

PO-CH/NL/0127

PART A

Part A.

SECRET

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Begins: 5/2/88
Ends: 24/6/88


 PO -CH /NL/0127

 PART A

Chancellor's (Lawson) Papers:

THE SINGLE EUROPEAN
 MARKET MEETING HANOVER
 JUNE 1988

PO -CH /NL/0127
 PART A

Disposal Directions: 25 Years

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Qz 06002



CABINET OFFICE

70 Whitehall London SW1A 2AS Telephone 01-233

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CH/EXCHEQUER	
REC.	08 FEB 1988
ACTED	Mr ASC EDWARDS,
COPIES TO	CST, Sir P. MIDDLETON,
	Sir G. LITTLER,
	Mr LANKESTER,
	Mr MORTIMER,
	Mr MERCER,
	Mr BONNEY.

8/2

Lyn Parker Esq
Foreign and Commonwealth Office

5 February 1988

ppp

Dear Lyn,

STRUCTURAL FUNDS

Although they will not endorse the Commission bid for a doubling of the structural funds, the latest indications are that the German Presidency will propose to next week's European Council an overall increase of the order of 70-75 per cent in combination with a doubling of commitments for objective one (poorest) regions. Such an increase would go beyond the 1.5 times maximum rate frontier for which the Foreign Secretary argued in the Conclave.

Against this background, officials have carried out two pieces of work: an analysis of the implications for the UK of different mixes of size and concentration of the structural funds; and an examination of how best, without the protection of the 1.5 maximum rate frontier, to maintain budget discipline. I attach copies of these two analyses whose conclusions have been seen and endorsed respectively by the Secretary of State for Trade and Industry and the Chancellor of the Exchequer.

There is in brief a trade-off between an increase in the size of the funds and the degree of their concentration. If it were judged necessary to go beyond a 50 per cent overall increase, it would be preferable to avoid any additional commitment to concentration. However, if a commitment to additional concentration were necessary, it would be less costly in UK terms in combination with an overall increase of (say) 70 per cent than 50 per cent because there would be less squeeze on the UK share of the funds. Paragraph 8 of the DTI paper sets out a suggested hierarchy of negotiating options.

The Treasury note explains that if the increase in the structural funds were to exceed about 50 per cent the Council would have to recognise that, in accordance with the Treaty, the total of NCE would have to be determined jointly each year between the Council and the European Parliament. In this "co-decision" scenario, the best way ahead would be for the Council

- a. to decide now on limits in the increases of the structural funds and other NCE between now and 1992;
- b. to seek to agree these limits with the European Parliament; and
- c. on the assumption that no agreement is forthcoming, to commit itself firmly to observing unilaterally the combined limit at a. above throughout the budget process.

We understand that the Presidency is unlikely to serve up anything of this kind in its initial compromise proposals. They might however be willing to do so in response to pressure from the UK and France in the course of the Council discussions. The Annex to the Treasury note accordingly sets out possible draft Council conclusions.

I am sending a copy of this letter to Charles Powell (No 10), Alex Allen (HM Treasury) and Alison Brimelow (DTI).

Yours sincerely,

Roger Lavelle

R G LAVELLE

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STRUCTURAL FUNDS: NEGOTIATING OPTIONS

1 At the Conclave the Foreign Secretary argued the case for growth in the Structural Funds to be contained to no more than 50% (compatible with an increase in DNO of $1\frac{1}{2}$ times the maximum rate) on the same basis as we were prepared to agree at Copenhagen. Only France supported this option and there are doubts whether at the Brussels Council President Mitterand will stick at this level.

2 If it is considered right to move beyond our current position in the context of a comprehensive and otherwise satisfactory settlement, the following approach would best protect our interests.

3 Discussion at Brussels is expected to focus on two issues only: the overall size of the funds, and the extent to which they should be concentrated on the poorest - the so-called objective 1 - regions. The only UK region in this category is Northern Ireland.

4 Two options for concentration are likely to be discussed:

- two thirds of the funds for the poorest regions, long demanded by the southern states especially Spain;
- doubling the funds for the poorest regions, proposed at the Conclave by the German Presidency.

Both have their drawbacks for us: as the Table attached shows, doubling is unacceptably costly to the UK at low levels of overall increase in the funds. The two thirds formulation, while not in itself very expensive in the short term, does imply a long-term commitment to a distribution of the funds which might later prove troublesome.

Suggested approach

5 Beyond a 50% increase in the funds, there is no longer a budget discipline case for making concessions in the form of further concentration of funds on the poorest regions, at the expense of UK receipts.

6 If therefore we move from the UK's current position of a 50% increase and the Copenhagen formula for concentration on the poorest regions, it makes sense first to do so by raising the overall headline increase we could accept, while sticking to the Copenhagen text on concentration.

7 However, it remains important to keep down the headline increase, so accepting one of the concentration options could be a low cost way to clinch a final settlement.

8 The above considerations suggest the following order of preference of the negotiating options, bearing in mind in particular that it is essential to avoid the doubling concentration option at low levels of overall increase. The table attached shows the effect on UK share of the funds, and on net additional costs to the UK of each:

- (a) a 60% overall increase, on the basis of the Copenhagen formula, allowing an extra 1 billion mecu per year from 1989;
- (b) a two-thirds (67%) overall increase, still with the Copenhagen formula, allowing a doubling of the funds for the four poorest countries;
- (c) a two-thirds (67%) overall increase, but conceding two-thirds for the poorest regions, with some extra benefit to Italy as well doubling the funds for the four poorest countries;
- (d) a 70% overall increase with a doubling of the funds for the poorest regions. (At this level two-thirds concentration is also achieved, and the cost for the UK of both concentration formulae is roughly the same);
- (e) a 75% overall increase with doubling for the poorest regions which is only a little more costly than (d) for the UK, but with the drawback of an even higher headline figure.

9 The tactical and negotiating room for manoeuvre at each point, if we go down this line, can of course only be judged at the Council itself.

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STRUCTURAL FUNDS OPTIONS 1992

UK take in % (net additional cost in £m)

Growth in Funds	50%	60%	67%	70%	75%
Degree of concentration:					
(i) Copenhagen formula	13.5 (50)	13.5 (57)	13.2 (70)	13.1 (74)	12.5 (104)
(ii) two thirds to objective 1 regions	12.7 (68)	12.7 (76)	12.5 (87)	12.5 (90)	12.3 (112)
(iii) double objective 1 regions	8.1 (152)	10.4 (129)	11.7 (106)	12.2* (97)	12.5 (104)

* also achieves two thirds to objective 1 regions

Assumptions

Distribution of funds: ERDF 48% ESF 34% FEOGA 18%

UK take constrained by:

- Maximum take from ERDF = 700 mecu
- UK share of ESF = 16.5%
- UK share of FEOGA = 9%

Net additional cost is above the 1987 base of £51m;

Copenhagen would have implied a £50m costs.

UK Take Even with as low a share as 12.2% the UK would still receive an additional £210m (1987 prices). A 26% increase sufficient to fund many additional projects.

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BUDGET DISCIPLINE FOR NON-COMPULSORY EXPENDITURE (NCE)

Note by the Treasury

Ministers have asked us to consider how the growth of non-compulsory expenditure could best be contained, and an element of budget discipline preserved, if the European Council should decide to concede a much larger increase in the structural funds than the UK would wish.

Own resources ceiling

2. In principle, the own resources ceiling itself, if set at a sensible level, should limit the scope for increases in non-compulsory expenditure. On the other hand, a regime of budget discipline within the ceiling will continue to be important as a means of preventing a build-up of spending pressures which would make it difficult to retain the ceiling. This will be a particular danger in circumstances where the Community has agreed to specific annual increases for a large slab of expenditure such as the structural funds. To maximise the changes of holding the ceiling, therefore, and to prevent an irreversible build-up of non-compulsory expenditure, it will be important to obtain agreement to as effective a budget discipline on this expenditure as the circumstances permit. This will also be important from a presentational point of view.

1.5 times maximum rate case

3. If the agreed real increase in the structural funds over the period to 1992 were around 50 per cent or less, the best

way to preserve an element of budget discipline would be for the Council to commit itself to limiting the increase in NCE to $1\frac{1}{2}$ times the "maximum rate" of increase in NCE laid down in the Treaty. This limitation would probably be compatible with growth of about 50 per cent in real terms in the structural funds and growth of other NCE in line with the calculated "maximum rate".

4. Within this broad approach, the best solution would be for the Council to agree that in no circumstances would the increase in NCE exceed $1\frac{1}{2}$ times the maximum rate. The southern member states and Ireland would however undoubtedly reject this on the grounds that they would have no assurance that the actual increase in expenditure on the structural funds would be as great as the Council intended.

5. The second best solution would be to provide that the growth of NCE would be contained within $1\frac{1}{2}$ times the maximum rate of increase unless a higher rate of increase was needed to finance the total sum obtained by adding the agreed increase in the structural funds to a "maximum rate" increase in other NCE. This solution would best be encapsulated in a text along the lines of the attached Annex, with paragraph 15(c) included.

Beyond 1.5 times maximum rate case

6. If the agreed real increase in the structural funds is significantly over 50 per cent, it would no longer be convincing to pretend that the total increase in NCE could be kept within $1\frac{1}{2}$ times the calculated maximum rate. The Council would have to accept that, in accordance with Article 203 of the Treaty, the overall rate of increase in NCE would fall to be determined by agreement between the Council and the European Parliament. In this "co-decision" scenario, there would no longer be any rate of increase in NCE on which the Council could formally insist on the basis of Article 203 of the Treaty.

7. In these circumstances, the best way which we have been able to identify for preserving an element of budget discipline

would be for the Council to decide that:

- (i) for its part, it intended the structural funds to grow by n per cent or by specified annual amounts (eg 60 per cent or 1 becu a year) between 1989 and 1992 and the rest of NCE by a rate equal to the calculated maximum rate as laid down in the Treaty;
- (ii) the Council would seek a binding agreement with the Parliament not to exceed these increases in the two broad components of NCE;
- (iii) failing such agreement with the Parliament (and failure would be virtually a forgone conclusion), the Council would commit itself to limiting the amount of the total increase in NCE throughout the co-decision negotiations with the Parliament each year to the sum of the agreed structural funds increase and the maximum rate of increase for the rest of NCE, without any commitment as to the structural funds and "other NCE" components individually.

This approach is reflected in the possible draft Council conclusions at the Annex, though with paragraph 15(c) omitted. The language may need to be adapted in the light of what the Presidency propose.

8. The thinking which underlines (b) and (c) above is that, if there should be a binding agreement with the European Parliament on maximum levels of expenditure for the structural funds and the rest of NCE, then the Council could reasonably commit itself to specific amounts of growth for these two components separately (see paragraph 16 of the draft conclusions).

9. If on the other hand there were no such agreement with the Parliament, but the Council had committed itself to a stated increase in the structural funds, the Parliament would

have power under the Treaty to allocate massive sums to NCE other than the structural funds, and the Council would then have to raise its total allocation for NCE so as to fulfil its obligations on the structural funds. That is why in the "no agreement" scenario it would be important for the Council to avoid any absolute commitment to specific increases for the structural funds on their own.

10. In practice, the Parliament would doubtless hold out in the budget procedure each year for a larger increase in NCE than the Council's self-imposed limitation implied. The Council would however have committed itself to this limitation. The Council's nerve might sometimes crack before the Parliament's; but there is no way in which we can guarantee to prevent this happening in advance.

A "lawnmower" provision

11. Another potential hazard is that the Council, which now has a southern as well as a northern blocking minority, might find itself unable to reach agreements on individual budget lines which were compatible with the agreed limits on the total growth of the structural funds and other NCE. In that event there would be some danger that the other northern member states in the Council would crack sooner than the southern member states. The "lawnmower" provision in paragraph 18, based on a Council conclusion of 1979, would deal with this problem. The UK's advocacy of such a provision has not so far, however, met with much success.

4 February 1988

POSSIBLE COUNCIL CONCLUSIONS ON BUDGET DISCIPLINE FOR NCE

15. The Council for its part intends to apply the provisions of Article 203 so as to respect the following principles:

- (a) progression of commitment appropriations for the structural funds in accordance with [Chapter II, paragraph 8] of these conclusions [ie increases of M becu in 1988 and N becu in each of the following years up to 1992];
- (b) progression of commitment appropriations for NCE other than that referred to in (a) above not to exceed the maximum rate of increase communicated by the Commission;
- *[(c) the total increase in NCE to be contained each year throughout the budget procedure within 1½ times the maximum rate of increase communicated by the Commission. The Council will propose an increase in this rate only if this is needed to cover the sum of the amounts implied by (a) and (b) above.]

Payment appropriations will be subject to a parallel discipline.

16. In accordance with the June European Council agreement that the Fontainebleau budget discipline arrangements must be strengthened, and with the European Parliament's wish for a binding accord on budget discipline between the twin arms of the budgetary authority, the Council will aim to reach a firm agreement with the European Parliament on the implementation of these expenditures as set out above over the whole period up to 1992.

17. If no such agreement is possible, the Council within the framework of Article 203(9) of the Treaty will consider the sum of the amounts at (a) and (b) above as a maximum during all the budget procedure.

- *[18. If, in the course of the budget procedure, the Council is unable to agree on amounts of non-compulsory appropriations on individual lines which would enable the total amounts at (a) and (b) above to be respected, the Commission's proposals (at first reading) or the Parliament's amendments (at second and subsequent readings) will be adjusted by common percentages so as to make the provisions on individual lines consistent with these total amounts.]

19. The Council will adopt decisions accordingly at the same time as the own resources decision.

* Highly desirable provisions which may in practice be non-negotiable.

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10 DOWNING STREET
LONDON SW1A 2AA

ANNEX C

9/2

CH/EXC 3000	
REC.	09 FEB 1988
ACTION	Mr A J C EDWARDS
COPIES TO	C ST SIR P. MIDDLETON, SIR G. LITTLE, MR LANKESTER, MR MORTIMER, MR MERCER, MR BONNEY

From the Private Secretary

8 February 1988

EUROPEAN COUNCIL

ANNEX C
NOTE OF
MEETING
8/2

The Prime Minister had a talk this afternoon with Sir David Hannay, Mr. Lavelle and Mr. Hadley about some of the detailed issues which will arise at the European Council. There is to be a discussion among Ministers most closely concerned on 10 February.

Among the points which emerged this afternoon were:

- the size of the agricultural guideline was absolutely crucial to our efforts to control spending. It should not be treated as the residual of whatever could be agreed on the stabilisers. We should make clear from the beginning that a guideline of 27 bn ecu with a slope of 60% is a crucial point for us;
- the Prime Minister also identified a price cut for cereals in the current year as a point we must win;
- the size of the MGQ for cereals, while important, was not as vital as securing adequate price cuts both in the first year and subsequently. We should suggest a degressive MGQ, falling by one million tonnes a year over three years;
- we should press hard for complete removal of the twenty tonne exemption for the cereals co-responsibility levy, while maintaining the special aid for small producers;
- very large sums were involved in the oil seeds and proteins sector. A reduction in the MGQs, which had been greatly inflated by the German Presidency, must be a very high priority.

I am copying this letter to Shirley Stagg (MAFF), Alex Allan (HM Treasury) and Roger Lavelle (Cabinet Office).

Lyn Parker, Esq.,
Foreign and Commonwealth Office.

(C.D. POWELL)

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COMMUNITY EXPENDITURE 1987-92: A POSSIBLE OUTCOME

TABLE 1

	mecu: 1988 prices							
	1987	1988	1989	1990	1991	1992	87-92	
1. Agricultural guarantee	27639	28200	28811	29232	29659	30095	8.9	
2. Monetary reserve	-	1000	1000	1000	1000	1000		
3. Own resources refunds	782	1603	1188	1187	1196	1196		
4. IGA repayments	-	515	257	-	-	-		
5. SpP refunds	1539	1325	971	616	126	-		
6. Structural funds	6161	6814	7318	7866	8449	9069	47.2	
7. R&D	792	885	1060	1142	1204	1286	62.3	
8. New policies	0	51	103	154	206	257		
9. Aid	1142	912	936	961	988	1015	-12.2	
10. Other	2544	2827	2702	2674	2667	2644	3.9	
11. Total (excluding abatement)	41599	44132	44348	44833	45494	46561	12.2	
12. % GNP	(1.075)	(1.138)	(1.114)	(1.097)	(1.084)	(1.081)		
13. Expenditure effect of abatement (lagged)	2352	3615	3553	3690	3818	3905		
14. Total (including abatement)	42951	47747	47901	48523	49312	50466	15.0	
15. % GNP	(1.138)	(1.231)	(1.203)	(1.187)	(1.175)	(1.171)		
16. Increase in net contribution (compared with Autumn Statement)	120	316	285	314	322	335		

AG/ANSP

120 from a year

800
800

1470

1320

the one from 915 on 3590 = 259

NOTES TO TABLE 1

Line 1: agricultural guarantee expenditure assumed to be 28.2 becu in 1988 with the agricultural guideline growing at 60% of GNP growth rate thereafter. Expenditure on stock disposals is 1200 mecu in 1988 and 1400 mecu a year thereafter (at 1988 prices) and outside the guideline.

Line 2: 10% own resources refunds are retained. The 400 mecu of refunds postponed from 1987 are paid in 1988.

Line 3: the 250 mecu IGA repayment postponed from 1987 is paid in 1988 along with the 1988 repayment. The remaining repayment is made in 1989.

Line 5: expenditure on structural funds derived in 3 stages. First, figures for total DNO expenditure calculated assuming DNO grows $1\frac{1}{2}$ times the maximum rate. Second, DNO expenditure on structural funds estimated by subtracting from total DNO non-structural fund spending (assumed to grow at maximum rate). Third, total structural fund expenditure found by adding on obligatory structural fund spending (assumed to grow at the same rate as non-obligatory structural fund expenditure).

Line 6: R&D expenditure consistent with the framework programme.

Line 7: expenditure on new policies as in the original scoresheet.

Line 8: aid expenditure in 1988 is the figure in the 1988 PDB. Spending thereafter assumed to grow in line with the maximum rate.

Line 12: abatement is assumed to be the Fontainebleau abatement less the benefit of the fourth resource (assuming 1.25% VAT and GNP contributions). In this line (but not in line 16), it is assumed the abatement is paid a year in arrears and that the expenditure effect of the abatement is 1.4 times the actual size of the abatement.

1987 figures, except for agricultural guarantee and Spanish and Portuguese refunds, taken from 1987 budget.

POSSIBLE COMMUNITY SPENDING IN 1988**TABLE 2**

	becu 1988 prices	
	Agricultural base 27.0 becu	Agricultural base 27.5 becu
Guarantee expenditure (excluding monetary reserve)	27.0	27.5
Stock depreciation	1.2	1.2
Monetary reserve	1.0	1.0
Total budget (abatement exclusive)	44.1	44.6
% of GNP	1.138	1.151
Total budget (abatement inclusive)	47.7	48.2
% of GNP	1.231	1.244
Excess over 1.2% ceiling (abatement inclusive)	1.2	1.7
Increase in UK net contribution (£m, compared to Public Expenditure White Paper)	(224)	(238)

Note: this table shows what the size of the Community budget might be in 1988 on two different assumptions about the base for the agricultural guideline. It is assumed that total DNO in 1988 will grow at $1\frac{1}{2}$ times the maximum rate whatever the agreed increase for the structural funds between now and 1992. The expenditure projection assumes 10% own resources refunds, two IGA repayments, and the repayment of the 400 mecu worth of own resources refunds postponed from last year. It is assumed the monetary reserve will be fully spent. Total spending in the first column is the same as in table 1 with the addition of a 1 becu monetary reserve.

Ways of constraining expenditure within a 1.2% GNP ceiling

	<u>mecu</u>
1. Constrain growth of DNO to the maximum rate rather than $1\frac{1}{2}$ times maximum rate.	342
2. Budgetise likely 1987 surplus.	500
3. Postpone or cancel 1984 IGA repayments.	500
4. Postpone payment of 400 mecu of own resources refunds carried forward from last year.	400
5. <u>Additional</u> two week delay in payment of agricultural advances (ie additional to the two weeks likely to be agreed in any case).	1200
6. Possible rephasing of costs of disposing of existing stocks.	250
7. Effects of possible decision to reduce own resources refunds to 5%. Effect of abolition would be to increase "saving" to 1200 mecu.	600

POSSIBLE COMMUNITY SPENDING IN 1992

Structural fund assumptions	Agricultural base 27 becu plus slope of			Agricultural base 27.5 becu plus slope of ^{1988 prices}		
	60%	80%	100%	60%	80%	100%
52% increase (1½ x MR)						
Total budget (becu, excluding abatement)	46.6	47.1	47.7	47.0	47.7	48.3
% of GNP (abatement exclusive)	1.081	1.094	1.107	1.093	1.106	1.120
% of GNP (abatement inclusive)	1.170	1.184	1.198	1.183	1.197	1.212
Increase in net contribution (£m)	247	263	281	263	280	297
60% increase						
Total budget (becu, excluding abatement)	47.0	47.6	48.2	47.6	48.2	48.7
% of GNP (abatement exclusive)	1.092	1.105	1.118	1.104	1.118	1.131
% of GNP (abatement inclusive)	1.181	1.195	1.209	1.194	1.209	1.223
Increase in net contribution (£m)	254	269	288	270	287	305
66% increase (Copenhagen compromise)						
Total budget (becu, excluding abatement)	47.4	48.0	48.6	47.9	48.5	49.1
% of GNP (abatement exclusive)	1.100	1.114	1.127	1.113	1.126	1.140
% of GNP (abatement inclusive)	1.189	1.204	1.218	1.203	1.217	1.232
Increase in net contribution (£m)	260	276	293	275	293	310
75% increase						
Total budget (becu, excluding abatement)	47.8	48.4	49.0	48.4	49.0	49.5
% of GNP (abatement exclusive)	1.110	1.124	1.137	1.123	1.136	1.150
% of GNP (abatement inclusive)	1.200	1.215	1.229	1.214	1.228	1.243
Increase in net contribution (£m)	266	283	300	282	299	317
100% increase						
Total budget (becu, excluding abatement)	49.2	49.8	50.3	49.7	50.3	50.9
% of GNP (abatement exclusive)	1.142	1.155	1.168	1.154	1.168	1.181
% of GNP (abatement inclusive)	1.232	1.246	1.260	1.245	1.260	1.274
Increase in net contribution (£m)	287	303	321	303	320	337

Notes:

The net contribution figures are after abatement and show the increases compared with the figures in the last Public Expenditure White Paper. They assume the 1 becu monetary reserve will be fully spent. The percentage figures for the structural funds are for commitment appropriations: the corresponding increases for payment appropriations are assumed to be 47%, 55%, 61%, 68% and 90%. It is assumed that our receipts share from the structural funds remains constant whatever the overall increase in the funds. Non-structural fund DNO is assumed to grow at the maximum rate. The abatement inclusive figure assume an own resources structure of 1.25% VAT plus GNP contributions.

VAT/GNP CEILING CONVERSION TABLE (REVISED 9ii 88)

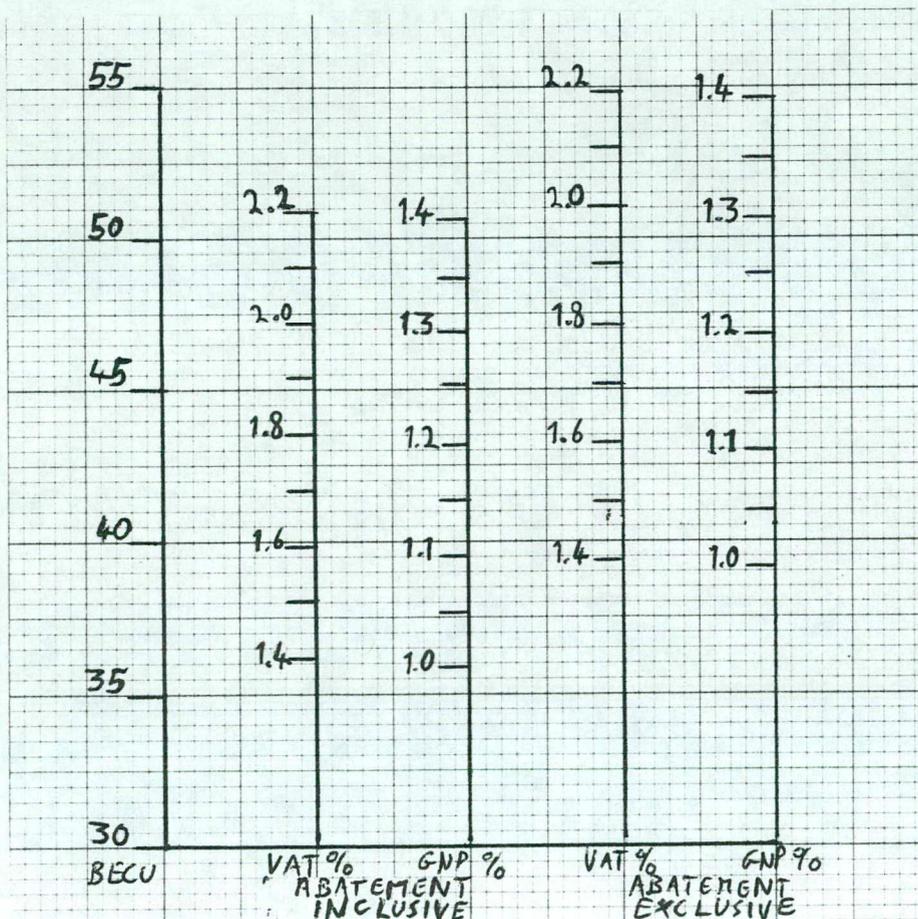
Table 4

Abatement-inclusive				Abatement-exclusive			
VAT%	Available revenue (becu)	GNP%	Available revenue (becu)	VAT%	Available revenue (becu)	GNP%	Available revenue (becu)
1.4	36.2	1.0	35.9	1.4	39.4	1.0	39.1
1.5	38.0	1.05	37.7	1.5	41.3	1.05	41.0
1.6	39.8	1.10	39.5	1.6	43.3	1.1	43.0
1.7	41.7	1.15	41.4	1.7	45.2	1.15	44.9
1.8	43.5	1.20	43.2	1.8	47.2	1.2	46.8
1.9	45.4	1.25	45.1	1.9	49.1	1.25	48.8
2.0	47.2	1.30	46.9	2.0	51.0	1.3	50.7
2.1	49.0	1.35	48.7	2.1	53.0	1.35	52.7
2.2	50.9	1.4	50.6	2.2	54.9	1.4	54.6

Notes - abatement-inclusive figures assume "Fontainebleau" abatement (modified to take account of assumed own resources structure of 1.25% VAT and GNP) of 3.2 becu (expenditure equivalent) at 1% GNP and that the abatement uses up 100 mecu of resources for each additional 0.1% VAT, and 200 mecu for each 0.1% of GNP.

- figures are based on updated Commission estimates of EC12 GNP and UK estimates of VAT and traditional own resources in 1988.

- EC12 GNP, 3878 becu; 1% VAT, EC12, 19.41 becu; traditional OR, 11.9 becu; other revenue, 0.3 becu.



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FROM: A J C EDWARDS
DATE: 8 February 1988

CHANCELLOR

cc: Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Sir G Littler
Mr Anson
Mr Lankester
Mr Bonney
Mr Mercer
Mr Mortimer
Mr Evans
Mr Tyrie

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EUROPEAN COUNCIL:**BRIEFING MEETING WITH PRIME MINISTER, 10 FEBRUARY AT 2.30 PM**

The purpose of the Prime Minister's meeting, at which Sir Geoffrey Howe and Mr MacGregor will be present as well as yourself, will be to decide on the Prime Minister's strategy for the Brussels European Council on Thursday/Friday.

Prospects

2. Since my assessment of last Wednesday, there have been stronger indications from other member states of a will to settle, together with signs of greater flexibility in Bonn. Until 6.30 this evening, therefore, I was inclined to raise the chances of agreement at Brussels to better than evens, perhaps 70 per cent. We have now however received the German Presidency paper, (summary at Annex A). This is so objectionable from our point of view that I would revise the chances down again to 50/50. The paper dodges the abatement and budget discipline on NCE issues; goes much too far on the structural

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funds, the agricultural expenditure guideline and the own resources ceiling; is inadequate on stabilisers and unacceptable on exceptional circumstances and the 1988 budget.

General strategy

3. There are, I think, two broad issues which it is useful to consider before addressing the individual dossiers:

- (i) is it likely to be in the UK's interests to withhold agreement at Brussels and push off decisions to Hanover?
- (ii) what should our order of priorities be, bearing in mind that we could all too easily be isolated on virtually every important dossier in the negotiation?

Brussels vs Hanover

4. On the first issue, we might still be confronted by other member states at Brussels with a package which was so manifestly outrageous, particularly on the abatement, that the Prime Minister would have no realistic option but to break. On balance, however, this seems a little improbable.

5. A more likely scenario is that we shall be confronted by a package which is decidedly less good than we would wish, particularly on agriculture and the structural funds, without being outrageous. In that event, the critical question will be whether we would be likely to improve the final deal by refusing, probably in isolation, to give our agreement now and pushing off decisions to Hanover.

6. It is difficult to judge these things in advance. As of now, however, delay in such circumstances would seem unlikely to be to our advantage. The other member states, if they

had conceded our case on the abatement, would be so incensed that they would be united in their determination to make us suffer. A further consideration is that, by the time of the Hanover European Council in early June, the price fixing will inevitably be in full swing and will tend to become tied up with the future financing discussion. This seems likely on balance to be unhelpful. A better evolution will be for the Brussels European Council to take decisions and for the Commission to propose such further measures of restraint in the price fixing as they judge necessary to enable the guideline limit to be respected. A further hazard is that the notorious agrimonetary agreement is due for review in the spring as well. The Germans would be all too likely to try to offset any adverse effects from the stabilisers package by adjusting the agrimonetary co-efficient.

*Review
to Alan
JW*

Order of priorities

7. From a Treasury standpoint, the UK's order of priorities should be broadly as follows:

- (i) to stand rock solid on the abatement, with no hint of any possibility of change in our position;
- (ii) to keep the increase in the own resources ceiling as low as possible, much preferably not exceeding 1.2 per cent of GDP, abatement inclusive, or (better) 1.1 per cent GNP, abatement exclusive, though it will be difficult to avoid conceding 1.25 or 1.15 per cent respectively;
- (iii) to obtain a respectable deal on stabilisers, while recognising that the package which emerges is unlikely of itself to solve the problem of compressing expenditure within the guideline limit or stabilising production (see further the Prime Minister's position at Annex C);

*not state
us JWS*

- (iv) to get the best deal we can on the agricultural guideline, much preferably with a starting figure not exceeding 27 becu in 1988 (though with some once-only additions to cover the problems of 1988) and growing thereafter at a rate not exceeding 60 per cent of the rate of growth of Community GNP (see again the Prime Minister's position at Annex C);
- (v) to eliminate "exceptional circumstances" and to insist that any "monetary reserve" provision is
- (a) genuinely symmetrical on the revenue and expenditure side of the budget (ie we contribute less if the dollar appreciates), and
 - (b) limited to dollar/ecu movements, with
 - (c) no moral commitment to raise the guideline limit if trading partners do things we dislike or anything else goes wrong;
- (vi) on non-compulsory expenditure (NCE), to argue for a new budget discipline based on 1½ times the maximum rate of increase and a 50 per cent increase in the structural funds by 1992, but if this fails (as it almost certainly will, given the German Presidency's proposals):
- (a) to limit any further growth of NCE and the structural funds as far as possible;
 - (b) to ensure that it can be offset within a fixed own resources ceiling by a slower growth of the agricultural spending guideline;
 - (c) to salvage as much budget discipline as possible, along the lines discussed in the Treasury note circulated by Mr Lavelle, and

- (d) to minimise any commitments on concentration of the funds on the least prosperous member states and in particular not to concede two-thirds concentration on the backward regions.

Items (iii), (iv) and (v) should be seen as hanging together rather than as indicating an internal order of priority within the agricultural dossier.

Individual dossiers

8. Suggested UK objectives and fall back positions for each of the main dossiers in the negotiations are at Annex B. The Prime Minister may not wish to go into all the technicalities at your meeting. As so often, however, the devil will be in the detail, and there are four or five points on the individual dossiers which you should make if possible:

OK

(a) Exceptional circumstances/monetary reserve. Very important to get ^{it} agreed at Brussels, if we can, that the reserve will be symmetrical on the revenue as well as the expenditure side: that is, the own resources called up from member states will be reduced if the dollar appreciates just as they will be increased if it depreciates, within a limit of 1 becu. Also essential to avoid any moral commitment to exceed the guideline, as adjusted by this monetary reserve provision, in any circumstances. The German Presidency text offends in both respects.

(b) Structural funds. If we have to go beyond a 50 per cent real increase, as now seems inevitable, we should start with a 60 per cent increase in the structural funds while adding the two conditions that (i) larger totals must mean less concentration on backward regions, (we should not concede that two-thirds of the total structural funds should go to the backward regions) and (ii) there must be adequate new budget discipline arrangements (as set out in the Treasury note circulated by Mr Lavelle).

- behind
(side-flagged)

(c) Own resources ceiling. We would like to end up with an abatement-exclusive ceiling of 1.1 per cent of GNP. ~~If~~, as is probable, others insist that the ceiling must include the abatement, the aim should be an abatement-inclusive ceiling of not more than 1.2 per cent of GNP. In practice however this would be extremely tight (see Table 1 at Annex D) if there are expensive deals on agriculture and on the structural funds. It will therefore be difficult to resist going to 1.25 per cent of GNP (*abatement-inclusive*).

(d) UK abatement. In addition to standing rock solid on our Copenhagen position and giving no hint of flexibility at any point, two other crucially important points are:

(i) any language about the abatement must make it clear that adjustments to our abatement to offset the effects on the UK of the new fourth resource will be symmetrical: that is, if (as is unlikely but not impossible) our share of the fourth resource in any year should be greater than our VAT share, the difference would be made good to us just as the benefits in the reverse case would be deducted;

(ii) that there must be no time-limiting of the abatement: it must form part of the new own resources decision and last as long as that decision lasts.

We may be pressed by the Commission and other to agree to a modified Fontainebleau system based on the gap between our expenditure and VAT-plus-fourth-resource shares. We should be prepared to accept this provided that the abatement rate remaining at 66 per cent. It would be *fractionally* positively to our advantage.

(e) 1988 budget. Since it will not be practicable to ratify the new own resources decision in time to affect this year, we can go along with special supplementary financing for 1988 provided (but only provided) that (i) there has been agreement to raise the own resources ceiling (ii) the special financing would be properly set out in an IGA (we have no Parliamentary basis for paying ex gratia advances) and (iii) it would replicate exactly the overall effect on member states of immediate implementation of the new own resources decision.

Presentation

9. The kind of package on which the European Council is likely to converge will be rather unpalatable from the UK's point of view. The bad points will be:

- The substantial increase in the own resources ceiling, giving the Community extra revenues of perhaps 25-30 per cent compared with now;
- A prospective increase in the UK's net contribution after abatement of some £250 million a year at 1987 prices on top of the large figures already projected in the Public Expenditure White Paper (see further Mr Mortimer's calculations at Annex D);
- The enormous relaxation of budget discipline on agricultural expenditure, where the stabilisers are not likely to be adequate to keep expenditure within the guideline; and
- The still more enormous relaxation of budgetary discipline on non-compulsory expenditure.

10. On the other hand, there will be some good points as well, in particular:

- The continuation of the UK abatement;

*Mr. P...:
S...
S...*

- The introduction of stabilisers, albeit not likely to be sufficient in themselves to produce the results we need on production and expenditure;
- The limiting of the growth of the agricultural expenditure guideline (if we have our way) to 60 per cent of the rate of GNP growth;
- The replacement of the "exceptional circumstances" (if we have our way) loophole with something considerably better;
- The new provisions for more systematic depreciation of stocks; and
- The beating off of demands for a doubling of the structural funds.

11. On past experience, the most effective way to present a package on these lines would be, not to pretend that it is good, but rather to argue that (thanks to the Prime Minister's efforts) it is very much better than it might have been and far better than what the Commission and many other member states had in mind. The Government would need to acknowledge that it is not the kind of deal which the UK would have chosen if it had been for us alone to decide and that it will involve a significant increase (perhaps of the order of £250 million a year) in our net contribution. But on the positive side it would be possible to stress the "good" points in paragraph 10 above and to note how the central importance of the UK abatement has been underlined once again.

*Abatement
premium
for the
study
aggr.
Douglas*

Attendance at European Council

12. Mr Mortimer and I will be present in the wings once again to give what help we can.

AJCE

A J C EDWARDS

Order!

ANNEX A
SUMMARY
OF
PRES. PR.

SUMMARY OF PRESIDENCY'S CIRCULATED PAPER

Structural funds. Increase of 66 to 79 per cent in real terms by 1992. Doubling of expenditure in backward regions. Two-thirds of total funds concentrated on these regions.

Budget discipline (agriculture). Guideline limit of 27.5 becu for 1988, rising by 70-80 per cent of GNP growth each year. Spain and Portugal to contribute at 1987 rates to costs of disposing of old stocks.

Exceptional circumstances. Monetary reserve of 1 becu with no mention of symmetry. Highly prejudicial declaration on other exceptional circumstances (trading partners less disciplined or international commitments not honoured).

Budget discipline (NCE). No content: discussions to be held with European Parliament. *1.15*

Own resources ceiling. "1.25 to 1.3 per cent of GNP!" Not clear whether abatement-exclusive or inclusive. *apparently exclusive!*

(too much soon)

*??
GNP more survey*

Third and fourth resources. Two options: (a) 1.4 per cent VAT and "diff tax" with concession to Italy, or (b) 1.4 per cent VAT falling to 1 per cent VAT by 1992 and GNP-based tax.

was here 1988

Cereals. MGQ of "155 to 160" million tonnes. 3 per cent maximum co-responsibility levy. Price reductions of up to 3 per cent from 1989 if MGQ exceeded by this amount or more. Small producers' exemption from co-responsibility levy. Possibility of reduced monthly cereals prices supplements during 1988.

? split off.

Oilseeds. Combined MGQs of 11.3 million tonnes (as against 10.3 at Copenhagen) and price reduction of "0.4 to 0.5 per cent" for each 1 per cent excess.

Set-aside. As expected. Premium of 100 to 600 ecu/ha. Exemption from coresponsibility levy on 20 tonnes for producers setting aside 30 per cent of land. Community contribution of 70 per cent for first 200 ecu, 25 per cent for next 200 to 400 ecu and 15 per cent for 400 to 600 ecu: half these amounts for "green fallow".

Budgetary imbalances. PM entry only. *(use what's)*

1988 Budget. Community to make available any funds required in excess of existing ceiling in the form of non-repayable advances.

INDIVIDUAL DOSSIERS:

OPENING POSITIONS AND BOTTOM LINES

1. AGRICULTURAL EXPENDITURE GUIDELINE

Opening position

- (a) 27 becu basic limit in 1988, with possibility of extra 0.5 becu plus 2 weeks extra delay in Community payments (worth another 1.2 becu) in 1988 in recognition of the fact that stabilisers and set aside will not have much impact until 1989.
- (b) 27 becu limit to grow by 60 per cent of rate of growth of Community GNP.
- (c) disposals of old stocks to be financed outside guideline at a cost of 1.2 becu in 1988 and 1.4 becu a year in each of the four following years.
- (d) monetary reserve of 1 becu which is symmetrical on both expenditure and revenue sides.

Bottom line

As above but possibly consider:

Plus: 27.5 x 70/80 ?

- preferred*
- (i) basic limit of 27.5 becu, growing by 60 per cent of rate of growth of Community GNP, or
- (ii) basic limit of 27 becu growing by ~~80~~⁷⁵ per cent of rate of growth of Community GNP;
- (iii) on disposals of old stocks, Spain and Portugal to contribute at their 1987 financing shares (at an estimated cost to the UK over the period of 10-15 mecu).

Approaches (i) and (ii) would produce approximately the same guideline limit figure in 1992. Approach (i) would be more likely to command agreement and has the attractive 60 per cent slope. Approach (ii) would cost 1.4 ^{becu} less over the period.

2. EXCEPTIONAL CIRCUMSTANCES AND MONETARY RESERVE

Opening position

- (a) no exceptional circumstances except large movements in ecu/dollar rate and no moral commitment to adjust or reopen guideline limit for any reason at all.
- (b) a fully symmetrical monetary reserve, under which less revenue would be called up from member states if the dollar appreciated by more than the threshold percentage in just the same way that more revenue would be called up if the dollar depreciated by more than the states percentage.
- (c) adjustment to the guideline limit to be limited to 1 billion ecu in any year; no provision for supplementary budgets beyond this.

Bottom line

As above but:

- (i) declaration about need for other countries too to play their part (but this must not imply that the guideline limit can be raised or exceeded);
- (ii) agreement on "full symmetry" without specific provision at this stage that it will apply to the revenue as well as the expenditure sides. Far better however to have this tied up now if possible.

ASK: MUST

CEREALS

Opening position

Plus: no price cut in 1988

- (a) MGQ of 155 million tonnes
- (b) price cut of more than 3 per cent (say 4½ per cent) in 1988/89 and same again, cumulatively, in each subsequent year if the MGQ is exceeded (and regardless of amount of the excess);
- (c) 3 per cent extra co-responsibility levy as proposed by the Presidency;
- (d) no general exemption from co-responsibility levy on first 20 tonnes of production; retain instead existing aid for small farmers.

Bottom line

- (a) MGQ of 158 million tonnes initially, falling to 156 million tonnes by 1990 as set aside scheme contributes to reduced production;
- (b) 3 per cent price reductions in 1988 followed by further 3 per cent price reductions in each of the following years if MGQ exceeded or cumulative price cuts of 3 per cent a year unless average excess over MGQ is less than this;
- (c) co-responsibility levy as above;
- (d) general exemption from co-responsibility levy limited to small producers; *how defined?*
- (e) 500 mecu over 3 years ceiling on set-aside payments.

It may be necessary to envisage a system which would be likely in practice to have broadly the above effects, albeit with less certainty.

4. OILSEEDS

Opening position

- (a) Copenhagen MGQs (rapeseed 4.0, sunflower seed 1.9, soya 1.1 and proteins 3.3 MT) and a 0.5 per cent price reduction for each 1 per cent excess over the MGQ.

Bottom line

- (i) insist throughout on 0.5 per cent price reduction factor for 1 per cent excess over MGQ;
- (ii) increase Copenhagen MGQ figures by 0.1 million tonnes each (possibly 0.2 million tonnes on rape and proteins);
- (iii) in extremis, accept Commission's revised MGQ figures adopted by German Presidency.

5. OTHER STABILISERS

Opening position and bottom line

No change to Copenhagen package.

6. STRUCTURAL FUNDS AND NCE

Opening position

- (a) 1.5 time maximum rate limit for NCE;
- (b) 50 per cent real increase in structural funds by 1992;
- (c) 80 per cent increase in regional fund receipts of backward regions.

Bottom line

- (a) budget discipline package for NCE as set out in Treasury note circulated by Mr Lavelle on 5 February;
- (b) 67-70 per cent increase in structural funds, but with no commitment to allocating two-thirds of the total structural funds to backward regions (~~Place~~ the suggestion in the DTI note attached to Mr Lavelle's minute);
- (c) doubling or near-doubling of receipts of backward regions by 1992.

*Smallest pos. he.
(eg 66%)
+
Commitment
(max)*

7. OWN RESOURCES STRUCTURE

Opening position

- (a) support Commission's diff tax proposal while noting that UK has agreed to forswear any benefit (or disbenefit) from this reform;

Bottom line

- (a) go along with anything that others can agree provided that position on UK abatement is fully safeguarded.

8. OWN RESOURCES CEILING

Opening position

- (a) suspend judgement

Bottom line

- (a) 1.2 per cent GNP or, just possibly, 1.25 per cent GNP (abatement-inclusive); or (preferably but less plausibly) 1.1 per cent or 1.15 per cent GNP (abatement exclusive).
- (b) solve special problems of 1988 by using surplus of over 500 mecu from 1987, cancelling or rescheduling the 1984 IGA repayments (500 mecu); continuing the postponement of own resources refund payments (400 mecu); a realistic rate of growth in the structural funds and adjustments in timing of FEOGA payments and disposals of existing stocks.

9. UK ABATEMENT

Opening position and bottom line

- (a) stand rock solid on Copenhagen position: replicate Fontainebleau abatement/own resources position exactly.
- (b) ensure that any language used to describe (a) is symmetrical: ie we would receive extra compensation in the unlikely event that the new own resources structure turned out to our disadvantage in any particular year.
- (c) abatement must in no circumstances be time-limited: it must be part of the own resources decision and last for as long as that decision lasts.
- (d) *expenditure share / VAT-plus-fourth-resource share gap would be - 8 - acceptable (and mildly beneficial) to UK provided compensation rate remains at 66 percent.*

10. FINANCING 1988 BUDGET

Opening position and bottom line

- (a) can agree to supplementary financing through an IGA in 1988 so as to expedite implementation of new agreement on own resources provided that the net effects on every member state are identical with what they would have been if the new system had been able to be implemented immediately.
- (b) cannot agree to "voluntary advances" to tide Community over 1988: our Parliamentary procedures do not permit this kind of approach.

TELNO
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FM UKREP BRUSSELS

TO FLASH FCO

TELNO 419

OF 091051Z FEBRUARY 88

INFO IMMEDIATE THE HAGUE, PARIS, BONN

FRAME ECONOMIC/AGRICULTURE

FUTURE FINANCING: EUROPEAN COUNCIL

SUMMARY

1. PRESIDENCY'S PROBABLE ORDER OF DISCUSSION AT EUROPEAN COUNCIL TAKES STRUCTURAL FUNDS FIRST, AGRICULTURE, LEVEL OF OWN RESOURCES AND UK ABATEMENT LAST. FRENCH HAVE EMPHASISED TO DUTCH THE HARD LINE THEY PROPOSE TO TAKE ON AGRICULTURE.

DETAIL

2. THE NETHERLANDS PERMANENT REPRESENTATIVE TELEPHONED ON 9 FEBRUARY TO COMPARE NOTES ABOUT THE PRESIDENCY APPROACH.

3. NIEMAN HAD NOTHING TO ADD TO THE INFORMATION CONTAINED IN MY TELNO 417 OTHER THAN TO SAY THAT THE PRESIDENCY'S INTENTIONS ON THE ORDER IN WHICH ITEMS WOULD BE DISCUSSED AT THE EUROPEAN COUNCIL WAS, ACCORDING TO HIS COMMISSION INFORMANT:

- I) STRUCTURAL FUNDS
- II) SYSTEM OF OWN RESOURCES
- III) BUDGET DISCIPLINE
- IV) AGRICULTURE
- V) LEVEL OF OWN RESOURCES/UK ABATEMENT.

4. NIEMAN ADDED THAT LUBBERS HAD BEEN TELEPHONED YESTERDAY BY CHIRAC. CHIRAC HAD TAKEN A VERY TOUGH LINE ON THE CEREALS STABILISER IN PARTICULAR, SAYING THAT 160 MILLION TONNES WAS AN ABSOLUTE BOTTOM LINE FOR HIM. HE HAD ALSO INSISTED THAT HE WOULD ACCEPT NOTHING LESS THAN AN 80 PER CENT OF GNP SLOPE FOR THE AGRICULTURE GUIDELINE. CHIRAC HAD GONE ON TO TELL LUBBERS THAT HE INTENDED TO INSIST THAT THE FIRST 2 ITEMS WERE THE SYSTEM OF OWN RESOURCES AND THE UK ABATEMENT. THE NETHERLANDS ASSESSMENT BASED ON THIS TELEPHONE CALL WAS THAT CHIRAC'S AIM WAS TO ISOLATE THE ITALIANS ON THE FIRST ISSUE AND THE UK ON THE SECOND AND THAT, TAKEN TOGETHER WITH WHAT HE HAD SAID ON AGRICULTURE THIS STRENGTHENED THE RISK THAT THE FRENCH GOVERNMENT WERE PLAYING THE MEETING FOR ELECTORAL ADVANTAGE RATHER THAN FOR AN AGREEMENT.

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FRAME ECONOMIC
FRAME AGRICULTURE
FRAME AGRICULTURE
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WED
PS/MRS CHALKER
MR RATFORD

NNNN

PRESIDENCY
PAPER

1988-02-09 17:48 UKREP BRUSSELS

32 2 2308379 P.02/22

(09.02)
(OR.d)

①
Genar Presidency
9 Feb compromise

Letter from the President of the European Council to his colleagues

Salutation (for the record)

At the European Council in Copenhagen we were able to make substantial progress on fundamental questions regarding the course of major Community policies in the medium term, i.e. on the "Delors package".

In recent weeks Foreign Ministers and Agriculture Ministers, working closely with the Commission, have been able to achieve some clarification of the questions that were still unresolved and bring positions closer together.

Building on the preparatory work done by the Danish Presidency, we have now established all the pre-requisites for taking the necessary decisions at our meeting in Brussels this coming Thursday and Friday.

In achieving the reform aims of the Single European Act, the strengthening of economic and social cohesion within the Community is an essential basis for creating a viable internal market.

In the same way, European agriculture needs a clear policy and a reliable basis on which to plan for the future.

1988-02-09 17:49 UKREP BRUSSELS

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2

- 2 -

These aims can be achieved only if Community financing is placed on a sound, realistic basis.

It is therefore in everybody's interest to give the Community clear guidelines in these central areas now. All the Member States must contribute their fair share, in keeping with the principle of solidarity.

Accordingly, I should like discussion at the European Council to focus on the major questions in the Delors package which are still unresolved. Enclosed is a proposal for an overall compromise. It contains orders of magnitude and options on some points. In my view it should be possible to come to a decision within this framework.

I am assuming that if agreement is reached on this, the other parts of the negotiating package can be regarded as being adopted on the basis of the Danish Presidency's paper of 5 December 1987. The full text of the conclusions, including these parts of the negotiating package, will be distributed in Brussels.

1988-02-09 17:50 UKREP BRUSSELS

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- 3 -

In view of the importance of the questions before us, the European Council must really have all the time it needs to discuss the compromise proposal in depth. We should therefore confine ourselves mainly to the Delors package.

Assuming that the progress of discussion allows, I would not rule out the possibility that we might touch on topical international questions during dinner on Thursday. In this connection, the President of the Commission could, as he did in Copenhagen, give us his view of the developing economic situation.

However, we should not adopt any conclusions or statements on these topics. If need be I shall give a short account of them in my press conference at the end of the meeting.

I do not need to point out how urgently the Community needs a decision on the Delors package if it is to progress further. Thus the Community will at the same time be free to press ahead with the difficult issues involved in completion of the internal market. Only if we succeed in making some headway with these discussions in the coming months shall we be able to achieve our common aim of actually completing the internal market by the end of 1992. That is my goal for the European Council in Hanover in June.

1988-02-09 17:51 UKREP BRUSSELS

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- 4 -

I would appeal to you for your support and assistance in advancing the cause of European unity by adopting the Delors package. Having regard to the international political and economic situation, Europe cannot afford to put off pressing decisions. Europe will not be able to take the place in international politics which we all know it deserves unless the Community is united and able to act.

In the final analysis, this is also the aim of the Single European Act. Let us work together to make this reform a success for Europe.

Yours sincerely

1988-02-09 17:51 UKREP BRUSSELS

32 2 2308379 P.06/22

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(09.02)
(OR. d)

PRESIDENCY PROPOSAL FOR AN OVERALL COMPROMISE

European unity has received fresh impetus from the entry into force of the Single European Act. The completion of the internal market will release growth potential necessary for European competitiveness and for the economic and social cohesion of the Member States. Accordingly, the Community's ability to act must be strengthened.

Document SN 461/88 contains a summary text of the conclusions. If the European Council reaches agreement on the overall compromise, these conclusions will be deemed to be adopted.

The Presidency is proposing the following solutions for the major questions in the Delors package which are still unresolved. It intends to focus discussions in the European Council on these problems.

1988-02-09 17:52 UKREP BRUSSELS

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6

A. Structural Funds

(Funding and geographical concentration)

The European Council confirms the decisions taken on 29 and 30 June 1987.

In addition to the resources earmarked for the financial year 1988, commitment appropriations for the Structural Funds in the period 1989 to 1992 will increase annually by 1,1 to 1,3 thousand million ECU (1988 prices).

ie.
70 to
82%
increase

nr 6668
77

The Structural Funds' contributions to the regions covered by Objective No 1 will be doubled. By 1992, two-thirds of all Structural Fund resources will therefore be concentrated on those regions.

The Commission will ensure that the additional resources for the regions covered by Objective No 1 are concentrated on the least-favoured regions.

1988-02-09 17:53 UKREP BRUSSELS

32 2 2308379 P.08/22

- 3 -

7

B. Budgetary discipline**1. Budget discipline in agriculture****(a) Agricultural guideline**

The reference basis for 1988 will be set at 27 500 MECU.

The annual rate of increase in EAGGF Guarantee expenditure must not exceed 70% to 80% of GNP growth.

Depreciation of existing surplus stocks will be financed outside the agricultural guideline.

The period for payment of advances to the Member States by the Commission will be extended from two to two and a half months.

(b) Special provisions concerning the contributions of Spain and Portugal to the financing of stock depreciation:

For the purposes of their financial contribution to stock depreciation Spain and Portugal will be treated as if such depreciation had been fully financed by the Community in 1987.

(c) Exceptional circumstances

(i) Monetary reserve, as proposed by the Commission, to an amount of 1 000 MECU, with a franchise of 400 MECU.

(ii) The only other exceptional circumstance to be taken into consideration is that which may arise from the situation described in the statement in Annex I.

*Significantly over
small.*

1988-02-09 17:54 UKREP BRUSSELS

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2. Budget discipline in the field of non-compulsory expenditure

- (i) Budget discipline in the field of non-compulsory expenditure will be applied in conformity with the principles set out in the conclusions of the Brussels European Council (29/30.6.1987) as follows:

"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 bodies which will be associated with its implementation."

- (ii) The Council decisions to implement the decisions of the European Council in this field will be adopted in the light of the outcome of the discussions with the European Parliament and in conformity with the principles set out in (i) above and at the same time as the new Own Resources Decision.

[No safeguards
here]

SN 462/88

dey/AH/kr

.../...

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- 5 -

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C. Own resources

1. Overall ceiling

The overall ceiling for own resources will be set at 1,25% to 1,30% of total Community GNP.

2. Third and fourth resources

First option:

- for all Member States, application of a rate of payment of 1,4% to the harmonized VAT assessment basis.
- Application of a single rate of payment to be determined under the budgetary procedure in the light of the total of all other revenue to the difference between
 - the sum of the gross national product at market prices and
 - the sum of the harmonized VAT bases of assessment of the Member States.

The assessment basis defined in this manner may not exceed 55% of the GNP at market prices of each Member State.

The rate of payment for the fourth resource may not exceed the rate of payment for the third resource.

Second option:

- For all Member States, application of a rate of payment of 1,4% in 1988, 1,3% in 1989, 1,2% in 1990, 1,1% in 1991 and 1,0% in 1992 to the harmonized VAT assessment basis. The assessment basis for VAT may not exceed 60% of the GNP at market prices of each Member State.
- Application of a uniform rate of payment, to be determined under the budgetary procedure in the light of the total of all other revenue, to the sum of the GNP at market prices.

.../...

It is assumed that the UK's compensatory payments will be dealt with in accordance with the present method (by means of VAT).

?
or ell.
late.

3. Collection costs

(When transferring traditional own resources Member States will withhold 10% to cover collection costs.

D. Agricultural Stabilizers

I. Cereals

1. For the marketing years 1988/1989, 1989/1990 and 1990/1991, the guarantee threshold will be set at 155 to 160 million tonnes.
2. At the beginning of each marketing year an additional co-responsibility levy (CL) of 3% maximum will provisionally be charged in order to keep expenditure on market management within the budgetary limits.
3. If at the end of the marketing year the guarantee threshold proves not to have been overshoot or to have been overshoot by less than 3%, the provisional CL will be entirely or partially reimbursed.
4. If the guarantee threshold has been overshoot, at the beginning of the next marketing year the intervention price will be reduced (1% overshoot = 1% price reduction) up to a ceiling of the long-term productivity increase (= 3% per year).
5. The basic CL (currently 3%) and the additional CL will be paid by the first buyer.
6. Small producers will be exempted from the general and from the additional co-responsibility levy, in accordance with implementing provisions to be adopted by the Council on a proposal from the Commission as part of the 1988/1989 farm price package.
2nd Pillar
7. The European Council takes note that the Commission intends to propose appropriate adjustments to the amount of the monthly cereals supplements as part of its next farm price proposals.
8. The European Council requests the Commission to examine what measures could be introduced for the utilization of

.../...

cereals in compound feedingstuffs and to submit appropriate proposals in the context of the 1988/1989 price-fixing.

1988-02-09 17:57 UKREP BRUSSELS

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14

II. Oilseeds and protein products

1. The annual guarantee thresholds for the marketing years 1988/1989, 1989/1990 and 1990/1991 will be fixed as follows:

- Pres. not.*
- colza 4,5 million tonnes (Community of 10) (*)
 - sunflower seed 2,0 million tonnes (Community of 10) (*)
 - soya 1,3 million tonnes (Community of 12)
 - protein products 3,5 million tonnes (Community of 12)

2. To keep expenditure on market management within the budgetary limits, where the maximum quantity is exceeded the institutional prices (**) for the current marketing year will be reduced by 0,4% or 0,5% for each 1% overshoot at the latest by:

- 31 August for colza
- 30 September for sunflower seed
- 31 October for soya
- 31 August for protein products.

Aid will be paid provisionally until it is established whether the maximum quantity has been exceeded.

(*) A corresponding adjustment in the guarantee thresholds for colza and sunflower seed is provided for in the case of Spain and Portugal.

(**) - For colza, rape and sunflower seed: guide price, intervention price
 For soya beans: minimum price, target price

III. Withdrawal of land (set-aside)

The European Council agrees to accept a mechanism for limiting supply by withdrawing agricultural land from production. This will complement the other stabilizers; application will be compulsory for the Member States, but optional for producers. Regional exceptions to compulsory application will be possible.

In order to qualify, a producer must set aside at least 20% of his arable land for at least 5 years. A producer who sets aside at least 30% will, in addition to the premium, be exempted from the co-responsibility levy for 20 t of cereals marketed by him.

The minimum premium will be 100 ECU/ha and the maximum 600 ECU/ha; the Community contribution will be 70% for the first 200 ECU, 25% for the following 200 to 400 ECU and 15% for 400 to 600 ECU.

If the arable land is used for fallow grazing or converted to certain types of protein plant production, the premium will be approximately 50% of the amount granted for complete set-aside.

The Community contribution will be financed 50% from the EAGGF Guarantee Section and 50% from the EAGGF Guidance Section.

.../...

IV. Cessation of farming (early retirement) and aids to incomes

1. The European Council agrees to introduce optional Community arrangements for promoting the cessation of farming (early retirement). It calls on the Council to take the necessary decisions on the basis of the Commission proposals together with the decisions on stabilizers and the proposals on set-aside by 1 April 1988.

2. As regards aids to incomes, the European Council refers to its conclusions of June 1987 and calls on the Council to take a decision on the matter by 1 July 1988.

17

E. Adjustment of Budgetary Imbalances

The United Kingdom is to be allowed compensation for the duration of the new own resources decision.

p.m.: machinery

F. Statements:

The statements given in Annexes I - III are adopted.

European Council statement on exceptional circumstances

The European Council would give a reminder of the conclusions adopted by the OECD and the Venice Summit on the need for a better adjustment of supply to demand through measures to enable the market to play a greater role.

It considers that the arrangements in force since 1984, and those it is adopting to control production and agricultural expenditure, meet these commitments and will achieve their full effect only if other world producers apply equivalent discipline.

It confirms in this respect the negotiating directives adopted by the Community under the Uruguay Round.

If this discipline were not observed all round, or if a third country failed to meet its international commitments and this caused serious repercussions on world markets, this situation would be regarded by the Council, on a proposal from the Commission, as justifying recourse to the provisions of the Treaty and in particular Articles 43, 113 and 203.

20

European Council statements on agricultural policy

Utilization of agricultural commodities in the non-food sector

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The European Council requests the Commission to investigate all possibilities of increasing the utilization of agricultural commodities in the non-food sector and to submit proposals to that effect. The Commission will set priorities in this respect.

Trade policy aspects

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problems

The European Council calls upon the Commission to ensure, in the context of the Uruguay Round and having regard to the general provisions of the GATT, that the Community's measures with respect to prices and quantities are given due consideration, and to press for an appropriate solution to the problems arising in connection with imports of cereal substitutes, oilseeds and protein plants into the Community.

Inter-professional co-operation

The European Council takes note of the Commission's intention to draw up a report on inter-professional co-operation and to submit conclusions to the Council by 1 July 1988.

21

European Council statement on the 1988 budget

In order to cover the 1988 budget requirements and guarantee the Community's normal activities, the European Council agrees that until the new own resources decision enters into force, Member States will make available any funds that are required in excess of the existing ceiling on own resources, in the form of non-repayable advances on payments due after entry into force of the own resources decision.



CH/EXCHEQUER	
REC.	25 APR 1988
ACTION	Mr A.J.C. EDWARDS
COPIES TO	CST, PMG, EST, SIC, P. MIDDLETON, MR LANKESTER, MR MORTIMER, MR MERCER.

25/4

Copy also to ~~CS/CTE~~

QUEEN ANNE'S GATE LONDON SW1H 9AT

~~5/5~~

25 April 1988

Dear Secretary of State,

1 pmp
2/2/88

SINGLE MARKET: STREAMLINED IMMIGRATION CONTROLS

As you know, as part of the Government's strategy on the Single Market as agreed by OD(E), those of us whose responsibilities might be adversely affected by the total abolition of controls at the internal borders of the Community are nonetheless committed to seeking ways of reducing controls to the maximum extent compatible with the protection of UK interests. As a consequence of this I am continuing to look for ways of minimising checks on British citizens and other EC nationals entering the United Kingdom with a view to combining the immigration control channels on British and EC nationals where these now exist. OD(E) first considered these issues in 1986 and I touched on them again in the paper OD(E)(88)3 taken in January OD(E)(88)1st meeting).

The present Immigration Bill will remove the impediment to change that concerned DHSS and the Treasury in 1986 (ie the possibility of uncontrolled resort to supplementary benefit), but the main outstanding obstacle to streamlining the control remains our practice of subjecting all Spanish and Portuguese passengers to detailed routine examination to identify those seeking work. So long as this continues the risk of British and other EC nationals being unacceptably delayed in queues behind difficult Spanish or Portuguese cases makes a single channel impracticable. I would be glad to know whether you feel that it remains necessary for us to continue to look closely at Spanish and Portuguese passengers as we are entitled to do during the transitional period of Spanish and Portuguese accession.

I understand that the issue has been discussed with your officials who were concerned about the possibility of increased numbers of Portuguese and Spanish coming to this country in search of employment if more relaxed checking were introduced. I can also understand the feeling that abolition of routine checks might appear to undermine the whole objective of the transitional provisions covering access to employment since, once a person has got into the country, it is much more difficult to prevent them taking unauthorised employment.

/The evidence

The evidence available to us about refusals of entry in Spanish and Portuguese nationals does show an increase in the number of Portuguese and Spaniards refused entry for arriving for employment without a work permit since their countries joined the Community. But the numbers involved are very small - totals of 74 Spaniards and 56 Portuguese for 1985-87. It is necessary also to look at the number refused entry as "dubious visitors", which will include some whose real intention is employment, but the evidence does not point unequivocally to what might happen if the controls were relaxed. In each of the 3 years mentioned Portuguese refusals were 246, 258 and 367, and Spanish refusals were 262, 199 and 229. We cannot therefore be confident that abandoning routine checks on Portuguese and Spanish would lead to a surge in the number entering to seek employment illegally. On the other hand, these figures do show that continuing detailed examination does not represent the best use of immigration control resources.

I therefore feel that the balance of argument is against continuing with detailed checks. The desirability of showing progress towards Single Market objectives and making the best use of immigration control resources point to streamlining now. I can see that presenting the change could be difficult from your point of view, even though I am confident that streamlining would be generally welcomed. If it would be helpful, I would be prepared to proceed on an experimental basis for, say, 12 months to draw the sting of the sharper objections and to allow us to pull back if necessary.

I would be grateful for an indication by 9 May of your views and those of other members of OD(E) to whom I am copying this letter. Copies also go to John Moore at DHSS and the Law Officers.

Yours sincerely

Al. J. J. J.

(Approved by the Home Secretary and signed in his absence)

SINGLE MARKET
STREAMLINED
IMMIGRATION
CONTROLS



the department for Enterprise

6/11/85 1/5

The Rt. Hon. Lord Young of Graffham
Secretary of State for Trade and Industry

The Rt Hon Douglas Hurd CBE MP
The Secretary of State for the
Home Department
The Home Office
50 Queen Anne's Gate
LONDON SW1H 9AT

(pse copy this
letter + previous letter
to PS/C+E)

Department of
Trade and Industry

1-19 Victoria Street
London SW1H 0ET

Switchboard
01-215 7877

Telex 8811074/5 DTHQ G
Fax 01-222 2629

Direct line 215 5422
Our ref DC2AMS
Your ref
Date 4 May 1988

EXCHEQUER
05 MAY 1988
Mr A.J.C. EDWARDS, CST, PMB EST, St. P. MIDDLETON, Mr LANKESTER, Mr MORTIMER, Mr MERCER.

✓ 5/5

SINGLE MARKET : STREAMLINED IMMIGRATION CONTROLS

Thank you for sending me a copy of your letter of 25 April to Norman Fowler.

I agree that we should do all we can to streamline immigration controls on EC nationals. The continuation of separate EC and British channels at ports and airports is seen by many in the Community as a visible confirmation of our lack of commitment to the single market. Combining the Channels would make a helpful and positive contribution to the presentation in Brussels of our stance on immigration issues. I therefore endorse your suggestion that we should discontinue detailed checks on passengers from Spain and Portugal.

I am copying this letter to the recipients of yours.



RESTRICTED

FROM: MISS C E C SINCLAIR
DATE: 6 May 1988

CHANCELLOR

- cc Financial Secretary (X)
- Paymaster General
- Economic Secretary
- Sir P Middleton
- Sir G Littler
- Mr Byatt
- Mr Lankester
- Mr Scholar
- Mr Culpin
- Mr A Edwards (X)
- Mr Riley
- Mr Michie
- Mr Ford
- Mr Cropper
- Mr Tyrie

- Mr McGivern - IR

- Mr Unwin)
- Mr Knox)
- Mr Jefferson-Smith) C&E
- Mr P R H Allen)
- Mr Nash)

THE SINGLE EUROPEAN MARKET: MEETING 9 MAY

You are having a meeting to discuss the tax aspects, both direct and indirect, of the Single European Market.

2. Papers for the meeting are:

Miss Sinclair's minute of 30 March: EC Fiscal Harmonisation: French Boiteux Commission Report.

Mr Jefferson Smith's minute of 15 April: Tax approximation etc.

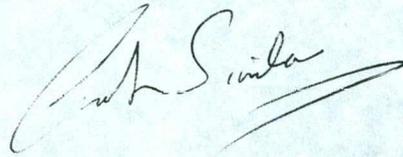
Mr Jefferson Smith's minute of 29 April: Request for legal advice.

RESTRICTED

Mr Unwin's minute of 4 May: The Single European Market.

Miss Sinclair's minute of 5 May: The Single Market and Tax Approximation.

3. The attached annotated agenda falls into 2 parts: the general principle of centrally-determined tax approximation; and the tactics to be deployed in Brussels and Whitehall.

A handwritten signature in cursive script, appearing to read 'Carolyn Sinclair', with a long horizontal flourish extending to the right.

CAROLYN SINCLAIR

Substance

1. Is any form of centrally determined tax approximation acceptable, given the implications for economic sovereignty?
2. Is this a question which can be settled by legal advice; or is it essentially political?
3. What are the pros and cons of consulting the Law Officers?
4. Are we in danger of losing some of the benefit of a wider internal market if we oppose tax approximation in principle?
5. Would acceptance of a degree of indirect tax approximation make it more difficult to oppose proposals for direct tax approximation?
6. Should our response to the commitment to a Europe without frontiers be
 - (a) to keep frontier enforcement of the "social" controls over drugs etc;
 - (b) not to abandon radically all other controls over intra-Community freight and passengers; but
 - (c) to prepare an attractive simplification package?

Tactics - Brussels

7. Can we hope to secure any major allies - eg the French or Germans - if we oppose centrally determined tax approximation in principle?
8. If not, is it in our interest to assist, in a low-key way, in producing deadlock on the Commission's proposals before presenting our alternative approach?

RESTRICTED

9. Would we do better to put our views clearly on record, against the background of the Commission's inexorable ambitions and other member states' reluctance to be seen to challenge them?
10. Would we assist member states' acceptance of our case (and protect ourselves under Community law) if we accepted removal of frontier controls as an eventual goal - not withstanding difficulties over drugs, terrorism etc - and presented our simplification alternative as a step on the way?
11. If a high profile results in isolation, what do we stand to lose?
12. If we are opposed in principle to centrally determined tax approximation, is it logical to propose centrally determined minimum rates of duty?
13. Would it be tactically helpful to do so, given that even minima low enough to allow most member states to retain their present structures would oblige Germany and Italy to tax table wine?

Tactics - Whitehall

14. Proposals for direct tax approximation are now beginning to emerge. Should we take the initiative in putting an early paper to OD(E) - which will be looking at preparations for the Hanover Summit - setting out your position on direct and indirect tax approximation?



A handwritten signature in the top right corner of the page.

MINUTES OF A MEETING HELD IN THE CHANCELLOR'S ROOM,
HM TREASURY AT 4.00PM ON MONDAY, 9 MAY 1988

Present:

Chancellor of the Exchequer	Mr McGivern - IR
Paymaster General	Mr Unwin - C&E
Economic Secretary	Mr Jefferson-Smith - C&E
Sir Peter Middleton	Mr Nash - C&E
Sir Geoffrey Littler	P R H Allen - C&E
Mr Byatt	Mr Knox - C&E
Mr Lankester	
Mr Scholar	
Mr Culpin	
Mr Riley	
Miss Sinclair	
Mr Ford	
Mr Cropper	
Mr Tyrrie	

THE SINGLE EUROPEAN MARKET

Papers: Miss Sinclair's annotated agenda of 6 May, and papers listed.

2. The Chancellor noted that the annex to Miss Sinclair's paper of 5 May showed that there were wider differences between the proportions of social security contributions to GDP in different countries than between the proportions of tax to GDP. Mr Byatt confirmed that there were no current proposals to harmonise these. The Chancellor noted the curiosity that efforts were devoted to harmonisation between countries in the areas of lesser difference. He also noted that there were no current proposals to harmonise local taxes.

3. The Chancellor said that the contents of Mr Jefferson-Smith's minute of 29 April were most worrying. Mr Jefferson-Smith said that it was still safe to assume that changes under the SEA



required unanimity. It was not clear what would happen, however, if 1993 arrived before unanimity had been achieved. The Economic Secretary said that the declaration accompanying the SEA - that it was a political decision and not legally binding - might have been thought to provide a safeguard. Mr Unwin said this may indeed been the view at the European Council; but the precise position might be different. The Chancellor invited Mr Unwin to consider further whether the Law Officers should be consulted. He should advise by the end of May on how any questions might be put, and on how the Law Officers might be expected to respond.

4. The meeting considered the questions set out in Miss Sinclair's annotated agenda.

5. Is any form of centrally determined tax approximation acceptable, given the implications for economic sovereignty?

The Chancellor said that the general answer to this question was "no".

6. Is this a question which can be settled by legal advice; or is it essentially political? What are the pros and cons of consulting the Law Officers?

The Chancellor said these questions should be considered in the light of the further advice from Mr Unwin.

7. Are we in danger of losing some of the benefit of a wider internal market if we oppose tax approximation in principle?

The Chancellor said there might be a small loss of the benefit, but this would be outweighed by the substantial - and not merely political - difficulties arising from a centrally imposed system. These arose particularly from the possible approximation of direct taxes, which could in turn raise the possibility of the Commission's undermining national tax strategy. Mr Byatt noted that, to the degree that taxes on consumption were not economically



distorting while direct taxes were, replacing direct taxes with consumption taxes might be economically desirable. Mr Unwin said that, if the Chancellor thought the "sovereignty" argument sustainable, this would give Customs a firm basis for planning. The Chancellor said that, subject to legal advice, Customs should plan on the basis that we would continue to oppose the Commission's tax approximation proposals in principle. (For further discussion of this point, see paragraph 16 below).

8. Would acceptance of a degree of indirect tax approximation make it more difficult to oppose proposals for direct tax approximation? Should our response to the commitment to a Europe without frontiers be (a) to keep frontier enforcement of the "social" controls over drugs etc; (b) not to abandon radically all other controls over intra-Community freight and passengers; but (c) to prepare an attractive simplification package?

The Chancellor said that the answers to these questions were broadly, "yes". Mr Unwin said that Customs did envisage genuine simplifications, in particular in relation to freight. The Chancellor noted that we should also seek greater freedom in relation to cross-border shopping. He agreed, however, that a future system should entail our being able to bring other countries exports into our tax system (eg in particular those products sold here by unregistered traders).

9. Can we hope to secure any major allies - eg the French or Germans - if we oppose centrally determined tax approximation in principle? If not, is it in our interest to assist, in a low key way, in producing deadlock on the Commission's proposals before presenting our alternative approach? Would we do better to put our views clearly on record, against the background of the Commission's inexorable ambitions and other member states' reluctance to be seen to challenge them?

The Chancellor noted that our tactical approach was complicated by the need to make our case both at Westminster and in Brussels. We



should present our alternative, free market approach as something which should be studied in parallel with the Commission's proposals. This should be taken forward in the EPC framework. We ought also to seek to bring out the economic policy aspects of the various proposals. The Chancellor noted that he had put on record our alternative approach in his speech to the Konigswinter Conference in Cambridge.

10. In further discussion, the Chancellor said we should encourage others to put forward their alternatives for parallel study. Sir Peter Middleton noted that we would need to deploy our arguments carefully, in order to ensure that further study progressed in a suitable direction. The Chancellor agreed. At this stage we should limit ourselves to the procedural proposal that the market alternatives should be studied.

11. Mr Unwin noted that the DTI "1992" campaign and the expectations which it was bringing about, had implications for our own proposals. The Chancellor agreed; he might need to write shortly to Lord Young.

12. Would we assist member states' acceptance of our case (and protect ourselves under Community Law) if we accepted removal of frontier controls as an eventual goal - notwithstanding difficulties over drugs, terrorism etc - and presented our simplification alternative as a step on the way. If a high profile results in isolation, what do we stand to lose?

The Chancellor said we should accept removal of frontier controls - except those required to control drugs, terrorism etc. - as an eventual goal, and present our simplification alternative as a step on the way. This should encourage member states' acceptance of our case. A position of eventual isolation would not be intolerable. But we should play our hand to ensure that this did not arise; though we might be isolated in objecting to the principle of the



Commission's proposals, it was highly unlikely that we would be the sole opponent of the Commission's plans. We should take a high profile at the informal ECOFIN in Lubeck, to stiffen the resolve of others.

13. If we are opposed in principle to centrally determined tax approximation, is it logical to propose centrally determined minimum rates of duty?

The Chancellor said we should continue to propose minimum rates of duty on alcohol and tobacco which were higher than those proposed by the Commission. This could and should be justified on health, rather than economic, grounds.

14. Proposals for direct tax approximation are now beginning to emerge. Should we take the initiative in putting an early paper to OD(E) - setting out the Chancellor's position on direct and indirect tax approximation?

The Chancellor said there was a case for alerting OD(E) to the potential dangers of direct tax approximation. There was also a case for a more general paper. A draft should be prepared after the informal ECOFIN, for circulation before Hanover, setting out the issues clearly. It would also be helpful to have a regular report from FP on developments across the whole tax approximation field, to ensure that we were not taken by surprise by any sudden changes.

15. The Chancellor invited officials to prepare briefing for the informal ECOFIN along the lines indicated by the discussion. This should cover both the line to take at the ECOFIN itself, and the subsequent line to take with the Press.

16. The Chancellor said it was important that Customs should not plan - even on a contingency basis - on the assumption that we might sign up to the Commission's proposals. Nor should work be done in the Treasury or elsewhere on proposals which involved imposing positive rates of VAT on "pledged" items. Customs should,

CONFIDENTIAL



however, take forward its proposals for possible simplification of the freight procedures. Consultations with the freight industry should be undertaken, as appropriate.

JMG

J M G TAYLOR

11 May 1988

Distribution

Those present
Financial Secretary
Mr A J C Edwards

FROM: R E ADAMS

DATE: 10 May 1988

1. MR REVOLTA 1 year. 1
 2. CHANCELLOR understood that
 you normally handle
 OD(E) issues, although
 this advice would
 normally have been
 addressed to the Chief
 Secretary. DR 10/5

cc Chief Secretary
 Paymaster General
 Economic Secretary
 Sir P Middleton
 Mr Lankester
 Mr Edwards
 Mr Mortimer
 Mr Mercer
 Mr Kalen - Revolta
 Mr Parkinson - Adams.
 Mr Ramsden

SINGLE MARKET: STREAMLINED IMMIGRATION CONTROLS

The Home Secretary wrote to the Employment Secretary on 25 April, copied to other members of OD(E) proposing that Immigration Officers should no longer examine all Spanish and Portuguese nationals entering the UK to identify those entering to seek work without the necessary work permits.

2. This is the one remaining obstacle to the combining of the separate channels of entry for British citizens and for other EC nationals at major air and seaports. Mr Hurd proposes merging the two entry channels as part of the Strategy to reduce controls at the internal borders of the Community to the maximum extent compatible with the protection of UK interests and to reduce costs. Though the sums at stake for Home Office are relatively small (£0.45m a year) we recommend that you support Mr Hurd.

3. Under the transitional arrangements for the entry of Spain and Portugal to the Community their nationals will not obtain the right to work in other community states until after 1992. Immigration controls are designed to identify Spanish and Portuguese nationals who try to enter the UK to obtain work without work permits. The Department of Employment have opposed any changes in procedures which might make it more difficult to identify such potential illicit work seekers or to give the impression that the UK was taking a more relaxed attitude to them. The Department of Employment was afraid that if such workers came to this country they would take up relatively unskilled and low paid work, especially catering jobs, in the

South East which would run counter to their efforts to try to persuade the existing unemployed to take these jobs. The DHSS have also been concerned that such illegal workers may become charges on social security if they failed to obtain work.

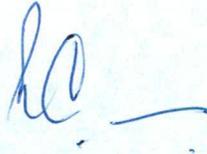
4. Mr Hurd's letter is aimed at persuading Mr Fowler to relax his attitude. Very few potential workseekers have been identified to date and Mr Hurd sees little risk from relaxing the existing scrutiny arrangements. The requirement for Spanish and Portuguese nationals to obtain work permits would however remain until the ending of the transitional arrangements. Mr Fowler has not yet replied but we understand that he is being advised to agree subject to some conditions designed to ensure that we do not give the Spanish and Portuguese the impression that we have relaxed our attitude to their nationals taking work in the UK without obtaining work permits. These conditions are that visiting Spanish and Portuguese nationals be reminded on entry that they should not take work in this country without work permits; that immigration staff should look out for possible potential workseekers and that they should carry out spot checks. We also understand that DHSS will also agree to Mr Hurd's proposals on this basis. The DHSS should be able to identify any Spanish or Portuguese nationals who claim benefits and they, like other EC nationals claiming benefits, could be required to leave the UK. The Home Office are considering these conditions and could probably live with them.

5. There are no unacceptable risks to DHSS expenditure since any who claimed social security could be required to leave the UK and there are two benefits from the proposed change. As Lord Young pointed out in his letter of 4 May, the single immigration channel at major UK points of entry, especially Heathrow and Gatwick airports, will be a visible confirmation of the UK's commitment to the Single Market. Secondly it will save Home Office about £450,000 a year.

6. Our conclusion is that you should support ~~to~~ Mr Hurd's proposals for ending the systematic scrutiny of Spanish and Portuguese nationals entering the UK to identify potential illicit workseekers to achieve the savings in the cost of operating immigration controls and to demonstrate our commitment to reduce frontier controls.

7. This submission has been agreed with IAE, ST and EC.

8. I attach a draft.

A handwritten signature in blue ink, consisting of a stylized 'R' and 'A' followed by a horizontal line.

R E ADAMS

Pse type for Ch. org.

DRAFT LETTER TO THE HOME SECRETARY

SINGLE MARKET: STREAMLINED IMMIGRATION CONTROLS

I have seen a copy of your letter of 25 April to Norman Fowler which proposes ending the routine examination of Spanish and Portuguese nationals arriving in the UK. I have also seen David Young's letter of 4 May supporting the merged entry channels as making a visible confirmation of the UK's commitment to the single market.

2. I support the view that the routine examination of Spanish and Portuguese arrivals should be discontinued. The numbers stopped in recent years have been small in relation to the cost of the separate channels needed to identify them, and the adverse impression given by separate channels to our commitment to the single market. Spanish and Portuguese nationals will still need permits to take work in this country as in other EC countries until the end of the transitional arrangements in 1992. The DHSS should be able to identify any Spanish and Portuguese nationals without the necessary work permits who claims social security and they should be required to leave the country.

3. The merging of the separate channels of entry should save some £450,000 per annum and I would expect these savings to be achieved.

4. I am sending copies of this letter to Norman Fowler, other members of OD(E), John Moore and the Law Officers.



[Handwritten signature]

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

The Rt Hon Douglas Hurd CBE MP
Secretary of State for the Home Dept
Home Office
50 Queen Anne's Gate
LONDON
SW1H 9BW

cc Chief Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Mr Lankester
Mr Edwards
Mr Mortimer
Mr Mercer
Mr Revolta
Mr Kalen
Mr Adams
Mr Parkinson
Mr Ramsden

16 May 1988

[Handwritten signature]

SINGLE MARKET: STREAMLINED IMMIGRATION CONTROLS

I have seen a copy of your letter of 25 April to Norman Fowler which proposes ending the routine examination of Spanish and Portuguese nationals arriving in the UK. I have also seen David Young's letter of 4 May supporting the merged entry channels as making a visible confirmation of the UK's commitment to the single market.

I support the view that the routine examination of Spanish and Portuguese arrivals should be discontinued. The numbers stopped in recent years have been small in relation to the cost of the separate channels needed to identify them, and to the adverse impression given by separate channels to our commitment to the single market. Spanish and Portuguese nationals will still need permits to take work in this country as in other EC countries until the end of the transitional arrangements in 1992. The DHSS should be able to identify any Spanish and Portuguese nationals without the necessary work permits who claim social security and they should be required to leave the country.

The merging of the separate channels of entry should save some £450,000 per annum and I would expect these savings to be achieved.

I am sending copies of this letter to Norman Fowler, other members of OD(E), John Moore and the Law Officers.

[Handwritten signature]

NIGEL LAWSON

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FM UKREP BRUSSELS
TO IMMEDIATE FCO
TELNO 1674
OF 261730Z MAY 88
INFO ROUTINE EUROPEAN COMMUNITY POSTS

FRAME ECONOMIC/EXTERNAL

COREPER (AMBASSADORS): 26 MAY 1988
PREPARATIONS FOR 6 JUNE ECOFIN

SUMMARY

1. FOLLOWING FRENCH REQUEST FOR POSTPONEMENT, DATE AND STARTING TIME STILL UNDECIDED. CONSIDERABLE DOUBTS EXPRESSED ABOUT PRESIDENCY SUGGESTION TO HOLD IT ON 13 JUNE IN VIEW OF OVERLAP WITH FOREIGN AFFAIRS COUNCIL. PRESIDENCY HOPES TO GIVE MORE DEFINITE NEWS NEXT MONDAY (30 MAY).

2. TWO SMALL TAX ITEMS ADDED TO FORMAL AGENDA.

DETAIL

3. MAIN AGENDA ITEMS UNCHANGED, IE LIBERALISATION OF CAPITAL MOVEMENTS AND (POSSIBLY) INTER-INSTITUTIONAL AGREEMENT ON BUDGETARY DISCIPLINE, BUT UNGERER (PRESIDENCY) INDICATED THAT THE FOLLOWING TWO PROPOSALS WOULD BE ADDED:-

(I) TAX EXEMPTION ON TEMPORARY IMPORTS OF MEANS OF TRANSPORT (AMENDING DIRECTIVE 83/182/EEC):

(II) TAX EXEMPTION ON IMPORTS OF PERSONAL GOODS (AMENDING DIRECTIVE 83/183/EEC).

AS FOR THE LUNCH DISCUSSION, I AGAIN ASKED WHEN STOLTENBERG WOULD GIVE AN INDICATION ON THE NATURE OF THE HANOVER DISCUSSION ON MONETARY COOPERATION/STRENGTHENING THE EMS: BUT UNGERER SAID HE STILL HAD NOTHING TO REPORT.

4. THE DATE AND STARTING TIME OF THIS ECOFIN IS HOWEVER NOW UNCERTAIN FOLLOWING A FRENCH REQUEST FOR A POSTPONEMENT (PRESUMABLY TO AVOID THE NATIONAL ASSEMBLY ELECTIONS). UNGERER, THOUGH, ALSO VOLUNTEERED THAT STOLTENBERG WAS ANXIOUS THAT MEMBER STATES SHOULD BE ADEQUATELY PREPARED TO HAVE A MEANINGFUL DISCUSSION ON CAPITAL LIBERALISATION AND IT HAD BEEN SUGGESTED THAT 6 JUNE GAVE TOO LITTLE

*What is this?
An answer to
this, I think.*

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MDHIAN 0944

TIME FOR SUCH PREPARATION. WHATEVER THE CASE, TODAY'S EXCHANGE ONLY ADDED TO THE CONFUSION. UNGERER MENTIONED 13 JUNE AS THE PROBABLE DATE ALTHOUGH HE CONCEDED THAT THIS COULD POSE PROBLEMS FOR PERMANENT REPRESENTIVES AS IT WOULD COINCIDE WITH THE FOREIGN AFFAIRS COUNCIL (FAC): THIS COULD PERHAPS BE AVOIDED IF, SAY, THE EUROPEAN POLITICAL COOPERATION MEETING WAS TAKEN FIRST AND THE FAC ITSELF STARTED IN THE AFTERNOON GOING ON INTO 14 JUNE: ECOFIN MEANWHILE COULD START AT 1430 ON 13 JUNE (FOLLOWING A 1300 LUNCH).

5. ESPER LARSEN (DENMARK) SUGGESTED ANOTHER VARIANT WITH ECOFIN TAKING BUDGETARY DISCIPLINE IN THE MORNING OF 13 JUNE AT THE SAME TIME AS THE EUROPEAN POLITICAL COOPERATION MEETING: THE FAC COULD THEN COINCIDE IN THE AFTERNOON WITH THE ECOFIN DISCUSSION ON CAPITAL LIBERALISATION, WHICH WAS AN ITEM FOR DEPUTY PERMANENT REPRESENTATIVES. THIS HOWEVER WAS UNACCEPTABLE TO WESTENDORP (SPAIN) WHO STRESSED HE NEEDED TO BE PRESENT AT CAPITAL LIBERALISATION AS WELL AS THE FAC. A NUMBER OF OTHER VARIANTS WERE PUT FORWARD INCLUDING THE POSSIBILITY THAT ECOFIN WOULD COINCIDE WITH THE EUROPEAN POLITICAL COOPERATION MEETING ON 13 JUNE, WITH THE FAC TAKING PLACE ON 14 JUNE.

6. SCHEER (FRANCE) SAID HE COULD ACCEPT ANY SOLUTION PROVIDED THERE WAS NO OVERLAP. TROJAN (COMMISSION) - WITH PRESIDENT DELORS IN MIND - HAD 'GRAVE MISGIVINGS' ON ANY OVERLAP: WHILE CALAMIA (ITALY) SUGGESTED 13 JUNE FOR THE FAC AND 14 JUNE FOR ECOFIN.

7. I POINTED TO THE DIFFICULTIES WHICH COUNCILS IN THE WEEK BEFORE THE TORONTO SUMMIT PRESENTED FOR OUR TWO SETS OF MINISTERS. MOREOVER SOME OF THE FORMULAE SUGGESTED IMPLIED VERY TIGHT TIMING AND IN ANY CASE ANY STARTING TIME EARLIER THAN, SAY, 1100 WOULD BE UNACCEPTABLE TO THE UK FOR A COUNCIL IN LUXEMBOURG.

8. NIEMAN (NETHERLANDS) RESERVED HIS POSITION ON CHANGING THE 6 JUNE DATE SAYING THAT HIS MINISTER MIGHT NOT BE AVAILABLE ON 13 JUNE.

9. UNGERER SAID HE WOULD REPORT ALL THIS TO STOLTENBERG: 13 JUNE DID NOT LOOK VERY GOOD BUT HE WOULD REVERT NEXT MONDAY (30 MAY).

HANNAY

YYYY

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FM UKREP BRUSSELS

TO IMMEDIATE FCO

TELNO 1737

OF 301855Z MAY 88

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behind

The "Tax exemption in personal goods" point, behind, is not about travellers allowances, but about the mere gathering inputs of goods for people moving between countries (semi) permanently. So excise isn't really involved. But I'll try to find out more.

W. Th...
1/6

COREPER (AMBASSADORS): 30 MAY 1988

TIMING OF FAC AND ECOFIN COUNCILS, 13-14 JUNE 1988:

SUMMARY

1. ECOFIN TO MEET ON 13 JUNE. AGENDA AS BEFORE.

FAC TO MEET 13 AND 14 JUNE, COVERING EUROPEAN COUNCIL FOLLOW-UP ON THE TUESDAY MORNING.

DETAIL

2. AT THE END OF TODAY'S COREPER UNGERER (PRESIDENCY) SAID THAT IT HAD BEEN DECIDED TO POSTPONE THE ECOFIN COUNCIL FROM THE 6TH TO 13TH JUNE BECAUSE OF A REQUEST FROM ONE DELEGATION (FRANCE). TO AVOID CONFLICT WITH THE FOREIGN AFFAIRS COUNCIL ON THE FOLLOW-UP TO THE EUROPEAN COUNCIL THE PRESIDENCY PROPOSED THE FOLLOWING ARRANGEMENTS:

alt EIB Govs mtg. at (probably) 11:30 am
W. 1/6

(A) ECOFIN

TO START AT 1 PM WITH LUNCH, FORMAL SESSION TO START AT 2.30 PM WITH THE INTER-INSTITUTIONAL AGREEMENT ON BUDGET DISCIPLINE. OTHER AGENDA ITEMS WOULD BE THE LIBERALISATION OF CAPITAL MOVEMENTS AND (PROVISIONALLY) THE TWO TAX EXEMPTION ITEMS (SEE TUR). I ASKED WHAT WOULD BE DISCUSSED AT LUNCH AND IN PARTICULAR WHETHER THE MONETARY ASPECTS OF THE INTERNAL MARKET WOULD BE COVERED IN PREPARATION FOR THE HANOVER EUROPEAN COUNCIL. UNGERER REPLIED THAT STOLTENBERG WANTED TO DISCUSS THE TWO MAIN AGENDA ITEMS AND THE PREPARATION FOR THE TORONTO ECONOMIC SUMMIT, BUT WOULD NOT (NOT) DISCUSS THE PREPARATION OF THE EUROPEAN COUNCIL. HE ADDED THAT ALTHOUGH THE ECOFIN LUNCH COINCIDED WITH THAT OF THE FAC, THE LATTER WOULD BE DEVOTED TO POLITICAL COOPERATION ISSUES, AND HE HIMSELF WOULD THEREFORE ATTEND THE ECOFIN ONE. OTHER AMBASSADORS COULD MAKE THEIR OWN CHOICE.

FAC

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MDHIAN 1236

3. TO AVOID A CLASH WITH ECOFIN, THE FAC WOULD BEGIN AT 10 AM ON 13 JUNE WITH ALL AGENDA ITEMS NOT CONNECTED WITH THE FOLLOW-UP TO THE EUROPEAN COUNCIL. LUNCH AT 1PM AND THE AFTERNOON SESSION AT 3PM WOULD BE DEVOTED EXCLUSIVELY TO POLITICAL COOPERATION ISSUES. THE COUNCIL WOULD RECONVENE AT 10 AM ON 14 JUNE TO DISCUSS EUROPEAN COUNCIL FOLLOW-UP. SCHEER (FRANCE) ASKED FOR AN ASSURANCE THAT GENSCHER WOULD NOT DECIDE AT THE LAST MINUTE TO BRING FORWARD THE EUROPEAN COUNCIL FOLLOW-UP DISCUSSION TO MONDAY EVENING. UNGERER REPLIED THAT HE COULD ONLY SAY WHAT THE PRESIDENCY PLANNED TO DO.

HANNAY

YYYY

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CH/EXCHEQUER	
REC.	10 JUN 1988
ACTION	Mr R.I.G. ALLEN
COPIES TO	CST, PMG, EST, Sir P. MIDDLETON, Mr LANKESTER, Mr MORTIMER, Mr MERCER

The Rt Hon Douglas Hurd CBE MP
 Home Secretary
 50 Queen Anne's Gate
 LONDON SW1

10 June 1988
[Handwritten signature]

[Handwritten signature: Doug Hurd]

SINGLE MARKET: STREAMLINED IMMIGRATION CONTROLS

I am concerned about the proposals in your letter of 25 April concerning relaxation of the immigration arrangements for Spanish and Portuguese passengers. In my view, we should not be seen to be abandoning controls over the entry of workers from those countries during the transitional period. No other EC country is doing so and, of course, our problems are more difficult, because our immigration controls are based on the border and not on internal mechanisms like those of our EC partners. For us, relying upon identifying illegal entrants to the labour market once they are here would not be a satisfactory deterrent.

Your letter referred to the number of Spanish and Portuguese nationals refused entry for arriving for work without a permit. As you say, we cannot be confident of what will happen if we abandon controls but my own judgement is that our present arrangements and the numbers that are turned back do act as a very real deterrent of very much larger numbers. I am in no doubt that the numbers now working here are already very much higher than your figures might suggest. The very evident relaxation you propose would, I believe, lead to a very significant increase in arrivals from Spain and Portugal seeking to work illegally.

Like other EC countries, we have maintained our right to exclude these workers until 1993 during the transition period. That right is vital to me in our continuing efforts to reduce the level of unemployment. The hotel and catering industry is one that we regard as having the potential to make a significant contribution to increasing employment but that, as is already increasingly evident, is an industry that could be particularly attractive to Spanish and Portuguese workers.



It follows from all this that I could not agree to your proposal for a single immigration channel for British and other EC nationals, unless there are adequate arrangements designed to maintain the deterrent against the illegal entry of Spanish and Portuguese workers. I must insist that we maintain sufficient checks to demonstrate that the requirement for work permits, during the transition period, is being maintained.

It seems to me that the least we must do is to ensure that all Spaniards and Portuguese are clearly informed on entry that they are not allowed to work in this country unless they have a work permit or are otherwise entitled to do so. Immigration Officers should also be instructed to pay specific attention to the possibility of Spaniards and Portuguese coming in as workers, and to take them out of the single channel for more detailed examination if there is any suspicion of this. They should also do spot checks. If it is known that this is being done, the deterrent should be maintained and there will be a clear message that the controls have not been relaxed.

I am copying this letter to the Prime Minister, members of OD(E), the Secretary of State for and Social Services the Attorney General, the Solicitor General, and to Sir Robin Butler.

John, sec. *Norman*

NORMAN FOWLER



10 DOWNING STREET
LONDON SW1A 2AA

CH/EXCHEQUER	
REC.	13 JUN 1988 ✓ 12/6
ACTION	MR R. ALLEN
COPIES TO	CST PM& EST
	SIR P. MIDDLETON
	MR LANKESTER
	MR MORTIMER MR MERCER.

From the Private Secretary

11 June 1988

Dear Philip,

PUP
(weeded
by RA)

SINGLE MARKET: STREAMLINED IMMIGRATION CONTROLS

The Prime Minister has seen a copy of the Employment Secretary's undated letter to the Home Secretary objecting to his proposals for relaxation of the immigration arrangements for Spanish and Portuguese passengers. She has a lot of sympathy with Mr. Fowler's points which she hopes the Home Secretary will take into account. She would wish to be consulted before any final decision is taken.

I am copying this letter to the Private Secretaries to the Secretary of State for Employment, to the members of OD(E), to the Secretary of State for Social Services, the Attorney General, the Solicitor General and to Sir Robin Butler.

Yours sincerely,
Charles Powell

(C.D. POWELL)

Philip Mawer, Esq.,
Home Office.

CHANCELLOR

FROM: P J CROPPER
DATE: 14 June 1988

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Mr Tyrie
Mr Call

EUROPE

Various proposals have been made for special adviser visits to Europe. No bad idea, I think, for contacts to be refreshed in the run-up to the European Elections next June.

2. The Konrad Adenauer people have invited all the advisers to Bonn etc from Sunday 11 September to Wednesday 14 September. It is suggested that some of them might go on to Strasbourg for the Thursday and Friday as the Parliament will be in session that week. The Germans normally pay the fares to Bonn so it would all be very economical.

3. Would you be prepared for all three Treasury advisers to be away for part at least of that week? If not, I think I can set up an individual trip to Strasbourg for Mark Call for part of the week 4-8 July, when the Parliament is sitting. Mark has not met the EDG Secretariat and I am sure it would help him next June, to have an idea of who is who and how it works.


P J CROPPER



Present on the
Policy.

Ch.

I put this PQ in, but I fear
that it may have got buried.
Content?

25
17/6

See for 100 hours! (for
one ~~case~~ subject to draft (see-see).
r

FROM: M PARKINSON
DATE: 15 JUNE 1988

[Handwritten signature]

Rev. 15/6

- 1. MR R ALLEN
- 2. CHANCELLOR

- cc: Sir G Littler
- Mr Lankester
- Mr Peretz
- Mr Mercer
- Mr Mortimer
- Parliamentary Clerk

ECOFIN PQ

4519

I attach for approval a draft arranged PQ and reply on the outcome of ECOFIN meeting on 13 June.

- 2. Perhaps Mr Taylor could let Parliamentary Section know if you are content with it, so that they can make the necessary arrangements.

X

Mark Parkinson
M PARKINSON

Colin
 1. *Richard* ^{14/6} *Chancellor's office will prefer putting today for answer tomorrow but we waiting C/S's approval. Perhaps we*
 2. *Colin* *ought to get done ready + X's 16/6*
PL arrange when we have C/S's endorsement (X).

PL
16/6

ec. j. m.
ECOFIN ARRANGED PQ

To ask the Chancellor of the Exchequer, if he will make a statement on the outcome of the latest meeting of the European Community's Economic and Finance Council.

Mr Nigel Lawson

The ECOFIN Council met in Luxembourg on 13 June. I represented the ~~UK~~ *United Kingdom*.

The Council approved the inter-institutional agreement between the Council, the European Parliament and the Commission on the implementation of the conclusions of the Brussels European Council on budget discipline.

The Council reached agreement on a Directive providing for complete liberalisation of capital movements in the Community and a Regulation combining the two existing mechanisms for medium term balance of payments support. The complete abolition of exchange controls by those countries that still retain them will represent an important move towards a freer and less regulated Europe, and an ~~important~~ *essential* step towards the completion of the single market.

The Council ~~agreed~~ *also* agreed that there should be further discussion on tax exemptions for temporary importations of ~~the~~ *means* of transport.



FROM: MISS M P WALLACE

DATE: 15 June 1988

MR CROPPER

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Mr Tyrie
Mr Call

A handwritten signature in cursive script, appearing to read "M P Wallace".

EUROPE

The Chancellor was grateful for your minute of 14 June. He would be content for you and Mr Tyrie to do the Bonn trip in September, and for Mr Call to go to Strasbourg in July as you suggest.

A handwritten signature in cursive script, appearing to read "Moira Wallace".

MOIRA WALLACE

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MDHIAN 3709

Handwritten notes in red ink:
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FM UKREP BRUSSELS

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INFO ROUTINE JERUSALEM, STRASBOURG

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EUROPEAN PARLIAMENT PLENARY STRASBOURG 16 JUNE 1988

GENSCHER'S ACCOUNT OF THE GERMAN PRESIDENCY AND PROSPECTS FOR HANOVER

SUMMARY

1. GENSCHER'S UPBEAT ACCOUNT OF A SUCCESSFUL PRESIDENCY WELL RECEIVED BY THE EP. THE SINGLE MARKET, THE SOCIAL DIMENSION AND MONETARY COOPERATION PLUS FOREIGN POLICY INCLUDING EAST/WEST WERE THE THEMES FOR HANOVER. HE HOPED FOR EARLY PROGRESS ON DIPLOMAS AND ROAD HAULAGE QUOTAS, AND DREW A REALISTIC PICTURE OF THE PROSPECTS FOR INDIRECT TAX HARMONISATION. ON EXTERNAL POLICY, HE WELCOMED THE EC/CMEA DECLARATION AND FORMALLY ASKED THE EP TO GIVE ITS ASSENT TO THE EC/ISRAEL TRADE/FINANCIAL PROTOCOLS. HOPES FOR A US/SOVIET STRATEGIC ARMS AGREEMENT THIS YEAR. 1988 THE YEAR OF CONVENTIONAL ARMS NEGOTIATIONS.

DETAIL

2. GENSCHER HAD QUITE A LOT OF SUCCESSES TO POINT TO, STARTING WITH THE BRUSSELS EUROPEAN COUNCIL. HE EXPECTED THE REMAINING EP OPINIONS ON THE FUTURE FINANCING PACKAGE TO BE DELIVERED (AND WAS PROVED RIGHT LATER IN THE DAY) FOLLOWED BY SUCCESSFUL CONCILIATION ON 20 JUNE. THE INTER-INSTITUTIONAL AGREEMENT ON BUDGET DISCIPLINE WAS A SIGN OF MUTUAL TRUST.

3. COMPLETION OF THE SINGLE MARKET WOULD SAVE OVER 200 BECU, INCREASE GDP BY 4.5 PERCENT, REDUCE CONSUMER PRICES BY 6.1 PERCENT, AND CREATE 1.8 MILLION NEW JOBS. IT WOULD MEAN MORE COMPETITION IN EG. TELECOMMUNICATIONS, TRANSPORT AND ENERGY SUPPLY. OF THE 286 PROPOSALS IN COCKFIELD'S WHITE PAPER, ABOUT A THIRD HAD BEEN ADOPTED. HE EXPECTED DECISIONS ON MUTUAL RECOGNITION OF DIPLOMAS AND ROAD HAULAGE QUOTAS IN THE NEXT FEW WEEKS. THE GERMAN PRESIDENCY HAD BEGUN THE HARD TASK OF DISCUSSING INDIRECT TAX HARMONISATION. IT WAS

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CLEAR JUST HOW HARD THE ADAPTATION PROBLEMS OF INDIVIDUAL MS WOULD BE TO SOLVE. TAX HARMONISATION WOULD NOT BE POSSIBLE WITHOUT FAR REACHING COMPROMISES ON ALL SIDES. ECOFIN'S RECENT DECISIONS ON LIBERALISATION OF CAPITAL MOVEMENTS WERE AN IMPORTANT STEP TO STRENGTHEN THE EMS ON THE WAY TO MONETARY UNION. THERE WAS NOW A NEED TO DEVELOP THE EUROPEAN MONETARY SYSTEM. IN THE SHORT TERM, THIS MEANT CONSOLIDATING THE CONVERGENCE ALREADY ATTAINED BY GOING FOR FULL PARTICIPATION OF ALL MEMBER STATES IN THE EMS AND GETTING RID OF DEROGATIONS. ITALY SHOULD GIVE UP ITS BROAD BANDING FOR CURRENCY FLUCTUATIONS, AND THE UK SHOULD AT LAST JOIN THE ERM, TAKING UP ITS FULL RESPONSIBILITIES IN THE EMS. THE MEDIUM TERM QUESTION WAS THE FUTURE OF MONETARY ORGANISATION IN EUROPE. IT WAS IN THE LOGIC OF THE SINGLE MARKET TO HAVE MONETARY UNION AND A EUROPEAN CENTRAL BANK. LOTS OF PEOPLE WERE SAYING THAT THERE WAS NO TIME TO LOSE. AT HANOVER, THERE WOULD BE DISCUSSION OF THE PRINCIPLES FOR THE DEVELOPMENT OF MONETARY COOPERATION BETWEEN THE MEMBER STATES HEADING TOWARDS THE OBJECTIVE OF AN ECONOMIC AND MONETARY UNION: DISCUSSION OF CONDITIONS AND MEANS TO THIS END. 'OBVIOUSLY, SUCH A UNION ALSO INCLUDES A CENTRAL BANK IN THE FRAMEWORK OF A EUROPEAN CENTRAL BANK SYSTEM' (SIC).

4. TURNING TO R AND D, GENSCHER ARGUED AGAINST DUPLICATION. HE LIKED EUREKA. WITH COMMISSION HELP, THE MS SOUGHT CONSENSUS ON THE ETHICS OF BIO-TECHNOLOGY. THE NORTH SEA CATASTROPHE SHOWED THE NEED FOR PROGRESS ON THE ENVIRONMENT. AGREEMENT ON YES WAS SATISFACTORY, BUT THE DIRECTIVE ON THE RIGHTS OF RESIDENCE AND THE ONE ON DOING AWAY WITH PHYSICAL CONTROLS WERE NOT YET SORTED OUT. VERY BRIEFLY, GENSCHER DID HIS BIT FOR THE EP PETITIONS COMMITTEE, COMPLIMENTING IT ON ITS SUCCESSFUL WORK. HE WAS SURE THAT THIS AREA WOULD BE INCREASINGLY SIGNIFICANT FOR RELATIONS BETWEEN CITIZENS AND THE EC IN THE RUN UP TO THE JUNE 1989 ELECTIONS. (COMMENT : THUS PERISHES, AT LEAST FOR THE MOMENT, THE EP BID FOR AN EXCHANGE OF LETTERS WITH THE COUNCIL ON STRENGTHENING THE RIGHT OF PETITION). GENSCHER HELPFULLY COMMENDED THE EFFECTIVENESS OF THE EP COOPERATION PROCEDURE AND THE SYSTEM OF INFORMING/CONSULTING THE EP OVER INTERNATIONAL AGREEMENTS.

5. ON EXTERNAL POLICY, GENSCHER SAID THAT AS TRADE BARRIERS WITHIN THE COMMUNITY FELL, NO NEW BARRIERS SHOULD BE ERECTED AT THE EC'S EXTERNAL FRONTIERS. ON EAST/WEST, HE STILL HOPED FOR AGREEMENT THIS YEAR ON HALVING US/SOVIET STRATEGIC NUCLEAR WEAPONS. 1988 MUST ALSO BE THE YEAR OF NEGOTIATIONS ON CONVENTIONAL ARMED FORCES. ON ARAB/ISRAEL, THE VENICE DECLARATION REMAINED VALID. TURNING TO PALESTINIAN TRADE ACCESS, GENSCHER DECLARED THAT THE COUNCIL WAS

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DETERMINED BY DIRECT IMPORTS AND ENCOURAGEMENT OF DEVELOPMENT PROJECTS TO IMPROVE LIVING CONDITIONS IN THE OCCUPIED TERRITORIES. HE FORMALLY ASKED THE PLENARY TO DEAL WITH THE EC/ISRAEL TRADE/FINANCIAL PROTOCOLS, THEREBY CONTRIBUTING POSITIVELY TO DEVELOPMENTS IN THE MIDDLE EAST. HE WAS WRITING TODAY TO LORD PLUMB ON THIS SENSE. VIA LEBANON, EC/ASEAN, IRAQ/IRAN AND THE AGREEMENT WITH THE GULF COOPERATION COUNCIL, GENSCHER CAME TO SOUTH AFRICA. CONDEMNING APARTHEID, HE RECALLED THAT THE TWELVE HAD REPEATEDLY AND ENERGETICALLY MADE DEMARCHES TO THE SAG PROTESTING AGAINST THE BILL TO PREVENT ANTI-APARTHEID ORGANISATIONS FROM RECEIVING EXTERNAL AID. IF ENACTED, THE BILL WOULD HINDER/PREVENT EC POSITIVE MEASURES - A CENTRAL INSTRUMENT OF THE COMMUNITY'S POLICY TOWARDS SOUTH AFRICA. HE REPEATED THE APPEAL OF THE TWELVE FOR PARDON FOR THE SHARPEVILLE SIX. HE SPOKE ROUTINELY ON LOME IV, CENTRAL AMERICA AND AFGHANISTAN.

EUROPEAN COUNCIL AGENDA

6. HANOVER WOULD BE A CLASSICAL EUROPEAN COUNCIL - NOT DEALING WITH UNRESOLVED POINTS OF DETAIL. INSTEAD, IT WOULD TACKLE THE PRIORITIES AND PROSPECTS OF EUROPEAN INTEGRATION. AFTER EVALUATING SINGLE MARKET ACCOMPLISHMENTS, IT WOULD SET CLEAR PRIORITIES AND MID-TERM OBJECTIVES. THE SOCIAL DIMENSION WAS IMPORTANT : DIALOGUE BETWEEN THE SOCIAL PARTNERS SHOULD BE INTENSIFIED. ALL PARTICIPANTS IN THE SINGLE MARKET SHOULD HAVE A CLEAR IDEA OF ITS SOCIAL ADVANTAGES. MONETARY COOPERATION ON THE WAY TO ECONOMIC AND MONETARY UNION SHOULD BE CONSIDERED SIMULTANEOUSLY WITH THE WORK PROGRAMME AND MID-TERM GOALS FOR THE SINGLE MARKET. ON FOREIGN POLICY, THE HEADS OF GOVERNMENT WOULD CONSIDER NEW PERSPECTIVES IN E/W RELATIONS AND PROSPECTS FOR RESOLVING REGIONAL CONFLICTS.

EC/CMEA DECLARATION

7. ERCINI (CHAIRMAN, EP POLITICAL AFFAIRS COMMITTEE) COMMENDED THE DRAFT DECLARATION TO THE PLENARY AND REJOICED: THIS WAS THE FIRST TIME THE EP HAD BEEN CONSULTED ON AN INTERNATIONAL AGREEMENT BEFORE ITS SIGNATURE. DE CLERCQ (COMMISSION) LOOKED FORWARD TO SIGNATURE OF THE AGREEMENT ON 25 JUNE IN LUXEMBOURG. EC BILATERAL RELATIONS WITH INDIVIDUAL EASTERN EUROPEAN STATES HAD ALWAYS BEEN THE COMMUNITY'S PRIORITY. SINCE 9 JUNE FOUR CMEA STATES HAD FORMALLY REQUESTED OFFICIAL RELATIONS (USSR, GDR, CZECHOSLOVAKIA AND BULGARIA). EC TRADE NEGOTIATIONS WITH HUNGARY AND CZECHOSLOVAKIA WERE GOING WELL.

8. THE EP POLITICAL GROUPS THEN HAD THEIR SAY : GERMAN CDS EFFUSIVE IN THEIR PRAISE OF THE PRESIDENCY, GERMAN SOCIALISTS CRITICAL OF ITS FAILURE TO IMPOSE FURTHER SANCTIONS ON SOUTH AFRICA,

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CLEAN UP THE NORTH SEA AND IMPROVE EC WORKERS' RIGHTS. CATHERWOOD (EDG) WELCOMED PROGRESS ON CAPITAL MOVEMENTS AND DECLARED THAT THE EDG WAS COMMITTED TO MONETARY UNION (PROUT, EDG LEADER, TOLD US LATER THAT HE WAS NOT CONSULTED ABOUT THIS REMARK). CASSIDY (EDG) ASKED FOR THE IMPOSSIBLE : RECOURSE TO ARTICLE 238 (AND THE ASSENT PROCEDURE) FOR THE FORTHCOMING AGREEMENTS WITH CZECHOSLOVAKIA AND HUNGARY.

9. AT THE END OF THE DEBATE, GENSCHER AND DE CLERCQ PLAYED A STRAIGHT BAT TO EP REQUESTS FOR MORE AID TO CENTRAL AMERICA.

HANNAY

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ADDITIONAL 1

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FROM: MISS M P WALLACE

DATE: 17 JUNE 1988

[forecast?]

CHANCELLOR

PUBLIC EXPENDITURE CABINET

sph. orally re remit
show Cabinet paper
before circulating plans

We have had a word with Paul Gray about the arrangements for you and the Chief Secretary to see the Prime Minister in advance of the Public Expenditure Cabinet. He suggested that the Chief Secretary could join in for half an hour of a one hour bilateral we have fixed on 29 June. This would leave 2 weeks before Cabinet on the 14th. Are you happy with this timing?

yes. *harmless of type explicit. not forms of words*

2. Paul also said that they thought it would be helpful to have a paper in advance of the discussion - setting out the scale of the problem, the desired remit for the rest of the Survey, and how Cabinet might best be handled. You don't seem to have put in anything in writing last year - but Turnbull briefing behind gives an idea of line you were briefed to take. Shall we get Turnbull to start thinking about what such a "paper" could usefully say? Subject to CST's views? Or shall we try to talk No.10 out of it?

paper Fri Cab.

Mpw

MOIRA WALLACE

Subject to CST's views, I am in favour of a paper for AT, which provides opinion on scale of setting out the nature of the problem. Are matters serious, & no doubt remit for the PM. I will assist for the paper, as an annex of last year's conclusions. I will assist orally.



17/6/88
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CH/EXCHEQUER	
REC.	20 JUN 1988 ✓ 2016
ACTION	MR R I G ALLEN
COPIES TO	PMG, SIR G LITTIER
	MR LANKESTER
	MR S MATTHEWS
	MR MORTIMER M PERETZ
	MR M PARKINSON

PM/88/027

PRIME MINISTER

Issues for the Hanover European Council

1. OD(E) met yesterday to discuss the Hanover European Council.
2. The German Presidency have said that they want the European Council to have a strategic discussion of the economic situation, single market issues, monetary cooperation, and social issues/unemployment. There may also be some discussion of the Community's external relations and political cooperation, plus Presidency papers on some other topics. But there should be no need to discuss follow-up to the Brussels "Future Financing" decisions: following the substantial progress made by the 13/14 June Foreign Affairs Council, the only remaining task is to complete the dialogue with the European Parliament.

The economic situation

3. Discussion of the Commission's usual report on the economic and social situation will provide an opportunity for Kohl to report on discussion at the Economic Summit.

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Single market

4. As you know, Chancellor Kohl wrote to Heads of Government on 20 May setting out a package of single market measures which might be agreed by end-June, and noting the need to set future single market priorities up to the end of 1989. The debate at Hanover is likely to centre on a Presidency progress report on the package, and a separate Presidency note on the future priorities.

5. There may be no need for much discussion of the package, which is described in detail in OD(E) (88)10. It closely matches our priorities; you welcomed it in your reply to Kohl; and good progress on it has since been made. Our top priority, liberalisation of capital movements, was agreed in ECOFIN this week. Two other important measures - mutual recognition of qualifications and road haulage - now look set for agreement next week. On intellectual property, there might be an attempt at Hanover to agree the site of the Community Trade Mark Office. Our first priority is to secure English as the sole working language of the Office; if necessary we could in return drop our bid for a London site; but it is on balance unlikely that the issue will be fought to a finish at Hanover. Rather more likely, depending on the outcome of the Internal Market Council on 22 June, is a discussion of the Right of Residence Directive, in which you have expressed particular interest. There is no doubt that agreement to the Directive (which would give a right of residence to students, pensioners and others 'not economically active') would involve an extension of

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existing Community competence. But this is an area where the European Court is effectively extending competence by its own jurisprudence. The right kind of Directive could help steer the Court away from the sort of unconditional extensions of competence we would otherwise be faced with. The Directive would, for example, enable member states to refuse residence to students unable to prove that they had adequate resources to maintain themselves. But we should need to be sure that the directive (whose intent was endorsed by the European Council in 1985) could not be used to increase calls on public funds in other ways. Further work on this is being undertaken urgently.

6. We agree with the Germans that the European Council should also set single market priorities up to the end of 1989. The Greek and Spanish Presidencies, which follow the Germans, are less committed to pursuing the single market, and we and the Germans want to set targets for them; and the subsequent French Presidency, which is likely to be more productive. Our priorities (discussed in OD(E)(88)(10) and already identified in your letter to Chancellor Kohl are:

- financial services, eg banking, securities and life insurance;
- mutual recognition of testing and certification procedures and further agreement covering product standards;
- further opening up of public purchasing in member states, and measures to ensure compliance;

CONFIDENTIAL



CONFIDENTIAL

- further transport liberalisation (including shipping cabotage, further opening up of air transport services and road transport cabotage);
- opening up the market in telecommunications.

We also want further progress on food law issues, particularly the spirit drinks regulation.

7. We are working to avoid substantive discussion at Hanover on:

- (a) Tax approximation, to which some Germans and the Commission would like to provide a new political impetus. Chancellor Kohl's letter makes no mention of the subject, and discussion among Finance Ministers has usefully highlighted the wide range of objections. We must ensure that any reference in the conclusions avoids endorsement of the Cockfield approach: looser language, eg calling for further work, would satisfactorily cover our preferred market-oriented approach.
- (b) The European Company Statute, a Commission scheme which M. Delors now seems unlikely to press at Hanover. The Commission and the Germans have been reminded that we would not agree to the proposed provisions for compulsory worker participation in management. Since the latest Commission text on the subject is only a study document, it should be possible to remit this for further work.

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(c) Merger Controls, on which Chancellor Kohl's letter talks of early agreement on "main elements". In your reply you pointed out that much detailed negotiation remains to be done and that our overall position was as yet undetermined. We shall need to develop our contingency line in the light of the Internal Market Council on 22 June.

Monetary Cooperation

8. It is clear that Kohl will want to give fresh impetus to monetary construction, but equally clear that there are divided counsels in Bonn about how best to do so. As you know, Genscher would like to set up a Committee of independent "wise men" to study how to establish a European Central Bank, as an essential component of economic and monetary union. Stoltenberg and the Bundesbank have adopted a more cautious approach and envisage considering in the existing Community machinery (the ECOFIN Council, Monetary Committee, and Committee of Central Bank Governors), whether such a new central authority is now required. Your meeting with President Mitterrand confirmed that the French are inclined to back Genscher's approach. Delors, the Dutch, Spanish et al, have expressed scepticism about "wise men". Kohl and Mitterrand may seek agreement to the establishment of a group of bankers to consider monetary construction, including the possible establishment of a central bank, and the Elysee have stressed to us, following your talk with him, that Mitterrand now has in mind a committee of practitioners (ie bankers, not academics or politicians).

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9. Our best tactic at Hanover will be to steer the discussion, and any future study, towards immediate practical steps, such as:
- greater use of the ecu as an intervention and reserve currency;
 - a move towards wider cross-holdings of Community currencies in foreign exchange reserves;
 - examination of other short term proposals identified by the Monetary Committee and ECOFIN to strengthen monetary cooperation in Europe.

Such a remit could sensibly be directed only to the official channels.

10. As for any longer-range, less action-oriented study, OD(E) agreed that its field of enquiry should be as broad as possible (ie not focussing solely on the question of a European Central Bank); that on this issue its remit would be to examine whether rather than how such a Bank should be established; that it should be produced ad referendum to Finance Ministers; and that any involvement of "wise men" should be plainly subordinate to the Committee of Central Bank Governors: on tap, but not on top.

Social issues and unemployment

11. M. Delors may raise his ideas for a "minimum threshold" of social rights, reinforcement of the social dialogue, and steps towards worker co-responsibility. You know of President Mitterrand's strong interest in the subject, and Papandreou will want a platform for social

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area initiatives during his Presidency. Although we have had assurances from both the Commission and the Greeks that they do not want to get into specifics, there may be some attempt to write into the Conclusions a commitment to work for common standards for eg wages, working hours and conditions, social security, worker participation etc. We should argue that the best weapons in the battle against unemployment are the non-inflationary policies which are now producing in the UK the fastest fall in unemployment, and the most rapid GNP growth, in the Community. We can also point to what the Community has already done (eg the Employment Resolution passed under the UK Presidency), and urge that more should be done to encourage enterprise and combat unemployment through greater labour market flexibility, training, and retraining for the long-term unemployed. Finally, we could agree to continuation of the Commission's dialogue with employers and trade unions provided for in Article 118 of the Treaty: the involvement of the employers neutralises the risks. But we must expect some debate over language for the conclusions.

External Relations

12. The Germans have talked of devoting the second day at Hanover to the Community's external relations and political cooperation topics. East/West relations, the Middle East and Afghanistan are the obvious candidates. We would prefer to avoid any discussion of South Africa, and there has been no suggestion so far that it will be on the agenda, but the possibility that it may be raised cannot be excluded.

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Commission Presidency

13. Heads of Government will be asked to agree on the appointment of the President of the Commission to serve for two years from 1 January 1989. M. Delors is unlikely to be opposed as you know. No UK decisions on Vice Presidents or Commissioners are required until after Hanover.

Conclusions

14. OD(E) on 16 June agreed that our main objectives for Hanover should be:

- (a) to secure a single market package, and single market priorities for the next 18 months, on the lines set out in OD(E) (88)10, and as necessary combat any continued French attempts to attach conditions to capital liberalisation and/or pressure for progress on tax approximation, the European Company Statute or unsatisfactory merger controls (paragraphs 4-7 above);
- (b) to ensure that further work on monetary cooperation is directed to practical steps, with any wider study linked to Central Bank Governors and made ad referendum to ECOFIN (paragraphs 8-10 above);
- (c) to ensure that language in the conclusions on social issues does not commit us to specific measures (paragraph 11 above).

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15. I hope there will be an opportunity before Hanover to discuss the key issues with you.

16. Copies of this minute go to other members of OD(E), the Home Secretary, the Secretary of State for the Environment, the Secretary of State for Transport, the Secretary of State for Social Services and Sir Robin Butler.

A handwritten signature in dark ink, appearing to be 'G. Howe', is written in a cursive style.

(GEOFFREY HOWE),

Foreign and Commonwealth Office
17 June 1988

CONFIDENTIAL

SECRET



BF 22/6

FROM: MISS M P WALLACE

DATE: 20 June 1988

PS/CHIEF SECRETARY

cc Sir P Middleton

Sir T Burns

Mr Anson

Mr Phillips ← Mr Turnbull.

Mr MacAuslan

① Alex CST happy
This all now in hand

② BF

AT will let us have a draft by w-end.

PRE-CABINET MEETING WITH PRIME MINISTER

As I mentioned to you, Paul Gray is anxious to set up a time for the Chancellor and Chief Secretary to see the Prime Minister in advance of the Public Expenditure Cabinet. He has suggested that the Chief Secretary might join the Chancellor and Prime Minister for half an hour during a one hour bilateral already pencilled in for 5.00pm on 29 June. The Chancellor thinks this is broadly the right timing, and so if the Chief Secretary is content, No.10 will confirm the details.

2. Paul also said that they thought it would be helpful to have a paper in advance of the discussion. The Chancellor is content with this, subject to the Chief Secretary's views. On the question of the paper's scope, the Chancellor's initial reaction was that it should be confined to setting out the scale and nature of the problem: the questions of the desired remit for the rest of the Survey and the handling of Cabinet could then be raised orally (although he thought it might be useful to annex to the paper the conclusions of last year's July Cabinet, as a reminder). Alex has undertaken to establish whether the Chancellor has any other thoughts on the content of the paper - eg whether it should draw at all on the long-term public expenditure work - but in the meantime, can you confirm whether the Chief Secretary is content with all this?

Mpw.

MOIRA WALLACE

0000058

SECRET



FROM: JILL RUTTER

DATE: 20 June 1988

APS/CHANCELLOR

1. Alex BF 22
 2. PNP BF 24/6

cc:

Sir Peter Middleton

Sir T Burns

Mr Anson

Mr Phillips

Mr Turnbull

Mr MacAuslan

PRE-CABINET MEETING WITH PRIME MINISTER

The Chief Secretary has seen your minute of 20 June. He is content with the arrangements proposed. He is also content with the Chancellor's proposals for the content of the advance paper.

JILL RUTTER

Private Secretary



Your reference
Our reference

DEPARTMENT OF HEALTH AND SOCIAL SECURITY
ALEXANDER FLEMING HOUSE
ELEPHANT AND CASTLE LONDON SE1 6BY
TELEPHONE 01-407 5522 EXT
GTN (2915)

Handwritten signature

CH/EXCHEQUER	
REC.	22 JUN 1988 ^{22/6}
TO	MR SATCHWELL
COPIES TO	

7018

J M G Taylor
Treasury Chambers
Parliament Street
SW1P 3AG

20 June 1988

Dear Mr Taylor,

EC AIM PROGRAMME

Thank you for the copy of your letter to Nigel Harding dated 17 June 1988.

You may like to know that although I am the UK contact point for the EC programme on Medical and Health Research, and I do have some responsibility for AIM, the lead within this Department is Mr G Simmonds who is at Market Towers. In fact Dr Harding knows this, and I suspect that his attempt to draw Treasury into the arena is an opening move on his part to obtain extra funding for a programme which he has vigorously promoted.

Yours sincerely

Sylvia J. Randall

SYLVIA J RANDALL
RESEARCH MANAGEMENT
DIVISION



J B Unwin CB
Chairman

Good!
[Signature]

→ Jaetha

Board Room
H M Customs and Excise
New King's Beam House
22 Upper Ground
London SE1 9PJ
Telephone: 01-382 5001

FROM: THE CHAIRMAN
DATE: 20 JUNE 1988

CHANCELLOR OF THE EXCHEQUER

THE SINGLE EUROPEAN MARKET : SIMPLIFICATION OF CUSTOMS PROCEDURES

1. At your meeting on 9 May, you agreed that we should take forward our proposals for the simplification of freight procedures, including the first consultations with the trade. I thought you should know how these matters are progressing, since this is an important element of the "alternative approach".

2. At the regular meeting of the Joint Customs/Trade Consultative Committee (the JCCC) on 8 June, we presented a discussion paper on the Government's general approach to the single market and our specific proposals for interim facilitation measures - the so called "fast lane" schemes. A brief description of these schemes is attached.

3. Without exception, the trade associations at the meeting representing the import and export trade and including the CBI, the British Ports Federation and the British Importers Confederation, gave the proposals and the general thrust of our thinking an enthusiastic welcome. Some went as far as to congratulate the Department on our initiative in bringing forward major trade facilitation measures well before 1992.

Economic Secretary
Sir Geoffrey Littler
Mr I C R Byatt
Mr T P Lankester
Mr R P Culpin

Mr Jefferson Smith
Mr Nash
Mr Allen
Mr Knox

Interestingly it also emerged during discussion that the significant reduction of "dwell" times which the fast lane will produce, particularly at Dover, will put the freight trade on its mettle by confirming our long-held belief that much of the delay at our sea frontiers is for commercial rather than official reasons. Some old habits may have to change, such as drivers' lengthy refreshment breaks, if the benefits of our proposals are to be maximised.

4. There were also clear indications during these first consultations that many trade bodies in the UK are beginning to see the Commission plan as unrealistic and that expectations are being lowered accordingly.

5. More detailed work has still to be done to achieve our goal of introducing the fast lane next year and to look at further refinements to relaxing Customs controls in the run-up to 1992, particularly for exports. But I now hope it will be against a background of positive trade co-operation rather than their previous rather negative adherence to the Commission's ideal.

6. I also enclose a copy of the first coverage in the trade press of the fast lane plans which is very encouraging.



J B UNWIN

THE FAST LANE SCHEMES

1. In taking forward the work agreed by OD(E) in January, two schemes are being developed by Customs for selecting, within existing control procedures, certain intra-Community traffic for more favourable treatment. The two schemes are being progressed under the general title of FAST LANE and they are based on immediate clearance at the border and relaxing the present conditions for periodic declarations (period entry).
2. By the use of computerised procedures at the point of entry, EC goods on which only VAT and statistics are collected, will benefit from speedier customs clearance. The paper declaration (the SAD) will be submitted either shortly after release of the goods under **fast lane direct trader input**, or periodically in schedule form under the **fast lane simplified period entry scheme**. Both schemes would maintain present overall levels of documentary and physical checks for VAT, statistics, CAP, health etc., except that some documentary checks currently carried out before clearance would take place after the goods have passed through customs controls. There would be no relaxation in standards of preventive checks for drugs, firearms, rabies and such like.
3. The schemes offer a choice for the trade of a full computerised declaration at the time of arrival, or an initial abbreviated declaration followed by a periodic computerised schedule. Eligible goods would be granted immediate clearance, except for a small percentage selected for spot checks.
4. The main benefits of the schemes would be for driver-accompanied freight vehicles at ports using full computerised systems, when electronic declarations are made before vehicles arrive. Here, with only minor changes to trade community systems, the traffic would have no need to park for normal customs processing, but could be cleared as quickly as traffic going forward for inland clearance - subject only to preventive/immigration checks. For example at Dover this could affect 50-70% of the traffic. The "dwell time" at the port for the fast lane traffic could be reduced from an average of several hours to less than an hour.

- [5. Initially take-up may be concentrated on the fast lane direct trade input scheme, since it is likely to be available first and because the trade generally prefers to make a once-and-for all declaration. By contrast, fast lane simplified period entry scheme, although simplified, is a two stage declaration requiring traders to obtain a computer software package, which will have to be developed commercially from a specification issued by Customs. The benefits from this scheme are the lower administration costs of the global declaration, coupled with its possible long term application post-1992, if intra-EC statistics are eventually collected by monthly schedules from traders, rather than individual frontier-based transactions.]

Biggest UK individually requested circulator of any freight journal

FREIGHT NEWS EXPRESS

6 JUNE 1988

A TRIANGLE PUBLICATION



THE POWER TO MOVE BRITAIN'S EXPORTS

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Telegraphic Address JOSTAL-BARKING

'Zero timeout' plan for non-stop Dover

RO-RO trucks could be driving off ferries and speeding on their way virtually without stopping next year if proposals currently before the Joint Customs Consultative Committee succeed.

Freight at important import locations like Dover could save two hours or more with a new Fastlane Direct Trader Input system, which would allow 'zero timeout' on all Route Three traffic — currently about 70 percent of the total.

Fastlane will in fact remove an anomaly of computerised clearance systems which delays 'innocent' freight, that is goods identified by the DEPS Custom computer following an electronic SAD declaration and on which VAT payment was secured.

Under existing DTL, a timeout delay is built-in, whether the Customs authorities have an interest in the cargo or not. Naturally, Customs' spot checks for enforcement purposes and to combat drug smuggling will continue.

by Chris Lewis

Dover Customs expert Bill Hargreaves commented: 'This will do wonderful things for Dover, with hours saved on over half the traffic passing through. Of course, the firm link has concentrated minds on the need to speed up clearances'.

Also before the JCCC sub-group looking into clearance issues are proposals to simplify procedures for period entry importers: instead of having to send statistical data on tape to Customs, they would be visited periodically by local Customs officers.

The flow of exports will also be accelerated, says Mr Hargreaves. 'There is no reason why exports cannot leave before statistical data is collected, but to do that we need an export interface for DEPS'. A feasibility study was underway, he added.

The Dover authorities are now examining the effect on existing computer capacity, and there is strong pressure to push the new measures through as quickly as possible. 'We're certainly going flat out' commented Mr Hargreaves.

My

Please get this done as
 have a date - & we can then
 discuss early at a mtg on Mon.

2. Per council in TB 2 is
 fig @ X (two), wh. seems to
 be somewhat out of date. While
 we have to be cautious abt our
 assumptions ~~by~~ the the growth
 of GDP, the num was to now
 Plan 2 1/2 %.

3. Per Law, an Annex, tables
 showing (a) tax since year to
 year since 1978-79 & rate surpl
 years, & (b) ~~total~~ gross of GDP
 (ex PP) both in real terms &
 next years; a total cost assum
 of 3 1/2 / 7 / 10 1/2, & GDP as per in TB's
 advice for surr years.

Handwritten notes on the left margin:
 1. 1/2
 2. 1/2
 3. 1/2

..



will do
on Made

Thurs
Pst
Mr
typo
STP
sheet

Ch/ not very inspiring stuff
I'm afraid, and still needs
quite a bit of work. Some
tables might help - eg.

- tax burden since 78-9
- numbers to illustrate dire consequences envisaged in para 8

But, prior question is; do
you want to express it all
in terms of tax burden,
long term p/ex work etc?

Paul Gray will recall from
last yr's survey post - mentions
that a revised Green Paper
was contemplated and may
smell a rat.

npw.

SECRET*cab off. Per*

This covers the key points which you will want to impress upon the Prime Minister. I have incorporated a few minor changes in the

FROM: J MACAUSLAN
DATE: 23 June 1988

1 MR ANSON draft. I assume you will wish to discuss this with us at your meeting on Monday morning.

✓ A. 23/6

2 CHANCELLOR OF THE EXCHEQUER +1

cc: Mr Phillips
Mr Odling-Smee
Mr Turnbull
Miss Walker

copies attached for

Chief Secretary
Sir P Middleton
Sir T Burns

*to discuss this
- if need be - and
remit (AT's minute behind)*

PRE CABINET MEETING WITH PRIME MINISTER

1. Moira Wallace's note of 20 June recorded that you were content with the suggestion from No 10 that you put a paper to the Prime Minister on the Survey prospects. The paper would go over in advance of the meeting which you and the Chief Secretary will have with her on the afternoon of Wednesday 29 June. I attach a draft.

2. The draft uses but does not mention the work done on the longer term prospects; and the statements based on it are qualitative only.

3. Paragraph 8 illustrates the implications of cutting back the bids by the same amounts as we did last year. That implies additions to programmes in the first two years on the same scale as the forecast outcome shown in my note of 13 June; but additions in the last year that are £1½ billion smaller. It will therefore not be easy even to achieve that.

4. Your office will attach to this submission the conclusions of the 1987 July Cabinet. Moira Wallace's note of 20 June recorded that you thought it might be useful to remind the Prime Minister of those conclusions. You will want to decide whether to attach them to the paper sent over to No 10, or to have them to hand for when you raise (orally) the remit for the rest of the Survey and the handling of Cabinet.

5. I would be most grateful for any comments on the draft. When we have your reactions, we will if necessary submit a revised version of the paper, which could be sent over to No 10 on Monday. We will also prepare briefing, covering the background facts and figures and the question of the remit and the handling of Cabinet.



J MACAUSLAN

DRAFT PAPER FOR PRIME MINISTER

PROSPECTS FOR 1988 SURVEY

Progress to date

gradually to reduce general as a share of GDP, to reduce the budget while its basic rate of income tax.

1. Our firm grip on public expenditure over recent years has allowed us to cut the basic and higher rates of income tax, abolish five taxes, and get the budget back into balance. Now that we have done this, we need to set to work on getting the burden of tax back down to the levels we inherited in 1978-79. Then tax was equivalent to 34.3 per cent of GDP (leaving aside the North Sea). Now it is 37.4 per cent.

Don't we need some reminder of why tax burden has risen as % of GDP

The Last Public Expenditure White Paper

Existing Plans

2. The rate of growth in spending planned in the last White Paper, was consistent with a steady reduction in the tax burden in the medium-term. It opened the prospect of getting the basic rate down to 20p in the next Parliament, if not in this. But it was also close to the maximum which was consistent with those objectives.

which shows

3. The White Paper noted that general government expenditure (excluding privatisation proceeds) would grow by about 1 1/4 per cent a year in real terms between 1986-87 and 1990-91. It compared this with 2 1/4 per cent in the 4 years to 1982-83 and 1 3/4 per cent in the 4 years to 1986-87.

4. This modest and declining rate of growth of general government expenditure is welcome. But it is only just good enough. It depends heavily on declining debt interest payments - a result of our success in balancing the budget. But lower debt interest will be [matched] by lower North Sea taxes and lower interest and dividend receipts - and taken together these yield no extra scope for reducing the burden of non-North Sea taxation.

the burden of tax

5. To reduce this burden we need to keep the growth of departmental spending (ie the planning total, including the

But the overall burden of tax, at 37.4 percent of GDP (even excluding the North Sea) still remains well above the 34.3 percent figure we inherited in 1979. There thus remains a major task ahead of us if we are to get below the burden of tax we inherited, which will require many more years of public expenditure as a share of GDP.

reserves, but excluding privatisation proceeds) well below the growth of GDP. The existing plans imply ^{in real terms} ~~(real)~~ increases of ^{by} around 2½ per cent a year, compared with an assumed trend growth of GDP of 2½ per cent.

Prospects for the 1988 Survey

6. ^{It is against the background that we have to assess} The bids in the current Survey total £8.5 billion, ^{And some of these} £11.8 billion, and £15.4 billion. ^{for the three surveys} [Colleagues have foreshadowed yet more bids later (eg for launch aid, student support, and social security)]. A proportion of these bids ^{consists of} represent estimating changes that will be difficult to resist; but a much larger proportion this year represents proposals for new policy initiatives. The size of these bids ^{clearly} puts our objectives at risk.

7. ^{adopted} If we ^{left} the same pattern of reserves as ^{at the end of} the last Survey (£3.5/7.0/10.5 billion), there would be room in this Survey to draw down the reserves for each year by £3.5 billion. Hence we ^{can at most} could add £3.5 billion in each year to ^{priority} programmes without exceeding the planning totals in the White Paper. ^{But I doubt if} we could sensibly draw down the reserves any further. I would like if anything to draw them down less: despite our efforts, local authorities and others are still likely to overspend the plans.

8. The bids are far in excess of what we can accommodate by drawing down reserves. Even if we cut the bids back by the same amounts as we did last year, (£3 billion, £4.5 billion and £6 billion), that would imply that:

- departmental programmes would grow at over 2 3/4 per cent a year in real terms - faster than the trend growth of the economy.

- General Government Expenditure (excluding privatisation proceeds) would show faster real growth than in the period since 1982-83 and indeed since 1978-79. This would mark an end to the progress we have been making in reducing the growth rate of spending.

it would be prudent to set lower reserves than in last year's White Paper - if anything, I judge they should be rather higher

though at the end of the year we may well be made to provide to provide slightly higher reserves than this.

- the fall in the ratio of General Government Expenditure to GDP might slow to a virtual halt around the end of the Survey period.

- the tax burden (excluding the North Sea) would also stop falling; and

(at 5% or 6% or 7% or 8% or 9% or 10% or 11% or 12% or 13% or 14% or 15% or 16% or 17% or 18% or 19% or 20% or 21% or 22% or 23% or 24% or 25% or 26% or 27% or 28% or 29% or 30% or 31% or 32% or 33% or 34% or 35% or 36% or 37% or 38% or 39% or 40% or 41% or 42% or 43% or 44% or 45% or 46% or 47% or 48% or 49% or 50% or 51% or 52% or 53% or 54% or 55% or 56% or 57% or 58% or 59% or 60% or 61% or 62% or 63% or 64% or 65% or 66% or 67% or 68% or 69% or 70% or 71% or 72% or 73% or 74% or 75% or 76% or 77% or 78% or 79% or 80% or 81% or 82% or 83% or 84% or 85% or 86% or 87% or 88% or 89% or 90% or 91% or 92% or 93% or 94% or 95% or 96% or 97% or 98% or 99% or 100%)
- we could make progress towards a 20p basic rate, only by raising other taxes or allowing more people to be drawn into tax.

[This is a relic - reads puzzlingly. How do the sums look with the correct tax assumption]

This would provoke criticism from our supporters and the markets. They would say that we had built in massive spending commitments for the period up to 1991 on the basis of a rate of economic growth in 1987 and 1988 which ~~probably could~~ ^{higher} not be sustained; and that we had lost our grip on public spending, when the battle against inflation clearly requires restraint; undermined our policy of sound finance; and jeopardised our chances of continuing the tax reductions which have given ~~Britain its vigour.~~ *(The British Economy has now - Jones)*

Conclusion

aim to
7. Clearly we must do better. The bids for health (£1.9 billion in the first year, rising to £3.5 billion in the last) include large bids for capital expenditure which must be scaled down: they would only lead to unsustainable running costs demands in later years. Social security bids total £2.7 billion in the last year: difficult decisions will be needed eg on disability benefits, ~~which are now being reviewed~~ *how to handle the outcome of the review of*. The bids for education, the Home Office, and Transport represent extraordinary increases (18 per cent, 24 per cent and 26 per cent of the respective baselines in the last year) and will have to be dramatically scaled back. Tough decisions will be needed on defence too. We will have to find savings on industry and agriculture - and, with unemployment falling fast and at its lowest since 1981, on the employment programme ~~in particular~~ ^{too}, where, far from savings being offered, increases are sought.

are out of proportion to the rest of the programme? and

10. A number of the bids are for increased construction spending. The construction industry is now very stretched and prices are rising faster than inflation for the first time for a number of years. We must avoid adding to the pressures *in this sector.*

11. If we are to maintain the policies which have brought success, we will have to put to Cabinet next month the need for determined efforts in all areas.



23/6/88

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PM/88/028

PRIME MINISTER

CH/EXCHEQUER	
REC.	23 JUN 1988 ✓ 23/6
ACTION	SIR G. LITTLE
COPIES TO	SIR P. MIDDLETON SIR T. QUENS MR LANKESTER MR SCHOLAR MR PERETZ MISS G. MARA

Hanover European Council

/ 1. I enclose the traditional agenda letter from Chancellor Kohl, which will be the only Presidency document circulated before Hanover. It contains no surprises, and confirms that the Chancellor wants a harmonious and informal Summit, covering:

- (a) on Monday afternoon, Single Market issues (including the social and external dimension), and monetary matters;
- (b) on Monday evening, the Economic Summit, the problem of cross-border crime, environmental issues, and the Presidency of the Commission;
- (c) on Tuesday morning, Political Cooperation issues, particularly East/West Relations (to be discussed at the separate Foreign Ministers dinner).

/2.

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2. The following glosses to my 17 June minute on OD(E)'s advice may be useful.

(i) Single Market

Following yesterday's successful Internal Market Council, there is unlikely to be substantive discussion of current single market issues. But Kohl's letter helpfully draws attention to the need to set priorities for the future. You have given the Germans your list, and we have had confirmation that they oppose none of the items on it, but it will be for the Commission to produce considered proposals at Hanover. We are in touch with them.

(ii) Social Issues

On the social dimension of the single market, we can expect much talk about "cohesion", and a substantial intervention by President Mitterrand. But we have had assurances from the French and Germans, and the Commission, that no specific new decisions will be sought. We shall need to make sure that any reference in the Conclusions reaffirms the view that sustained non-inflationary growth provides the best means of tackling unemployment.

(iii) Cross-Border Crime

Chancellor Kohl will probably call for intensified cooperation through the TREVI Group etc. We can agree. This will be an opportunity to let others know how we are

/tackling

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tackling football hooliganism etc, and to raise your points about the need to tackle problems associated with the quality of life, not just standard of living.

M. Delors will also give a report on the black economy and moonlighting in response to a remit given him at The Hague two years ago, in the context of discussion of distortion of unemployment statistics.

(iv) Environment

For domestic reasons, Chancellor Kohl wants to touch on environmental issues, particularly - as we heard at Toronto - pollution of the Rhine and the North Sea. Again we have been assured that no specific decisions are sought. Indeed substantive discussion is unlikely, following the agreements reached in last week's Environment Council on Acid Rain etc.

3. Chancellor Kohl's letter does not spell out how he proposes to play the hand on Monetary Cooperation. But our contacts suggest that your strictures on "wise men" have been taken to heart, and that the latest idea, to be unveiled in Hanover, is for a one year study by Central Bank Governors. Our impression is that Kohl now envisages a remit along the following lines:

"To establish principles for greater monetary cooperation among member states, bearing in mind the objective of Economic and Monetary Union, and in particular to consider:

/(a)

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- (a) economic, financial and monetary steps leading to this goal;
- (b) concrete possibilities for strengthening the EMS, including better convergence of policies;
- (c) the characteristics a European Central Bank would have to have, within a system of central banks, bearing in mind the basic requirement of monetary stability."

Mitterrand will want much more, and we shall need to ensure that he doesn't sway Kohl again. But this is very much better than earlier versions eg Genscher's, and the reference to a Central Bank is suitably conditional, and non-prescriptive.

4. We shall obviously need to take the Chancellor's advice, but on the face of it I believe that we ought to be able to go along with a study on something like these lines, provided that:

- (i) its report would be submitted through ECOFIN; and
- (ii) practical improvements of the kind that the Chancellor has been advocating in ECOFIN are given pride of place (see point (b) in the probable German text above); with the other points, including the Central Bank question, specifically described as for the longer-term.



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5. It is conceivable, though unlikely, that there will be some discussion of the Greek veto on the 1988 CAP Price Fixing. Seeking a larger green rate devaluation, the Greeks last Friday invoked the Luxembourg Compromise to prevent adoption of a package which we and all other member states could accept. If the matter is raised, we shall want to say that the Guideline must be paramount, and that the Greeks must accept what is now on the table. I would expect others to say much the same.

6. I am copying this minute to the Chancellor of the Exchequer, the Home Secretary, the Secretary of State for Trade and Industry, the Minister of Agriculture and the Cabinet Secretary.

A handwritten signature in black ink, appearing to be 'G. Howe', written in a cursive style.

(GEOFFREY HOWE)

Foreign and Commonwealth Office

23 June 1988

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165676
MDHIAN 4588

CONFIDENTIAL

FM BONN

TO DESKBY 231700Z FCO

TELNO 636

OF 231210Z JUNE 88

INFO ROUTINE ALL EC POSTS, BMG BERLIN

INFO SAVING CGS IN THE FRG

(FRAME GENERAL)

MY TELNO 633 : HANOVER EUROPEAN COUNCIL : MESSAGE FROM KOHL

1. WE HAVE JUST RECEIVED KOHL'S MESSAGE TO THE PRIME MINISTER.
FOLLOWING IS OUR TRANSLATION:

BEGINS

IN A FEW DAYS' TIME WE SHALL BE MEETING IN HANOVER FOR THE EUROPEAN COUNCIL. THANKS TO THE SUPPORT OF ALL THOSE INVOLVED, THIS EUROPEAN COUNCIL CAN BUILD ON THE DELORS PACKAGE ADOPTED IN FEBRUARY WHICH HAS MEANWHILE BEEN IMPLEMENTED IN ALL ITS PARTS. THE LEITMOTIF OF THIS FUNDAMENTAL REFORM, 'THE SINGLE EUROPEAN ACT MUST BE A SUCCESS', SHOULD CONTINUE TO SPUR US ON. I PROPOSE THAT WE DEAL WITH THE FOLLOWING QUESTIONS AT THE VERY BEGINNING OF THE COUNCIL ON MONDAY AFTER NOON FOLLOWING OUR MEETING WITH THE PRESIDENT OF THE EUROPEAN PARLIAMENT:

(1) WE HAVE SO FAR ADOPTED ABOUT A THIRD OF THE PROPOSALS CONTAINED IN THE COMMISSION'S WHITE PAPER ON THE SINGLE MARKET. HOWEVER, WE MUST NOT SLACKEN IN OUR EFFORTS TO OBSERVE THE TIME-TABLE FOR THE COMPLETION OF THE SINGLE MARKET BY 1992. WE SHOULD THEREFORE DISCUSS WHICH CENTRAL TOPICS OF THE SINGLE MARKET THE COUNCIL MUST DEVOTE ITSELF TO IN THE NEXT FEW YEARS IN ORDER TO ACHIEVE THIS GOAL.

(2) THE DECISION RELATED TO THE SINGLE MARKET AFFECT NOT ONLY PRODUCERS AND CONSUMERS. THEY ALSO HAVE CONSIDERABLE EFFECTS ON THE SOCIAL ENVIRONMENT. THEY ARE OF EQUAL CONCERN TO BOTH EMPLOYEES AND EMPLOYERS IN OUR COUNTRIES. WITH A VIEW TO COMPLETING THE SINGLE MARKET BY 1992 I THUS CONSIDER IT IMPORTANT THAT THE COMMUNITY SHOULD PAY PARTICULARLY CLOSE ATTENTION TO THE SOCIAL DIMENSION OF THE SINGLE MARKET. THE SINGLE MARKET WOULD BE INCOMPLETE WITHOUT THE ACCOMPANYING SOCIAL MEASURES.

(3) WITH REGARD TO ECONOMIC AND MONETARY UNION, WHICH IS OUR COMMON

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GOAL, WE SHOULD DEAL WITH THE INTENSIFICATION OF MONETARY POLICY COOPERATION. I CONSIDER IT NECESSARY TO BEGIN EXAMINING THE QUESTION OF WHAT PREREQUISITES AND INTERMEDIATE STEPS ARE REQUIRED ON THE PATH TO ECONOMIC AND MONETARY UNION. THIS ALSO INCLUDES APPROPRIATE MEASURES TO STRENGTHEN COOPERATION IN THE FIELD OF ECONOMIC AND FINANCIAL POLICY.

I SHALL EXPLAIN MY IDEAS, INCLUDING THOSE ON THE NEXT STEPS, IN GREATER DETAIL IN HANOVER AND HOPE THAT WE WILL REACH DECISIONS WHICH TAKE US FURTHER. FINALLY, WE SHOULD ENDORSE THE EXPANSION AND INTENSIFICATION OF EXTERNAL RELATIONS. THESE ARE GAINING IN IMPORTANCE TO THE SAME EXTENT AS THE COMMUNITY IS INCREASING IN STRENGTH AND ATTRACTIVENESS THROUGH ITS INTERNAL DEVELOPMENTS. EUROPE MUST FULFIL ITS RESPONSIBILITY WITH A SELF-CONFIDENT POLICY WHICH IS OPEN TO THE WORLD.

AT THE START OF OUR EVENING SESSION, PRESIDENT DELORS AND I WOULD LIKE TO REPORT ON OUR IMPRESSIONS OF THE ECONOMIC SUMMIT IN TORONTO. JACQUES DELORS WILL ALSO THEN GIVE HIS ASSESSMENT OF THE ECONOMIC AND SOCIAL SITUATION IN THE COMMUNITY.

IN THE COURSE OF THE EVENING I SHOULD LIKE TO BRING UP A SUBJECT WHICH IN MY VIEW IS OF SPECIAL IMPORTANCE FOR CITIZENS' EUROPE AND IN THE CONTEXT OF THE COMPLETION OF THE SINGLE MARKET. I REFER TO THE PROTECTION OF FREE SOCIETY FROM THE DIFFERENT FORMS OF CROSS-BORDER CRIME.

PRESIDENT DELORS WILL ALSO GIVE AN ORAL REPORT, PROPOSED ON A PREVIOUS OCCASION, ABOUT THE BLACK ECONOMY AND MOONLIGHTING. WE HAD RESOLVED TO EXPLORE THIS SUBJECT IN THE CONTEXT OF THE INVESTIGATION OF THE CAUSES, CHARACTER AND SCALE OF UNEMPLOYMENT.

AT AN APPROPRIATE PLACE IN OUR DELIBERATIONS WE SHOULD ALSO BROACH ENVIRONMENTAL QUESTIONS, IN PARTICULAR TALK ABOUT THE DISTURBING POLLUTION OF (INLAND AND MARTIME) WATERS. THIS SHOULD ALSO CONTRIBUTE TO THE SUCCESS OF THE SINGLE EUROPEAN ACT IN ALL ITS PROVISIONS.

IN ADDITION, WE SHALL HAVE TO NOMINATE THE FUTURE PRESIDENT OF THE COMMISSION.

I PROPOSE THAT ON TUESDAY MORNING WE DISCUSS EPC QUESTIONS INITIALLY ON THE BASIS OF A REPORT FROM THE FOREIGN MINISTERS, INCLUDING ABOVE ALL PERSPECTIVES OF THE EAST-WEST RELATIONSHIP.

PAGE 2
CONFIDENTIAL

CONFIDENTIAL

165676
MDHIAN 4588

FINALLY WE SHOULD GO THROUGH THE FINAL CONCLUSIONS OF OUR MEETING. FOR THAT, I INTEND TO SUBMIT TO YOU AS USUAL A DRAFT EARLY ON TUESDAY.

I LOOK FORWARD TO WELCOMING YOU NEXT WEEK IN HANOVER.

ENDS.

2. SIGNED ORIGINAL FOLLOWS BY BAG (TO FCO)

MALLABY

YYYY

DISTRIBUTION

368

MAIN 367

.FRAME GENERAL

ECD(I) [-]

ADDITIONAL 1

FRAME

NNNN

CONFIDENTIAL

MR ALEX ALLAN

Ch. Sir G Howe's note behind.

From: Sir G. Littler
Date: 23 June 1988

FCO are anxious that, if you write, it should go tonight so that it will be seen before the PM sees Hannay tomorrow a.m.

c.c. Sir P. Middleton
Sir T. Burns
Mr Lankester
Mr Scholar
Mr Peretz
Miss O'Mara

2. I have suggested some amendments, to fit in with Sir G.H.'s text. If you are content, I will sign it for you + send it off.

HANNOVER: MONETARY COOPERATION

content, I will sign it for you + send it off. 26/23/6

Mr Lavelle, who is as usual coordinating briefing, tells me that the Foreign Secretary will be putting something to the P.M. about this subject, probably later today. Lavelle thought it would be a good idea if the Chancellor were to put in a short note.

2. I am not sure that this is really necessary, but I attach a draft of the kind of suggestion the Chancellor might like to put forward. Perhaps you could look out for what the FCO produce and consider in the light of that.

(Geoffrey Littler)

RAFT MINUTE TO PRIME MINISTER

C.C. Foreign and Commonwealth Secretary
Sir Robin Butler

I have seen Geoffrey Howe's minute to you of today. It will be difficult to reject Kohl's proposal to studying the idea of a European central bank outright; but if we do have to agree to such a study, Paragraph 3 of Geoffrey's minute, I believe we should seek to insist on the following:

HANNOVER: MONETARY COOPERATION

I have seen Geoffrey Howe's minute to you of today. I agree with his advice, in particular on the line to take on monetary co-operation. I think we can go along with the Treasury's proposal.

I understand that officials have learned that the kind of language the Germans may be contemplating as a remit for further work on this subject is:

"To establish principles for greater monetary cooperation between member states having a view to the objectives of EMU and in particular to consider:

- (a) the economic, financial and monetary steps leading to this goal;
- (b) the concrete possibilities for strengthening the EMS including better convergence of policies; and
- (c) the characteristics a European Bank would have to have within a system of central banks, bearing in mind the basic requirement of monetary stability."

2. If we have to accept something on these lines, I think

A possible amendment to the remit, which meets these points, is: the text could be much improved, by re-ordering and amendment on the following lines:

"To reconsider the principles of greater monetary cooperation between member states and in particular:

- as a first priority, to continue to seek and develop practical steps to improve and strengthen the European Monetary System;
- to explore possible longer-term economic, financial and monetary developments in the Community, including the question whether there is also a role for a) European Central Bank, and if so what its characteristics might be."

given the continued responsibilities of national central banks,

As we have already agreed, we want any further work done by

existing responsible bodies: ECOFIN, *(the Committee of)* Central Bank Governors and *the* Monetary Committee, *(both of them report in the normal way to the Ecofin Council)* and not by any extraneous wise men.

3. Copies of this go to ~~Geoffrey Howe and Sir Robin Butler~~

the recipients of Geoffrey's minute.



Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

RWP

PRIME MINISTER

HANOVER: MONETARY CO-OPERATION

I have seen Geoffrey Howe's minute to you of today. It will be difficult to reject Kohl's proposal to study the idea of a European Central Bank outright; but if we do have to agree to such a study, instead of the German remit set out in paragraph 3 of Geoffrey's minute, I believe we should seek to insist on the following:

"To consider the principles of greater monetary cooperation between member states and in particular:

- as a first priority, to continue to seek and develop practical steps to improve and strengthen the European Monetary System;
- to explore possible longer-term economic, financial and monetary developments in the Community, including the question whether, given the continued responsibilities of national central banks, there is also a role for a European Central Bank, and if so what its characteristics might be."

As we have already agreed, we want any further work done by existing responsible bodies: the Committee of Central Bank Governors and the Monetary Committee, both of them reporting in the normal way to the ECOFIN Council, and not by any extraneous "wise men".

Copies of this go to the recipients of Geoffrey's minute.

JH

pp. [NL]
23 June 1988

[Approved by the Committee + signed in his absence]

BF 30/6

FROM: J MACAUSLAN
DATE: 24 June 1988

CHANCELLOR

Ch/
Your redraft of paper at X.
One thought - now that we have excised the passage about debt interest etc., should we sh'ld include in ^{the text of} paper growth rates for both GGE and departmental spending? If you wanted to drop it I've indicated how it might be done.

cc: Chief Secretary
Sir P Middleton
Sir T Burns
Mr Anson
Mr Phillips
Mr Odling-Smee
Mr Turnbull
Miss Walker

PRE CABINET MEETING WITH PRIME MINISTER

1. Moira Wallace's note of today asked for some further tables.
2. Table 1 shows GGE excluding privatisation proceeds from 1978-79 to 1991-92 in £ billion cash; showing real growth over the previous year; and as a percentage of GDP. The figures for the Survey years assume concession of all the bids, and reserves of £3.5/7/10.5 billion. For these years, I show two variants:
 - (i) Case 1 is consistent with the table in paragraph 10 of Mr Turnbull's note of 17 June and uses the FSB assumptions for money GDP, GDP deflator and debt interest;
 - (ii) Case 2 is consistent with the figures in paragraphs 24-25 of Mr Turnbull's note (and shows how we guessed the 1988 Autumn Statement might present the figures).
3. Table 2 shows for the future the GEP assessment of the outcome of the Survey on a basis consistent with Mr Turnbull's paragraphs 24-25. Table 3 shows figures for the future derived from the June forecast.
4. Table 4, prepared by Stephen Davies, shows the tax burden since 1978-79 and into the Survey years on bases comparable to those used for Table 1.

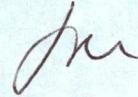
As requested
Do not
make any
changes
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John
Wallace
17/6

mpw.
24/6

MACAUSLAN
CHX
24/6

5. In all the tables we have assumed GDP real growth of 2½ per cent in line with the June forecast of growth of productive potential and as advised by Sir T Burns.

6. On paragraph 1 of the revised draft paper for the Prime Minister, the 1987-88 figure for GGE as a percentage of GDP of 41.7 per cent is the lowest since 1972-73 (40.7 per cent); the figure in case 1 in Table 1 of 41.2 per cent for 1988-89 would also be the lowest since 1972-73, but the figure of 40.4 per cent in case 2 would be the lowest since 1970-71. I recommend you say, "since the early 1970s".



J MACAUSLAN

JULY CABINET REMITS

BF 30/6-20
1/7 PMP
(note of mtg)

1986

The Cabinet agreed that "the Chief Secretary, Treasury, should hold bilateral discussions with colleagues, working within the existing published planning totals for 1987-88 and 1988-89, and within a new planning total of £153 billion set for 1989-90."

1987

"The Chief Secretary, Treasury, said that the Government's objective, based on its Manifesto commitment, must be to ensure not only that the level of public expenditure should be held as close as possible to the existing planning totals, but also that its share of national income, without allowing for privatisation proceeds, should not exceed the path in the previous year's White Paper."

"The Prime Minister, summing up the discussion, said that the Cabinet endorsed the proposals by the Chief Secretary, Treasury ... Meanwhile, in reply to questions, she would explain that the Cabinet ... had reaffirmed the policy that public expenditure should continue to take a declining share of national income, as set out in the last Public Expenditure White Paper ..."

1988

We must keep as close as possible to the existing planning totals, and ensure that the ratio of total public expenditure (excluding privatisation proceeds) to GDP continues to decline steadily over the three Survey years.

CABINET
REMIT

GENERAL GOVERNMENT EXPENDITURE 1978-79 TO 1991-92

	GGE excl priv proc (£ bn)		Real growth GGE		GGE as % of GDP	
	<u>1</u>	<u>2</u>	<u>1</u>	<u>2</u>	<u>1</u>	<u>2</u>
1978-79	74.8				43.2	
1979-80	90.1			3.1	43.4	
1980-81	108.9			1.8	46.0	
1981-82	121.0			1.1	46.4	
1982-83	133.0			2.6	46.8	
1983-84	141.3		7.4	1.5	45.9	
1984-85	152.3			3.3	46.2	
1985-86	161.0			-0.3	44.5	
1986-87	169.4			1.9	43.9	
1987-88	176.4			-0.6	41.7	
1988-89	187.9		1.7	0.7	41.2	40.4
1989-90	202.6	202.2	3.7	3.0	41.7	40.6
1990-91	214.5	213.7	2.3	2.1	41.6	40.4
1991-92	225.5	224.4	2.1	2.0	41.4	40.2

Notes GGE figures assume concession of all bids recorded on scorecard; and debt interest and national accounts adjustments of £26.1/25.5/25.0/24.7 billion in the four years from 1988-89 in case 1, and £26.1/25.1/24.2/23.6 billion in case 2.

Real growth assumes deflators from 1988-89 to 1991-92 of

Case 1 4.5/4.0/3.5/3.0% (as in FSBR)

Case 2 5.5/4.5/3.5/3.0% (as projected for Autumn Statement)

GGE as % of GDP assumes money GDP of

Case 1 £456/486/516/545 billion (as in FSBR)

Case 2 £465/498/529/558 billion (as projected for Autumn Statement).

NB // These tables do not take account of negative EPL loss.
mpw.

CASE ONE / CASE TWO

GGE ON GEP ASSESSMENT OF OUTCOME

	GGE excl priv proc fbn	Real growth of GGE (%)	GGE as % of GDP
1978-79	74.8		43.2
1979-80	90.1	3.1	43.4
1980-81	108.9	1.8	46.0
1981-82	121.0	1.1	46.4
1982-83	133.0	2.6	46.8
1983-84	141.3	1.5	45.9
1984-85	152.3	3.3	46.2
1985-86	161.0	-0.3	44.5
1986-87	169.4	1.9	43.9
1987-88	176.4	-0.6	41.7
1988-89	187.9	0.6	40.4
1989-90	199.1	1.5	40.0
1990-91	209.0	1.4	39.5
1991-92	219.7	2.1	39.4

Notes { GGE assumes debt interest and national accounts adjustments of £25.9/25.1/24.2/23.6 billion in the four years from 1988-89.

{ Real growth assumes GDP deflators of 5.5/4.5/3.5/3.0% over the 4 years from 1988-89.

{ GGE as % of GDP assumes money GDP of £465/498/529/558 billion.

M.

i.e all
"Case 2"
from
previous
page.

GGE ACCORDING TO JUNE FORECAST

	GGE excl priv proc fbn	Real growth of GGE (%)	GGE as % of GDP
1978-79	74.8		43.2
1979-80	90.1	3.1	43.4
1980-81	108.9	1.8	46.0
1981-82	121.0	1.1	46.4
1982-83	133.0	2.6	46.8
1983-84	141.3	1.5	45.9
1984-85	152.3	3.3	46.2
1985-86	161.0	-0.3	44.5
1986-87	169.4	1.9	43.9
1987-88	176.4	-0.6	41.7
1988-89	187	0.3	40
1989-90	200	1.3	39.75
1990-91	210	1.4	39.5
1991-92	n.a	n.a	n.a

NON OIL TAX BURDENS

	<u>1</u>	<u>2</u>
1978-79		34.3
1979-80		35.2
1980-81		36.2
1981-82		38.7
1982-83		38.2
1983-84		37.8
1984-85		37.9
1985-86		37.0
1986-87		37.5
1987-88		37.7
1988-89 (3) 37.7	37.6	37.4
1989-90 (0)	37.9	37.9
1990-91	38.2	38.0
1991-92	38.2	38.0

Notes

Column 1 uses "FSBR" assumptions as in column 1 of Table 1.

Column 2 uses "projected Autumn Statement" assumptions as in column 2 of Table 1, and June forecast tax revenues to compute 1988-89 tax burden.

DRAFT PAPER FOR PRIME MINISTER

PROSPECTS FOR 1988 SURVEY

The early 70s

Progress to date

1. Our firm grip on public expenditure over recent years has allowed us gradually to reduce general government spending as a share of GDP, to its lowest level since [date], and to balance the Budget, while reducing both the higher and basic rates of income tax. But the overall burden of tax, at 37.4 per cent of GDP (even excluding the North Sea) still remains well above the 34.3 per cent figure we inherited in 1979. There thus remains a major task ahead of us if we are to get below the burden of tax we inherited, which will require more years of public expenditure declining as a share of GDP.

The existing plans

2. The rate of growth in spending indicated in the last White Paper, which showed general government expenditure (excluding privatisation proceeds) growing by about 1 1/4 per cent a year in real terms between 1986-87 and 1990-91, was indeed consistent with a steady reduction in the tax burden in the medium-term. ~~It offered~~ the prospect of getting the basic rate down to 20p in the next Parliament, if not in this. But ~~it was~~ ^{this is very} ~~also~~ ^{that} close to the maximum rate of growth consistent with ~~those~~ objectives.

(in effect)

2.3. To reduce the burden of tax we need to keep the growth of departmental spending (ie the planning total, including the reserves, but excluding privatisation proceeds) ~~well~~ below the growth of GDP. The existing plans imply real increases of around 2 1/4 per cent a year, compared with an assumed trend growth of GDP of 2 1/2 per cent, and ~~were~~

change

and thus

SECRET

Prospects for the 1988 Survey

— not to mention the premises to do more for particular groups that will inevitably emerge in future surveys.

3.4. It is against this background that we have to assess the bids in the current Survey. These already total £8^{1/2} billion, ~~£11.8~~¹² billion and ~~£15.4~~¹⁷ billion for the three Survey years, with the threat of more to come. A proportion of these bids consists of estimating changes that will be difficult to resist; but a much larger proportion this year represents proposals for new policy initiatives. The size of these bids clearly puts our objectives at risk.

losing purchasing power

4.5. If we adopted the same pattern of reserves as we did last year (£3.5/7.0/10.5 billion), there would be room in this Survey to draw down the reserves for each year by £3.5 billion, though at the end of the day it may well be prudent to provide slightly higher reserves than this. Hence we can at most add £3.5 billion in each year ^{to} by programmes without exceeding the planning totals in the White Paper, and possibly less.

The Annex shows ^{what} the consequences of ~~it~~ would be if they ~~are~~ accepted ~~in~~ full.

5.6. The bids are ^{thus} far ~~in excess~~ of what we can accommodate by drawing down reserves. *←* Even if we cut the bids back by the same amounts as we did last year, (£3 billion, £4.5 billion and £6 billion), that would imply that:

- departmental programmes would grow at over ~~2 1/2~~³ per cent a year in real terms - faster than the trend growth of the economy.
- General Government Expenditure (excluding privatisation proceeds) would ~~show faster real growth than in the period since 1982-83 and indeed since 1978-79.~~ ^{show grow ~~greater~~ faster than ~~in~~ ~~the~~ ~~period~~ ~~since~~ ~~1982-83~~ ~~and~~ ~~indeed~~ ~~since~~ ~~1978-79~~ ~~thus~~ ~~making~~ ~~This~~ ~~would~~ ~~mark~~ ~~an~~ ~~end~~ ~~to~~ ~~the~~ ~~progress~~ ~~we~~ ~~have~~ ~~been~~ ~~making~~ ~~in~~ ~~reducing~~ ~~the~~ ~~growth~~ ~~rate~~ ~~of~~ ~~spending~~.} ~~This~~ ~~would~~ ~~mark~~ ~~an~~ ~~end~~ ~~to~~ ~~the~~ ~~progress~~ ~~we~~ ~~have~~ ~~been~~ ~~making~~ ~~in~~ ~~reducing~~ ~~the~~ ~~growth~~ ~~rate~~ ~~of~~ ~~spending~~.
- the fall in the ratio of General Government Expenditure to GDP might slow to a virtual halt around the end of the Survey period;
- the tax burden (excluding the North Sea); ~~would also stop falling; and~~ ^{not fall; and}

There would no longer be a prospect of a continuing decline.

SECRET

- we could make at best only very slow progress towards a 20p basic rate.

This would provoke criticism ^{both} from our supporters and ^{from} the markets. They would say that we had built in massive spending commitments for the period up to 1991 on the basis of a rate of economic growth in 1987 and 1988 which might not be sustained; and that we had lost our grip on public spending, when the battle against inflation clearly requires restraint; undermined our policy of sound finance; and jeopardised our chances of continuing the tax reductions which have given the British economy its new-found vigour.

Conclusion

Compromised the attempt to shift the balance between the public and private sectors;

6. 7. Clearly we must do better. The bids for health (£1.9 billion in the first year, rising to £3.5 billion in the last) include large bids for capital expenditure which must be scaled down: they are out of proportion to the rest of the programme and would only lead to unsustainable running costs demands in later years. Social security bids total £2.7 billion in the last year: difficult decisions will be needed eg on disability benefits, which are now being reviewed. The bids for education, the Home Office, and Transport represent extraordinary increases (18 per cent, 24 per cent and 26 per cent of the respective baselines in the last year) and will have to be dramatically scaled back. Tough decisions will be needed on defence too. We will have to find savings on industry and agriculture ~~and~~ with unemployment falling fast and at its lowest since 1981, ~~on the employment programme too where~~, far from savings being offered, increases are sought ~~despite~~ *despite* _{reductions}

8. A number of the bids are for increased construction spending. The construction industry is now very stretched and prices are rising faster than inflation for the first time for a number of years. We must in particular avoid adding to the pressures in this sector.

7. *Within the total bids, those for running costs are also high. They would imply a rise ~~of 5%~~ a civil service cost of 5% in real terms in 1989-90, and an increase in civil service numbers to over 600,000 by 1991-92.*

SECRET

3. If we are to maintain the policies which have brought success, we will have to put to Cabinet next month the need for determined efforts in all areas.



[Handwritten signature]

*Spk - in another folder -
Comm -*

10 DOWNING STREET
LONDON SW1A 2AA

CH/EXCHEQUER	
REC.	24 JUN 1988 ✓ 24/6
ACTION	SIR G LITTLE
COPIES TO	SIR P MIDDLETON
	SIR T BURNS
	MR LANKESTER
	MR SCHOLAR

From the Private Secretary

Ch. This clearly shows that the PM did see your minute (even if one has differed from your heading!).

24 June 1988

MR PERETZ

MISS O'MARA

24/6

EUROPEAN MONETARY CO-OPERATION

The Prime Minister raised with Sir David Hannay and Mr. Lavelle this morning the handling of the discussions on European monetary co-operation at the Hanover European Council and in particular the remit which might be given to Central Bank governors and the Monetary Committee to study the possibilities for future co-operation.

The Prime Minister said that a European Central Bank was neither feasible nor desirable as she had made clear in the House on 23 June. To agree to a study of it would be the first step on a slippery slope. She was not therefore prepared to see the idea of a European Central Bank singled out for mention in the remit for a study of future monetary co-operation. This meant that she could not accept either the sort of wording reported in paragraph 3 of the Foreign Secretary's minute of 23 June or the alternative suggested in the Chancellor's minute of the same date. She would argue at Hanover that any mandate should refer only to study of practical steps to improve and strengthen the European monetary system, as well as of possible long term economic, financial and monetary developments, and that it was unacceptable to make particular mention of a European Central Bank, since that would imply that the idea had some special status amongst the various longer term issues which would be covered by the study.

The Prime Minister expressed herself very firmly on this point. I have subsequently conveyed her views to Herr Harrmann in the Federal Chancellery in Bonn so that Chancellor Kohl will be aware of them in advance of the European Council. You will wish to consider whether we should put other governments on notice of the point before the European Council assembles on Monday.

I am copying this letter to Alex Allan (HM Treasury) and to Roger Lavelle (Cabinet Office).

C. D. POWELL

Lyn Parker, Esq.,
Foreign and Commonwealth Office.



FROM: J M G TAYLOR
DATE: 24 June 1988

A large, stylized handwritten signature in blue ink, likely belonging to J. M. G. Taylor.

MR UNWIN - C&E

THE SINGLE EUROPEAN MARKET: SIMPLIFICATION OF CUSTOMS PROCEDURES

The Chancellor was grateful for your minute of 20 June. He was pleased to see that things are going well.

A smaller, stylized handwritten signature in blue ink, likely belonging to J. M. G. Taylor.

J M G TAYLOR