PO-CH/NL/0127

PART B

Chex

Lawson

PART B

CONFIDENTIAL

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PO -CH /NL/0127

PART B

INFORMAL MEETING OF THE EUROPEAN COMMUNITY (EC) ECONOMIC AND FINANCE COUNCIL (ECOFIN), 19-21 SEPTEMBER 1986, GLENEAGLES

DD: 25 years

5/9/95

Begins: 8/9/86

Ends: 9/9/86

PO -CH /NL/0127

PART B

LD/077

1 ~~Alex~~
2 PMP

FROM: CATHY RYDING
DATE: 8 SEPTEMBER 1986

SIR G LITTLER

GIFTS AT GLENEAGLES

The Chancellor has seen your manuscript comment of 3 September on Mr Allan's minute to you of 2 September.

2. The Chancellor thinks we should now go ahead with giving his spare sets of Royal Wedding medals as official gifts to fellow Finance Ministers and Delors.

C.R

CATHY RYDING

RC6.71

1. Alex
2. PWD

FROM: CATHY RYDING
DATE: 8 September 1986

MISS BARBER

cc Sir G Littler
Mr Lavelle
Mr Edwards
Mr Evans
Mr Mortimer
Mr Crabbie
Mr Kelly
Mr Matthews
Mr Walsh
Mr Dolphin
Miss Edwards
Mr Sheridan
Miss Wright
Mr Beales - UKREP

INFORMAL ECOFIN 19-21 SEPTEMBER: BRIEFING

The Chancellor has seen your minute of 5 September.

2. The Chancellor thought the briefing you propose seemed comprehensive.

3. In addition, the Chancellor thought that item 2 of the agenda for the informal ECOFIN should definitely include liberalisation of capital movements.

C.R

CATHY RYDING

LD/100

1. ~~Alex~~
2 ~~Tony~~ OIR
3 PUP

FROM: CATHY RYDING
DATE: 9 SEPTEMBER 1986

MISS J A EDWARDS

cc Sir G Littler
Miss Barber

INFORMAL EC FINANCE MINISTERS' MEETING, GLENEAGLES

The Chancellor has seen your minute of 8 September.

2. The Chancellor would be content for the Gleneagles Hotel to take a photograph of him for its in-house newspaper.

CR

CATHY RYDING

[redacted]

09SEP1986

MISS BARBER
SIR G LITTLER
MRS LESTER O/R

86-09-09 08:43

*

262405 TRSY G
225747 BNGR GR

NO 8812 ATHINA BANK OF GREECE
8.9.86
THE CHANCELLOR OF THE EXCHEQUER
MR NIGEL LAWSON

IN ACCORDANCE WITH YOUR TLX OF 3.9.1986 I WOULD LIKE TO INFORM YOU THAT GOVERNOR CHALIKIAS WILLBE ACCOMPANIED BY HIS WIFE DURING HIS VISIT TO SCOTLAND ON THE OCCAION OF THEINFORMAL ECOFIN MEETING

HE WILL BE ARRIVING TO LONDON ON THE 19 SEPT 1986, 11:05 (AIRLINE OA 259) AND THEN TO EDINBURGH AT 14:20 (FLIGHT NR BA 4772)
HIS DEPARTURE IS PLANNED ON SUNDAY 21.9.86 WITH BA 4813 AT 17.10 PM)
REGARDS
OFFICE OF THE GOVERNOR
BANGRECE

*

262405 TRSY G
225747 BNGR GR

Tietmeyer Report

MONETARY COMMITTEE

OF THE EUROPEAN COMMUNITIES

Brussels, 15 September 1986

A Programme for Strengthening the EMS

Written Report by the Chairman of the Monetary Committee

At their informal meeting in Palermo the ministers of finance asked the Monetary Committee to prepare proposals for strengthening the EMS. The Committee has already presented a detailed report, in June 1985, on the long-term goals of the EMS and the fields of action in a medium term outlook. The written report put forward today gives an over-view of developments since Palermo, deals briefly with the present situation of the EMS and sets out lines of action for a programme of EMS reinforcement.

1. Developments since Palermo

By amendment of the Treaty of Rome three important reference points were established for monetary policy in the Community: first, Economic and Monetary Union as well as the necessary convergence of economic and monetary policies were built into the Treaty as objectives. Secondly, the path of pragmatic cooperation was confirmed as the one to be followed by the EMS, while respecting existing powers in this field. Thirdly, it was made clear that, insofar as further development in the field of economic and monetary policy necessitates institutional changes, the provisions of Article 236 shall be applicable.

In the past year the Monetary Committee has, after a thorough consideration of the long-term goals of the EMS, examined in particular the question as to whether, and if so in what measure, the growing use of the private ECU has effects on monetary developments and on the exchange rate policies of member countries. The Committee has also actively supported the preparatory work on a new Directive on the liberalization of capital movements. Finally, the Monetary Committee has identified some lessons which can be drawn from recent adjustments of central rates within the EMS. With the aim of improving convergence among member countries, the Committee has worked towards a deeper understanding of the necessity for economic policy to be conducted in a way which fully reflects the requirements of the EMS. These discussions will be taken further.

2. The present situation in the EMS

As a whole, key economic data show that convergence is proceeding. In spite of the progress made in convergence, some changes in central rates became necessary during the last few months.

Several member countries have introduced measures to open up their capital markets in recent years (Denmark, France and Italy); the result has been to consolidate the desired progress in the matter of convergence, inspiring confidence for the future. In addition, the degree of indexation of incomes and pay has been further reduced in some countries (Belgium, Italy, Denmark).

The present situation within the EMS should be used to strengthen the System, not least through the correction of internal policy defficiencies.

3. Programme for strengthening the EMS
3.1. Convergence

Thanks to the progress made in bringing economic policy orientations closer together in the member countries, the EMS has so far weathered a period of often very large dollar fluctuations without excessive disturbance. However, the relatively satisfactory degree of convergence will be under threat unless there is success in overcoming policy deficiencies remaining in some countries, particularly in the area of public finance. If these deficiencies are not made good, an excessive burden may be put on monetary policy, or else there may be consequences for the stability of central rates.

In order to correct the present lack of convergence in the area of public finance, the Committee considers it to be essential that the excessive deficits still prevailing in some countries should be reduced to a level which can be sustained over a long period. Although for some countries this reduction may need to be phased over several years, it is nevertheless important that this process should be started without delay and should be convincing.

Moreover, the growing mobility of capital flows means that the need for convergence in the EMS will become even greater.

3.2. The liberalization of capital movements

The liberalization of capital movements is primarily an obligation which flows from the EC Treaty and is thus independent of the EMS; it is also a central component in the creation of the single internal market.

For these reasons the dismantling of the remaining exchange controls should be pushed forward speedily. An important step would be to adopt soon the new liberalization Directive. In order to achieve a full and lasting opening of capital markets, the Committee recalls the importance of the Council's intention to decide on complete liberalization in 1987. Against the background of this second Directive the Committee will examine some of the important implications: the consequences of full liberalization for monetary policy and its instruments, the problem of the safeguard clauses and the need to ensure an adequate framework for market supervision. In addition, care should be taken that the effects of dismantling controls on capital movements are not reversed or weakened by new administrative intervention.

For the EMS itself, the liberalization of the whole range of capital movements will bring about some important changes: in economic policy the EMS countries must come together much more closely; corrective measures must be taken more promptly, and the disappearance of an instrument which potentially influences the exchange rate calls for a more balanced policy mix. This increased pressure for convergence will in the end reinforce the economic strength of all participating countries and will thus in the end favourably influence the stability of exchange rates.

In order to strengthen their economic fundamentals, it is equally important that new Member States - in addition to their legal obligations - take steps to liberalize capital movements.

3.3. The ECU

As far as the private ECU is concerned, the Committee has examined closely whether its increased use would have disturbing effects for monetary policy: under present conditions, while there are limited monetary effects, there are no grave problems. From the monetary point of view, therefore, the maintenance of limitations on the use of the private ECU does not seem necessary. On the other hand it seems to be appropriate that the further development of the private ECU be determined by market forces. That does not preclude an institution such as the Monetary Committee from following its further development closely.

As to the official ECU, several important improvements have been introduced since Palermo by the Central Banks, whose effects in practice are as yet only partly discernible. These questions are being dealt with more particularly by the Committee of Central Bank Governors. For its part, the Monetary Committee will consider at the appropriate time whether to make suggestions on the official ECU.

Recently consideration has also been given to a possible link between the private ECU circuit and the official ECU circuit, which is of a completely different nature. The Committee has not yet been able to examine this question thoroughly. While some Members take a favourable view of this idea, others point out that bringing the two ECU circuits closer or actually joining them would have important monetary effects as well as important consequences for institutional checks and balances. The Monetary Committee will continue to examine these questions.

As to the potential role of the ECU as a reserve asset in the wider international context, the Committee's discussions have not yet come to a final conclusion. While it was stated by some members that this development could be promoted by a further extension of the role of the official ECU and by the abolition of restictions on the private ECU, other members expressed the view that a reserve currency cannot be artificially created.

3.4. Special Rules

One step towards reinforcing the EMS would be the dismantling of existing special rules, and in particular the creation of uniform conditions in the exchange rate mechanism.

The question of full participation is naturally in the first place a decision for each of the member countries concerned. In order to avoid further differentiation it would be useful to have the same conditions for all members.

Different conditions still apply at present with regard to the band width; the wider band used by one country was envisaged as a transitional solution and has not in fact been used to its full extent for a long time.

Finally, the Committee has considered the dual exchange market existing in two Member States. This special rule, which results in different exchange rates for different types of payment, would not be fully in accordance with the objective of integration, which is also pursued through the full liberalization of capital movements.

4. Future work

The Monetary Committee regards this document as a progress report on its work. Additional work seems to be necessary, especially in the following fields

- further liberalization of capital movements
- further development of the role of the ECU
- re-examination of the application of special rules.

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FROM: JANET BARBER
DATE: 16 SEPTEMBER 1986

PS/CHANCELLOR

cc Sir Geoffrey Littler
Miss Edwards

INFORMAL ECOFIN: DINNER AT STIRLING CASTLE

Sir Geoffrey Littler has drawn up the attached table plan for this dinner, for the Chancellor's approval.

2. The plan is based on current information about who is coming. Sir Geoffrey's code is as follows:

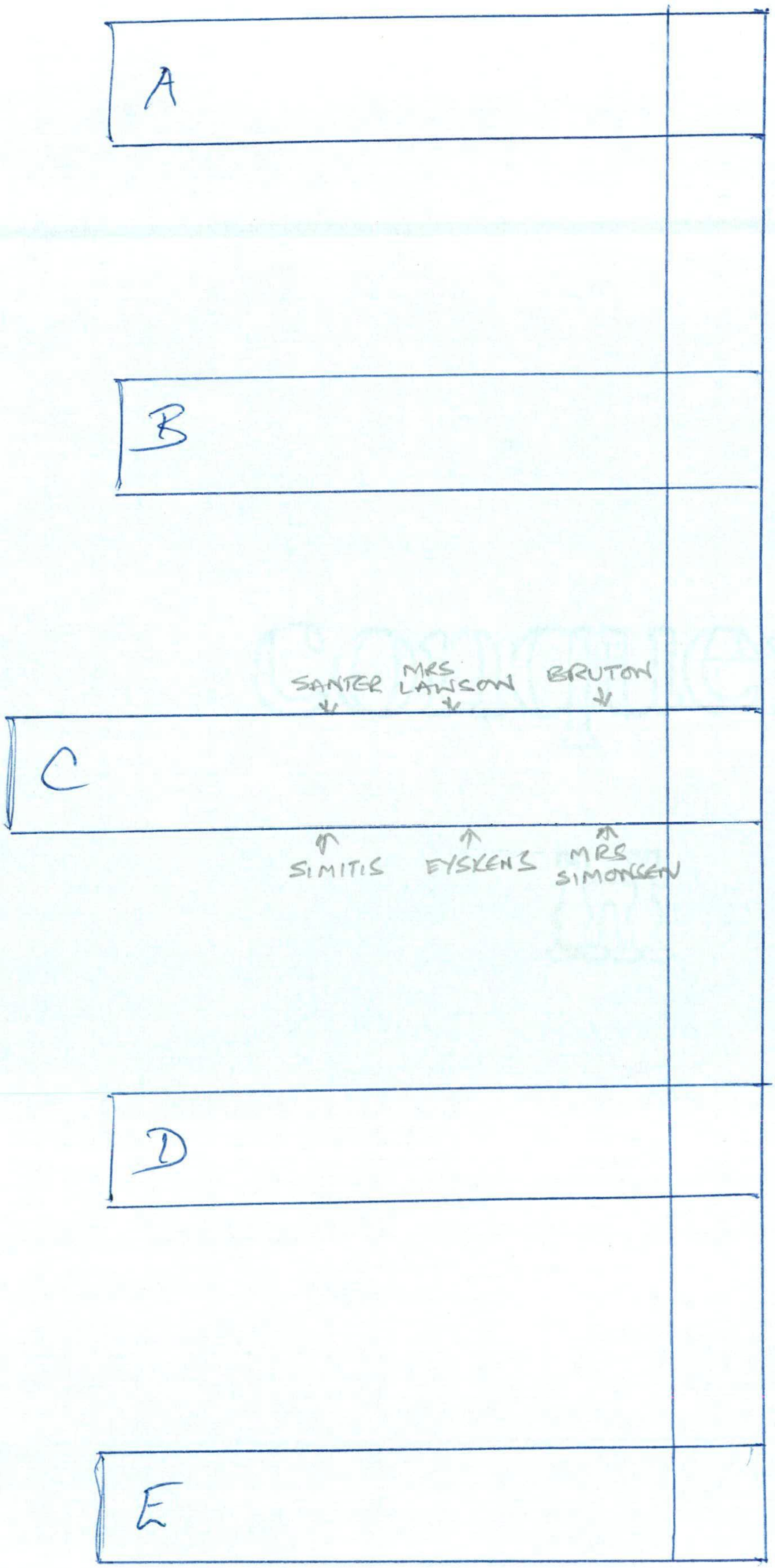
Ministers and wives - in heavy type capitals
Bank Governors and wives - in capitals underlined
Officials/Secretariat - in lower case

The table shape is a top table with five "legs" (as in the diagram), with people sitting on both sides of the legs. A list for the top table is shown on the diagram; and there is a list for each "leg", with the names at the top of the list being those who sit nearest to the top table.

3. It would be helpful - but not essential to have the Chancellor's reactions before we go to Scotland on Thursday morning.

Janet Barber

JANET BARBER
EC1



MRS POOS

DELORS

MRS BRUTON

STOLTENBERG ·

MRS EYSKENS

RIFKIND

MRS RUDING

BALLADUR ·

MRS DELORS

CHANCELLOR

MRS STOLTENBERG

GORIA ·

MRS SANTER

CADILHE ·

MRS BALLADUR

ANDERSEN ·

MRS SIMITIS

SOLCHAGA ·

A

Maas	Goncalez
Tietmeyer	Mrs Sarcinelli
Lady Littler	Lebegue
Kirsch	Mrs Garganas
Mrs Russo	Fraser
Petit	Kees

B

Pini	RUBIO
MRS CIAMPI	CAMDESSUS
GOVERNOR	MRS POEHL
GODEAUX	Mrs Vignon
Mrs Bascoul	GODEAUX
CHALIKIAS	

C

BRUTON	MRS SIMONSEN
MRS LAWSON	EYSKENS
SANTER	SIMITIS
MRS GORIA	MRS CADILHE
POOS	RUDING
MRS ANDERSEN	MRS RIFKIND
Bascoul	SIMONSEN

D

HOFFMEYER	POEHL
MRS CAMDESSUS	MRS GOVERNOR
DUISENBERG	O'COFAIGH
MRS GODEAUX	MRS CHALIKIAS
JAANS	CIAMPI
MOREIRA	Mrs Pini

E

Doyle	Fernandez Ordonez
Lady Fraser	Ussing
Sarcinelli	Mrs Tietmeyer
Mrs Lebegue	Littler
Russo	Mrs Maes
Mrs Ussing	Garganas

From: Sir G.Littler
Date: 16 September 1986

MR KUCZYS

GLENEAGLES: PLACEMENT FOR STIRLING CASTLE received tonight (attached)

Miss Barber will let you have tomorrow a cockshy at a placement which I have drawn up. If there is a chance to show it to the Chancellor, I think we could take it in two stages:

- first, does the Chancellor agree with the principles on which I have based the placement? (see below) - if he prefers a different approach, I will have another go;
- secondly (indeed on Friday at Gleneagles would be good enough) any detailed changes?

2. The table layout is a top table with 18 places all facing the centre, plus five legs at right angles to the top table, each with 6/7 places on each side. I have taken as a basis:

- split up delegations and separate husbands and wives;
- top table and most of centre leg for Ministers and their wives;
- bankers and wives on the two inner left and right legs and officials and wives on the two outer legs;
- I have also tried to keep language in mind, although I am afraid there are a few guests whose possible language limitations I do not know.

(Geoffrey Littler)

SM2/90

FROM: A W KUCZYS
DATE: 16 SEPTEMBER 1986

CHANCELLOR cc Mrs Lawson

INFORMAL ECOFIN: DINNER AT STIRLING CASTLE

We need to decide who will sit where at the Dinner at Stirling Castle on Saturday night. Geoff Littler's note immediately below sets out the broad principles on which he recommends we proceed; and Janet Barber's note below that fills in the details. The only thing that needs to be decided now is whether Geoff Littler has the principles right: the exact details could, if necessary, be left until Friday morning.

2. The only point which immediately strikes me about the detailed seating plan is that perhaps Mrs Lawson might prefer to be on the top table?

The broad principles seem right! I will discuss details on Fri AM. Meanwhile, some changes clearly look desirable: (a) Can we not have 19 rather than 18 at the top table (thus accommodating an extra Min: & the [illegible])? [illegible] so planned, & probably (b) Mrs L should be @ the top table, & Mrs R[illegible], too. (c) Ruding & Santer should be @ the top table rather than Ca[illegible] & Andersen — so, [illegible] go to 19, Bysjkens as well.

NL

A W KUCZYS

MRS LAWSON

I apologise for not getting this to you last night - please blame British Airways whose broken-down American planes left me waiting nearly 4 hours at Paris airport on Wednesday night!

2. I attach a personal day-by-day programme, with notes.

3. The attendance of ladies is unusually high. I thought you might like also to look over the attached list of names of the wives of Ministers (all planning to attend except Spain) and Central Bank Governors (only five on our list). Most of them speak English either very well or at least adequately for casual conversation.

(Geoffrey Littler)

PROGRAMME - MRS LAWSON

FRIDAY:

Free and no guests around until:

3-15 p.m. : to be with the Chancellor (and Governor and Mrs Leigh-Pemberton) in the Terrace Lounge to meet guests as they arrive: 5-10 minutes with each group while room keys, etc are arranged, when they will be escorted away: (Janet Barber will let the Chancellor know which group is arriving when)

6-0 p.m. : or earlier, you will be able to retire to your room to get ready for the evening

7-0 p.m. : Reception in Hotel Sitting Room, followed by:

8-0 p.m. : Dinner in Hotel

We do not have a placement for the dinner. I think it best if the UK party splits up: during the reception I shall tell you which table you should take, and we can mobilise some congenial company at it!

After Dinner the Chancellor will want a private talk with Stoltenberg in his suite. (Would you like to join me for a drink and a chat in the sitting-room, or would you prefer to retire to rest - you can decide after dinner)

SATURDAY:

8-0 a.m. : For Breakfast I fear the Chancellor is again monopolising your private sitting-room (for a meeting with Delors). Would you like to take breakfast downstairs in the Strathearn - I shall be doing that with Shirley; or you could order separately in your bedroom.

9-15 a.m. : I think you be in the hotel lobby around this time as Janet Barber and her colleagues get the ladies into coaches. We are assuming you will join the Crieff/Scone Palace run.

1-30 p.m. : Lunch at the hotel - the coach parties should return about 1-0/1-15. Tables have been reserved for you all in the Strathearn and lunch and wine are pre-ordered.

Afternoon : A few ladies have - or will have - arranged to play golf,etc. They all know they are left to their own devices and the hotel facilities.

I gather that shooting does not tempt you and wondered whether you would like to invite some to the pool/leisure centre? (All guests can simply give their room number for any of the facilities and we pick up anything except shopping purchases).

6-40 p.m. : **At latest** - you and the Chancellor should leave the hotel by car for Stirling Castle (remember there may be a walk over rough stone and cobble paths!) At the Castle you will be taken to the Museum for the Reception: the line will be Chancellor and you, Mr and Mrs Rifkind and Governor and wife. When all guests have arrived there will be a split for three short guided tours of the castle, followed by:

8-30 p.m. : Dinner: there is a placement for this. We expect to finish at 11-0 and return direct to the hotel - probably by coach with the guests

SUNDAY:

Breakfast : Unless you choose to make a different plan I suggest you simply breakfast quietly in your suite - **and pack!**

10-0 a.m. : Leave castle by the first coach (again I think you should be there 5-10 minutes before. The Luggage will be looked after by our team. The drive to Edinburgh takes an hour or so (past a good view of Stirling Castle from a distance); a short tour (Royal Mile, etc); then arrive at Edinburgh Castle and (weather permitting) walk with guests up the attractive drive to the main buildings. Lunch is buffet and totally informal - you should be prepared at various points which we shall signal to you to say good-bye to groups setting off early. All should be clear for you to leave by 3-0 p.m.

WIVES OF MINISTERS:

Commission President: Madame Delors:

Germany: Frau Stoltenberg:

France: Madame Balladur:

Italy: Signora Goria:

Netherlands: Mevraauw Ruding:

Belgium: Madame Eyskens:

Luxembourg: Madame Santer: and Madame Poos:

Portugal: Senora Cadilhe:

Greece: Mrs Simitis:

Denmark: Mrs Andersen: and Mrs Simonsen:

Ireland: Mrs Bruton:

Spain: (none)

WIVES OF CENTRAL BANK GOVERNORS:

France: Madame Camdessus:

Germany: ~~Frau Poehl~~:

Italy: Signora Ciampi:

Greece: Mrs Chalikias:

Belgium: Madame Godeaux:

Others: (none)

and ?
(40)

1. SIR GEOFFREY LITTLER

2. CHANCELLOR

FROM: JANET BARBER
DATE: 16 SEPTEMBER 1986

INFORMAL ECOFIN, GLENEAGLES 19-21 SEPTEMBER

Enclosed are four separate briefing packs for this meeting:

(a) the usual brief for the meeting itself;

(b) a brief for your bilateral meeting with Stoltenberg;

(c) a brief for your bilateral breakfast with Delors;

(d) a brief covering the social and procedural aspects of the weekend; (you have already seen)

Copies of (a) (b) and (c) go to those on the attached list. (d) is being copied to Sir Geoffrey Littler and to Mr Leigh-Pemberton only — and Mrs Lawson.

Janet Barber

JANET BARBER
EC1

Chairman's agenda

NS green £ / BL Bank Accounts / Awards

5.30 Conf - where? Attendance [illegible] full back

Family photo / press — photos

Spouses @ meals

365/5

Chancellor

PROGRAMME DETAILS

INFORMAL ECOFIN, GLENEAGLES, 19-21 SEPTEMBER, 1986

A team of support staff from the Treasury and Government Hospitality will be situated in the **Orchil Room** at Gleneagles Hotel, to deal with any queries.

FRIDAY 19 SEPTEMBER

From 15.00	Arrival at Gleneagles Hotel (Chancellor and Mrs Lawson and Governor of the Bank of England and Mrs Leigh-Pemberton will welcome guests in the **Terrace Lounge.**)
19.00	Reception in the **Drawing Room.**
20.00	Dinner in the **Glendevon Room.**

SATURDAY 20 SEPTEMBER : CONFERENCE

From 07.30	Breakfast in the **Strathearn Restaurant** (Room service is available.)
09.30	Start of meeting in the **Ballroom.**
12.30	Break for Working Lunch at 13.00. Ministers in the **Terrace Lounge.** Central Bank Governors and senior officials in the **Barony Lounge.**
14.30	Resumption of meeting in the **Ballroom.**
17.30	End of meeting.
18.45-19.00	Departure for **Stirling Castle,** by coach. (Guests should assemble near main door of Hotel at 18.45.)

19.30	Arrival at **Stirling Castle.**
	(Coaches will drop guests at the Esplanade, by the main gate to the Castle. Guests will then, weather permitting, walk up through the Castle grounds to the Military Museum of the Argyll and Sutherland Highlanders, in the Upper Square, where there will be a drinks reception. If wet, guests will be taken by car and mini-bus from the Esplanade to the Upper Square.)
	On arrival at the Military Museum, guests will be welcomed by the Chancellor and Mrs Lawson, Mr and Mrs Rifkind and Mr and Mrs Leigh-Pemberton.
20.00-20.30	Guided tour of Stirling Castle. Guests will be divided into groups for the tour.
20.30	Dinner in the **Queen's Guard Chamber.**
	(Dress is Lounge Suit. There <u>will</u> be a seating plan.)
23.00 approx.	Dinner will end.
	(Weather permitting, guests will then walk back to the Esplanade, and be taken back to Gleneagles by coach. If wet, guests will be taken by car and mini-bus from the Upper Square to the Esplanade, where the coaches will be waiting.)

SATURDAY 20 SEPTEMBER : LADIES PROGRAMME

09.30 – 13.00	Tour of local area, by coach. Two alternatives:
	(Guests will be asked which tour they prefer on Friday evening. They should gather at the hotel main entrance at about 9.20am.)

TOUR A (approximate schedule)

09.30	Depart Gleneagles.
09.50	Arrive Stuart Strathearn Crystal.
	(Visit to Crystal Factory and optional visit to Thistle Pottery and Perthshire Paperweights on opposite side of the road.)
10.30	Depart from Crystal Factory.
11.00	Arrive at Scone Palace.
	(Tour of Palace from 11.00-11.45 hrs followed by coffee and shortbread in the Fergusson Room.)

12.00	Ladies free to look around Palace and grounds.
12.30	Depart Scone Palace.
13.00	Arrive back at Gleneagles.

OR

TOUR B (approximate schedule)

09.30	Depart Gleneagles.
10.30	Arrive Callander
	(Coffee in the Ancaster Hotel)
11.30	Depart Callander.
	(Leisurely drive via the Trossachs, Loch Earn and Crieff - map of route attached.)
13.00	Arrive back at Gleneagles.

All ladies

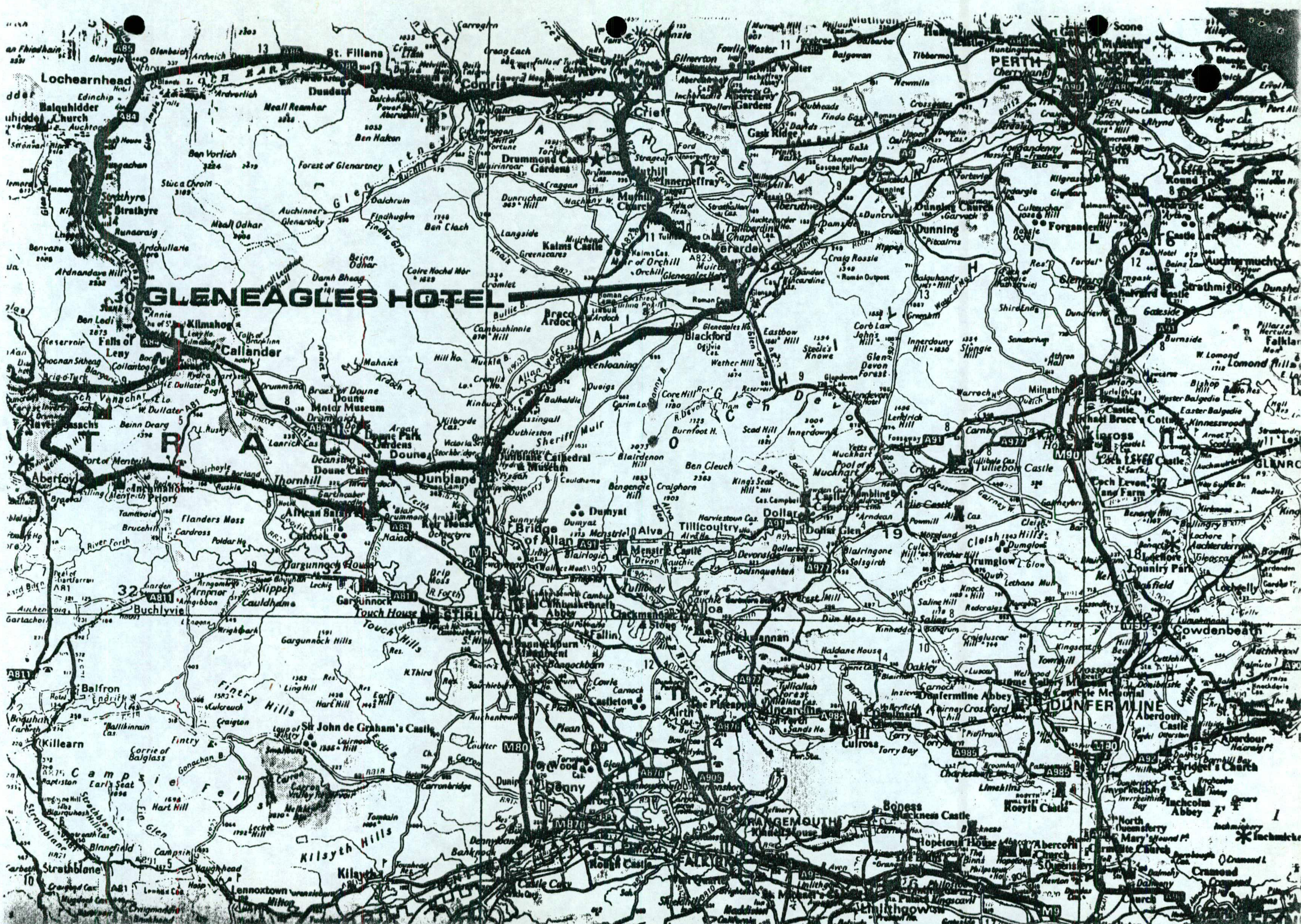
13.30	Buffet lunch in the **Strathearn Restaurant.**
	(4 tables have been reserved)
14.30 onwards	At leisure, use of hotel's recreational facilities.
	(Some reservations have been made for golf, starting at 14.20/14.30,and for clay pigeon shooting, starting at 15.00. Any ladies wishing to shoot or play golf should tell Treasury Staff). There is also a swimming pool, squash courts and various other facilities, details of which are set out in the hotel brochures.
18.45 onwards	Visit to Stirling Castle as above.

SUNDAY 21 SEPTEMBER

07.30-09.30	Breakfast in the **Strathearn Restaurant** (Room Service is available.)
10.00 onwards	Optional visit to Edinburgh and lunch at the Castle.
	(All guests wishing to go on the tour should assemble at the hotel main entrance at about 9.45, leaving their luggage in their hotel bedrooms.)

10.00	Depart Gleneagles by coach. Route: A823 to Dunfermline and Forth Road Bridge. Tour of city: Princes Street, Holyrood House and Park, Causewayside, Holyrood Road, Horse Wynd, Royal Mile and Castle Esplanade.
11.45	Arrival at Castle Esplanade.
	(There will be a conducted tour of the Castle, taking guests from the Esplanade up to Crown Square. (If it is raining, guests will be taken by car/mini-bus.))
12.30-14.00	Drinks and Buffet lunch.
	(Guests will be given drinks in the **Jacobite Room,** and will then be taken into the **King's Dining Room** and **Queen Mary Room** for an informal buffet lunch.)
From 14.00	Departure for Edinburgh Airport or other destinations.
	(Cars, with luggage, will be brought to the Castle Esplanade. Government Hospitality will arrange cars for guests to leave at the right time. If it is not raining, guests will be asked to walk down from Crown Square as this is the quickest and easiest way. If it is raining, cars will be driven up to the Square as necessary.)

Those guests who do not wish to visit Edinburgh will take lunch in the hotel and will afterwards be taken to Edinburgh Airport by car.



GLENEAGLES HOTEL
Lochearnhead
St. Fillans
Comrie
Crieff
Gilmerton
PERTH
Balquhidder Church
Strathyre
Callander
Kilmahog
Falls of Leny
Ben Ledi
Ben Vorlich
Forest of Glenartney
Drummond Castle Gardens
Muthill
Auchterarder
Aberuthven
Dunning
Blackford
Braco
Greenloaning
Doune Motor Museum
Doune
Dunblane
Port of Menteith
Aberfoyle
Thornhill
Bridge of Allan
Dumyat
Alva
Tillicoultry
Dollar
Ben Cleuch
Glen Devon
Kinross
Milnathort
STIRLING
Cambuskenneth Abbey
Alloa
Clackmannan
Kincardine
Culross
Dunfermline Abbey
DUNFERMLINE
Cowdenbeath
Aberdour
GRANGEMOUTH
FALKIRK
Bo'ness
Denny
Kilsyth
Fintry Hills
Gargunnock Hills
Touch Hills
Balfron
Killearn
Buchlyvie
Kippen
Strathblane
Lennoxtown
Blackness Castle
Hopetoun House
Inchcolm Abbey
Gleneagles Hotel

BRIEFING PACK A

INFORMAL ECOFIN: MEETING

AGENDA

1. We have circulated an agenda for the meeting as follows:

1. preparation for the IMF/IBRD annual meetings, particularly:

   (a) draft of the Presidency's statement;
   (b) world economic outlook and compatibility and coherence of present policies;
   (c) Interim Committee discussion of economic indicators;

2. strengthening of the European Monetary System;

3. any other business.

In respect of the IMF/IBRD meetings, particular business points are:

4. (a) IMF access limits;
   (b) IDA 8th replenishment
   (c) IBRD general capital increase

In addition, you want to raise over lunch:

5. the New Community Instrument (NCI).

And, in the margins of the meeting, the FCO have suggested that you raise with the Portuguese Finance Minister:

6. agricultural compensation.

Finally, delegates will be interested in:

7. the likely agenda for the next formal ECOFIN on 13 October.

IMF/IBRD ANNUAL MEETINGS: PRESIDENCY STATEMENT

2. A copy of the speech, as agreed by the Monetary Committee, is attached at Brief A1. All delegates should have copies, and Mr Kees will have some spares.

3. You will have to secure Ministers' formal agreement to the speech.

4. We do not want to agree drafting changes to the speech at the meeting. However, you should seek ECOFIN's agreement that you will make changes of a factual nature in the wording in the light of post ECOFIN developments. For example, in respect of paragraph 22, IDA deputies will meet on 23-25 September, and the outcome of this may require alterations. (We hope that, in this instance, this will give us an opportunity to write in two small changes to paragraph 22, which we would like. These are: in line 5, "with extra voluntary contributions" inserted after "eighth replenishment"; and in lines 7/8, "of IDA lending still" inserted between "amount" and "further").

5. You thought that you might raise the point that, while the dollar has depreciated against the major currencies, it has moved relatively little against the currencies of some newly industrialised countries. The relevant part of the speech is paragraph 2. (We assume that you are not seeking to alter the speech to cover this point.)

IMF/IBRD ANNUAL MEETINGS: WORLD ECONOMIC OUTLOOK

6. The Treasury brief on this subject for the Annual Meetings is attached at Brief A2.

7. This will be a major agenda item at the Annual Meetings, where discussion will focus on the IMF staff paper. You can introduce the topic in these terms. The UK's views on the IMF staff paper are set out in the brief. No decisions are necessary, but you may wish at the end to summarise the discussion.

IMF/IBRD ANNUAL MEETINGS: ECONOMIC INDICATORS

8. The Treasury brief on this subject for the Annual Meetings is attached at Brief A3.

9. You can introduce the topic by recalling that the use of economic indicators in the international forum is a new initiative arising out of agreement on the importance of international policy co-ordination. The UK broadly welcomes this development, and UK views are set out in the brief. Again, you may wish at the end to summarise the discussion.

IMF/IBRD ANNUAL MEETINGS: OTHER ISSUES

10. Briefing is attached, on a contingent basis, on three other topics.

11. First, IMF access limits, covered in Brief A4. This relates to paragraph 14 of the Presidency statement. We would prefer to leave the cumulative access limits unchanged.

12. Second, IDA 8th replenishment, covered in Brief A5. If this is raised, you should argue for a speedy settlement of the 8th replenishment, but resist pressure for an increased UK share in it or reduction in UK IBRD shareholding.

13. Third, IBRD general capital increase, covered on Brief A6. If this is raised, you should speak in favour of movement towards a capital increase to allow continuation of IBRD lending over the next few years.

STRENGTHENING OF THE EMS

14. This is covered in Brief A7 (EMS) and Brief A8 (liberalisation of capital movements).

15. There will be two reports on the work commissioned by the informal ECOFIN in Palermo in April 1985:

(1) a written report from the Monetary Comittee, which Chairman Tietmeyer should be asked to introduce.
(2) an oral report from the Committee of Central Bank

Governors. Mr Leigh Pemberton should be asked to present this (he will probably read it out).

A copy of each report is attached to Brief A7.

16. We hope that there will be a consensus against working towards any further specific action on the EMS/ecu. However, it would be appropriate for the two Committees to continue to monitor progress and to report regularly to the informal ECOFIN.

17. We also want to keep up the momentum on the liberalisation of capital movements, and Delors can be asked to speak on this. In fact, there have been no significant developments since the ECOFIN discussion in June. The proposal for a modest new Directive is under discussion at working group level, and we expect a report back to ECOFIN in October. Capital movements is featured in paragraph 3.2 of the Monetary Committee report, and could therefore be raised under the EMS heading, in the manner suggested in Brief A7. Brief A8 covers the topic in more detail.

THE NEW COMMUNITY INSTRUMENT

18. This is covered in Brief A9.

19. You are going to raise this over lunch. As it is not on the circulated agenda you might like to mention your plan at the start of the meeting.

20. Our aim is to muster support for the takeover of the NCI function by the EIB, with a view to a formal decision at a formal Council later in the year. You should be able to rely on German and Dutch support at least, and indeed you will have requested Stoltenberg to intervene in the discussion at your bilateral meeting on Friday evening.

AGRICULTURAL COMPENSATION IN PORTUGAL

21. The FCO would like you to raise this in the margins of the meeting with the Portuguese Finance Minister, Mr Cadilhe. The issue is explained in Brief A10. It concerns compensation in respect of damage done to British owned agricultural properties during Portuguese expropriation in the 1970s.

BACKGROUND STATISTICS

22. As background, the usual economic statistics on the Community, US and Japan are attached at Brief A11.

AGENDA FOR 13 OCTOBER ECOFIN

23. You might want, or be asked, to say something about the agenda for the 13 October ECOFIN, perhaps under any other business.

24. It is of course not possible to give a definitive agenda, but you could refer to the following as likely topics:

(a) liberalisation of capital movements. There should be a report back to ECOFIN on working group discussions on the new Directive, which we would like to see adopted this year if possible (see Brief A8).

UK REP say that Commission are not proposing to circulate a paper
RL

(b) the threatened overrun of some 2 billion ecu in CAP expenditure in 1987. The Commission have said that they will bring forward ideas for savings to deal with this. You can express the hope that [the Commission will circulate their ideas in good time before the meeting and that] delegations will come prepared to address constructively this extremely serious question.

(c) Greek protective measures. Depending on how your discussion with Delors goes, the Commission could be asked to* report in October on their forthcoming discussion with the Greeks (see Brief C2).

(d) the New Community Instrument. If the discussion at this ECOFIN lunch goes well, ECOFIN could formally decide on the EIB option in October (see Brief A9)

* maybe at lunch, says Hannay
RL

ADMINISTRATIVE ARRANGEMENTS

25. The meeting is in the Ballroom of the hotel. The schedule is as follows:

9.30	start of meeting
11.00	coffee etc in Glendevon Room
12.30	break for working lunch at 13.00
	Ministers (including President Delors) in the Terrace Lounge
	Central Bank Governors and senior officials in the Barony Lounge
14.30	resumption of meeting in Ballroom
16.00	coffee etc in Glendevon Room
17.30	end of meeting

26. There will be simultaneous translation from six languages (English, French, Danish, German, Italian and Spanish) into three (English, French and Danish), requiring the presence of three booths in the ballroom. The interpreters are being provided by the Commission, and some of them will help out at the Ministers' lunch as necessary.

1609/44

CIRCULATION

PPS
Sir Geoffrey Littler
Mr Lavelle
Mr Edwards
Mr Culpin
The Governor B/E (2 copies)
Mr M H Jay, Cabinet Office
Mr J S Wall, FCO
Mr Bostock, UKREP (2 copies)

Steering briefs only

PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State
Sir Peter Middleton
Mr Byatt
Mr P Cropper
Mr Scholar
Mr Evans
Mr Walsh
Mrs Case
Mr Kelly
Mr Crabbie
Mr Mortimer
Mr Matthews
Miss Sinclair
Mr Sheridan
Ms Life
Miss Simpson
Mr Donnelly
Mr Dolphin
Mr Knox C&E
Mr J Kirby, B/E
Mr Garside - Paris
Mr A C Thorpe - Bonn
Mr Lankester - Washington
Miss C Elmes - Rome

INFORMAL ECOFIN 19-21 SEPTEMBER BRIEF A1

EUROPEAN COMMUNITIES

Gleneagles, 20 September 1986

Statement by Mr Nigel Lawson, President of the Council of the European Communities, to the IMF/IBRD annual meetings of September 1986

1) I have the honour of addressing this meeting on behalf of the Member States of the Community, which since the start of the year includes Spain and Portugal.

2) Economic activity in most industrialized countries, particularly industrial production, has been somewhat sluggish since the final quarter of 1985. While this is disappointing, this is likely to prove a transitional phase as the world economy adjusts to the major shifts in relative prices which have occurred over the past year or so. The price of oil on world markets is now about half of its level a year ago, the prices of many other primary products have weakened and there has been a substantial realignment of exchange rates between the major currencies - the exchange rate of the US dollar has, for instance, fallen by about a fifth in effective terms since the Plaza Agreement last September. These developments have contributed to a further fall in inflation - to its lowest rate for 20 years - and have facilitated a general reduction in interest rates, although they are still high in real terms. While the adverse impact of the fall in the oil price on world trade and demand has been rapid, the favourable effect of the increase in oil consuming countries' real income is taking time to feed through into higher domestic demand. The depreciation of the dollar is also altering the balance of domestic and external demand in the economies of the countries whose currencies have appreciated, as well as in the USA.

3) The delay before the full effects on output of lower oil prices become apparent is not unprecedented - the response of output to the oil price increases in 1973-4 and 1979 also took some time to take effect. There is therefore a reasonable expectation that economic activity in industrial countries will pick up as domestic demand responds to lower nominal interest rates and higher real incomes. And indeed signs of a pick up of activity in a number of European countries are apparent.

4) However some risks remain in the outlook. Perhaps foremost among them are the very large current account imbalances in some of the major industrial countries - which are incompatible with the orderly expansion of the world economy and are unsustainable over the medium term, - as well as the protectionist sentiment caused by these and other tensions in the world trading system. But exchange rates now better reflect economic fundamentals, though we must accept that current account positions will take rather longer to adjust.

5) We believe that the industrialized countries should continue to pursue policies which provide the sound financial framework essential to achieving sustained non-inflationary growth and expanding trade. In particular, monetary policy in all countries must be committed to preventing a resurgence of inflation. In many countries government deficits need to be reduced further to permit a lasting reduction in real interest rates. The United States has a major role to play here because of the size of the Federal government deficit and because of the contribution which its correction can make to reducing current account imbalances. It is crucial that Japan should make its contribution by implementing rapidly the recommendations of the Maekawa commission designed to reduce the export-oriented

nature of the Japanese economy and to increase its openness to imports, thus sustaining a faster rise in domestic demand. The Community countries are also aware of the need to contribute to the correction of existing imbalances and to the maintenance of sustained growth of world demand and trade.

6) Unemployment remains a major problem which is particularly serious in the member countries of the European Community. The European Council at its meeting in the Hague last June confirmed the necessity of continuing macro and micro economic policies aimed at structural improvement, in combination with additional efforts to generate gainful employment. The Community countries are committed to continue their efforts to increase the flexibility of their economies and thereby their capacity for domestically generated growth. Structural rigidities in our economies have to be tackled and the evolution of real incomes and costs in the Member States of the Community must be consistent with the goal of reducing unemployment. Some progress has been made in recent years, but much remains to be done. The next few years provide a major opportunity for advance.

7) Despite the success of the major industrialized countries in reducing inflation, substantial current account imbalances have persisted, in large part through failure to take account of the international repercussions of the mix of domestic policies.

8) The EC Member States welcome the steps that have been taken over the past year to improve international policy coordination. They also welcome the decisions which have been taken at the recent meetings of the Interim Committee and at the Tokyo summit in May 1986 for strengthening Fund surveillance and improving its multilateral setting. The Community countries consider that the special chapter in the

World Economic Outlook in which the policies of the large countries are analysed on the basis of quantitative indicators offers an encouraging starting point for regular discussions in the framework of the IMF. This should help improve understanding of the international dimension of domestic decisions, thereby providing essential background for policy discussions aimed at correcting imbalances and making the exchange rates of the main currencies more stable. Such steps should contribute to the improvement of the functioning of the international monetary system, which remains one of our main tasks.

9) Over the last year important changes in the world economy have probably had, on balance, a beneficial effect on the debt problem, although the situation of some countries has seriously deteriorated. The fall in the dollar has lessened the effective debt burden of the many debtors having a large share of their debt denominated in dollars. Lower interest rates have reduced the cost of servicing debt, although real rates remain at high levels. The reduction in oil prices has helped many developing countries, although it is having very serious implications for those debtors relying on oil exports; the situation of a number of them has been worsened by the fall in export prices.

10) Developments over the past year - particularly the fall in oil prices - underline the fact that the case-by-case approach to the debt problem is the most appropriate strategy; each country faces different problems and needs to look for different solutions. They also reinforce the need to make changes to structural policies designed to foster balanced growth and a sustainable external position, the central planks of any realistic long term solution to individual countries' debt problems. Major oil-producing debtors in particular need to undertake a comprehensive adjustment to lower oil prices, since their economic development will have to become less dependent on the oil sector. The EC countries recognise that structural changes will be neither easy nor painless, and

consider that the international financial institutions (IFIs) should strengthen their vital role in assisting countries to develop structural reform policies appropriate to their individual situations, and in helping to mobilise financial resources to support them. In particular, the continuation of the role of the IMF is of crucial importance for an adequate participation of commercial banks in the present debt strategy. The Member States of the EC welcome the considerable progress that some developing debtor countries have already made in implementing structural reforms in their economies.

11) The Governments of the industrialized countries can best contribute to easing debt problems by pursuing policies to achieve sustainable growth and by widening access to their markets, in addition to their contribution through ODA, officially-guaranteed export credits, Paris Club rescheduling, and ensuring that the IFIs have adequate resources.

12) The forthcoming GATT round provides the most comprehensive opportunity for multilateral negotiations on the opening of markets since the Tokyo Round a decade ago. The European Community will enter these talks with the objective of consolidating and further developing the open trading system. We hope too that the negotiations will bring a fuller participation by individual developing countries commensurate with their stage of economic development. The EC is committed to an early launch of negotiations **//and welcomes the progress made at the September GATT Ministerial Meeting in Uruguay//.**

13) The Fund continues to have a central role in the adjustment process and the countries of the Community stand fully behind it in its work. The Fund must be able to perform this task with flexibility. In supporting the Fund's role in promoting medium term balance of payments viability without

exchange and payments restrictions, we are convinced that the combination of sound financial policies and structural reforms remains essential for success.

14) In view of the serious payments difficulties that many Fund members continue to face, the EEC Member States favour a decision by the Interim Committee to maintain the policy of enlarged access for another year, [and to keep the access limits //~~broadly~~// unchanged for 1987.] In present circumstances, it is also right that the Executive Board should retain the flexibility to approve, in special circumstances, adjustment programmes for amounts above the normal limits.

15) Attention this year has been focussed especially on the adjustment problems of Africa. The creation of the Structural Adjustment Facility, strongly supported by the Community, reflects the recognition by the Fund of the particular difficulties faced by the 60 poorest countries, most of them in Africa. These loans at concessional rates to countries undertaking structural adjustment programmes are rightly set in the context of a medium term policy framework developed jointly with the Fund and Bank.

16) The Community countries attach the greatest importance to the integrity of the Fund's income position and urge those countries in arrears to clear them speedily. However, recognising the consequences for the Fund stemming from the problem of overdue obligations, it welcomes the agreement in the Fund for a scheme of burden sharing.

17) The Fund must ensure that is has sufficient usable resources to give financial backing for appropriate adjustment programmes and to ensure the liquidity of the Fund's liabilities. The Member States of the Community are prepared to participate constructively in the discussions on the ninth quota review.

18) A comprehensive study of the SDR has been undertaken in the last year to clarify its role in the international monetary system. In this context, the arguments for and against an allocation remain a matter for judgement. Any decision must, of course, be fully consistent with the IMF Articles of Agreement.

19) On behalf of the Member States of the Community, I would like to congratulate Mr. Barber Conable on his appointment as President of the World Bank and welcome him to our regular discussions at these meetings. He brings to the job a wealth of relevant experience. His appointment comes at a time when the World Bank is embarking on important new developments.

20) The EC countries endorse the need for the Bank to build on its role, in close coordination with the Fund and alongside the commercial banks, in tackling the problems of the middle-income debtor countries. We welcome the substantial increase in its new loan commitments to these countries in the past year although we note that total disbursements have fallen somewhat short of expectations. The Bank has the necessary expertise in analysing and implementing changes in structural policy, and the ability for greater longer-term involvement in the development of individual economies.

21) Naturally, we recognise that the Bank requires sufficient resources to enable it to fulfil this role. We are therefore ready to support a substantial increase in its capital. We welcome the discussions on this that have already begun in the Board and hope that they will be brought to an early conclusion.

22) At the same time, it is right that the Bank should continue to support the poorest countries, especially in Sub-Saharan Africa, through the International Development Association. We are glad to see that the IDA Deputies have agreed on an eighth replenishment of **//12 billion dollars//**. This will be a welcome increase in the funds available. We hope it will still be possible to find ways to increase the amount further.

23) We welcome the role of the International Finance Corporation in support of private investment and enterprise in the developing countries. We welcome the recent increase in the capital of the IFC and its initiatives to increase flows of equity investment through the Emerging Markets Growth Fund and the Guaranteed Recovery of Investment Principal scheme.

24) Good progress has also been made with MIGA. More than (35) countries have now signed the Convention //and a few days ago the Preparatory Committee agreed the internal regulations and operational guidelines. We hope that the Agency can be established quickly, and begin to play its part in supporting and promoting private direct investment//. (alternative drafting of last two sentences) //We hope that the preparatory committee which met for the first time a few days ago will be able to agree quickly on operational guidelines and internal regulations which ensure that the agency can play its part in supporting and promoting private direct investment.//

INFORMAL ECOFIN 19-21 SEPTEMBER — BRIEF A1

Prop agreed [illegible] [illegible] [illegible] para 14 (22/23 [illegible])

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14) In view of the serious payments difficulties that many Fund members continue to face, the EEC Member States favour a decision by the Interim Committee to maintain the policy of enlarged access for another year, and to keep the access limits //~~broadly~~// unchanged for 1987. In present circumstances, it is also right that the Executive Board should retain the flexibility to approve, in special circumstances, adjustment programmes for amounts above the normal limits.

15) Attention this year has been focussed especially on the adjustment problems of Africa. The creation of the Structural Adjustment Facility, strongly supported by the Community, reflects the recognition by the Fund of the particular difficulties faced by the 60 poorest countries, most of them in Africa. These loans at concessional rates to countries undertaking structural adjustment programmes are rightly set in the context of a medium term policy framework developed jointly with the Fund and Bank.

16) The Community countries attach the greatest importance to the integrity of the Fund's income position and urge those countries in arrears to the Fund to clear them speedily. However, recognising the consequences for the Fund stemming from the problem of overdue obligations, it welcomes the agreement in the Fund for a scheme of burden sharing.

17) The Fund must ensure that is has sufficient usable resources to give financial backing for appropriate adjustment programmes and to ensure the liquidity of the Fund's liabilities. The Member States of the Community are prepared to participate constructively in the discussions on the ninth quota review.

18) A comprehensive study of the SDR has been undertaken in the last year to clarify its role in the international monetary system. In this context, the arguments for and against an allocation remain a matter for judgement. Any decision must, of course, be fully consistent with the IMF Articles of Agreement.

19) On behalf of the Member States of the Community, I would like to congratulate Mr. Barber Conable on his appointment as President of the World Bank and welcome him to our regular discussions at these meetings. He brings to the job a wealth of relevant experience. His appointment comes at a time when the World Bank is embarking on important new developments.

20) The EC countries endorse the need for the Bank to build on its role, in close coordination with the Fund and alongside the commercial banks, in tackling the problems of the middle-income debtor countries. We welcome the substantial increase in its new loan commitments to these countries in the past year although we note that total disbursements have fallen somewhat short of expectations. The Bank has the necessary expertise in analysing and implementing changes in structural policy, and the ability for greater longer-term involvement in the development of individual economies.

21) Naturally, we recognise that the Bank requires sufficient resources to enable it to fulfil this role. We are therefore ready to support a substantial increase in its capital. We welcome the discussions on this that have already begun in the Board and hope that they will be brought to an early conclusion.

22) At the same time, it is right that the Bank should continue to support the poorest countries, especially in Sub-Saharan Africa, through the International Development Association. We are glad to see that the IDA Deputies have agreed on an eighth replenishment of //12 billion dollars//. This will be a welcome increase in the funds available. We hope it will still be possible to find ways to increase the amount further.

23) We welcome the role of the International Finance Corporation in support of private investment and enterprise in the developing countries. We welcome the recent increase in the capital of the IFC and its initiatives to increase flows of equity investment through the Emerging Markets Growth Fund and the Guaranteed Recovery of Investment Principal scheme.

24) Good progress has also been made with MIGA. More than (35) countries have now signed the Convention //and a few days ago the Preparatory Committee agreed the internal regulations and operational guidelines. We hope that the Agency can be established quickly, and begin to play its part in supporting and promoting private direct investment//. (alternative drafting of last two sentences) //We hope that the preparatory committee which met for the first time a few days ago will be able to agree quickly on operational guidelines and internal regulations which ensure that the agency can play its part in supporting and promoting private direct investment.//

BRIEF A7

INFORMAL ECOFIN 20 SEPTEMBER

STRENGTHENING THE EMS

Relevant Documents

Reports by chairmen of Monetary Committee (Tietmeyer) and of Committee of Central Bank Governors (the Governor). Drafts are attached.

UK Objectives Condense

(i) To maintain momentum of drive towards liberalisation of capital movements, in particular the early adoption of the first of the proposed new directives and rapid progress on the discussions intended to lead to the second.

(ii) To avoid any new and potentially time-wasting remits for further packages or specific actions to be prepared; and instead to seek agreement for the Monetary Committee and Committee of Central Bank Governors to continue to devote attention to this subject and report progress (? annually) to the informal ECOFIN.

UK Line to Take

(i) Grateful for valuable reports of progress since Palermo.

(ii) Most important development has been Commission's valuable initiative on capital liberalisation. Contribution to future strengthening of internal market and EMS. Momentum must be maintained. Delors

(iii) Examination of role of ecu, private and official, a useful mind-clearing exercise. Premature to take further steps on official ecu until changes of last November digested. The further development of the private ecu should be left to market forces. The two Committees to monitor progress.

(iv) (Only if raised by others) On sterling membership of the ERM nothing to add.

Chairman's Handling

Tietmeyer and the Governor should be invited to present their reports. It would then be appropriate to call on M Delors, and perhaps in doing so pay tribute to their work on liberalisation. There is no reason for a particular order in calling on others, but the following sensitivities are worth bearing in mind:

- Germany, especially Bundesbank, remain opposed to lifting their restrictions on use of the private ecu, which incenses the Commission and some others who are right but tend to exaggerate the importance of the point;
- Italy and Greece, and to a lesser extent Belgium on their two-tier market, seem not yet ready to accept mandatory requirements; Denmark has a technical worry that freedom should not make it impossible to control tax liabilities;
- Italy is under attack on the "wider margin" for the lira in the ERM (supposed to be temporary); Germany and some others are most anxious that any new adherent should not seek a similar margin;
- France and the Commission are the ones most likely to press for commitments to specific actions or packages.

Background

The Monetary Committee and Committee of Central Bank Governors were given parallel remits in relation to the ecu and the EMS at the informal ECOFIN in Palermo in April 1985. An important reason at the time was to head off pressure to take discussion into a more "sympathetic" forum such as the Foreign Affairs Council.

2. The most important development since then has been the Commission's renewed initiative on liberalisation of capital movements (see separate brief) which we have supported throughout.

3. There have also been three realignments (lira in July 1985, general in April 1986 and Irish pound in August) which have given rise to some recriminations. Subsequent Monetary Committee discussion has calmed things down somewhat, and has also raised some procedural questions (timing of requests, methods of warning others, logistics) which the Committee will be pursuing.

4. Discussion of the ecu has been desultory and, as the UK predicted from the outset, not very productive. Attempts have been made to debunk some of the sillier ideas of the Commission about the role of the ecu in integration and in "decoupling from the dollar". There has come to be fairly wide recognition that:

- growth of the international ecu market is unlikely to have monetary or exchange rate effects different from those of established currency markets; there remain some worries about the imbalance between banks' assets and liabilities and the geographical distribution of currency flows as banks cover their positions, although recently the imbalance has seemed to be declining;

- it would be premature to waste much more time on action to boost the official ecu, given the known hostility of some members and the short time since the last package in November 1985.

5. There is more argument about the private ecu. Most members including the UK think it should be left to develop freely in the market. The Commission are the leading activists on three fronts:

- pressure on Germany to recognise the ecu and permit free use in Germany (Bundesbank objections);
- demands for preferential treatment and "bridges" between the official and private ecus (some French and Italian support but nobody else);
- complaints that lack of action has led to a decline in use of the ecu, after its very rapid build-up last year (in fact the decline probably reflects indigestion of the market after numerous issues last year, the impact of the depreciation of the sterling component of the ecu, and ironically the result of Italian liberalisation which has reduced the privileged status of the ecu there!).

2/021

INFORMAL ECOFIN, 19-21 SEPTEMBER BRIEF A8

EMS - LIBERALISATION OF CAPITAL MOVEMENTS

Relevant document (attached)

Communication from the Commission to the Council: Programme for the liberalisation of capital movements in the Community COM(86)292 final.

UK objectives

(i) To reaffirm support for Commission's programme to liberalise capital movements and to urge all Member States to phase out exchange controls by 1992.

(ii) To secure agreement that liberalisation of capital movements is of great importance for the development of the EMS.

Line to take (wrong) Required by Rome Treaty

(a) Strongly endorse thrust of Commission's proposals, while recognising may be problems involved in securing agreement on details of second stage of programme. Target of complete abolition of exchange controls by 1992 ~~tough, but~~ not in any way unreasonable.

(b) Abolition of exchange controls will increase pressure for convergence of economic policy and thus favourably influence stability of exchange rates. Therefore, of great importance to development of EMS.

(c) UK's intention to proceed quickly with work on draft first directive and expect report back to October ECOFIN from working group.

Background

The Commission's objective of achieving complete liberalisation of capital movements by 1992 is very much a personal initiative of Delors. But it is part of a general tide which now seems to be moving against exchange controls and is consistent with the objective of completing the internal market by the same date.

2. Member States have a commitment progressively to abolish all capital controls under Article 67 of the Treaty. This commitment is currently given practical effect by a 1960 directive, amended in 1962. The directive divides capital transactions into four lists. Those in list A (mainly direct investment) and B (purchases and sales of listed securities) are supposed to be unconditionally liberalised. Those in list C (which includes the issuing of securities and purchases and sales of unlisted securities) are supposed to be liberalised unless that "might form an obstacle to the achievement of economic policy objectives of a member state". There is no obligation in respect of list D (the remainder).

3. All these obligations are, however, subject to a let-out under a "safeguard clause" procedure provided for in Article 108(3) of the Treaty which allows derogations to member states with balance of payments difficulties. The safeguard clause procedure, which has not until fairly recently always been interpreted as rigorously as it might, has allowed a number of member states (including the UK up to 1979) to continue to maintain comprehensive controls.

4. More recently the Commission have been taking a rather tougher line on safeguard clauses, putting time limits on the extent of derogations granted under them. The current position is that,

following their recent relaxations, the French no longer need a derogation. But derogations continue to exist for Ireland and Italy (with authorisations extending to the end of 1987) and for Greece (until the end of 1988). Controls in Spain (until the end of 1990) and Portugal (until the end of 1992) are authorised by the treaty of accession.

5. In addition the Belgians operate a dual exchange market (specifically provided for in the directive), which separates purchases and sales of currency for investment purposes from commercial flows.

6. The current Commission initiative has three main elements:

(i) A new directive which could be adopted fairly quickly to extend the range of transactions subject to unconditional liberalisation (safeguard clauses apart).

(ii) A second directive to be presented to the Council in the second half of 1987 extending the liberalisation obligation to <u>all</u> movements of capital, combined with a much tougher attitude towards derogations under the safeguard clauses and a redefinition of the purposes for which they may be sought.

(iii) In preparation for (ii) a "forward study" of the implications of freedom of capital movement and greater financial integration within the Community.

<u>First new directive</u>

7. The first new directive is relatively modest in scope. It would transfer three categories of financial transaction from list C (the optional list) to list A (the obligatory list).

(a) Long-term commercial credits (eg longer term export credits).

(b) The acquisition by residents of foreign securities not dealt in on a stock exchange (unlisted securities) and, vice versa, the acquisition of similar domestic securities by non-residents.

(c) The admission to domestic capital markets of equities listed on another stock exchange, unit trusts falling within the scope of the recent coordination directive, corporate bonds and bonds issued by community institutions or the EIB.

8. The Commission also propose to merge list A and B. This would create tighter constraints on the operation of the Belgians' dual exchange market.

9. In theory, these are relatively uncontentious proposals. They should not cause member states too great difficulty. This is more so since Italy, Greece and Ireland are likely to be allowed to mairtain their existing restrictions on the transactions in question by amendment of their safeguard clause derogations. In practice, discussion of a preliminary version of the directive in the Monetary Committee suggests that there could be quite a few technical problems to be ironed out.

10. This directive is now under consideration in a working group of the Monetary Committee which has a remit to report back to the October ECOFIN. There is still a good chance that the first directive will be adopted during the UK presidency.

11. A copy of the telegram setting out discussion of capital movements at the June ECOFIN is attached.

The second new directive

12. In the second stage, the Commission propose a further new

directive which would involve the liberalisation of the remaining transactions on lists C and D, ending the possibility of dual exchange markets unless explicitly covered by a safeguard clause and extending liberalisation obligations to cover not only the lifting of exchange restrictions but also other types of discrimination having equivalent effect, including for example tax treatment or other constraints imposed on institutional investors (presumably with half an eye on Mr Hattersley). The Commission quite rightly argue that liberalisation of capital movements is not in itself a sufficient condition for genuine financial integration. They argue that it is important for liberalisation to be paralleled by other "provisions designed to ensure the cohesion and identity of this financial area". Their objective is to make a proposal to the Council about all this in the second half of 1987.

The forward study

13. This is obviously an ambitious plan. A directive of this kind raises a number of complex and potentially difficult issues, not least those relating to the implications for the conduct of monetary policy in individual member states. Before coming forward with proposals the Commission therefore intend to embark upon a "forward-looking analysis" of these and related questions.

14. In principle, this is a sensible approach. There is no point in the Commission coming up with a further ambitious draft directive before the underlying issues have been thrashed out.

15. But we will have to keep a careful eye upon the way in which it develops. While we are bound to support the general thrust of the Commission's approach there are a number of areas which could cause us difficulty. The Commission have, for example, long had designs upon the queuing system, where the UK is now more exposed than hitherto following recent changes in Germany, the Netherlands and France. Again the quite legitimate objective of achieving some "standardisation in the Community in the laws and administrative provisions governing access to financial activities" could potentially develop along unhelpful lines unless it is carefully watched. There will also undoubtedly be questions of tax policy and prudential

regulation. Other countries will also no doubt have problems of their own. We will therefore want to proceed very carefully. It will be important that control over the discussions should be retained within the Monetary Committee and Central Bank Governors.

NCI IV : Points for lunchtime discussion

Objective

In preparation for the October ECOFIN, to get some extension of the EIB's SMEs lending outside assisted areas informally recognised as a serious alternative to the Commission's NIC IV proposal.

Introductory remarks

Recall last discussion at July ECOFIN lunch.
Colleagues will be aware of Commission paper commissioned to examine the implications of task of lending to SMEs in non-assisted areas being given over to the EIB.

Useful to take thinking on this area forward before more formal discussion in October.

Seems clear that there is no juridical objection to the EIB's doing the job.

Are there any points in the Commission's analysis which worry colleagues, eg the danger of diversion of the EIB's attention?

Helping the EIB case along

General. Own general impression that the EIB does a competent job. Clearly some merit in using the organs set up by the Treaty and keeping their borrowing and lending transactions in the same place.

Timetable. May be relevant how soon the EIB could get going on this task. Any reason to expect delay?

Always intended that the EIB would administer the scheme just as it has appraised similar projects in the past. So would not expect difficulty. Any need for a new Governors' decision under Article 9(2) of the EIB statutes?

Relationship to Commission's ideas on financial engineereing. Wider ideas about help to SMEs being canvassed by the Commission in their recent communication. Not being discussed today but on table.

Earmarking funds. Would it be useful for EIB to earmark funds for this special purpose? More important that progress was satisfactorily monitored.

Can ask our Directors to do this.

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BACKGROUND

The NCI IV Proposal

1. The New Community Instrument (NCI) enables the Commission to borrow on the capital markets, and to on-lend, via the European Investment Bank (EIB), to help finance energy, industry and infrastructure projects in member states. Like all EIB lending, NCI loans have to have adequate security; but, in addition, there is a second stage guarantee from the Community budget. So far, the Council has authorised the following amounts for lending under the NCI:

NCI	I	1978	1,000 mecu
NCI	II	1982	1,000 mecu
NCI	III	1983	3,000 mecu

The current NCI, NCI III, has been released by the Council in tranches. So far, two tranches totalling 2,900 mecu have been activated, but this is nearing exhaustion. The Commission have therefore proposed a new NCI IV.

2. The remaining 100 mecu in NCI III has been kept back by the Commission for "innovation loans" ie loans for higher risk projects combined with a guarantee fund provided from the Community budget. The Commission have never formally put this proposal to the Council, largely because of UK opposition; but it has quite a lot in common with some of the Commission's new ideas under the heading "financial engineering" - see paragraph 6 below.

3. The amount of lending in the proposed NCI IV is 1500 mecu. Unlike previous NCIs (but reflecting the change in emphasis over the NCI's history), this would be entirely devoted to lending to small and medium sized enterprises (smes), mainly via global loans (ie where money is lent to a financial intermediaries for on-lending in smaller parcels). This, the Commission argue, requires some new financing arrangements (set out in Article 4 of the draft Decision):

(a) possible deferment of capital and interest payments.

(b) the possibility of finance for intangible assets such as patents, R&D.

(c) finance in the form of share capital, instead of loans, where appropriate.

The draft Decision limits the ownership of share capital under (c) to the financial intermediaries operating global loans. But it seems that (a) would apply both to loans from the EIB to the financial intermediaries, and from the financial intermediaries to the final borrowers. If there is any direct (ie non global loan) lending, the Commission would want the EIB to be able to go in for (a) and (b) if appropriate.

Arguments on NCI Retention/Abolition

4. We have always favoured the abolition of the NCI. The EIB is the Community institution charged with project lending in member states, and the Commission has not demonstrated that the private market and the EIB cannot between them meet the financing needs of small firms with worthwhile projects. Even under the NCI, the EIB grants and administers the loans. Although it is true that EIB own resources global lending to SMEs has tended to be in the assisted areas only, this probably reflects the existence of the NCI and its concentration on non-assisted areas (see paragraph 8 below). Our dislike of the NCI is shared by the Dutch and the Germans, who have expressed outright opposition to NCI IV.

5. There are, however, pragmatic arguments working against rejection of the NCI IV proposal:

(a) the NCI is already well entrenched, and is supported by a number of member states, principally Italy, Greece, Belgium and Ireland;

(b) the NCI costs us nothing, whereas its demise could just possibly lead to pressure for a further increase in the EIB's subscribed capital, which could have public expenditure implications;

(c) the NCI IV emphasis on small firms accords presentationally with current initiatives (some of them UK ones) on SMEs.

6. The choice therefore seems to lie between two options:

(1) abolishing the NCI, and allowing the EIB to undertake global lending to SMEs in non-assisted areas;

(2) working towards a more acceptable and better managed NCI IV, and trading this off against some of the Commission's ideas on "financial engineering" (eg Community budget grants and guarantees for large infrastructure and high technology projects, and provision of risk capital for SMEs from the Community budget).

Initially, option (2) seemed the best course, given the arguments above, and the historic tendency of German and Dutch resistance to crumble in the Council. However, at the ECOFIN lunch on 7 July, Tietmeyer spoke forcefully in favour of letting the EIB take over the NCI function; and subsequent contacts with them at official level have suggested that the Germans will stick to this line. Therefore our assessment now is that it is worth pursuing option (1).

7. We have also been told that Ruding's strong personal preference remains to abolish the NCI. One Dutch idea has been that 50 mecu of EIB profits (ie excess reserves) should be used to implement any of the Commission's financial engineering ideas that seemed of merit. (A separate account would, they claim, prevent any damage to the EIB's credit rating.) Such an approach seems unlikely to commend itself either to the Germans or to the EIB management. But the EIB could certainly be encouraged to be less stodgy.

The legal position on the EIB option

8. The main question mark over option (1) is whether the EIB could, under Article 130 of the EEC Treaty with its emphasis on regional development, undertake global lending to SMEs outside

the assisted areas. Treasury Solicitors think that the EIB could so lend, and that NCI absorption could be formalised by means of a decision by the Board of Governors under Article 9(2) of the EIB's Statute. More importantly, the EIB thinks that there is no juridical barrier to their undertaking the NCI work. The Commission, however, seems to be in some disarray on this point. A Commission working paper (attached) shows, inter alia, that the EIB already does lend to SMEs in non-assisted areas on a small scale, but implies that this is only when justified on regional development grounds. However, Article 2 of the draft NCI IV proposal states that project selection under NCI IV would take account of regional impact and the need to combat unemployment, so the terms of Article 130 would appear to be met by the sort of projects the Commission had in mind anyway. In short, the EIB, if this were politically acceptable, would be well placed to implement the proposed policies without delay.

Impact on EIB subscribed capital

9. As mentioned in paragraph 5 above, absorption of the NCI function by the EIB could just possibly lead to pressure to bring forward the EIB's next increase in subscribed capital, currently scheduled for October 1991 at the earliest. EIB own resources loans outstanding cannot exceed 2.5 times its subscribed capital, and a small proportion - 7.5 per cent for the last capital increase - is paid in by member states. It is important, however, that any agreement on the EIB option should be without prejudice to the next capital increase. In support, it can be argued that the amounts involved in NCI replacement loans would be small in relation to EIB activity and to the margin of error in any forecast of loans outstanding in 1991, and that therefore it is far too soon to reach any decisions on the impact of NCI abolition on the capital base. (We are in any case considering the possibility, for the next capital increase, of using the EIB's excess reserves in place of payments of subscribed capital, thereby removing the public expenditure cost of the next increase.)

Earmarking of EIB funds

10. On the implementation of the EIB option, the issue of earmarking funds for the NCI function might arise. This would demonstrate a clear intention to fill the gap left by the NCI. However, it would also give target figures for those wishing to advance the EIB's capital increase. On balance, therefore, we would prefer that funds were not earmarked. We would, however, want to be able to monitor EIB global lending to SMEs in non-assisted areas, and this could be done through the normal Board of Directors project approval procedure and through statistics in the EIB's annual report.

Discussion at this Council

11. We propose that you raise this item over lunch (having primed Stoltenberg to speak early). The aim is to give the Germans and Dutch another chance to underline their opposition to NCI IV, to muster informal agreement on the EIB option as far as possible, and to get NCI IV supporters to think about the EIB option before a formal Council discussion later in the year.

NCV IV Text

12. A copy of the latest version is attached to this brief. Also attached is a working paper on the specific role of the NCI, written by the Commission as a follow up to the July ECOFIN.

BRIEF A10

COMMUNITY FINANCE MINISTERS INFORMAL MEETING: 19-20 SEPTEMBER 1986

PORTUGAL: AGRICULTURAL COMPENSATION

Points to Make

- Existence of these outstanding claims is only problem in our otherwise excellent relationship. Considerable pressure on HMG to try to accelerate settlement.

- Claims have been accepted by both present and previous governments of Portugal. Sr Cavaco Silva told Mrs Thatcher in May that all that remained was for details to be worked out.

- Earnestly hope that you will look into this personally to ensure that claims can be met in the shortest possible time scale.

COMMUNITY FINANCE MINISTERS INFORMAL MEETING: 19-20 SEPTEMBER 1986

PORTUGAL: AGRICULTURAL COMPENSATION

Background

1. Following the 1974 Revolution, a number of British owned or British rented agricultural properties were expropriated by the Portuguese. All have now been returned to their owners. But there remains the issue of compensation, ie repaying the owners of the farms for the physical damage to their property, the removal of goods and in some cases loss of income over the years. About £1.3 million is involved.

2. Considerable pressure has been brought to bear on the Portuguese, both in London and in Lisbon, to settle the four outstanding cases. Ministers, including the Prime Minister, have pursued the matter personally. The Prime Minister last raised the subject with the Portuguese Prime Minister when he visited the UK in May. Professor Cavaco Silva said that the principle of compensation had been agreed and all that remained was for the details to be worked out. In spite of this, progress remains slow. Claimants regularly write to their MP's and to No 10.

3. The claims are being processed by a Portuguese Inter-Ministerial Commission made up of the Ministers of Agriculture, Justice and Finance. Agricultural officials are due to complete their valuation of individual claims this month and these will then be submitted to the Inter-Ministerial Commission. The role of the Minister of Finance in this will thus become considerably more influential.

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INFORMAL ECOFIN 19-21 SEPTEMBER BRIEF A11

INTERNATIONAL STATISTICS: COMMUNITY, US AND JAPAN

List of tables

Activity And Inflation

1. GNP growth rates
2. Inflation rates
3. Unemployment rates

Interest Rates

4. Short term - 3 month interbank
5. Long term - 10 year bond yields

Trade and Competitiveness

6. Current accounts
7. Effective exchange rates
8. Relative wholesale prices

Reserves

9. Foreign exchange reserves
10. Total reserves

Budget Deficits and Money Supply

11. General government fiscal deficits
12. Monetary growth and targets

INTERNATIONAL STATISTICS: COMMUNITY, US AND JAPAN

(Commission's latest forecasts, May 1986, unless stated otherwise)

1. Gross domestic product (per cent changes)

	1985	1986	1987
Belgium	1¼	2	2
Denmark	3¾	2½	2¼
Germany	2½	3½	3
Greece	2	-½	-¼
Spain	2	2¾	2¾
France	1¼	2¼	3
Ireland	2	3¼	3¾
Italy	2¼	2¾	3¾
Luxembourg	2	2¼	2½
Netherlands	2¼	1¾	1¾
Portugal	3¾	4	3½
UK	3¼	2½	2½
EC	2¼	2¾	2¾
USA	2¼	2½	2¾
Japan	4½	3¼	3¼

2. Prices- consumers' expenditure deflator (per cent changes)

	1985	1986	1987
Belgium	5	1¼	1¾
Denmark	5	2½	2
Germany	2	-	1
Greece	18½	22½	12½
Spain	8½	8	4¾
France	5½	2½	2¼
Ireland	5½	3	1¼
Italy	9½	5½	4¾
Luxembourg	4	¾	1¾
Netherlands	2¼	-	¼
Portugal	19¼	12	9¼
UK	5½	4	4
EC	5¾	3½	3
USA	3	2½	4
Japan	2¼	½	-¼

3. **Unemployment rate (per cent of civilian labour force)**

	1985	1986	1987
Belgium	13¾	13¼	13
Denmark	9	7¾	7¼
Germany	8½	7¾	7¼
Greece	8½	9½	10
Spain	22	22	22
France	10¼	10½	10½
Ireland	17	17¼	16¾
Italy	13	13	12½
Luxembourg	1½	1½	1¼
Netherlands	13	12	11
Portugal	10½	10¼	10
UK	11¾	11¾	11½
EC9	11	10¾	10½
USA	7¼	7	6½
Japan	2½	3	3

4. **Three-month interest rates (per cent per annum)**

	1984	1985				1986		
		Q1	Q2	Q3	Q4	Q1	Q2	Latest
Germany	6	6¼	5¾	5	4¾	4½	4½	4½
France	11¾	10½	10¼	9¾	9	8¾	7¼	7
Italy	17½	16¼	15½	14½	14½	15¾	12¾	11¼
Netherlands	6	6¾	6¾	6¼	6	5¾	5½	5¼
UK	10	13	12¾	11¾	11¾	12½	9¾	10
Major EC average	10	10¼	10	9¼	8¾	9	7½	7½
USA	10½	8¾	8	8	7¾	7¾	6¾	5¾
Japan	6¼	6¼	6¼	6¼	7	6¼	4¾	4¾

Source: Bank of England

5. **Long term government bond yields (per cent per annum)**

	1984	1985				1986		
		Q1	Q2	Q3	Q4	Q1	Q2	Latest
Germany	8	7½	7¼	6¾	6¾	6½	6¼	6
France	12½	11¼	11	10¾	10½	9¾	8	7½
Italy	15½	13½	13¾	14	13¾	13¾	11¾	10¾
Netherlands	8	7½	7½	7	7	6¾	6¼	6
UK	11¼	11½	11¼	10¾	10¾	10¾	9	9¾
Major EC average	11	10¼	10	9½	9½	9¼	8	8
USA	12½	11½	11¼	10¼	9¾	8¾	7½	7½
Japan	7¼	6¾	6¼	6¼	6	5½	4¾	4½

Source: Bank of England

6. **Current account balances (% of GDP)**

	1985	1986	1987
Belgium	½	2	2
Denmark	-4 ½	-2 ½	-1 ¾
Germany	2 ¼	2 ½	1 ¾
Greece	-8 ¾	-5	-3
Spain	1 ¾	4	4
France	- ¾	½	¾
Ireland	-3 ¼	-1 ¼	-1 ½
Italy	-1	1	½
Luxembourg	29 ½	31 ½	30 ¼
Netherlands	4 ½	4	3 ½
Portugal	1 ¾	2	¾
UK	¾	-	- ½
EC	½	1	1
USA	-3	-2 ½	-2 ½
Japan	3 ¾	4 ½	4

7. **Effective exchange rates (1975 = 100)**

	1985				1986		Latest
	Q1	Q2	Q3	Q4	Q1	Q2	
Belgium	88.2	89.2	90.8	92.3	93.8	95.2	96.5
Germany	119.5	121.7	125.3	128.7	133.1	134.7	139.5
France	63.3	64.9	67.0	69.0	71.0	69.0	69.5
Italy	54.9	45.3	44.5	44.7	45.9	46.1	47.4
Netherlands	109.5	112.1	115.5	118.9	122.6	124.4	129.1
UK	72.1	78.9	82.1	79.8	75.1	76.0	71.4
US	150.0	145.8	138.4	128.8	121.2	116.0	111.0
Japan	154.5	155.3	157.8	175.1	186.7	202.8	217.4

Source: HMT

8. **Relative wholesale prices for manufacturing (1980=100)**[1]

	1975-1980	1984	1985				1986
		Q1	Q1	Q2	Q3	Q4	Q1
Belgium	113.0	94.4	93.8	93.4	93.0	92.6	92.2
Denmark	100.5	112.8	113.6	113.8	112.9	112.0	111.3
Germany	113.3	92.2	90.9	90.3	90.5	90.2	89.7
Spain	87.6	127.1	132.8	133.5	134.8	135.9	139.5
France	93.7	115.5	119.0	120.1	121.0	121.4	121.0
Italy	86.1	127.3	132.7	134.5	134.5	135.8	135.8
Netherlands	109.0	97.2	95.4	95.2	94.7	93.8	94.2
Portugal							
UK	90.6	104.5	106.9	108.3	109.1	110.1	112.5
US	97.1	93.4	90.4	90.0	89.8	90.4	89.3
Japan	105.0	81.1	79.2	78.0	77.3	75.6	74.8

1 These indices are not a measure of real exchange rates. They are only relative prices and are not adjusted for exchange rate changes. Calculated relative to the thirteen largest industrial countries.

Source: IMF

9. **Foreign exchange reserves (US$billion, end of period)**

	1980	1984	1985		1986	
			H1	H2	Q1	Q2
Belgium	6.6	3.6	4.1	4.0	4.0	4.8
Denmark	3.1	2.6	4.2	5.0	4.2	3.8
Germany	44.5	35.0	34.4	39.0	39.9	38.9
Greece	1.3	0.9	0.9	0.8	1.1	1.0
Spain	11.3	11.4	10.2	10.5	11.4	11.4 (May)
France	25.3	19.1	21.7	24.3	24.1	29.5 (May)
Ireland	2.7	2.1	3.2	2.7	2.8	3.0
Italy	21.7	19.1	18.7	14.0	13.4	18.3
Netherlands	10.4	7.8	7.5	9.2	9.3	9.3
Portugal	0.8	0.5	0.8	1.3	1.1	1.1 (May)
UK	18.7	7.0	7.8	9.7	10.7	11.5e
US	10.1	6.7	7.4	12.9	14.0	15.2
Japan	21.6	22.3	23.4	22.3	23.5	29.5

Source: IMF

10. **Total reserves including gold (at SDR 35 per Ounce) and IMF items (US$billion, end of period)**

	1980	1984	1985		1986	
			H1	H2	Q1	Q2
Belgium	9.3	5.7	6.1	6.2	6.2	7.1
Denmark	3.5	3.1	4.6	5.5	4.7	4.4
Germany	52.8	43.4	42.8	48.0	49.3	48.6
Greece	1.5	1.1	1.1	1.0	1.3	1.2
Spain	12.5	12.5	11.3	11.7	12.7	12.8 (May)
France	31.0	23.7	26.5	29.7	29.8	35.1 (May)
Ireland	2.9	2.4	3.5	3.0	3.1	3.3
Italy	26.1	23.1	22.9	18.1	17.6	22.6
Netherlands	13.6	10.7	10.5	12.5	12.7	12.8
Portugal	1.8	1.2	1.6	2.2	2.0	1.9 (May)
UK	21.5	10.1	11.0	13.6	14.7	15.6
US	27.4	32.9	34.2	42.2	44.3	46.3
Japan	25.7	27.3	28.5	27.7	29.1	35.0

Source: IMF

11. **General Government fiscal deficits (per cent of GNP)**

	1985	1986	1987
Belgium	-9 ¼	-9	-8
Denmark	-2	2 ¼	3 ¼
Germany	-1	- ¾	- ¼
Greece	-14	-9 ½	-6 ½
Spain	-6 ¼	-5	-4 ¾
France	-2 ½	-2 ½	-2 ½
Ireland	-11 ½	-9 ½	-9
Italy	-14	-12 ¾	-13
Luxembourg	4 ¼	3 ¾	2 ½
Netherlands	-5	-5 ¼	-5 ¾
Portugal	-11	-11 ¼	-11 ¼
UK	-3	-3 ¼	-3
EC10	-5 ¼	-4 ½	-4 ½
US	-3 ½	-3 ½	-2 ¼
Japan	-1 ½	-1	- ½

12. **Money supply (change over previous period at annual rates)**

	1984		1985		1986		
	H1	H2	H1	H2	Latest over target base		Target range
Germany (CBM)	4	4 ¾	4 ½	4 ¼	6 ¾	(July)	3 ½ - 5 ½
France (M3)[1]	n. av	9 ½	8 ¼	6	4 ¼	(June)	3 - 5
UK (MO)	5 ¼	6 ¼	4 ¾	3	3	(July)[2]	2 - 6
US (M1)	7 ¼	4 ¾	9 ¾	13 ¼	14 ½	(25 Aug)	3 - 8
Japan (M2 + CDs)	8	7 ½	8 ¼	9	7	(June)[2]	8 - 8 ½[3]

1 M3 replaced M2R as target measure in 1986.

2 Year on year

3. Projection

September 1986
IF2
HM TREASURY

BRIEFING PACK B

BILATERAL WITH STOLTENBERG

Items for discussion

As well as going over the ECOFIN agenda items, you will want to raise:

(1) the New Community Instrument. The background is set out in Brief A9. You should ask Stoltenberg to intervene early in the working lunch discussion the following day, in support of the EIB taking over the NCI function.

(2) the ex novo review. See Brief B2 attached. The aim is to establish the German position on the expected Commission proposal later in the year to increase the VAT threshold.

Stoltenberg has said that he wishes to raise:

(3) tax free sales in intra-Community travel ("butter boats"). See Brief B3 attached. We are sympathetic to the German case, and in turn wish to seek their support on duty free facilities for the CFL.

and he may mention:

(4) sterling participation in the exchange rate mechanism. A short defensive line to take is at Brief B4 attached.

There may also be discussion of:

(5) the German economy and the pressure on Germany to reflate. See Brief B5 attached.

And:

(6) G5/G7/G10. Sir Geoffrey Littler will in separate (blue) folder let you have a separate note on these on Thursday (to reflect what further news he can pick up at a meeting of G10 deputies tomorrow).

Finally, you might like to mention:

(7) Community R&D expenditure. We are considering whether it would be useful for ECOFIN to discuss the R&D Framework Programme under Article 8 of the Budget Discipline Conclusions, possibly on 17 November. Article 8 states:

"When the Council is on the point of adopting an act which has considerable financial implications for several years, the Council shall, before taking the final decision, formulate an opinion on whether the financial implications of the proposed act are compatible with the principles and guidelines governing the Community's budgetary policy."

It would be interesting to have German views on whether an ECOFIN discussion would provide an effective means of applying pressure on the Commission and the Research Council to reduce the propose framework to a realistic level, reflecting scientific need and the wider financial constraints on the Community budget.

Plus

(8) Airbus financing (see brief B8)

(9) Nigerian bridging loan (see brief B9)

EUROPEAN COMMUNITY : "EX NOVO" REVIEW AND 1.4 PER CENT VAT CEILING

Speaking note

Our latest information suggests that the Commission will publish their "ex novo" review after the London European Council on 5-6 December and therefore before the German (and UK) elections.

2. The Commission are certain to propose an increase in VAT ceiling to 1.6 per cent or more. They are also likely to make far-reaching proposals for reform of the Community's finances and the CAP.

3. Meanwhile we have seen in the Budget Council the emergence of a southern blocking minority determined to bust budget discipline.

4. What is the attitude of the German Government (and the Bundestag) on these matters? Should our officials get together?

Background

5. As the Chancellor will recall, we heard in June that Stoltenberg had told the European Parliament's Budgets Committee that an increase in the VAT ceiling to 1.6 per cent in 1988 would 'probably be necessary'. Then, in July, a French newspaper reported that the German Government had assumed a VAT rate of 1.5 per cent in 1988 and 1.6 per cent in 1989 in a paper on medium-term projections. This and other indications suggest that Germany may be even less robust about the VAT ceiling on this than on previous occasions. But the new problem of the southern blocking minority and the near-certainty that Member States will press for a series of increases in the VAT ceiling may possibly give the German Government food for thought.

3058/2

<u>INFORMAL ECOFIN 19-21 SEPTEMBER</u> BRIEF B4

STERLING PARTICIPATION IN THE ERM

<u>Line to take</u>

Position remains unchanged. Continue to keep under review. But not yet convinced conditions are right. Not sure if it would have been very helpful to mechanism if sterling <u>had</u> been a member at time of last realignment, or while uncertainties about the oil market remain at current level.

<u>Defensive</u>

<u>The FRN</u>

Not intended as an immediate prelude to joining. But increase in reserves <u>will</u> make membership easier when the time comes.

<u>When will conditions be right</u>?

Difficult to specify precisely. Number of factors to be taken into account, and their interaction. Prime Minister has made clear her views about the prospects of joining in current circumstances.

Brief No B5

INFORMAL ECOFIN, 19-20 SEPTEMBER

GERMAN ECONOMY - BACKGROUND BRIEF

1. Real GNP grew by 3½ per cent in the second quarter of 1986 following a fall of 1¾ per cent in the first quarter. The German Government believe that growth in the second half is likely to be around 1¾ per cent leaving output in 1986 as a whole up 3 per cent on 1985.

2. Industrial production was depressed for six months between December 1985 and May 1986, but the June figure showed the first sign of a recovery with output up 2½ per cent on May.

Table 1: Recent output performance

Percentage change on year earlier

	Real GNP	Industrial production
1982	-1.0	-3.0
1983	1.5	0.7
1984	3.0	3.5
1985	2.4	5.3
1986 Q1	1.6	2.9
Q2	2.5	2.7

3. Consumer price inflation in the year to July was -0.5 per cent, and the annual inflation rate has now been negative in each of the last four months.

4. Employment rose by 300,000 (just over 1 per cent) over the twelve months to May 1986. Unemployment in July was 8.6 per cent of the labour force.

Table 2: Inflation and Unemployment

	Consumer price inflation	Unemployment
1982	5.3	7.5
1983	3.3	9.1
1984	2.4	9.1
1985	2.2	9.3
1986 January	1.3	9.2
April	-0.2	9.1
July	-0.5	8.6

5. Central bank money (CBM) continues to grow above the target range set for the year to 1986 Q4 by the Bundesbank. In August CBM was 7.2 per cent - at an annual rate - higher than in 1985 Q4. Earlier in 1986 special factors, in particular speculative currency dealings prior to the April realignment of the EMS, were thought to blame for this rapid growth, but these should have unwound by now.

6. The Bundesbank continues to resist pressure from the United States to cut the discount rate further. It now stands at 3½ per cent having been cut by ½ per cent in March this year.

Table 3: Monetary growth and interest rates

	CBM annual growth rate	3-month money market rate
1982	7.1	8.9
1983	5.2	5.8
1984	4.7	6.0
1985	5.0	5.5
1986 February	6.5	4.5
May	6.5	4.6
August	6.7	4.6

7. The D-mark has appreciated by 65 per cent against the dollar since the latter peaked in February 1985. There has been little change, however since the beginning of August 1986. — until today

JK 17/9

8. The trade balance in June was a record DM 9.9 billion in surplus. Over the twelve months to June the trade surplus totalled $40 billion and the current account surplus $25 billion, respectively 5¼ and 3¼ per cent of GNP.

9. On 9 September, Stoltenberg presented the draft 1987 budget to Parliament. Expenditure in 1987 is planned to increase by 2.9 per cent, requiring a slight increase in the borrowing requirement by DM 0.6 billion. This is the first increase since 1983 and is largely the result of two special factors: increased contributions to the EC and a DM 5.7 billion fall in the Bundesbank windfall profit, which is transferred to the Federal Government, as a result of lower international interest rates. Nevertheless, as a percentage of nominal GNP the deficit will fall slightly to 1¼ per cent.

10. In his budget address Stoltenberg rejected calls for a more expansive policy and forecast that real domestic demand in Germany would rise by 4½ per cent this year, resulting in a real increase in imports. Any attempt to stimulate demand artificially would, he argued, lead to renewed inflationary pressures.

566/3/SC

CONFIDENTIAL

Brief B8

FROM: M A WALLER

DATE: 15 September 1986

CHANCELLOR

Ch
I think this is pretty optional. I have the previous papers if you want them
[initials] 18/9

cc. Chief Secretary
Financial Secretary
Sir P Middleton
Mr F E R Butler
Mr Monck
Mr Moore
Mr Burgner
Mr Turnbull
Mr Bent
Mr Cropper
Mr Tyrie

ECOFIN 19-21 SEPTEMBER: AIRBUS LAUNCH AID

You might care to use the opportunity of the forthcoming ECOFIN meeting to clarify with Herr Stoltenberg and M. Balladur the attitude of the German and French Governments to providing financial assistance to their respective industrial partners in Airbus Industrie for the development of the A330/340 and to seek their support in talking down expectations on the level of any Government support.

2. As you know from your conversation with Herr Stoltenburg in July, he is concerned at the possible cost of assistance and that each of the industrial partners is attempting to bid up the size of assistance by claiming the other partners' Governments have agreed to substantial levels of financial aid. The Chief Secretary made this point in his minute of 4 August to the Prime Minister commenting on Mr Channon's report that BAe would be looking for "at least the 90% Launch Aid that the French and German Partners are confident of obtaining."

3. In a follow up Private Secretary letter, DTI claimed that the German Government had decided in principle to meet up to 90% of Deutsche Airbus' development costs when these have been determined provided the project appeared to be commercially viable. They also reported that the French Government has recently agreed 50% of Aerospatiale's pre-launch costs of about £22m (compared with the 100% funding originally sought) but that no decision

on French support for full development costs has been taken.

4. In discussions with Herr Stoltenburg and M.Balladur you may like to cover the following points:

- The viability/profitability of the A330/A340 projects and how they believe this is likely to be effected by the recently announced decision not to collaborate with MacDonell Douglas on the MD11. The MD11 will be a direct competitor to the A340 and, given the limited size of the market, there would have been much to be said for collaboration rather than competition, (not least a greater sharing of development costs and commercial risk). (The case for collaboration is well argued in a leader in last Friday's FT, copy attached).

- The scale of assistance for which the German and French firms are asking and the amount which they think it likely their Governments may offer. The total project cost for the A330 is estimated to be some £2,000m and the A340 some £500m. BAe's share of this would be around £840m of which they may claim some 90% in the form of launch aid. You will wish to make it clear that the UK Government has so far told the Company that it should rely on private sources for finance and has made no commitment to move from this position. You would like to maintain it but that would be much easier to do if the French and Germans took the same line. What chance is there of that and of maintaining a united front?

- The timescale within which French and German Governments will be taking decisions. BAe have yet to lodge a formal launch aid application with DTI, though one is expected in the next couple of weeks. The original timetable called for decisions towards the end of September when the next meeting of the AI Industrial Partners was scheduled. This has now been delayed until at least late October. To minimise the risks of the Industrial Partners playing off their respective Governments against each other, it would obviously be sensible if the timetable for governmental consideration of this issue was kept broadly in line in the three countries. You might therefore end by proposing that you should keep in touch with each other on the Finance Minister net to ensure that at least information is shared and that preferably the three of you also share a tough position on the bids for assistance.

MAW

M A WALLER

Hard choices for Airbus

THE BREAKDOWN of talks between McDonnell Douglas of the US and Airbus Industrie about collaborating on development of a new generation of long-range airliners obliges the European consortium and its government shareholders to face up to some tough decisions on the future of the Airbus programme.

In theory, the idea of forming a common front to attack a highly profitable sector of the market dominated by Boeing of the US is appealing to both McDonnell Douglas and Airbus. In practice, the talks seem to have foundered on the refusal by either manufacturer to sacrifice its own project.

European governments will, presumably face renewed demands for the several billion dollars needed to fund the Airbus's simultaneous development of its planned A340 long-range airliner and A330 short-to-medium haul model. There is a danger that, in the process, the political ties binding together Europe's most successful exercise in industrial collaboration may be strained to breaking point.

Of the consortium's three major shareholders, West Germany is, unusually, the most enthusiastic about coming up with the extra cash. This is partly due to the strong interest expressed by Lufthansa, its national airline, in the A340; probably more important is Bonn's interest in using the Airbus project as a vehicle to strengthen West Germany's industrial capacity in both commercial and military aircraft.

Profit margins

Though the French Government faces acute budgetary pressures, national prestige and the need to preserve jobs at the Airbus assembly plant in Toulouse will probably mean that the money will be found. However, the British Government has indicated that it is prepared to put up only part of the £500m which British Aerospace says it needs to develop the wings for the A330/340.

Unless BAe could raise the rest of the money privately—which appears doubtful—it would have to surrender the wing contract to another manufacturer, though reports that Britain might drop out of the Airbus programme entirely [illegible]

to compete successfully with Boeing for orders, it needs to be able to offer a "family" of aircraft.

That Airbus needs to expand its range to remain competitive is indisputable. However, its strategy of going head-to-head with Boeing in the long-range airliner market entails huge commercial risks, which will be all the greater if McDonnell Douglas presses ahead with its rival MD-11 project.

Because the MD-11 will be based on the existing DC-10 airframe, development time should be relatively short; it may well be available before 1990. Though Boeing has no direct competitor yet for the A340, it could also move rapidly to develop a derivative of its 747 series. Moreover, Boeing's generous profit margins at the top of its range allow it ample scope for defensive price cutting.

Independent force

The A340, by contrast, will have to be developed from scratch and is unlikely to be available before 1992 at the earliest. The benefits of standardising components on the A330 and A340 also remain to be proven. Some industry experts believe the cost savings will be much smaller than Airbus Industrie claims and argue that the approach could result in unhappy design compromises on both aircraft.

Airbus Industrie insists that many airlines will be prepared to wait for the A340. However, there is an equally large risk that it will be the last entrant into a fiercely competitive market which has only room for two participants.

The sensible course is for Airbus Industrie to offer to drop the A340 and to collaborate on the MD-11. In return, it should invite McDonnell Douglas to co-operate on the A330, which would neatly fill the gap in the US manufacturer's range. Such collaboration would be commercially far more realistic than Airbus Industrie's grand ambitions to become an independent force.

That would, of course, require the support of the programme's government backers. Until now, they have tended to sit back, allowing Airbus Industrie a free rein in negotiations with McDonnell Douglas. It is high time that they sought to iron out [illegible]

Brief B9

FROM: M I PITCAIRN
DATE: 18 September 1986

note to end

1. MR LAVELLE
2. CHANCELLOR

cc PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
Sir P Middleton
Sir G Littler
Mr Evans
Mr Mountfield
Mrs Case

NIGERIA - BRIDGING LOAN

For your meeting with Dr Stoltenberg we wish to provide you with a late brief with the request that you discuss the question of the Bundesbank's apparent reluctance to join in a bridging loan facility for Nigeria.

2. The possibility of a bridging loan facility for Nigeria was first broached with BIS central bank governors in Basle a fortnight ago by the Governor of the Bank of England. The concept was supported by the French and Canadians and separately by the US. The Germans, the Swiss and the Dutch expressed reluctance to the idea. Japan would join in if that was the consensus. The Belgians and Italians were not enthusiastic. A number of governors expressed the view that the process was becoming too automatic. They were concerned about the political instability and the quality of collateral support being offered. The case for bridging finance was perceived by some as becoming too political and so more a matter for creditor governments. There was also less reason for central banks to respond positively in the case of Nigeria since its debts were not large enough to pose a systemic threat to the international financial community. The Bank pointed to Nigeria being one of the Baker 15 and the G10 declaration, at the Interim Committee Meeting, of support for Baker.

3. The structure of a bridging facility has been developed by the Bank of England in discussion with the IMF, IBRD and Nigerian authorities to the point where it is looking increasingly likely that it will end up being a US$250 million

six month facility. A term sheet is provided at Annex A describing the facility. This facility is being arranged in the context that the Nigerian Government has:

(i) signed a letter of intent with the IMF which is expected to lead to a Standby ~~By~~ Arrangement of SDR650 million. The Nigerian Government has stated in the letter of intent that it does not intend to draw under this Arrangement;

(ii) signed a letter of trade policy with the IBRD against which the IBRD is expected to agree to a $450 million Trade Policy and Export Development Loan.

4. The notes to the "Purpose" clause at Annex A provide background reasoning for the need for such a facility. The "Conditions Precedent" and "Repayment" clauses provide an explanation of the adequacy of the security being offered and the safeguards for lenders in allowing drawing to take place under the bridging facility before the formal IBRD Board approval is granted on 14 October.

5. The Nigerians understand that to put a facility in place offering reasonably adequate security would limit the operation to $250 million. They are now reconciled to this figure.

6. The Nigerian authorities would ideally like to open the second-tier Foreign Exchange Market (SFEM) on Thursday 2 October.

7. This could pose problems and the Nigerians have been warned to expect some slippage. The problem revolves round the timing of the next meeting of the commercial banks which is scheduled for 2 October but which the British banks with the support of the Bank of England and the IBRD are looking to accelerate. The bridging loan is dependent upon the IBRD going ahead with the $450 million Trade Policy Loan for Nigeria

which itself is contingent upon the commercial banks indicating their support for Nigeria. For the IBRD to be satisfied about the commercial banks attitude they normally require the Advisory Committee to have sent out its rescheduling and new money recommendations to banks.

8. The Bank of England understand that the Bundesbank Board has decided in principle against becoming involved in a bridging finance operation for Nigeria. A final decision will be taken at the overriding Bundesbank Council meeting on 25 September. There is difficulty in proceeding without having the Germans on board. It would be necessary for them to at least give a "nihil obstat" if the BIS is to play a full part on behalf of its shareholder. In the case of the Argentine bridging facility the BIS proceeded on the basis of "nihil obstat" from the UK. But in that instance it was very clear why the UK did not participate and in any event our exposure was less than 2%.

9. On the question of splitting participations among the various central banks then on the basis of a proportional share of exposure by commercial banks and ECAs combined, figures for a $250 million bridging loan would work out as follows:

UK	$66.5m
France	$67.5m
FRG	$37.5m
US	$23.75m
Japan	$22.5m
Other G10 including other BIS members	$32.25m
TOTAL	$250million

10. As a negotiating position, it is intended to avoid this purely mechanistic formula seeking instead to reduce the differential between the UK and France on the one hand and Germany, Japan and the USA on the other. Partly to pre-empt excessive demands from other creditors for the UK to take

a leading role, but also make a virtue out of necessity and reap the political benefit, the following shares are suggested:

UK	$55m
France	$50m
US	$40m
Japan	$40m
FRG	$40m
Others	$25m

11. This breakdown has not yet been mentioned to other creditors since it would normally follow the achievement of a consensus on participation. It is suggested that discussion of it is avoided unless it looks necessary to unblock an impasse.

12. The Americans are flexible on participation, but would require a quorum of creditors. We believe they would consider going ahead without German participation, provided the Japanese were in.

13. You should know before you speak with Dr Stoltenberg that aside from the approach in Basle the Germans have also been approached bilaterally at several levels. It would probably be best not to reveal that we have heard of the Bundesbank Board decision.

14. Aside from the reasons outlined above which put the technical case for a bridging loan in order to provide liquidity for the SFEM, you may with to draw on the following arguments in your discussion with Dr Stoltenberg:

(i) it is in everybody's interest to assist Nigeria get its SFEM off to an orderly and adequately funded start. A shortage of funds for the SFEM will mean rates will go through the floor. This will frighten the Armed Forces Ruling Council and might jeopardise the IMF's programme for Nigeria;

(ii) we all want to avoid Nigeria going in to default;

(iii) it is true that Hermes is owed substantial arrears but so is ECGD only larger;

(iv) Germany has a substantial trading interest to protect.

(v) Nigeria is quite capable of discriminating against those seen not to be participating in a bridging loan; ?

(vi) diplomatic and political argument for supporting the present government which is deemed more likely to lead to a return to democratic rule than any successor military regime that may follow a coup.

(vii) our understanding is that Germany alone in BIS is standing out: this could put the whole operation in doubt.

for M I PITCAIRN

If German non-participation fouled up the planned BIS operation, a substitute one could involve us in a larger and more real commitment than so far envisaged: we could not, I think, risk letting the whole bridging idea collapse

Annex A

Borrower Central Bank of Nigeria

Amount US$250 million

Purpose To provide working capital as part of Nigeria's usable reserves with which to fund the new Second Tier Foreign Exchange Market (SFEM) equating to 2-3 weeks of SFEM transactions. The bridge is intended to meet temporary liquidity needs which Nigeria may face in the early months of the operation of the SFEM market.

Note: The opening of the SFEM is seen as the lynch-pin in the IMF's programme for Nigeria.

Though Nigeria's reserves are expressed as $1 billion, only $200 million are usable reserves with the balance accounted for by countertrade deals, pre-financing of exports and invisible payments arrears.

Nigeria's oil revenues of $500 a month are paid on the last day of each month. The bridging loan would ensure an orderly opening of the SFEM market.

Period Up to six months.

Conditions Precedent The bridging loan will become effective and available for drawing after the IBRD Management has indicated that it will recommend approval of the US$450 million Trade Policy and Export Development Loan to the IBRD Board. This depends on progress in discussions between Nigeria and its commercial bank creditors but it is hoped that the IBRD management will be in a position to recommend the Trade Policy Loan by the end of September. This would allow the bridging facility to be drawn in time for the introduction of the SFEM early in October.

Repayment

In the ordinary course of events repayment will emanate from disbursements under the IBRD's $450 million Trade Policy Loan (TPL). These disbursements will be credited to an escrow account with the BIS up to an amount sufficient to discharge outstanding drawings and service costs and held there until eventual repayment. [The Trade Policy Loan will be available in two tranches: the first of $250 million is expected to be drawn in full by the end of January; and a second of $200 million early in 1987 subject to a satisfactory review of, inter alia, the successful operation of the SFEM. The IBRD has projected that the Trade Policy Loan will be disbursed in full by end March 1987.]

If the Nigerian Government were to change its mind about its intention not to draw under the IMF SBA agreement, then the first drawing would be used to repay any amount outstanding and due for repayment under the bridging facility.

Security

Pledge over Nigeria's oil revenues. This will be an adaptation of the Mexican precedent. If at the end of six months, Nigeria has not repaid the bridging facility, the BIS will be empowered to exercise a right of set-off against Nigeria's oil revenue flowing across a designated account.

BRIEFING PACK C

BILATERAL WITH DELORS

Items for discussion

see also further note, as requested, from Chris Kelly in separate blue folder dwk

You wish to raise:

+ Green £
BL Bank A/c directive

(1) repeal of the Exchange Control Act. See Brief C1 attached. The aim is to forestall Commission objection to what would be, technically, a breach of Community legislation.

(2) Greek protective measures and the Community loan. See Brief C2 attached. The aim is to keep up the pressure on the Commission to take a firm line with Greece on the protective measures authorised last November as part of the Community loan package.

2(a)

Delors wishes to raise:

(3) Egypt's debt position, and the possibility of a Community initiative. Delors has written to you about this. His letter, and a draft reply which can be used as a speaking note, are attached at Brief C3.

It is just possible that Delors might raise:

(4) the VAT threshold. There is no need for you to mention this, but if Delors raises it, you should say that the Commission's proposal is helpful, and that the UK hopes that it can be discussed constructively as soon as possible. (The proposed 22nd VAT Directive suggests a VAT threshold of 35,000 ecus.)

And it would be tactful to invite him to comment on:

(5) the main meeting agenda - it could indeed be helpful to check whether he has any unexpected ideas.

Finally, you might like to be aware that Delors is staying on in Scotland for the first day of the informal Employment Ministers' conference in Edinburgh. The main topic of discussion will be the employment initiative set out in the joint Anglo-Irish-Italian paper tabled at the June Employment Council. The aim of the discussion is to agree on an employment strategy, to be embodied in a Resolution to be adopted by the Employment Council in December. The Resolution will identify priorities and practical steps for action within priority areas. Delors is expected to speak on the initiative at the meeting.

2(a) October ECOFIN discussion of threatened CAP expenditure overrun. You should say that this is a most serious problem, and that we attach great importance to the forthcoming discussion at the October ECOFIN. Sir David Hannay will be in touch with Delors and Christopherson shortly about preparation.

BRIEF C1

INFORMAL ECOFIN: 19-21 SEPTEMBER

REPEAL OF THE EXCHANGE CONTROL ACT

Relevant documents

Council directive 72/156/EEC of 21 March 1972 (attached).

UK objectives

To tell Delors we are considering repeal of the Exchange Control Act in the next Budget; to convince him that this would add to the impetus of his initiative on capital liberalisation; and to persuade him that it should not be challenged or prevented simply because it might leave us technically in breach of the 1972 Directive.

Line to take

(i) Greatly heartened by initiative on liberalisation of capital movements. One of most important Community developments for some years. In spite of professed support bound to be difficulties with some Member States when get down to details. Important therefore that UK and Commission should pull together.

(ii) UK abolished exchange controls in 1979. But relevant Act remains on statute book. In principle can be reactivated at any time, by secondary legislation.

(iii) Present UK government no intention of doing this, of course. Opposition have said they will not either, intending to discriminate in another way. But cannot rely on this. As long as Act remains on statute book there is a risk that a future government will reintroduce it. Much easier to reimpose controls in this way than if starting from scratch. Repeal of Act would be a serious inhibition to reintroduction of controls.

(iv) Would therefore be much happier if Act were now repealed. Would add to momentum of Delors initiative. Repeal could also have advantages in preventing excessive volatility of sterling over an election period.

(v) Opportunity exists to repeal in next Budget. Difficulty is that such a step might be construed as putting us technically in breach of 1972 Directive on inflow controls.

(vi) Do not want to start down this road if Commission going to object on these grounds. Would simply stir up unhelpful publicity and remind people Act was still there. Would be helpful if Delors could consider and give some assurance on Commission attitude.

Capital Markets

(vii) A possible fall back option might be to use the first new directive currently under discussion to make the 1972 Directive permissive rather than mandatory. But anxious not to hold that up. Could be unwelcome complications.

(viii) Not trying to evade Community obligation. Intention exactly the opposite. Point is that existing Exchange Control Act, which dates from Second World War, is ill-suited even for the existing requirement. Aware that Commission are looking at 1972 Directive anyway with a view to revision. Prepared to look at best way of meeting the Community obligation when the precise nature of the future requirement becomes clearer.

Background

The only obstacle to repeal of the Exchange Control Act in the next Finance Bill is the 1972 Directive (copy attached). This imposes an obligation on member states to retain powers to impose certain controls on capital inflows without further primary legislation. We currently meet this obligation by retaining on the statute book the Exchange Control Act and Schedule 18 of the 1981 Finance Act, both of which can very quickly be activated by order.

2. The Directive has a rather out-moded air about it. But the Commission have not forgotten it, and are intending to review it during the second stage to drive towards complete capital liberalisation within the Community.

3. This will be the first time Delors will have heard of what you are considering. We have deliberately not previously raised it with the Commission staff, who may take a more legalistic view.

COUNCIL DIRECTIVE

of 21 March 1972

on regulating international capital flows and neutralizing their undesirable effects on domestic liquidity

(72/156/EEC)

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community, and in particular Articles 70 and 103 thereof;

Having regard to the proposal from the Commission;

Whereas exceptionally large capital movements have caused serious disturbances in the monetary situation and in economic trends in Member States; whereas these disturbances may hinder the establishment by stages of an economic and monetary union; whereas the Council, in its resolution of 9 May 1971, agreed to discuss before 1 July 1971 the adoption of appropriate measures to deal with this situation;

Whereas, so that contingencies of comparable character and magnitude do not recur, the Member States should supplement the instruments that are available for regulating domestic liquidity;

Whereas to this end it is imperative that Member States adopt measures immediately in order to have available, should occasion arise, the appropriate instruments for purpose of discouraging exceptionally large capital movements, in particular to and from third countries, and of neutralizing their effects on the domestic monetary situation, thereby creating the conditions required for concerted action on the part of the Member States in those fields in order to ensure smooth trading conditions within the Community and the achievement of economic and monetary union;

Whereas exceptionally large capital movements can produce serious stresses on the exchange markets of the Member States, the smooth operation of which constitutes the object of the policy with regard to rates of exchange which each Member State must, by virtue of Article 107 (1), treat as a matter of common concern;

Whereas, in order to ensure the efficacy of the measures to be taken to prevent exceptionally large capital movements, the regulation of loans and credits not related to commercial transactions or to provision of services and granted by non-residents to residents must be extended to medium and long-term loans and credits; whereas for this purpose a derogation from Article 3 (1) of the First Directive for the implementation of Article 67 of the Treaty, as amended by the Directive of 18 December 1962, should be permitted;

HAS ADOPTED THIS DIRECTIVE :

Article 1

The Member States shall take all necessary steps to ensure that the monetary authorities have available the following instruments and are able, where necessary, to put them into operation immediately without further enabling measures:

(a) for effective regulation of international capital flows :

(i) rules governing investment on the money market and payment of interest on deposits by non-residents;

(ii) regulation of loans and credits which are not related to commercial transactions or to provision of services and are granted by non-residents to residents, if need be by derogating from Article 3 (1) of the First Directive for the implementation of Article 67 of the Treaty;

(b) for the neutralization of those effects produced by international capital flows on domestic liquidity which are considered undesirable :

(i) regulation of the net external position of credit institutions,

(ii) fixing minimum reserve ratios, in particular for the holdings of non-residents.

Article 2

1. The Member States shall forthwith adopt the necessary measures to comply with this Directive.

2. Each Member State shall, where necessary, and taking account of the interests of the other Member States, apply all or some of the instruments mentioned in Article 1. To this end the Commission, in cooperation with the Monetary Committee and the Committee of Governors of Central Banks, shall ensure close coordination between the competent authorities of the Member States.

3. The Commission, after consulting the Monetary Committee and the Committee of Governors of Central Banks, shall keep the Council informed of the situation and its development.

Article 3

This directive is addressed to the Member States.

Done at Brussels, 21 March 1972.

For the Council
The President
G. THORN

BRIEF C2

INFORMAL ECOFIN 19/20 SEPTEMBER

BILATERAL WITH PRESIDENT DELORS: GREEK PROTECTIVE MEASURES

UK Objective

To keep up pressure on the Commission to take a firm line with Greece on the protective measures authorised last November as part of the Community loan package, and to signal our intention of having a discussion on the protective measures at the October ECOFIN lunch.

Line to take

- Foreign Secretary has already described UK strong concern on Greek protective measures, particularly export subsidy for cement. Great potential disruption to UK cement market, and consequent job losses in cement and coal sectors.

- Aware that Commission has granted derogation on export subsidies till end of year. But Commission surely never intended Greece to take advantage as they are now doing on cement, and to disrupt industries in other member states.

- Important that Commission take action to stop this. Understand that Commission will be discussing protective measures with Greece in near future.

- Equally important that import deposit and export subsidy schemes finish on agreed schedules.

- Whole issue of Greek economy and second tranche of loan to be discussed by ECOFIN later this year. Dismantling of protective measures clearly an important element. Therefore suggest Commission reports back to ECOFIN lunch on 13 October on its discussions with Greece.

BACKGROUND

1. In November 1985, ECOFIN agreed on a loan for Greece, under the Community Loan Mechanism, to help with its balance of payments problem. The loan, 1.75 becu, was to be in two equal tranches, the second to be released with one year of the first but not before January 1987. The Council Decision on the loan incorporated targets for economic improvement in Greece. After some haggling in ECOFIN, it was agreed that the release of the second tranche of the loan

was the responsibility of the Commission, but that the Council would examine the Greek economy before the end of 1986 and that the Commission would take account of its assessment.

2. The first tranche of the loan was raised by the Commission and paid to Greece in January/February this year.

3. The Greek loan package included, as well as economic recovery objectives, some derogations under the Treaty of Rome. The main ones were as follows:

(a) postponement of the introduction of VAT from January 1986 to January 1987;

(b) an import deposit scheme for certain goods;

(c) continuation beyond 1985 (the end of Greece's transitional accession period) of some capital movements and tourist exchange controls;

(d) continuation of an existing export subsidy scheme.

Introduction of VAT

4. As far as we are aware, Greece will introduce VAT on 1 January, as planned. Greece has this year in any case been paying own resources on a VAT basis.

Import Deposit Scheme

5. This was implemented by Greece as part of its general economic package of 11 October 1985, and its continuation was authorised by a Commission Decision in November 1985, following agreement at ECOFIN. The scheme is supposed to be temporary, with dismantling starting within 6 to 12 months ie by November 1986, and being completed in 12 to 18 months ie by May 1987. This agreement is confidential; it is recorded in an exchange of letters between the Commission and the Greek government, but not in the Council or Commission Decisions, or in the Council minutes. Under the terms of the Commission Decision, the scheme is subject to a quarterly review.

Exchange Controls

6. The exchange control derogation is valid for 3 years from the date of the Commission Decision.

Export Subsidy Scheme

7. The export subsidy scheme should finish at the end of this year, and this is written into the Commission Decision.

UK Concerns

8. We are currently concerned about the import deposit scheme and the export subsidy scheme, and their effect on UK trade with Greece. The import deposit scheme affects some 30% of UK exports

to Greece. On the export subsidy scheme, a particular problem has arisen recently over cement, with Greek floating cement terminals arriving at UK ports. This has attracted a great deal of press interest. No cement has yet been landed, but orders are already having an effect on the UK market.

9. The Minister of Trade has written to Commissioner Sutherland requesting immediate action under the review clauses in the Commission Decision. He has also asked that all export subsidies should finish at the end of the year as planned. We think, however, that Greece will ask for an extension of the scheme, and there are signs that the Commission may be sympathetic to this. HMG are continuing to lobby the Commission and the Greeks, particularly on cement. The Foreign Secretary spoke to Delors at the recent informal Foreign Affairs Council. There seems to be a fair amount of support amongst other member states for keeping an eye on Commission/Greek negotiations on the protective measures.

Discussion at this ECOFIN

10. Although Delors responded fairly sympathetically to the Foreign Secretary's appeal, we suggest that you keep up the pressure by speaking to Delors at this ECOFIN. The Commission is currently considering internally the line it might take with Greece, and will probably start discussions with the Greeks later this month, with a view to settling details bilaterally with Greece in October.

Discussion at further ECOFINs

11. The whole issue of the Greek economy and the release of the second tranche of the loan will have to be discussed by ECOFIN later this year. Since this discussion must be prepared by the Monetary Committee, it cannot realistically take place before November. But it might be useful to have in addition a more limited discussion at ECOFIN lunch on 13 October, based on a report back from the Commission on its discussions with the Greeks. This would give member states a chance to express their views on the protective measures before the Commission finalises its view on a new package for the continuation of the Greek recovery programme.

The Greek Economy

12. This was discussed by the Monetary Committee in July. In summary, the Committee noted that inflation was on target, and progress was being made on government expenditure and the budget deficit, but that there was no visible progress on the current account. The chairman, Tietmeyer, emphasised that the import deposit scheme must be temporary.

BRIEF C3

Ch

Letter to issue? Now, or after Gleneagles (see 'X')?

AK

FROM: M I PITCAIRN
DATE: 17 September 1986

CHANCELLOR

cc PS/Chief Secretary
PS/Economic Secretary
Sir P Middleton
Sir G Littler
Mr Lavelle
Mr A Edwards
Mr Mountfield
Mrs Case
Miss Barber

EC/EGYPT

Jacques Delors has written proposing you arrange an EC initiative to assist Egypt resolve its current financial difficulties. The attached draft reply, which has been cleared with the FCO, is sympathetic but declines his request.

X 2. You may prefer to delay your reply until after discussing this matter with M Delors at your Saturday morning meeting at Gleneagles. In this event, a copy of the draft letter has been included in your Gleneagles papers for use as a brief.

3. The genesis of this approach was an appeal by the Egyptian Foreign Minister to his opposite numbers in the Community in early June. The Foreign Secretary replied in July on our own behalf and on behalf of the Community sympathising with Egypt's economic problems but offering little more by way of financial support than was already being provided. The Community and the Member States offered to play their full part in promoting Egypt's economic development. Copies of the various exchange of letters are attached.

MP

M I PITCAIRN

Thank you for your letter of 5 September proposing an initiative by the Community to assist Egypt resolve its difficult financial situation.

All EC Governments have been aware of Egypt's deteriorating external payments position for the past few months and have been concerned at the apparent lack of progress in discussions with the IMF. However I am now encouraged by indications that Egypt is negotiating seriously with the IMF. The recent budget and other policy changes have all been in the right direction. My own view, which I know is shared by other Finance Ministers, is that it is essential to the solution of Egypt's economic problems that there should be agreement with the IMF. For their part the IMF are well aware of the social and political implications of the bold reforms suggested by them.

This is not to overlook the fact that much remains to be done in several key areas before agreement is reached with the IMF. In recent discussions with President Mubarak and Dr Lutfi, the Prime Minister and I have been impressed by Egypt's growing appreciation of the need for an agreement with the IMF and have assured them of our support both at the Fund Board and in the Paris Club once agreement has been reached on an appropriate Fund programme. I understand that President Mubarak received an equally sympathetic hearing in his visits to other European Capitals in July and in his informal meeting with M. J C Trichet, Chairman of the Paris Club.

All the signs are that Egypt is now heading in the right direction, with the sympathy and support of individual Community member governments, which will have the opportunity to underline their support at next month's Article IV discussion in Washington. I do not see a need for any additional demarche on behalf of the Community at this time.

copy for Mr. Lawson

(Ch/ You have already seen AWK)

BRIEFING PACK D

INFORMAL ECOFIN: PROCEDURAL ASPECTS

FRIDAY 19 SEPTEMBER

1. You, Mrs Lawson and Mr Kuczys are arriving at Gleneagles station at 7.10 by train (as are Mr and Mrs Leigh Pemberton). Either Miss Edwards or I will meet you, and you will go by car to the hotel. A suite should be available for your use, and breakfast starts at 7.30 in the Strathearn Restaurant. (Please see attached map of the hotel ground floor).

2. You might on arrival be met by the hotel management. The general manager is Mr Peter Lederer. We have been dealing primarily with the conference manager, Mr Kees Heuveling. You will also meet at some point our colleagues from Government Hospitality, who have given us a great deal of assistance in arranging the conference, and who are footing a large part of the bill. The GHF team is led by Martin Garrett, with Iain Lindsay and Andrew Lection in support. There will be a small plain clothes police presence in the hotel (and a uniformed one in the grounds). The organising officer is Detective Chief Superintendent Fisken, and the officer in charge inside the hotel is Sergeant Tate.

3. Sir Geoffrey and Lady Littler will arrive by car during Friday morning. Sir Geoffrey will later go to Edinburgh airport to meet guests as they arrive by plane. GHF will supervise the guests' transport to the hotel by car.

4. We have hired the Orchil Room as a conference office, and will be setting this up on Friday morning, with desks, telephones, typewriter etc. Mrs Hall from the Treasury is providing secretarial support, and she will arrive late on Friday morning.

5. You will want to take lunch in the hotel. A buffet lunch is served in the Strathearn Restaurant.

6. There should be nothing for you to do until guests start arriving in the afternoon. A full list of guests and others involved in the conference is attached. The first batch will land at Edinburgh airport at 14.20, and the formalities and car journey should take about an hour. We will let you have a chronological list of arrivals in due course, but on present information, this first batch will consist of the Greeks, and Mr Pini (of the Council Secretariat) and Mr Kees (Secretary of the Monetary Committee).

7. We have arranged for you to welcome guests in the Terrace Lounge. Coffee etc will be available, and hotel staff and ourselves will be on hand to give out room keys, security passes etc. It would be helpful if you and Mrs Lawson, and Mr and Mrs Leigh-Pemberton, could be in place in the Terrace Lounge by 15.15. We will conduct guests from the front door of the hotel to the Terrace Lounge.

8. We suggest that you remain in the Terrace Lounge until about 18.30. This should enable you to welcome personally all the guests, with the exception of the French, who do not expect to land at Edinburgh until 18.30 - 19.00.

9. At 19.00, there is a drinks reception in the Drawing Room. Miss Edwards, Mr Garrett and myself will be present to show our faces and to collect information on the ladies tours, sports etc.

10. At 20.00, dinner will be served in the Glendevon Room. We have asked for small tables of around 8, with menu cards. There is no formal seating plan, and it will be for you and Sir Geoffrey Littler to lead the way from the Drawing Room and to suggest convenient table groupings. There will be no support staff or interpreters at the dinner.

11. After dinner, you are planning to have a bilateral meeting with Mr Stoltenberg in your suite. (Sir Geoffrey Littler will confirm with Mr Stoltenberg on his arrival at Edinburgh).

SATURDAY 20 SEPTEMBER

1. You are entertaining Mr Delors to breakfast in your suite at 8.00. This is being arranged with Mr Delors via UKREP. (Sir Geoffrey Littler will confirm with Mr Delors on his arrival at Edinburgh).

2. The meeting itself is in the Ballroom of the hotel. The schedule is as follows:

9.30	start of meeting
11.00	coffee etc in Glendevon Room
12.30	break for working lunch at 13.00
	Ministers (including President Delors) in the Terrace Lounge
	Central Bank Governors and senior officials in the Barony Lounge
14.30	resumption of meeting in Ballroom
16.00	coffee etc in Glendevon Room
17.30	end of meeting

3. There will be simultaneous translation from six languages (English, French, Danish, German, Italian and Spanish) into three (English, French and Danish), requiring the presence of three booths in the ballroom. Six interpreters are being provided by the Commission, and some of them will help out at the Ministers' lunch as necessary.

4. We are arranging for a desk and telephone to be manned outside the main entrance to the ballroom, to check security passes and to pass messages. We have ordered a selection of newspapers to be available at the ballroom entrance.

5. You might like to consider whether, at the end of the meeting, you wish to speak to the press. In accordance with the informal and private nature of the meeting, we have made no special press arrangements. However, we know that a number of journalists (mainly Brussels) have booked themselves in to the hotel. You could speak to them in the Orchil Room. It would help if we knew your plans on this point, so that we can answer the inevitable queries.

6. The evening is taken up with the dinner etc at Stirling Castle. You and Mrs Lawson, and Mr and Mrs Leigh-Pemberton, should reach the Castle by 19.15, and your cars will be at the front of the hotel at 18.30. You should leave by 18.40 at the latest. Either Miss Edwards or I will accompany you. (The guests will be going by bus, leaving from 18.45, and Sir Geoffrey and Lady Littler will be on one of the buses.)

7. On arrival at the Castle Esplanade, we suggest that (weather permitting) you walk up through the Castle (as the guests will do) to the Military Museum of the Argyll and Sutherland Highlanders, where there will be a drinks reception. At this point, you will meet a number of people:

"Kerr"

<u>Scottish guests at the dinner</u>
Mr and Mrs Rifkind
Sir William and Lady Fraser (Sir William is Permanent Secretary at the Scottish Office)

<u>Scottish Office staff</u>
Alastair Raymond (Superintendent of the Castle)
Tom Wicks)
Kevin Vale) from SO protocol section
Elaine Pearson)

<u>Military</u>
Lt Col Wood and Mrs Wood. (Col Wood is a sort of secretary of the Argyll and Sutherland Highlanders Regiment, and, since it is "his" museum, he and his wife will be at the reception. You might like to thank Col Wood for the use of the Museum.)

<u>Govenment Hospitality</u>
Brigadier Cowan (Brig. Cowan is head of GHF, who are providing the dinner at Stirling Castle as official Government Hospitality)

All the Scottish Office staff have been extremely helpful, and have managed on our behalf to get a number of charges waived or absorbed elsewhere, so you might like to say a word of thanks to them, and comment on their contribution to Mr Rifkind.

8. The Castle will of course be closed to the public by this time, but there will probably be a police presence. The senior officer involved is Superintendent Young.

9. The guests should arrive at the Castle esplanade at about 19.30. If it is raining, they will be ferried up to the Military Museum by minibus and car. Otherwise they will walk (to the sound of a piper), and will be greeted in the Military Museum by you and Mrs Lawson, Mr and Mrs Rifkind, and Mr and Mrs Leigh-Pemberton. (You will of course need to introduce the guests to Mr Rifkind.) Drinks will be served. At about 20.00, Mr Wicks will announce the tour of the Castle and divide the guests into three groups, with the co-hosts leading each group.

10. At about 20.30, guests will be shown to the Queen's Guard Chamber for dinner. Because of space constraints, the table shape will be a top table with five "legs", and there will be a table plan (which we shall clear with you later) and menu cards. There will no support staff or interpreters at the dinner itself, but there will be an "outmess" in another room where support and Castle staff will be fed. We have hired a photographer (a Mr Tom Roxburgh) to take a few photographs of the Ministers (including Mr Delors) and some of guests at the dinner.

Ch/You have already seen & commented
AWK

11. After the cheese course, the table will be cleared and port offered. As host, you should then rise and propose the loyal toasts. These are as follows:

1. The Queen

2. Sovereigns and Heads of State of the European Community

(It is not absolutely essential to have these toasts, but SO/GHF advice is that we should, given the nature of the occasion and the setting.)

12. Coffee, cigars and liqueurs will then be offered. You should then make your speech (Sir Geoffrey Littler is preparing some notes for you).

13. At the very end of the dinner comes the ceremony of the quaich. A ceremonial jug of whisky and the quaich cup is placed before you, and someone from the Scottish Office fills the cup (they are reluctant to let Sassenachs fill it in case too much is put in). The piper enters, playing, and marches to the top of the room where he plays a selection of tunes. He then approaches you, handing his pipes to the Castle head warder. You should offer him the quaich cup. The piper then says an appropriate toast, drinks the contents of the cup, kisses its bottom, and gives the empty cup back to you. He then salutes you, retrieves his pipes and plays himself out of the room.

14. We expect the dinner to end at about 23.00. Weather permitting, guests will then walk back to the esplanade, and be taken back to Gleneagles by bus. You can either travel by car, or join your guests on one of the buses.

SATURDAY 20 SEPTEMBER: LADIES PROGRAMME

1. In the morning, we are offering a choice of tour, so it will be necessary for us to collect preferences on Friday evening. We will probably ask the ladies to gather at the hotel main entrance at about 9.20, so that the tours can get away promptly. It would be helpful if Mrs Lawson, Mrs Leigh-Pemberton and Lady Littler could help to ensure that everyone gets on the right coach. A GHF escort officer will accompany each tour, to smooth out any problems en route.

2. The ladies will return to the hotel at about 13.00, for buffet lunch in the Strathearn Restaurant at 13.30. (The hotel is reserving four tables for this, and arranging some wine). Again it would be helpful if one or more of the hostesses could be in the Strathearn a little before 13.30 to help organise the guests.

3. In the afternoon, the ladies will be free to enjoy the facilities at the hotel. We have reserved clay pigeon shooting for 5 and golf for 8, and will try to find out whether anyone is interested. (We already have one taker for golf). For golf, our start times are at 14.20 and 14.30, so golfers will have to have lunch fairly quickly. The shooting is booked for 15.00. There is also a very good swimming pool.

SUNDAY 21 SEPTEMBER

1. The conference finishes with a trip to Edinburgh and lunch at the Castle.

2. Departure is scheduled for 10.00, and two buses will be waiting at the hotel's main entrance then. We suggest that you and Mrs Lawson go on the first bus. Miss Edwards or I will accompany you. The journey to Edinburgh will be via the Forth road bridge, and will take in Princes Street, Holyrood Palace Park and the Royal Mile before arriving at the Castle esplanade at about 11.45.

3. There will then be a conducted tour of the Castle, taking guests from the esplanade up to Crown Square. (If it is raining, guests will be ferried up by car; but since the castle will be open to the public, and space for cars in Crown Square is very limited, we want to avoid this if possible.) Sir Geoffrey Littler will skip the tour, and will be ready to welcome guests as they arrive for lunch.

4. At the end of the tour (around 12.30) guests be given drinks in the Jacobite Room, and then will be taken into the King's Dining Room and Queen Mary Room for lunch. (This part of the Castle will be closed to the public). The first course will be already on the tables, and the second and third courses will be obtained from a buffet in the King's Dining Room ante-chamber. As the lunch is informal, there is no seating plan. Again, interpreters and support staff will not be at the lunch, but there will be an "outmess" for support staff in attendance.

5. There will be no new dignitaries present, but you might meet the head warder, Mr Mick Cameron.

6. Departure from the Castle is likely to be a fairly complicated affair, as the guests' planes leave at different times. Their cars, with guests' luggage, will be brought to the Castle esplanade. We would prefer guests to walk down from Crown Square, as this is the quickest and easiest way. But if it is raining, the cars will be driven up to the Square as necessary. Some guests will need to eat their lunch fairly quickly (eg Mr Ruding has to be back at Gleneagles in time to play golf at 14.50, and the Belgians' plane leaves Edinburgh airport at 14.40). On the other hand, some guests plan to leave on flights as late as 18.40, and we will have to ask them what they want to do for the afternoon. GHF will take charge of arranging the cars and getting guests away at the right time.

7. Finally, you might like to be aware that some guests will not go to Edinburgh Castle, but will stay at Gleneagles. For example, Mr and Mrs Leigh Pemberton are staying to play golf with Mr and Mrs Pohl and Mr Duisenberg. Again, we will have to collect information on this during the weekend.

(And the Rudings are, like you, returning to Gleneagles. I will come straight home from Edinburgh) AWK

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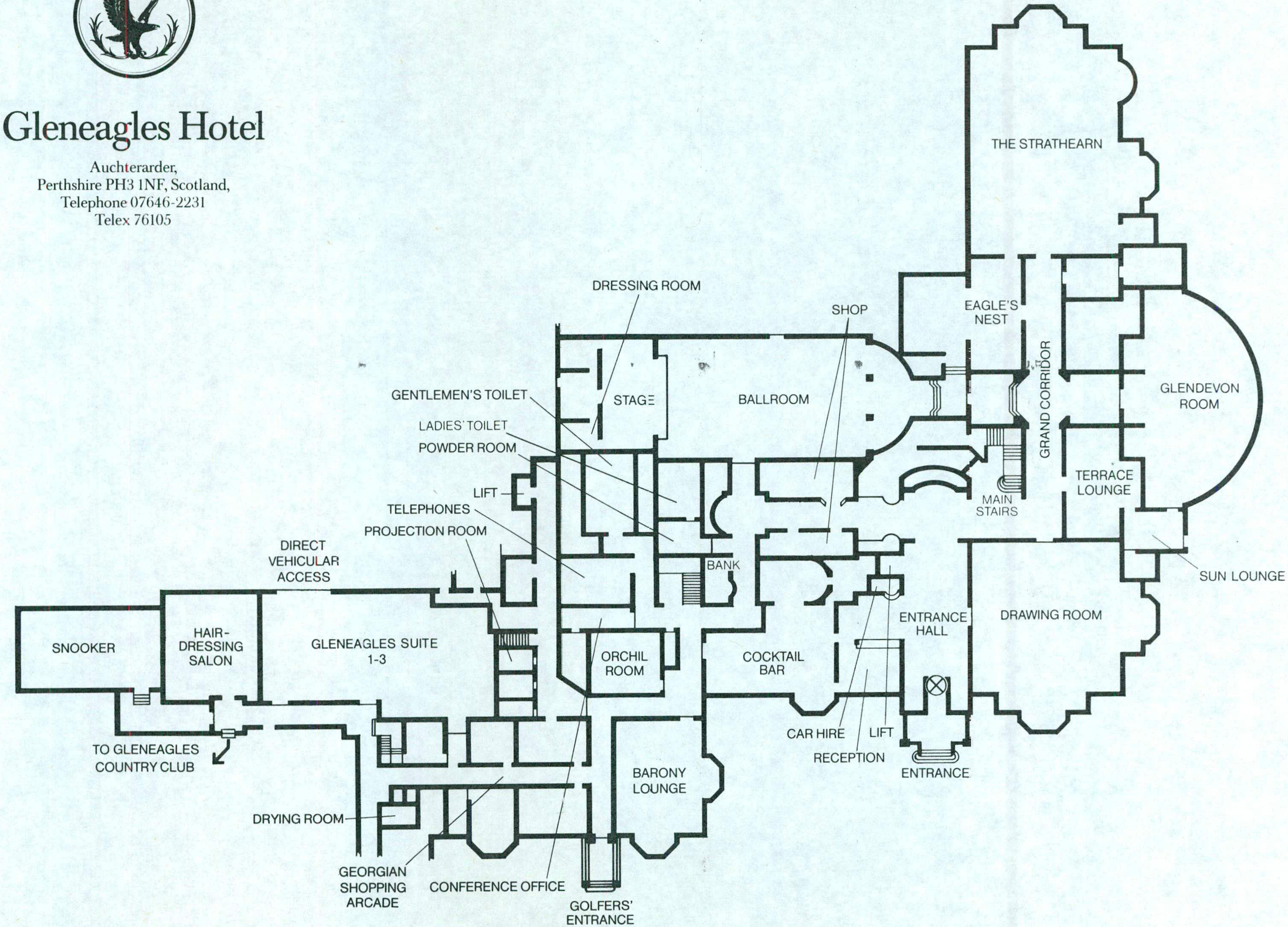

BELGIUM

Mr Mark Eyskens
Minister of Finance
Mrs Eyskens

Mr Jean Godeaux
Governor, Belgian National Bank
Mrs Godeaux

Mr Christian Petit
Counsellor at the Cabinet of the Minister

DENMARK

Mr Anders Andersen
Minister of Economic Affairs
Mrs Andersen

Mr Palle Simonsen
Minister of Finance
Mrs Simonsen

Mr Erik Hoffmeyer
Governor of Danmarks National Bank

Mr Niels Ussing
Deputy Permanent Secretaray, Ministry of Economic Affairs
Mrs Ussing

France

Mr Edouard Balladur
Minister of State
Mrs Balladur

Mr Michel Camdessus
Governor of Bank of France
Mrs Camdessus

Mr Daniel Lebegue
Director of the Treasury
Mrs Lebegue

Germany

Dr Gerhard Stoltenberg
Federal Minister of Finance
Mrs Stoltenberg

Mr Karl Otto Pohl
President of the Deutsche Bundesbank
Mrs Pohl

Dr Hans Tietmeyer
Federal State Secretary of Finance
Mrs Tietmeyer

Greece

Mr Constantine Simitis
Minister of National Economy
Mrs Simitis

Mr Demitris Chalikias
Governor, Bank of Greece
Mrs Chalikias

Mr Nikolas Garganas
Economic Adviser to the Minister of National Economy
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Ireland

Mr John Bruton
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Mr Tomas O'Cofaigh
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Mr Maurice F Doyle
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Mr Giovanni Goria
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Mr Mario Sarcinelli
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Luxembourg

Mr Jacques Santer
President of the Government and Minister of Finance
Mrs Santer

Mr Jacques Poos
Vice-President of the Government and Minister of the Treasury
Mrs Poos

Mr Pierre Jaans
Directeur General de l'Institut Monetaire

Mr Raymond Kirsch
Director of the Treasury

Netherlands

Dr H Onno Ruding
Minister of Finance
Mrs Ruding

Dr W F Duisenberg
Central Bank Governor

MR C Maas
Treasurer-General
Mrs Maas

Portugal

Mr Miguel Cadilhe
Minister of Finance
Mrs Cadilhe

Mr Jose Alberto Tavares Moreira
Governor, Bank of Portugal
~~Mrs Tavares Moreira~~

Mr D Oehen Gonçalves
Director of European Affairs at the Finance Ministry

Spain

Mr Carlos Solchaga Catalan
Minister of the Economy and F ance

Mr Mariano Rubio Jimenerey
Governor, Bank of Spain

Mr Miguel Angel Fer nandez Ordonez
Secretary of State of the Economy and Planning

European Commission

Mr Jacques Delors
President of the Commission of the European Communities
Mrs Delors

Mr Jerome Vignon
Adviser to the President of the Commission
Mrs Vignon

Mr Massimo Russo
Director General of Economic Affairs and Finance
Mrs Russo

Secretariat

Mr Wolfgang Pini
Director-General Economic, Financial and Social Affairs & Secretary-General of the European Communities

Mrs Pini

Mr Andreas Kees
Secretary of the Monetary Committee

Mr A Bascoul
Secretary of the Committee of Governors of the Central Banks of the Member States of the European Economic Community

Mrs Bascoul

United Kingdom

Mr Nigel Lawson
Chancellor of the Exchequer

Mrs Lawson

Mr Robin Leigh-Pemberton
Governor of the Bank of England

Mrs Leigh-Pemberton

Sir Geoffrey Littler
Second Permanent Secretary H M Treasury

Lady Littler

Support Staff

Mr Christian Noyer - Personal assistant to M. Balladur

? - Bodyguard to M. Balladur

Mr Werner Voss - Security Officer, Germany

Mr Peter Stirnat - " " "

Mr Jose Casas - Personal assistant to Mr Solchaga Catalan

HM Treasury

Tony Kuczys

Janet Barber

Jeanette Edwards

Trish Hall

Government Hospitality

Martin Garrett

Iain Lindsay

Andrew Lection)

Stuart Neil) Luggage Officers

P Simmonds)

W/Cdr Tommy Cody)

Group Capt. Philip Heal)

W/Cdr Max Higson) Escort Officers

Group Capt Tony O'Neill)

Colonel Philip Worrall)

European Commission

Mr Charles - bodyguard

Mr R Martin-Prevel)

Mrs CH Van Der Meulen-Bayle)

Miss R Rolle) Interpreters

Mr T Clough)

Mr F Cole)

Mr J Hansen)

RT8.32

FROM: A W KUCZYS

DATE: 17 September 1986

SIR G LITTLER

cc Miss Barber
Miss Edwards

INFORMAL ECOFIN: DINNER AT STIRLING CASTLE

The Chancellor has seen your note of yesterday setting out the general principles for placing guests at dinner on Saturday evening, and Miss Barber's note filling in the details. He is happy with the broad principles.

2. He does have a few suggestions:

(i) Could we not have 19 (17) rather than 18 at the top table (thus accomodating an extra Minister, and allowing the Chancellor to sit exactly in the middle)?

(ii) Mrs Lawson ✓ should be at the top table - and probably Mrs Rifkind too. ✓

(iii) Ruding ✓ and Santer ✓ should be at the top table rather than Cadilhe ✓ and Andersen ✓ - and, if we go to 19, Eyskens ✓ as well.

3. He would like to finalise the details on Friday morning at Gleneagles.

AWK

A W KUCZYS

PH4/16

FROM: A W KUCZYS
DATE: 18 SEPTEMBER 1986

MRS LAWSON

GLENEAGLES 19/21 SEPTEMBER

Enclosed in this folder are:

i. the overall programme for the weekend. This will be circulated to guests on arrival (you already have the shorter printed programme). It includes details of the Ladies' programme, including the two alternative tours on Saturday. (I think you told Geoff Littler you would prefer to go on the visit to Scone Palace, rather than the drive through the Trossachs. The glossy booklet on Scone Palace is also enclosed).

ii. The section of the Chancellor's brief concerned with procedural aspects. You have already seen a copy of this. It includes a plan of the hotel, and a list of all those who will be attending the Conference.

iii. For background, Geoff Littler's earlier note (of 22 August) to you.

2. Geoff is very apologetic that he has not yet done the note he promised you going into the Ladies' programme in more detail. He was delayed in Paris yesterday, and only briefly in the office today, before setting off for Gleneagles (by car). He <u>will</u> let you have the note at Gleneagles on Friday morning. Meanwhile the papers in the folder give you most of the information you need, and Geoff will be on hand on Friday morning to answer any questions you have.

Tony

A W KUCZYS

674/25

FROM: ROBERT CULPIN
DATE: 18 SEPTEMBER 1986

CHANCELLOR

cc Sir G Littler
Mr Pickford
Miss Barber
Mr Kuczys

GLENEAGLES - PRESS

There will be quite a few journalists at Gleneagles - for example, Philip Stephens and Quentin Peel from the FT, Peter Norman from the Wall Street Journal, Derek Brown from the Guardian, several people from press agencies. They know there will be no special press arrangements and the meeting is not supposed to be newsworthy, but it is a free country, and we can't stop them from going. And it now looks as if the meeting could be more market-sensitive than might have been expected.

2. Given that journalists will be there, it would be better to have an organised briefing than to leave them all to ad hoc button-holing. I suggest you see them briefly at the end of the Saturday meetings, at about 5.30. They are hoping for that. If you are content, it would be sensible for those present to make it known in advance: that would reduce nervous tension in the press.

3. Mr Pickford will be IDT's duty officer on Saturday. I am sure Mr Kuczys will keep him briefed. (I have arranged to do so)
AWK

RC

ROBERT CULPIN

Ch
We spoke, and you agreed with this.
AWK

LD/050

88

FROM: A W KUCZYS
DATE: 22 SEPTEMBER 1986

MISS BARBER

cc Sir P Middleton
Sir G Littler
Mr Lavelle
Mr A Edwards
Miss Kelley
Mr Mortimer
Mr Crabbie
Mr Fox
Miss Edwards
Mrs P A Hall

INFORMAL ECOFIN: GLENEAGLES

The Chancellor (and Mrs Lawson) were very grateful indeed for all the hard work and effort which you, Jeanette Edwards and Trish Hall put into making the weekend programme a success.

C.R.

PP **A W KUCZYS**

Ch/ If you agree, letters for sig. below — to the hotel and to the police. I am sending PS letters to the head of GHF and to Mr Rifkind's office AWK 24/9

FROM: MISS J A EDWARDS
DATE: 23 SEPTEMBER 1986.

Mr Kuczys

cc Sir G Littler o/r
Miss Barber o/r

INFORMAL EC FINANCE MINISTERS MEETING ,19-21 SEPTEMBER,1986 -GLENEAGLES.

You have said that the Chancellor wishes to send personal letters of thanks to the Gleneagles Hotel and to the Police for their co-operation and help with the informal ECOFIN. In particular you have asked to whom the Chancellor should address the letters and to whom the Chancellor should particularly refer to as being of great help at working level.

Gleneagles Hotel.

2. The Chancellor should probably address the letter to Mr Peter Lederer , the general manager of Gleneagles. The letter , however , should particularly thank Mr Kees Heuveling , the conference manager , and his assistant Miss Jill Calvert for all their assistance in making all the detailed arrangements for the conference. Miss Barber and myself met Mr Heuveling whenever we visited Gleneagles and dealt with Miss Calvert when Mr Heuveling was on leave. Particular thanks also needs to be given to Leuitenent Colonel R Smith (retired) , guest relations manager , who stood in for Mr Lederer and welcomed the Chancellor to Gleneagles on Friday morning when Mr Lederer was suddenly called to London on business , and who was of constant help to Miss Barber and myself in re-arranging sports bookings etc. I understand you also wish to thank Mr Steven Jarvis , conference service manager, for lending the Chancellor some cufflinks. — Ch/ I am doing this (& returning the cuff links!) AWK

Police.

3. This is rather more complicated as the informal ECOFIN ventured into three regions of Scotland ! Edinburgh Airport comes within Lothian and Borders , Gleneagles itself comes within Tayside and Stirling Castle (where the Saturday reception and dinner was held) comes within Central region. We have , however , been dealing at working level with Tayside Police and they have been informing the police in the other two regions. The Chancellor should probably write to Mr J Bowman , Chief Constable of Tayside Police and refer to the help and co-operation we received from other members of his force ,particularly Mr J F Cameron (Assistant Chief Constable) , Detective Chief Superintendant Fisken and to Sargeant Tate. The letter could then be copied to Mr Watson , Assistant Chief Constable of Lothian and Borders and to Chief Superintendant Young of the Central Scotland Police ; with thanks to all the members of their staff who helped in "Operation Skillet".

4. The relevant addresses are as follows:

Mr P Lederer,
General Manager,
Gleneagles Hotel,
Auchterarder,

Perthshire,
PH3 INF,
Scotland.

Mr J W Bowman,
Chief Constable
Tayside Police,
PO Box 59,
West Bell Street,
Dundee,
DD1 9JE.

Mr Watson,
Assistant Chief Constable,
Lothian and Borders Police,
Fettes Avenue,
Edinburgh,
EH4 1RB.

Chief Superintendant A Young,
Central Scotland Police,
Randolphfield,
Stirling,
FK8 2HD.

Jeanette Edwards

J A EDWARDS(MISS).

RT8.45

cc Sir G Littler
Miss Barber
~~Miss Edwards~~

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

24 September 1986

J W Bowman Esq
Chief Constable
Tayside Police
West Bell Street
DUNDEE
DD1 9JE

Dear Mr Bowman

I am writing to thank you for all the help and co-operation we received from Tayside Police in connection with the meeting of European Finance Ministers at Gleneagles last weekend. Particular thanks are due to Assistant Chief Constable Cameron, Detective Chief Superintendant Fisken, and Sargeant Tate.

I am also grateful for the co-operation of Lothian and Borders Police at Edinburgh Airport, and Central Scotland Police at Stirling Castle; and I am copying this letter to the Chief Constables of those Forces, with thanks to all members of their staff who helped in "Operation Skillet".

Yrs sincerely
Nigel Lawson

NIGEL LAWSON

cc: The Chief Constable, Lothian & Borders Police
The Chief Constable, Central Scotland Police

3052/34

pwp

FROM: H G WALSH
DATE: 24 September 1986

MR EVANS

cc: PPS
Ms Life
(without attachment)

I attach a copy of the Presidency text, amended in the light of Ecofin as reported in the telegrams. Sir G Littler may wish to give the text a final once over.

2. Paragraph 22 may have to be altered following the IDA deputies meeting. If it stands, we should like in line 5 "with extra voluntary contributions" inserted after "eighth replenishment" and in lines 7/8 "of IDA lending still" inserted between "amount" and "further".

H.W.

H G WALSH

Alex

You may like to have this, though ~~SG~~ Sir GL may ~~be~~ ~~alter to~~ have a final version too.

AH

RT8.39

PWP

FROM: A W KUCZYS

DATE: 24 September 1986

SIR G LITTLER O.R.

cc Mr Lavelle
Miss Barber

INFORMAL ECOFIN

This is just to confirm, belatedly, that the Chancellor had no comments on the draft telegram attached to your minute of 22 September to Mr Lavelle (and which has now gone).

2. You concluded your note with thanks to Janet Barber and Jeannette Edwards. The Chancellor joins you in this (I have sent a separate minute) and asks me to add his own very warm thanks to you.

AWK

A W KUCZYS

Alex

Pl cd you show this "thank you" to Geoff; and show the Chancellor my pencil comment at para. 6 below

AWK
25/9

RT8.44

cc Sir G Littler
Miss Barber
Miss Edwards

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

24 September 1986

Peter Lederer Esq
General Manager
The Gleneagles Hotel
Auchterarder
Perthshire
PH3 1NF

Dear Mr Lederer

I am writing to thank you, and the staff of the Gleneagles Hotel, for all your efforts to make the weekend conference of European Finance Ministers run so smoothly and successfully. I should like to pass on my particular thanks to Col. Smith who looked after us all so well; and to Mr Heuveling and Miss Calvert who did so much in advance, and behind the scenes. I am most grateful.

Yours sincerely

Nigel Lawson

NIGEL LAWSON

FROM: JANET BARBER
DATE: 25 SEPTEMBER 1986

PS/CHANCELLOR

cc Sir Geoffrey Littler or
Mr Mortimer

GLENEAGLES: THANKYOU LETTERS TO GOVERNMENT HOSPITALITY AND SCOTTISH OFFICE

At my request, you agreed to send thankyou letters to Brigadier Cowan (GHF) and to your private office counterpart in the Scottish Office, to acknowledge the efforts made by their staff on our behalf in respect of the informal ECOFIN. Drafts are attached. I feel strongly that this should be done, mainly because the whole thing would have been impossible without the help we received, but also to smooth the way if the Treasury ever needs to do anything like this again. (You are already writing to the police and to the hotel.)

2. Miss Edwards and I will be writing on a personal basis to Mr Garrett and Mr Wicks, and this will give me an opportunity to mention to GHF in a low key constructive manner the slow service at Stirling Castle (although I doubt that much could have been done about this). There is little point in mentioning to GHF the problem with the Italian car getting lost, as Mr Garrett took this very seriously at the time, apologising to the Italian delegation, taking it up with the car company immediately, and ensuring that the Italians had a more competent driver on the way back.

Janet Barber

JANET BARBER
EC1

Pl type for my sig (2 letters)

~~DRAFT~~ LETTER TO

BRIGADIER ALAN COWAN MBE
GOVERNMENT HOSPITALITY FUND
8 CLEVELAND ROW
ST JAMES
LONDON SW1

~~Dear Brigadier Cowan~~

Now that we have all recovered from the informal ECOFIN at Gleneagles last weekend, I am writing to let you know how grateful we are for all the efforts made by your staff on behalf of H M Treasury in respect of this event. ~~On the whole~~ The administrative arrangements went very smoothly, and this is in no small part due to the work done by Mr Garrett and his team over the last few months. Our appreciation is enhanced by ~~our~~ the knowledge that they are having to cope also with some of the other informal Councils going on this month.

I would also like to thank you for providing the five escort officers. We owe special thanks to Col. Philip Worrall and Wing Commander Tony O'Neill who made such a large contribution to the success of the ladies' tours.

AWK
P_ S_

~~DRAFT~~ LETTER TO:

ROBERT GORDON ~~(?)~~ Esq
PRIVATE SECRETARY TO ~~MR RIFKIND~~ The Secretary of State
Scottish Office

~~Dear Mr Gordon~~

Now that we have all recovered from the informal ECOFIN at Gleneagles last weekend, I am writing to let you know how grateful we are for all the efforts made by Scottish Office staff on behalf of H M Treasury in respect of this event. I should mention particularly Tom Wicks and Kevin Vale, and those involved with the functions and tours at Stirling and Edinburgh Castles.

As you can imagine, there are special difficulties involved in organising a conference at a location some 400 miles distant, and Mr Wicks and Mr Vale did everything they could to help and advise us on all aspects of the meeting, as well as taking a leading role in organising the functions.

I know that our guests enjoyed their visit to Scotland, and were suitably impressed by their visits to the two Castles.

A K
P S

(Faxed to Ch in W'ton) dJR 26/9

8

26 SEP 1986

86-09-26 12:37

CH/EXCHEQUER
REC. 26SEP1986
ACTION SIR G. LITTLER
COPIES TO MR LAVELLE
MISS J. BARBER
MISS J. EDWARDS

✓ 26/9

86-09-26 12:38

26/09 13.40 *
262405 TRSY G
611149 DGTES I
==
FROM GIOVANNI GORIA MINISTRO TESORO ROMA
TO: HON. NIGEL LAWSON CHANCELLOR OF THE EXCHEQUER H.M. TREASURY
LONDON
==

TELEX N. 691258 DEL 26.9.1986

DEAR COLLEAGUE

I WISH TO EXPRESS TO YOU ALSO IN THE NAME OF THE GOVERNOR OF THE BANK OF ITALY MY WARMEST THANKS FOR THE VERY KIND HOSPITALITY THAT THE UNITED KINGDOM GOVERNMENT OFFERED US IN GLENEAGLES ON THE OCCASION OF THE RECENT INFORMAL MEETING OF THE EEC MINISTERS OF FINANCE.
THE SUCCESS OF OUR DISCUSSION OWES MUCH TO THE EXCELLENCE OF THE SURROUNDINGS.
WE WERE DELIGHTED TO VISIT SUCH A BEAUTIFUL PART OF SCOTLAND, AS WELL AS THE CASTLES OF STIRLING AND EDINBURGH.
LOOKING FORWARD TO SEENG YOU IN WASHINGTON.

SINCERELY YOURS

GIOVANNI GORIA

================
TRS/CARLA
=======
NNNN
*
262405 TRSY G
611149 DGTES I

RT8.47

cc Sir G Littler
Mr Mortimer
Ms J Barber

28

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

26 September 1986

Robert Gordon Esq
Private Secretary to the
Secretary of State for Scotland

Dear Robert

Now that we have all recovered from the informal ECOFIN at Gleneagles last weekend, I am writing to let you know how grateful we are for all the efforts made by Scottish Office staff on behalf of HM Treasury in respect of this event. I should mention particularly Tom Wicks and Kevin Vale, and those involved with the functions and tours at Stirling and Edinburgh Castles.

As you can imagine, there are special difficulties involved in organising a conference at a location some 400 miles distant, and Mr Wicks and Mr Vale did everything they could to help and advise us on all aspects of the meeting, as well as taking a leading role in organising the functions.

I know that our guests enjoyed their visit to Scotland, and were suitably impressed by their visits to the two Castles.

Yours ever

Tony Kuczys

A W KUCZYS
Private Secretary

RT8.46

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

26 September 1986

Brigadier Alan Cowan MBE
Government Hospitality Fund
8 Cleveland Row
St James
LONDON
SW1

Dear Brigadier Cowan

Now that we have all recovered from the informal ECOFIN at Gleneagles last weekend, I am writing to let you know how grateful we are for all the efforts made by your staff on behalf of HM Treasury in respect of this event. The administrative arrangements went very smoothly, and this is in no small part due to the work done by Mr Garrett and his team over the last few months. Our appreciation is enhanced by the knowledge that they are having to cope also with some of the other informal Councils going on this month.

I would also like to thank you for providing the five escort officers. We owe special thanks to Col. Philip Worrall and Wing Commander Tony O'Neill who made such a large contribution to the success of the ladies' tours.

Yours sincerely

Tony Kuczys

A W KUCZYS
Private Secretary

28

FROM: JANET BARBER
DATE: 26 SEPTEMBER 1986

MR MORTIMER

cc PS/Chancellor
Sir Geoffrey Littler or
Miss Edwards
Mr Rogers - EOG
Col Durrant - FCO
Mr Garrett - GHF

INFORMAL ECOFIN: PAYMENT FOR POLICE FOOD

You may recall that we agreed to pay the Tayside police £500 in respect of the cost of police meals at Gleneagles (see Sir Geoffrey Littler's to Chief Constable Bowman of 26 August - attached at Annex A). Our offer of £500 was based on a cost of £660, estimated by us in conjunction with the hotel, and was designed to avoid an open ended commitment. The Chief Constable wrote back in a letter dated 5 September (Annex B), asking that we pay the full cost, which he said the hotel estimated as £528. We have now to:

(a) to reply to the Chief Constable's letter
(b) ask Finance to make a payment to Tayside Police.

This ought to be done as soon as possible, and, as Sir Geoffrey is now away until 20 October, I would propose to reply to the Chief Constable myself (unless you would like to). A draft reply is at Annex C, for comment by close on 30 September. You will see that I favour paying the £528, given the excellent service we received from the police at Gleneagles. I believe that the Chancellor was similarly impressed, and that Mr Kuczys is writing to thank all the police authorities involved.

Once our line is agreed, I will ask EOG Finance to make the payment.

Janet Barber

JANET BARBER
EC1

Miss Barber

ANNEX A

H M Treasury

Parliament Street London SW1P 3AG

Switchboard 01-233 3000
Direct Dialling 01-233 4225

26 August, 1986

Sir Geoffrey Littler KCB
Second Permanent Secretary

Mr. J. Bowman,
Chief Constable of Tayside Police,
PO Box 59,
West Bell Street,
Dundee, DD1 9JE.

Dear Mr Bowman,

OPERATION SKILLET: CONFERENCE OF EUROPEAN COMMUNITY FINANCE MINISTERS, GLENEAGLES 19/21 SEPTEMBER, 1986

As part of the arrangements for the current United Kingdom Presidency of the European Community's Council of Ministers, the Chancellor of the Exchequer will be hosting a conference of European Finance Ministers and Central Bankers at Gleneagles Hotel on 19/21 September. Your police authority has been informed about the conference, and your Assistant Chief Constable, Mr. Cameron, met Miss Barber and Miss Edwards from the Treasury, and Mr. Garrett and Colonel Durrant from the Foreign and Commonwealth Office, on 30 July to discuss the detailed arrangements.

The details of any policing at Gleneagles in respect of our conference are of course for you to decide. But I understand that Mr. Cameron has in mind perhaps 6 plain clothes officers inside the hotel, and 5 uniformed officers in the hotel grounds, for the 48 hour period from noon on 19 September to noon on 21 September. Mr. Cameron expressed concern at the additional costs which this would imply for your authority, and asked if we would make a contribution in respect of the additional food costs which would be incurred as a result of a police presence of this nature. We agreed to consider this request.

Our understanding of the principle usually applied in these circumstances is that the local police authority is responsible for the cost of providing whatever policing it considers necessary, and we feel that there are good grounds for adhering to this principle in this case. However, in recognition of the fact that Gleneagles is private property, and that it will be necessary for the hotel to supply meals for any officers stationed in its grounds, we are prepared to make an ex gratia contribution to food costs of £500. This would be without prejudice in respect of the treatment of similar events in the future. On the basis of the amount of policing mentioned above, £500 should cover a substantial proportion of the food costs involved. If in the event your assessment is that a smaller police presence is appropriate, and the actual food costs are less than £500, we would pay the lower amount. On payment procedure, we will make the payment direct to your authority, following the conference, and you will be responsible for settling any bills with the hotel.

We look forward to working with your officers at the conference in September.

Yours sincerely,

Geoffrey Littler

From: The Chief Constable - J. W. BOWMAN, Q.P.M.

Miss Barber
For advice please.
ECM 11/9.

Tayside Police

Police Headquarters P.O. Box 59 West Bell Street Dundee DD1 9JU

ANNEX B

Tel 0382 23200 ext   Our ref 14.4
Telex 76112   Your ref

5th September, 1986. received 11/9/8

Sir Geoffrey Littler, K.C.B.,
Second Permanent Secretary,
H.M. Treasury,
Parliament Street,
LONDON, SW1P 3AG.

Dear Sir Geoffrey,

OPERATION SKILLET
CONFERENCE OF EUROPEAN COMMUNITY FINANCE MINISTERS
GLENEAGLES - 19th/21st SEPTEMBER, 1986

Thank you for your letter of 26th August in connection with the above mentioned Conference. I note that you have agreed to make an ex gratia contribution to the costs of catering for the police officers who will be on duty at Gleneagles and I thank you for this offer. Your letter indicates that you understand the reasons for requesting such financial assistance but perhaps a further word of explanation from myself will dot the i's and cross the t's.

As you have acknowledged, Gleneagles Hotel is private property and there is a considerable distance between the hotel itself and the perimeter walls which adjoin the public roads round the hotel. I have no jurisdiction in the grounds of Gleneagles Hotel or in the hotel itself other than to respond when I am called there to deal with a criminal matter and my general responsibility for the protection of life and property and the detection of offenders. Because Gleneagles Hotel attracts important international conferences, Tayside Police has been drawn into providing extra-ordinary measures for the protection of top personages who are liable to be the targets for terrorists. In order to bridge the gap between my public jurisdiction and the private nature of the hotel and its grounds, my predecessors and I have agreed with organisers of conferences to take on the policing up to and including the hotel itself. This has the double advantage of simplifying the police operation and solving the problems of organisers in discharging their responsibilities to their delegates. In a spirit of helpfulness, my predecessors and I have always waived the charges which we would undoubtedly be justified in making for private policing on private grounds.

This/

This has been done on the sole responsibility of the Chief Constable but not without criticism from the Police Authority. The local elected members, however, have been satisfied that the Chief Constable was acting in everyone's interest in taking such decisions.

The remoteness of Gleneagles renders it difficult to ensure that police officers on duty there can be catered for properly without having to remove them from their place of duty to some distant place where food can be provided. This I am sure you will understand would make it necessary to commit larger numbers of police officers for shift and relief purposes. The costs of providing food at Gleneagles Hotel are compatible with its 5-star status and there is no provision in Police Authority finances for meeting these charges. It therefore seemed to us to be not unreasonable to ask the organisers when they were making arrangements for catering to include the police officers in their estimates and we have had the fullest co-operation from all those involved in the past, including Government departments. As one would expect, there has always been some discussion over the matter and it is disappointing at times to receive unhelpful replies to the effect that this is not done elsewhere in similar circumstances. We have always taken the line that Gleneagles Hotel is an extra-ordinary situation and has no parallel elsewhere. When one considers it is approximately 20 miles from Perth and 40 miles from Dundee, I am sure you will agree there are not many true comparisons.

We are anxious to provide the best possible service in the case of the Finance Ministers meeting and I am sure that the occasion will pass off without incident.

I accept your offer of £500 to cover food costs but you may wish to know that the quotation from Gleneagles Hotel is £528 and, in the circumstances, perhaps you would consider covering the whole amount, especially since I am making no other charge for police services.

I trust this letter has been helpful and that if your staff are asked to arrange similar conferences in the future, they will understand the position we find ourselves in.

With best wishes.

Yours sincerely,

Jack Bowman

Chief Constable.

JWB/MMF.

ANNEX C

DRAFT LETTER TO TAYSIDE CHIEF CONSTABLE

MR J W BOWMAN
CHIEF CONSTABLE OF TAYSIDE POLICE
POLICE HEADQUARTERS
P.O. BOX 59
WEST BELL STREET
DUNDEE DD1 9JU

Dear Mr Bowman

OPERATION SKILLET: CONFERENCE OF EUROPEAN COMMUNITY FINANCE MINISTERS, GLENEAGLES, 19-21 SEPTEMBER

I am writing in reply to your letter of 5 September to Sir Geoffrey Littler.

I am sorry that we were not able to reply before the conference - your letter arrived as we were making our last minute preparations. Sir Geoffrey is now abroad, attending a series of international meetings which began immediately after the conference, and will not return until 20 October. Therefore I am replying on his behalf.

First, we would like to express our gratitude for the service which your officers provided at Gleneagles during the conference. Mr Cameron and Mr Fisken visited the hotel on 19 September, and were able to help me on a problem concerning access to the ballroom where the meeting itself was being held. The officers on duty in the hotel seemed to us to provide the right balance of visibility and discreetness, and were most pleasant and helpful to all the Treasury and Government Hospitality staff involved. We naturally saw less of the officers stationed in the grounds of the hotel, but we know that they did their job equally effectively.

In your letter, you explained the detailed reasons for requesting financial assistance in respect of provision of food for the officers policing the conference, and asked if we would agree to increase our offer from £500 to £528 so as to cover the whole of the cost. We have considered your request, and, in view of the excellent service which we received, can agree to pay £528. I have therefore asked our Finance Division to make this payment. As I said in my previous letter, our payment for food costs is without prejudice in respect of the treatment of similar events in the future.

Many thanks for your assistance with our conference.

Yours sincerely

JANET BARBER
EUROPEAN COMMUNITIES DIVISION

MR 2/14

RP

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

2 October 1986

Steven Jarvis Esq
Conference Service Manager
The Gleneagles Hotel
Auchterarder
Perthshire PH3 1NF

Mr Lawson was very grateful for the loan of cufflinks over the weekend of 19 to 21 September. I am now returning these to you, with apologies for the delay - my fault, not the Chancellor's.

Yours sincerely

A W Kuczys

A W KUCZYS
Private Secretary

ps3/4K

UNCLASSIFIED

FROM: A W KUCZYS

DATE: 9 December 1986

SIR G LITTLER

INFORMAL ECOFIN: GLENEAGLES

I am returning herewith the photographs from Gleneagles, with apologies for the delay - my fault, not the Chancellor's.

2. The Chancellor has chosen photograph No.5 as the "official team photo". He would also be grateful for a copy of informal photograph No.12H.

A W KUCZYS