up of stocks, and the existing overrun of agricultural spending, place a particular burden on the budget in 1988.

- And that if we decide to set the new ceiling on own resources in GNP terms - as I am ready to do - we shall build in considerable additional future buoyancy compared to the present VAT-related definition. In recent years Community GNP has been growing faster than the VAT base.

- [We have already discussed, in the context of the guideline for CAP spending, how to handle the disposal of existing stocks. Phasing disposals makes sense, and helps us to reduce the problem of 1988.]

- We could also rephase the payment of own resources refunds, and the 1984 IGA repayments. It might make sense to provide for a permanent delay of six months in future payment of own resources refunds, and to spread the three outstanding IGA repayment instalments over 1989-91.

- The Commission proposed a series of intermediate ceilings between now and 1992. I frankly don't think that is the right approach. We should instead decide on a level of own resources which is sufficient to meet the requirements of the Community now, and in our view appropriate to last at least until 1992, given the increased buoyancy of a GNP-related definition.

OTHERS' OBECTIVES

- The poorest states (Ireland, Spain, Portugal and Greece) are strongly in favour of a move to a 1.4% GNP own resources ceiling (Greece considers a limit of 1.4% to be a minimum objective). So too are Italy.

- France, FRG and The Netherlands are all opposed to a 1.4% GNP own resources ceiling, and want a lower ceiling expressed as a percentage of GNP.

- Belgium, Luxembourg and Denmark will probably adopt an intermediate position between these two groups.

- Spain and Portugal will oppose any further postponing of expenditure on stock disposals into years in which their own resources refunds are significantly reduced. Most other member states (including Germany and the Netherlands) will try to insist on interest payments if stock disposal expenditure is deferred.

OUR RESPONSE

[Calls for increase in own resources to 1.4% GNP]

- A level of own resources based on a 1.4% GNP ceiling is out of all proportion to Community expenditure now, and will be out of all proportion to Community expenditure in 1992. There has been no convincing justification put forward for such a very large increase.

[If no overall deal, but proposal to accept an interim increase in own resources.]

- As we made clear at Copenhagen, and have said on many occasions since then, there can be no purpose in agreeing to a given level of own resources, whether it be 1.6% of VAT or 1.4% of GNP, if there is no budgetary structure in place to ensure that that limit is respected. I am not prepared to do so.

- I would myself prefer to settle our future financing problems now, rather than carrying them forward into yet another Presidency. But the key is agreement on proper spending control; and without that we cannot set a new ceiling.

If the Community cannot establish a budget within the existing ceiling then it will simply have to start 1988 on a provisional twelfths regime. Nothing new in that - 1985 and indeed 1987.

27/11/87.

EHG(C)(87)(1H)

EUROPEAN COUNCIL, COPENHAGEN, 4/5 DECEMBER

UK ABATEMENT

OBJECTIVES

- To maintain the Fontainebleau abatement mechanism, as an integral part of the Own Resources Decision.

LT1ABE,1

UK ABATEMENT

SPEAKING NOTE

- The UK abatement was agreed at Fontainebleau as a fair and equitable way of dealing with the inequitable budget burden on the UK. It reflected the outcome of negotiations extending over a number of years.

- The Fontainebleau agreement meant that, in 1984, the UK remained a substantial net contributor.

- Since 1984, our receipts from all elements of Community expenditure have declined sharply. The decline has been significantly greater than can be explained by enlargement. Our VAT/expenditure gap, the agreed measure of our burden, has more than doubled - from 1,379 million ecu in 1984 to 3,437 million ecu in 1987.

- So the UK is still the second largest net contributor to the EC budget, despite being about average in Community prosperity. And the trend in our net contribution, after abatement is still steadily upward.

- Of course the UK has prospered since 1984. But our position in the league table of relative prosperity

(GNP per head at market exchange rates) has not changed.

- So the conditions which led the Community to agree at Fontainebleau on the UK abatement have not changed, other than in the UK's disfavour.

- The conditions that justified it then, justify it now. Indeed they would justify an improved abatement. Countries far richer than the UK are substantial net beneficiaries from the Community: the UK is a net contributor, after abatement, of over 1 billion ecu a year.

- But I am not asking for an improved abatement scheme. It would however be unreasonable to expect me to accept a smaller abatement, despite the UK's larger burden.

- The proposals put forward by the Commission would leave us much worse off. Their proposed abatement mechanism, if applied to 1987 expenditure, would cut our abatement in half, and increase our net contribution from 1.2 to more than 2.4 billion ecu. By 1992, the Commission's new proposals would have cost us an extra 5 billion ecu.

- The Commission admit that their corrective mechanism plus their proposed fourth resource would leave the UK considerably worse off. They assess the increase in our net contributions from this factor alone, at around 1 becu over the period up to 1992. Our own calculations suggest that we would be 800-900 mecu worse off in 1992 alone. If we add on the cost of raising the own resources ceiling, the total additional burden would be approaching 1.2 becu in that year.

- I do not see why the UK's net contribution after abatement, which has increased since Fontainebleau, and is set toincrease further, should be arbitrarily increased still further. Most member states are net beneficiaries, and many of them are richer than the UK.

- I am clear that the Fontainebleau abatement mechanism must continue to be an integral part of the Community's own resources sytem and should therefore continue to be incorporated in the own resources decision. Payment of the correction on the expenditure side of the budget would only invite interference by the European Parliament, as in the days before

Fontainebleau.

[If appropriate]

- Would be sensible to finance UK abatement outside the own resources ceiling. This would mean that fluctuations in the abatement would not affect the amount of resources available for Community expenditure programmes proper. Introduction of abatement-exclusive ceiling would then facilitate planning and control of expenditure.]

OUR RESPONSE

[If UK abatement attacked on grounds that we are not contributing to costs of cohesion, enlargement etc]

- It was clearly agreed at Fontainebleau that the new abatement system should apply to the Community of 12. If Britain, the second largest net contributor, paying after abatement over 1 billion ecu a year is not making its contribution to cohesion etc then no doubt Belgium, Luxembourg, Netherlands and Denmark, all of whom have higher per capita prosperity and all of whom are net recipients from the budget, will be prepared to see their contributions radically increased.

- Under the Commission's proposals in this negotiation overall the present net beneficiaries stand to gain handsomely: Greece, Spain, Italy, Ireland, Portugal all expect to do well from increases in the Structural Funds. It is the existing net contributors who will suffer. As the second largest net contributor we stand to get an inequitable share of the pain. Therefore the abatement has to be a major part of the overall deal.

(In response to M Lubbers) - I note that Netherlands is opposed to abolition of the traditional own resources refund - worth a little over 100 mecu a year - despite being a beneficiary overall to the tune of 700 mecu a year. I understand the Dutch case, and am prepared to support it. But the UK, as a massive net contributor, is no less entitled to argue for the status quo in respect of our abatement. Cannot be expected to accept with equanimity an artibrary increase in our net contribution of 1.2 becu a year.

[If FRG argues that British GNP is now high enough to justify a substantial net contribution]

- It is true that the success of the British economy will over time raise our position in the "European league table". But that position is still as it was at the time of Fontainebleau: and the UK is still below average in terms of Community income at market exchange rates.

[If it is argued that the Commission's abatement proposals leave the UK no worse off]

- We are aware of Commission claims that their proposed new corrective mechanism would leave the UK no worse off than the Fontainebleau system. As we have demonstrated in discussion this is not so. We do not believe that the Commission's projections can be regarded as a central view of likely developments. They assume:

- too high a UK share of receipts from the budget;
- too large a budget altogether; and
- too low a UK share of the fourth resource;

Whilst in our view, being over optimistic about the prospects for reducing the share of agriculture in the budget. On more realistic projections it is clear that the Commission's proposals for the structure of own resources and the corrective mechanisms would leave the UK worse off by between 800 and 900 million ecu per year.

[If others argue that 4th Resource improves UK position]

- True that fourth resource as proposed by the Commission would improve our financial position. But in the form now proposed by the Presidency that benefit to us would be roughly halved. In any case the proposed corrective mechanism would leave us very much worse off. Taking account of <u>both</u> the fourth resource (Commission proposal) and the corrective mechanism, the UK would be some 800-900 mecu a year worse off by 1992 than with the continuation of the present financing arrangements but an increase in the VAT ceiling.

- The reduction in the benefit to us of the Presidency's proposal on the fourth resource makes it all the more essential to retain the Fontainebleau mechanism.

[If the arguments in favour of using the agricultural expenditure GNP share are pressed]

- No reason to take one sector of the budget in isolation. The UK's burden relates to the budget as a whole: so should the mechanism for relieving it.

[If agreement is reached on the introduction of the fourth resource in a satisfactory form]

- We could accept a modification of the Fontainebleau mechanism, adapting it to the proposed new structure of own resources, if this were adopted. The abatement mechanism would then be based on the gap between our VAT/fourth resource share of Community expenditure and our share of Community receipts [rather than, as at present, the gap between only our VAT share and our share of receipts.

Note: combining introduction of the diff tax with adapting the Fontainebleau mechanism to give us a rebate of 66% of our VAT/diff tax expenditure gap would be to our net advantage. Background in brief 2H]

OTHERS' OBJECTIVES

- The FRG would like the abatement abolished. On occasion they have taken the line that if it continues they should have one as well. But they will probably argue at Copenhagen that if it continues, they should not contribute.

- France, Italy, The Netherlands and Luxembourg argue that the UK abatement should be degressive and temporary, and that all member states should contribute to it.

- Denmark, Belgium and Spain are relatively realistic on the issue. Portugal, Greece and Ireland, who adopt a relaxed attitude to budgetary discipline, have not expressed strong views.

- There will be discussion about whether the abatement should be financed by $6^1/_4$ member states, as proposed by the Commission (ie relieving the four poorest member states of the obligation to contribute with Germany only contributing a quarter of its share) or by all the other eleven. The UK's objectives are best served by staying out of the discussion of this point.

- The European Commission have retabled their own proposal for a new partial corrective mechanism, first put forward in COM(87)101. It would refund 50% of the difference between our actual and GNP shares of agricultural guarantee expenditure only. They claim that such a system would leave the UK broadly as well off in 1992 as with the Fontainebleau abatement system (but with an increase in the VAT ceiling), arguing that the decrease in the size of our abatement would be roughly offset by an equivalent fall in our contribution as a result of the new fourth resource. They admit however we would suffer a significant loss (of around 1 becu in total) over the intervening years.

The Presidency may propose raising the refund from 50% to 65% of the gap between our actual and GNP share of agricultural guarantee expenditure. This would not offset the effect of amending the Commission proposal on the fourth resource to our disadvantage: <u>it would do nothing to reduce the gap cf Fontainebleau</u>. Our arguments against the Commission Scheme would therefore apply in full to this variant too.

27/11/87.

EHG(C)(87)(1J)

EUROPEAN COUNCIL, COPENHAGEN, 4/5 DECEMBER

1988 Budget

Objectives

- If there is no agreement on future financing, to ensure that 1988 budget discussions continue to be governed by the 1.4% own resources ceiling.

- If there is agreement on future financing, to accept in principle that a 1988 budget (within the new ceiling) may be financed if necessary through an Inter-Governmental Agreement during the process of national ratification of the new Own Resources Decision.

1988 BUDGET

LT2AAI,1

Speaking Note

- Agreement on a budget for 1988 within existing Community Own resources will require difficult decisions. But unless we agree unanimously to increase the level of resources available to the Community the existing 1.4% VAT ceiling remains in place, and we must find the savings necessary to adopt a budget within that ceiling.

- If we cannot do so by January then the Community's finances will be governed by the provisional twelfths regime, in accordance with the Treaty.

- Would be better to agree a budget as soon as we can. But prospect of provisional twelfths is no justification for seeking to evade the Treaty constraints on the size of the budget. Even under provisional twelfths Community has right to spend over 36 billion ecu - 3 billion ecu a month. Community started 1987 and 1985 on provisional twelfths, without real difficulty.

(a) If agreement on future financing

- Agreement on new own resources, in common with that on budget discipline, should apply from 1988.

- If the Own Resources Decision cannot in practice be ratified quickly enough to cover the justified requirements of the 1988 budget, we might have to consider an intergovernmental agreement (IGA) in 1988.

- Any IGA must be:

  i) within the new own resources ceiling,
  ii) fully in line with revised budget discipline arrangements; and
  iii) as on previous occasions, payment would be subject to

approval by our Parliament.

(b) <u>If no agreement on future financing</u>

- It seems that we are unable at present to reach agreement on the Community's future financing. By definition therefore the existing own resources ceiling continues to apply to the 1988 budget procedure.

- Would be politically and legally inconceivable to seek to increase Community resources by stealth through the 1988 budget procedure when we are clearly unable to do so in due form here in the European Council.

- Any attempt to implement a 1988 Budget which goes beyond the resources legally available to the Community or relies on subterfuge to balance revenue and expenditure, would be a most serious matter. UK has not hesitated to contest budget illegalities in the past, eg our successful challenge to the 1986 Budget. Serve notice that we would be prepared to act against such illegalities in the future.

- Only legal option for 1988 is a budget which respects the 1.4% VAT ceiling. We must all work to achieve this.

- No question of agreeing to an interim increase in the ceiling for 1988. An interim agreement would solve none of the Community's underlying financial problems. Would suggest that we do not have the will to make the necessary radical reforms to get spending under control. This would be completely unacceptable to the United Kingdom.

Others' Objectives

- The Danish Presidency will be seeking some way of breaking the deadlock in the 1988 budget procedure, whether or not agreement is reached on future financing. If there is agreement they are likely to propose an IGA in 1988 to provide the additional resources needed for that year until the Own Resources Decision can be ratified by all member states. The Commission would support. All other member states would probably agree in principle. If the future financing deal were satisfactory we could accept this subject to agreement on the small print, which could be left to the Foreign Affairs and Budget Councils.

- If on the other hand there is no agreement the Presidency are likely to press for agreement to the proposal already discussed in the Budget Council of a 4 billion ecu 'balancing item' - essentially a negative reserve - designed to allow the Council to establish a draft budget nominally respecting the 1.4% VAT ceiling. Other member states, apart perhaps from the Spanish and the Greeks, are likely to accept this, since they have in effect already done so at the September and October Budget Councils. The Spaniards have so far said they would prefer to enter 1988 on provisional twelfths rather than accept a budget which does not provide for a substantial increase in the structural funds. The Italians may press for an interim agreement allowing the 1988 budget to use up to 1.6% VAT. There would be risk that others might try to cut down provision for the UK abatement.

- This issue may well be remitted to the Budget Council which the Danes plan for 9 December.

Our Response

- If there is agreement on future financing we should make clear that any IGA must be:

  (i) within the new own resources ceiling,
  (ii) fully in line with revised budget discipline arrangements; and
  (iii) as on previous occasions, subject to approval by our Parliament.

If there is no future financing agreement our position is that:

- it is politically completely unacceptable to seek to anticipate what must be a unanimous agreement on future own resources of the Community.

- if there is an attempt to implement a budget which uses the negative reserve device to go illegally beyond the 1.4% ceiling we will not hesitate to challenge it before the European Court. We have already challenged successfully a budget which did not fulfil the Treaty requirements (in 1986).

- we oppose any interim agreement involving increased resources for the Community. It would be a sign that the Community was unable to take the necessary hard decisions about the reform of its finances, and would merely postpone the real debate.

- [If there is an attack on the UK abatement] the Community can only live by its rules; the Treaty provides that in the absence of an agreed budget provisional twelfths shall apply; that regime in itself curtails the size of the abatement; if we lost any portion of our abatement we should never agree to any increase in own resources which did not restore what we had lost.

27/11/87

EHG(C)(87)(1K)

EUROPEAN COUNCIL, COPENHAGEN, 4/5 DECEMBER

R&D Framework Programme

Objective

- To confirm that we support the Framework Programme but to make clear that the outstanding 417 million ecu can only be released when the future financing negotiations have been resolved.

R+D FRAME WORK

MDAAHE,1

Speaking Note

- The UK position is clear. We support the Framework Programme. We have agreed to spending continuing at the 1987 level.

- This means that the Community already has provision for commitments on Research and Development totalling 5.2 becu between now and 1991.

- The additional sum of 417 mecu will of course be available on the basis we agreed at the June European Council, when agreement has been reached on the future financing of the Community. No programmes are being delayed in the meantime, for the 417 mecu would not in any case be committed until near the end of the framework period.

Others' Objectives

- If there is no future financing agreement the Commission and the eleven other member states will want to secure the release of the 417 million ecu tranche which we have put on ice.

- Some member states may seek to imply that the UK is further delaying the Framework Programme.

Our Response

- We hope (and expect) the Council to reach agreement on the future financing issues in the near future. Until we have done so all Community programmes have to face the reality of the budgetary situation so we cannot agree to release the additional resources.

- It is not our intention to delay the Framework Programme. Indeed it is going ahead.

- Unanimity is, of course, required to release the additional resources. This is clearly stated in the Decision of the Framework Programme.

8/024

27/11/87

EHG (C)(87)(11)

EUROPEAN COUNCIL, COPENHAGEN, 4/5 DECEMBER 1987

BRIEF IL

INTERNATIONAL ECONOMIC SITUATION AND EMS/LIBERALISATION OF CAPITAL MOVEMENTS

UK Objectives

1. To avoid substantive new declarations on international situation, or on future European monetary developments.

2. On capital movements, to support Commission's aim of full liberalisation.

INTER. ECONO-MIC SIT. +EMS

Opening Speaking Note

On the world economic situation, the UK and others have already warmly welcomed the action the US has announced to reduce its budget deficit, with cuts in all major spending programmes and increases in taxation. We now look to the surplus countries, including Japan and Germany, to take further action to improve their economic momentum. As Finance Ministers agreed at ECOFIN in November we must continue the fiscal and monetary co-operation agreed at the Louvre to ensure a more stable development of world financial and foreign exchange markets. At this stage, I do not think a further EC statement would be valuable.

On developments within Europe, the UK welcomed the measures agreed at the September informal ECOFIN to strengthen the EMS. It is good to see the practical development in recent weeks of cooperation on the lines they agreed - especially important in a difficult world climate. We are prepared to play our part in improving conditions in Europe for further internally-generated non-inflationary growth.

I am pleased also that progress is being made towards achieving full abolition of exchange controls. This is an important aspect of completing the internal market by 1992 and should be given high priority.

Others' Objectives

International economic situation

The Germans and French are likely to share the UK view that there is no need for a specific EC statement on the economic situation at present. The Italians, as members of G7, will probably react in the same way. The smaller countries and the Commission may want to express an EC view, although they had and took the opportunity to do so at the ECOFIN in November.

Capital liberalisation

On liberalisation of capital movements, the Commission presented to ECOFIN in November a package containing 3 proposals. Two of them (on liberalisation itself and on balance of payments support) are broadly along lines we can endorse but we object strongly to the third proposal for strengthening the 1972 Directive on regulating international capital flows. This last would, inter alia, oblige member states to have in place enabling measures to impose temporary exchange controls and give the Commission power to recommend they should be activated.

All member states are in favour of liberalisation in principle. But some of those who have not yet liberalised (eg Greece and Ireland) would like balance of payments assistance to be made available specifically to those countries who embark on capital liberalisation while their balance of payments remains "fragile". France supports this view but Germany, like the UK, sees no need for the link. Views on the overall size of the financing facility vary widely, with Germany and the UK at the bottom end. No member state actively supports revision of the 1972 Directive and most would prefer outright abrogation. Pressure for a revised Directive comes solely from the Commission.

The Commissions's paper on capital liberalisation (renamed "creation of a European financial area") raises three points for further consideration. First they argue that capital liberalisation makes the question of sterling participation in the ERM more urgent. Second, they see a need for measures on company tax approximation and tax evasion; and, third, they call for the harmonisation of financial supervisory rules. But it is accepted that none of these should be regarded as a precondition for capital liberalisation.

Our response

International economic situation

All countries have responsibility to promote world economic stability in wake of action US has announced. International co-operation is only sure way to keep world economy on even keel. [UK already growing rapidly with good prospects for growth in 1988 too. But have indicated that may be able to reduce interest rates further, if other countries move down too. Particularly important that other major countries, especially Germans, should commit themselves to further action to improve economic momentum].

Capital liberalisation

On safeguards for temporary exchange controls, disappointed with proposal to retain and extend 1972 Directive. Agreed by Finance Ministers at Nyborg in September that this Directive was obsolete.

Agree with the Commission that harmonising supervisory structure on financial services, company tax issues and UK membership of the ERM must not be regarded as preconditions for capital market liberalisation.

UK position on ERM well known - membership kept under review, will join when balance of argument in favour. Capital liberalisation does not necessitate membership of ERM. UK liberalised capital markets earlier than other EC members.

Should be no barriers to use of private ECU but otherwise further developments best left to markets.

H M Treasury
November 1987

27/11/87

EHG(C)(87)(1M)

<u>EUROPEAN COUNCIL, COPENHAGEN, 4/5 DECEMBER</u>

DEMOGRAPHIC SITUATION IN EUROPE

<u>UK Objectives</u>

- To express interest in the issues raised in the French paper but to give no commitment to action to follow them up.

RB4AMT,1

DEMO-GRAPH. SIT. IN EUROPE

Opening Speaking Note

- Present projections suggest that, while the Community will see a decline in its total population by the year 2020, the UK can expect a modest increase. But the proportion of the UK population of pensionable age is projected to rise to more than one in five in 2020. Those aged 75 or over will comprise around 8% of the UK's population.

- The burden on the working population will increase for the foreseeable future. But the downward trend of population growth will not necessarily continue indefinitely. We must also recognise the impact of social change: however easy it is for women both to work and have a family, many simply do not wish to.

- There is also a link between population growth and prosperity. So the rate of population growth in some developing countries may decline as their prosperity increases. Relative decline of European population growth has not necessarily put us at a competitive disadvantage. Our first concern must be to continue with the economic policies which are generating growth and real jobs, thereby reducing unemployment.

RB4AMT,2

Others' Objectives

1. The French have already made clear that their primary intention in introducing this paper is to draw the attention of other Member States to the problem. They are not expecting any decisions at the Council. Most Member States are likely to adopt a non-committal stance. Most interest may be expressed by Germany, Italy, Belgium and Denmark who are the most likely to suffer a population decline.