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Part E.

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Begins : 18/3/88
Ends : 18/7/89


 PO -CH /NL/0363

 PART E

Chancellor's (Lawson) Papers :

FUTURE FINANCING OF THE EUROPEAN COMMUNITY

DD's: 25 Year

D. H. M.
29/11/95.

PO -CH /NL/0363
PART E

Ralph Howell, M.P.



CH/EXCHEQUER 21/3	
REC.	21 MAR 1988
ACTION	MS SYMES
COPIES TO	EST. PMG
	MR Byatt
	MR H.P. EVANS
	MR A.T.C. EDWARDS
	MR BONNEY

House of Commons,
London SW1A 0AA

18 March 1988

Rt. Hon. Nigel Lawson, M.P.
Chancellor of the Exchequer

BF 2/13
2/13
BF 7/4

Dear Nigel,

Thank you for your letter of 12th February regarding the allegations made in the Economic Progress Report, February 1988, to the effect that the CAP was costing every non-farming family of four in Europe £550 per annum.

Although it is quite obvious that many of the EEC practices are wasteful and are in need of reform, I believe that the figures quoted are grossly exaggerated and dangerously misleading.

In the first place, the Australian Report was based on a World Wheat price in 1986 of £50 per tonne (see House of Commons Library letter 11.2.88. Ref. 88/2/91N. RJT/DS - Appendix 1) This is a totally unrealistic figure - much lower than the cost of production then or now anywhere in the World. In fact, it merely represents the dumped price at that time and has no bearing at all on the price of wheat in 1988.

Secondly, in your reply you justify the insinuations made in the Economic Progress Report by stating that 'consumers bear a heavy burden in supporting the CAP, through higher food prices, higher taxation and the adverse consequences for other sectors'.

I do not believe that you can prove either that prices or taxation are higher due to our entry into the Common Market and I challenge you to do so. I enclose a number of tables and graphs to prove that the opposite is the case.

Appendix 2 - Table 1 from the Annual Review of Agriculture 1988 - shows that expenditure on food as a percentage of total consumers' expenditure has fallen from 21.0% in 1976/78 to 15.6% in 1987.

The allegations of higher food prices are equally untrue. Appendix 3 shows that non-essentials, such as beer, cost 3-4 times as much as milk and that the increase in the price of beer since 1979 has been greater than that of bread or milk. Milk is also cheaper than any mineral water.

Appendix 4 shows how food prices have been held down - 5.8% increase per year on average, against 7.8% for general prices (P.Q. 4.2.88. Col.1154) while agricultural producer prices have been held down even further to an average of 3.9% - only 50% of general prices. How can you, in the light of these facts which must be known to you, continue to insist that food prices are high?

Howell
2/13
18/3

Rt. Hon. Nigel Lawson, M.P.

March 1988

Appendix 5 shows the net cost of all support to agriculture in 1987/88 is expected to be only 0.2% of GDP - a reduction from the year we entered the EEC and only 20% of the support given to agriculture in 1960 - i.e. 1% of GDP. This disproves the claim that taxation has been increased to support agriculture.

Furthermore the Treasury's Economic Progress Report implies that British agricultural produce could be replaced by much cheaper food from the World Market. This is a fallacy. Dumped wheat may well be available on rare occasions at £50 per tonne but if Britain were dependent on World Market supplies the price would spiral to very high levels and would seriously effect our balance of payments. The same would apply for other commodities.

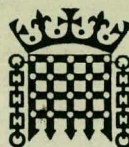
Agricultural exports have increased by 45% involume since 1979, thus making a major contribution to the balance of payments and Appendix 6 shows the exceptional achievements of the cereal sector.

Appendix 7 proves that the cereals sector is one of four sectors of trade to contribute to positive balance of payments and is only surpassed in visible trade by oil and chemicals. With such a record why is that the cereals sector is singled out as the Government's principal agricultural target?

I am enclosing a copy of the Cheaper Food League leaflet which seems to have been the inspiration behind the Treasury publication. Some of its supporters are very strange bed-fellows for a Government committed to positive membership of the EEC and which claims to be working towards the single market in 1992.

In the light of this information I hope you will feel it right to disassociate yourself from the misguided views portrayed in the Economic Progress Report. I look forward to your comments.

Yours ever
Ralph .



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Ref: 88/2/91N
RJT/DS

11th February 1988

Dear Mr. Howell,

The cost of CAP

You asked if I could shed any light on the headline in today's Daily Telegraph: "Britain attacks '£550-a-family' farm subsidies" :

As you are already aware, the report was based on the following extract from the February 1988 edition of the Treasury's "Economic Progress Report" :

Consumers have to pay much higher prices for food than would otherwise be necessary. The additional costs of higher food prices together with higher levels of taxation have been estimated at up to £550 a year for a non-farming family of four in Europe (in *The Political Economy of International Agricultural Policy Reform*, 1986, Department of Primary Industry, Australia). The true figure could be somewhat lower since a liberalised CAP would cause world prices to rise above current levels.

This makes it clear that the £550 per family per year includes the cost to the consumer of purchasing food at prices above those on the world market as well as the budgetary cost of the CAP. The following extract from the original source ["*The Political Economy of International Agricultural Policy Reform*" Department of Primary Industry Australia 1986 p. 99] suggests that the total cost to the consumer of these two elements was between 60 - 70 billion ECU (some £40 bn.) in 1984 :

Table E.1: EC farm prices, October 1986 (a)

Commodity	Intervention price	Estimated representative world price
	ECU/t	ECU/t
Wheat	179.44	80
Sugar (white)	541.8	166
Butter	3006.7	952
Skim milk powder	1800.9	714
Beef (adult bovines)	2300-3300	1500

(a) One ECU equals \$A1.64 or US\$1.05 (mid-October 1986).

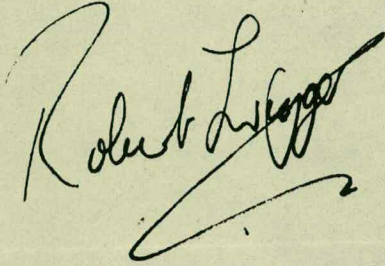
In budget terms, total EC expenditure on agricultural market and price support has risen from 11 billion ECU in 1981 to over 22 billion ECU in 1986.

In addition to these direct costs met through tax revenues, consumers are required to pay the much higher food prices that are caused by these price support policies. It has been estimated by the Australian Bureau of Agricultural Economics that the total cost of EC agricultural policies to domestic consumers and taxpayers is 60-70 billion ECU a year, in 1984 values. This effective loss of consumer purchasing power and the associated costs to other sectors of the economy caused through this system of agricultural support is estimated to have resulted in a loss of up to a million jobs in the EC. The number of jobs being lost in other sectors of the European economy — particularly in manufacturing — is likely to be increasing significantly in line with growth of CAP costs.

/contd...

I hope that this helps to clarify the situation.

Yours sincerely,

A handwritten signature in cursive script, appearing to read 'Robert Twigger', with a large, sweeping flourish at the end.

ROBERT TWIGGER

Ralph Howell, Esq., MP,
House of Commons,
London SW1A 0AA.

TABLE 1

Agriculture in the national economy

Calendar years

	Average of 1976-78	1983	1984	1985	1986	1987 (provisional)
Agriculture's contribution to gross domestic product (a)						
£ million	3,130	5,068	5,903	5,268	5,628	5,614
%	2.4	2.0	2.1	1.7	1.8	1.7
Agriculture's share of gross fixed capital formation (b)						
£ million	765	1,359	1,365	1,223	1,033	910
%	2.9	2.8	2.5	2.0	1.6	..
Manpower engaged in agriculture (c) ('000)	678	624	618	616	606	593
% of total civilian manpower engaged in all occupations (c)	2.8	2.7	2.6	2.6	2.5	2.4
Imports of food, feed and beverages (d)						(Jan.-Sept.)
£ million	5,945	8,237	9,401	9,823	10,475	7,826
Import volume index (1980=100)	105.2	107.1	109.6	111.5	123.1	122.8
Import price index (1980=100)	87.8	119.9	134.3	137.9	133.2	133.4
Exports of food, feed and beverages (d)						(Jan.-Sept.)
£ million	2,161	3,938	4,457	4,731	5,368	4,017
Export volume index (1980=100)	89.8	109.9	119.1	122.7	140.1	136.2
Export price index (1980=100)	80.3	122.3	128.3	133.6	138.2	137.8
Consumers' expenditure on food and beverages						(Jan.-June)
£ million	24,906	44,801	47,550	50,615	54,200	26,213
of which: food (e)						
£ million	18,392	31,431	33,120	34,832	37,726	18,603
Expenditure on food as a % of total consumers' expenditure	21.0	17.2	16.9	16.3	16.1	15.6
Value of home-produced food (f) as a % of all food consumed in the UK	52.0	61.2	62.9	57.8	56.7	57.0
all indigenous food consumed in the UK	66.6	77.7	82.6	76.5	74.3	73.0

(a) Excluding appreciation in value of work-in-progress and stocks.

(b) All fixed assets (excluding work-in-progress and stocks).

(c) Manpower engaged in agriculture between 1983 and 1987 comprises the numbers of self-employed, employers and employees in employment (excluding farmers' wives/husbands) given in the June Censuses conducted by the Agriculture Departments of England and Wales, Scotland and Northern Ireland. Estimates for labour on minor holdings (previously called statistically insignificant holdings) in England and Wales, not surveyed in the respective June Censuses, are included.

(d) Includes oilseeds and nuts, animal oils and fats, citric acid, food dyes, essences, starches, edible gelatine, albumen and casings.

(e) Includes caterers' expenditure on food.

(f) Home production includes the value of food exports but is adjusted for agricultural use of feed, seeds and livestock by deducting net foreign trade and adding changes in stocks in these items. Indigenous food consists of products which are grown commercially in significant quantities in the United Kingdom.

<u>PRICES</u>	<u>Milk</u>	<u>Bread</u>	<u>Beer</u>
1979	13	28	39
1980	15	32	44
1981	18	35	51
1982	20	37	57
1983	21	37	61
1984	21	38	65
1985	21	39	71
1986	22	43	78
1987	25	44	82
1988	26	46	85

Source : Employment Gazette

pence.

1.00

90

80

70

60

50

40

30

20

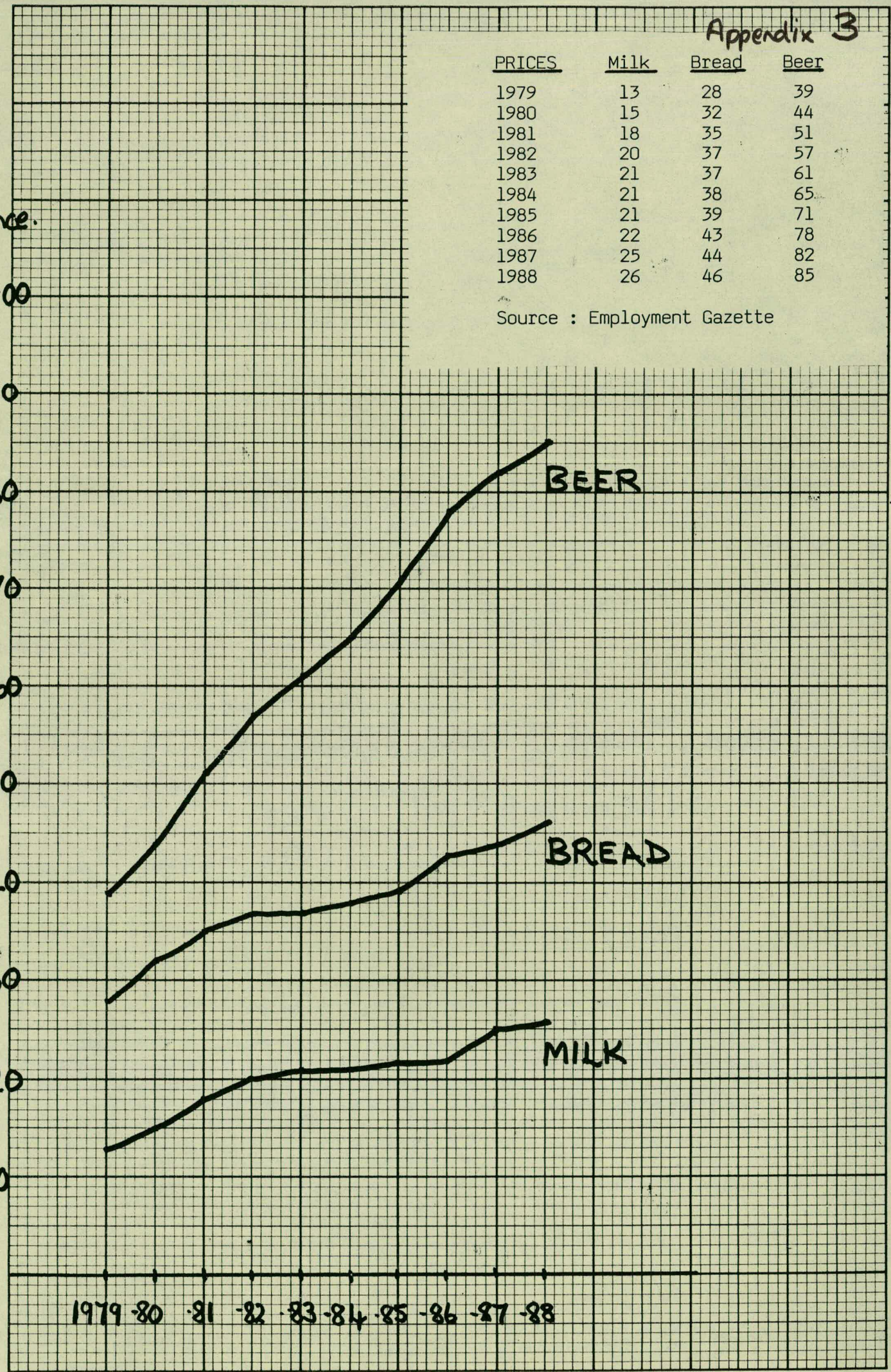
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1979-80 -81 -82 -83 -84 -85 -86 -87 -88

BEER

BREAD

MILK

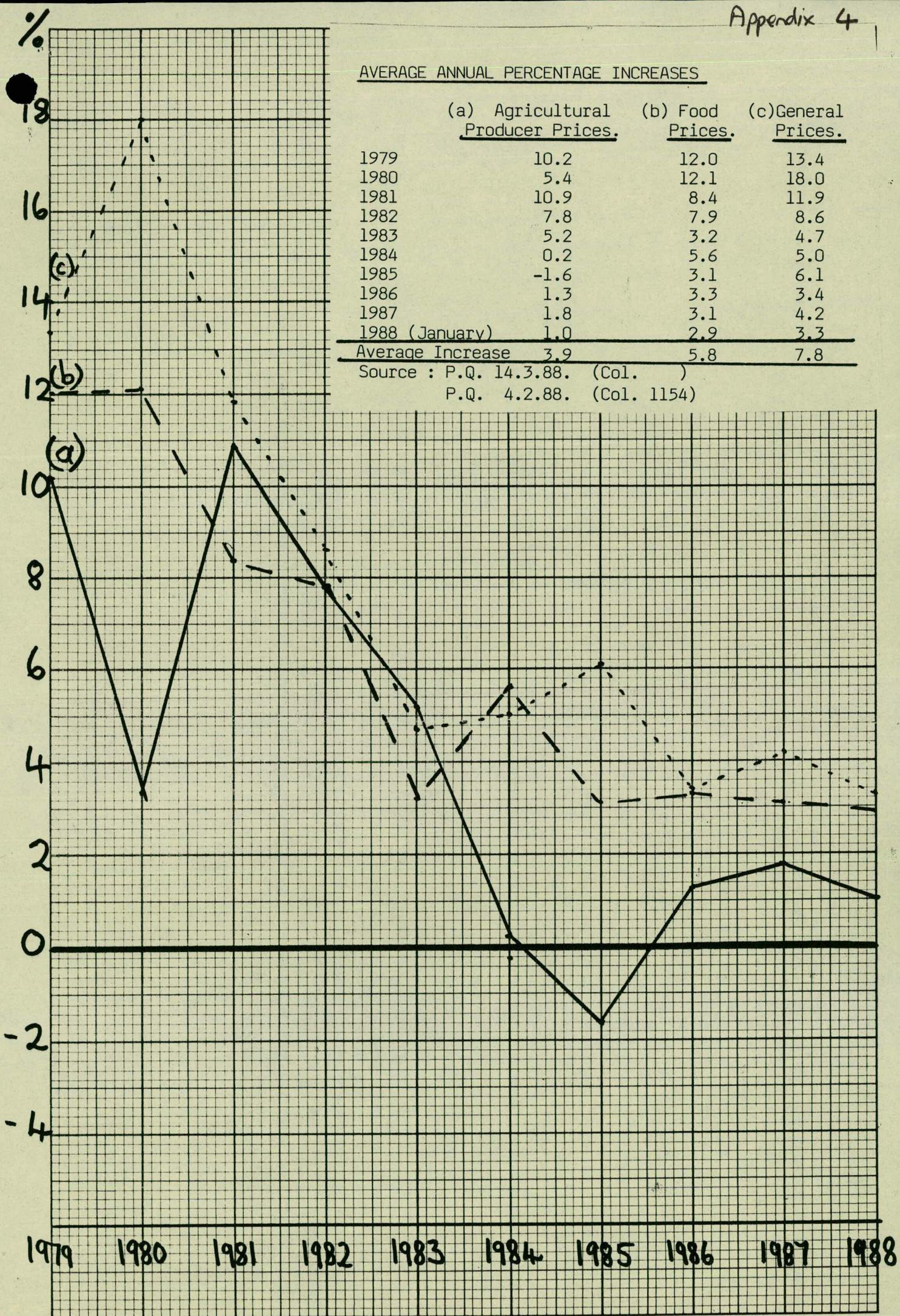


AVERAGE ANNUAL PERCENTAGE INCREASES

	(a) <u>Agricultural Producer Prices.</u>	(b) <u>Food Prices.</u>	(c) <u>General Prices.</u>
1979	10.2	12.0	13.4
1980	5.4	12.1	18.0
1981	10.9	8.4	11.9
1982	7.8	7.9	8.6
1983	5.2	3.2	4.7
1984	0.2	5.6	5.0
1985	-1.6	3.1	6.1
1986	1.3	3.3	3.4
1987	1.8	3.1	4.2
1988 (January)	1.0	2.9	3.3
<u>Average Increase</u>	<u>3.9</u>	<u>5.8</u>	<u>7.8</u>

Source : P.Q. 14.3.88. (Col.)

P.Q. 4.2.88. (Col. 1154)



PUBLIC EXPENDITURE ON MARKET AND OTHER AGRICULTURAL SUPPORT

=====

	Gross expenditure on agricultural support			Net expenditure on agricultural support			GDP(E) at current mkt prices £ million
	£ million at current prices	£ million at 1987/88 prices(b)	Percent of GDP(E)	£ million at current prices	£ million at 1987/88 prices(b)	Percent of GDP(E)	
1960 - 1961	262.9	2,209.9	1.0%	-	-	-	26,181
1965 - 1966	236.6	1,668.3	0.6%	-	-	-	36,457
1970 - 1971	256.5	1,410.0	0.5%	-	-	-	52,792
1972 - 1973	266.7	1,243.2	0.4%	266.4	1,241.8	0.4%	66,937
1973 - 1974	392.0	1,705.3	0.5%	315.3	1,371.7	0.4%	74,671
1974 - 1975	494.5	1,803.2	0.6%	324.9	1,184.8	0.4%	89,277
1975 - 1976	511.6	1,484.7	0.5%	247.6	718.5	0.2%	112,066
1976 - 1977	378.4	970.2	0.3%	198.1	507.9	0.2%	130,641
1977 - 1978	460.1	1,035.7	0.3%	271.3	610.7	0.2%	151,459
1978 - 1979	536.9	1,091.8	0.3%	207.7	422.4	0.1%	172,806
1979 - 1980	677.0	1,177.9	0.3%	264.9	460.9	0.1%	206,699
1980 - 1981	1,012.4	1,485.7	0.4%	406.1	596.0	0.2%	237,685
1981 - 1982	972.4	1,299.4	0.4%	230.0	307.3	0.1%	259,978
1982 - 1983	1,432.0	1,784.4	0.5%	608.5	758.2	0.2%	283,738
1983 - 1984	1,716.9	2,043.9	0.6%	496.0	590.5	0.2%	306,504
1984 - 1985	1,709.7	1,948.4	0.5%	506.3	577.0	0.2%	327,945
1985 - 1986	2,162.3	2,325.4	0.6%	880.0	946.4	0.2%	360,456
1986 - 1987	1,443.5	1,504.8	0.4%	-37.3	-38.9	-0.0%	382,907
1987 - 1988 (a)	1,736.0	1,736.0	0.4%	689.3	689.3	0.2%	415,454

Notes: (a) Provisional estimates assuming 8.5% growth in money GDP and 4.25% increase in the GDP deflator.

(b) Revalued using the GDP deflator

Sources: CSO Database series DJAF, DJCX

"Annual Review of Agriculture 1988" Cm 299 table 34 & previous years

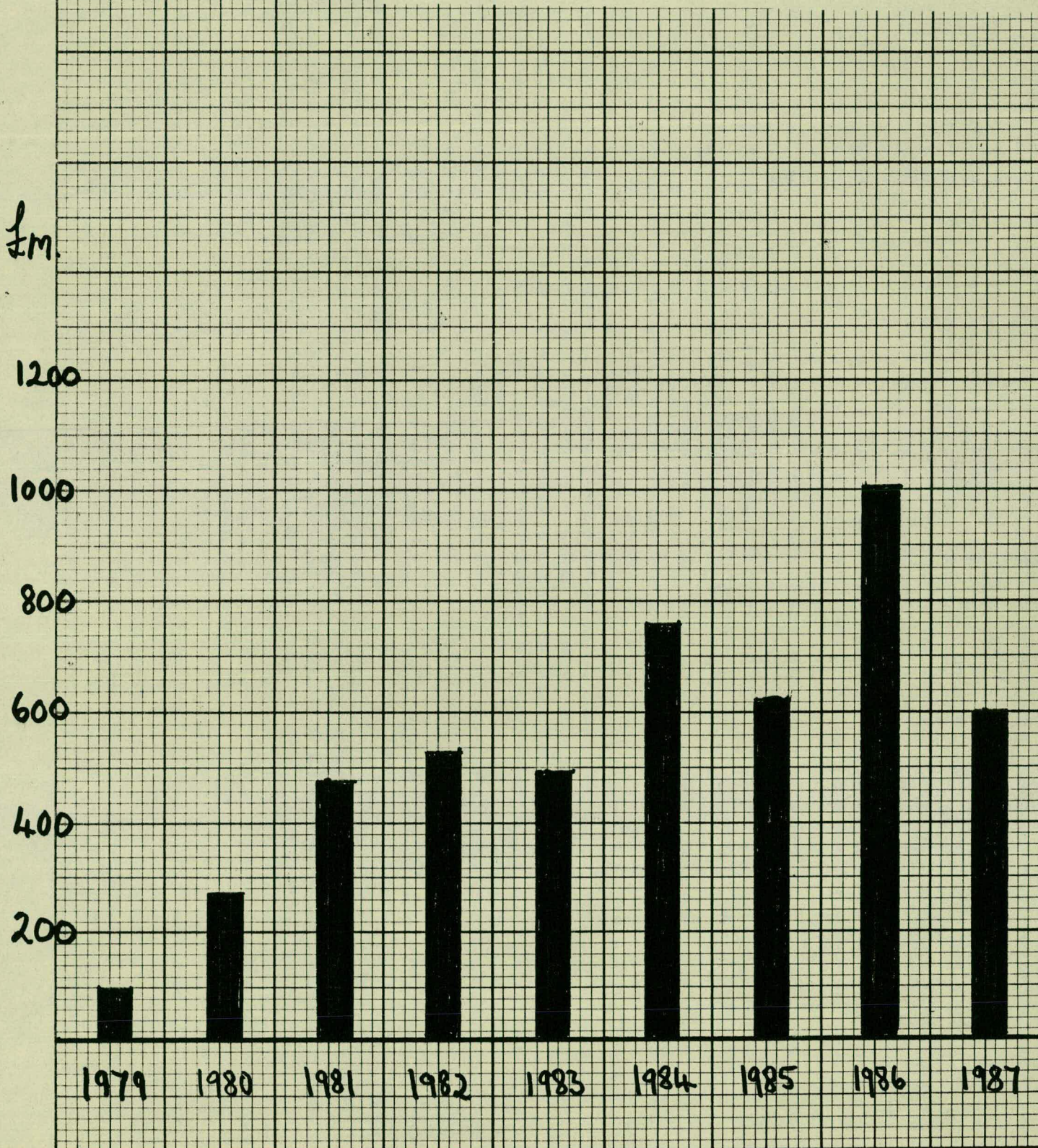
"Autumn Statement 1987" HC 110 of 1987/88 table 1.12

EXPORTS OF WHEAT, BARLEY, OATS & RAPE
(including Colza Seed)

Appendix
6

1979	£million	94.4	
1980		272.3	
1981		474.6	
1982		533.6	
1983		497.9	
1984		758.6	
1985		624.7	
1986		1,028.8	
1987	(estimate)	601.8	<u>TOTAL</u> - £4,886.7m.

Source : P.Q. 14.3.88. (Col.)



BALANCE OF TRADE IN SELECTED CATEGORIES

	SITC(R2)	1979	1986	1987	Change '79 to '87
		£ million	£ million	£ million	£ million
Visible trade - OTS basis(a)	0-9	-6288	-13058	-14164	-7876
Cereals	04	-404	408	90	+494
Agricultural products	0,4,22	-4449	-5356	-5327	-878
Other visibles	1-3,5-9 less 22	-1839	-7702	-8837	-6998
of which:-					
Oil	33	-1071	3828	3972	+5043
Chemicals	5	1509	2346	2189	+680
Iron & steel	67	62	70	296	+234
Coal, coke, etc.	32	-56	-289	-302	-246
Motor vehicles	78	-795	-3985	-3930	-3135
Electricals	716,75,76,77	-9	-2800	-3283	-3274
Current balance - BoP basis(b)		-661	-944	-2493 (c)	-1832 (c)
Visibles		-3449	-8463	-9625	-6176
Invisibles		2788	7519	7132 (c)	4344 (c)

Notes: (a) Exports 'free-on-board' & imports 'cost-insurance-freight'

(b) Exports & imports 'free-on-board'

(c) The invisible balance for 1987 is a projection based on data for the first nine months.

Sources: "Overseas Trade Statistics for the UK" 1979, 1986 & Dec 1987

"UK Trade: Area x Commodity Analysis" Dec. 1982 & Sept. 1987

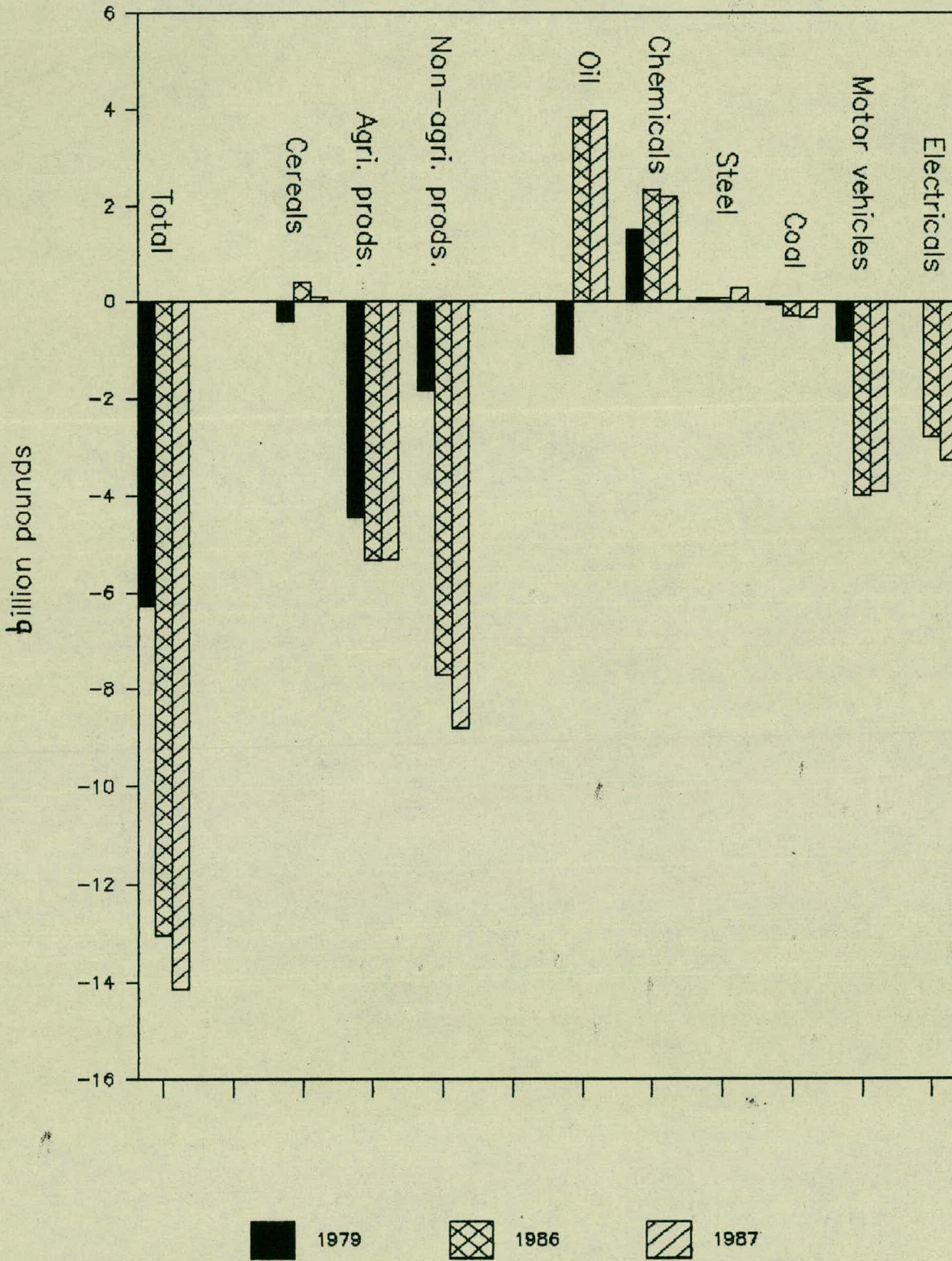
"Monthly Review of External Trade Statistics" Feb. 1988 table A1

DTI press notice 1988/142 dated 29.2.88

TRADE BALANCES IN SELECTED GOODS

Appendix 7

Visible trade OTS basis



The Cheaper Food League

The Cheaper Food League is to lead an all-party onslaught to demand return to Parliament of responsibility for agricultural policy, because:

- *the EEC's Common Agricultural Policy, the CAP, is costing every household of 4 in the country £11.50 to £13 a week, to the direct harm of the poor;*
- *this £11.50-£13 is money which would otherwise go to other goods and services materially benefitting the economy and employment.*

M.P.s, journalists and economists have supported the formation of the League because they all see the burden that the CAP is upon our country, the danger that it is to the whole European ideal as well as to the existence of the EEC, the damage that the CAP is doing to Britain's relationship with North America and Australasia, and the cruelty that it is wreaking upon the people of the Third World.

Reform of the CAP is now revealed as a farce by a House of Lords' European Communities Committee report (HL Paper 14, p.12, para. 35). Even if proposed reform went through the Treasury calculates the new system applied in 1987 would increase Britain's contribution by 900m.ecu and on extremely optimistic assumptions would cost Britain 1,000,000,000 ecu (£690,000,000) more by 1992. On the Treasury's "more realistic projection" the United Kingdom would be 1bn. ecu (£690,000,000) worse off in 1992 itself alone. The "improvements" suggested in this report are not expected to be approved by the Community without substantial amendment.

A devastating paragraph in the report refers to the EEC Council of Ministers's lack of effective procedures or political will to use them to control CAP finances (p.13,39).

The changes involved do not reduce the cost of food to the consumer.

The burden upon the UK

A recent and meticulous paper has calculated that 600,000 of Britain's 3m. unemployed can trace their position directly to the CAP. When it is considered that of the 3m. drawing unemployment benefit, many are in this plight because of their regional economic crises or are for various reasons not likely to seek employment, this 600,000 is a very big number indeed. It is double the number employed in farming in Britain of whose income 44% is now created by Government through artificially high food prices or Government subsidy as has been shown by the Auditor General of the U.K.

Today, the Common Agricultural Policy represents the biggest single "political" burden on the economic buoyancy, profitability of trade and commerce in Britain. It is one of the major factors responsible for the dismal economic performance of Britain ever since we joined the EEC upon which such high hopes were once fixed. The CAP costs the UK taxpayer hundreds of millions of £s despite the present temporary agreement to limit that contribution.

The damage however is worse than that:

Ecological damage: the countryside has been ruined, especially in East Anglia but often in areas previously downland that have been ploughed up to grow the grain and oil seed surpluses; hedgerows have been ripped out and water supplies polluted by nitrate fertilisers.

Investment: Vast quantities of finance have been diverted into the growing of the wrong crops in the wrong places when these monies might have been invested in industry and commerce. The sums have been distorted by the huge values attached to land as a consequence and the diversion of monies into this investment has created neither wealth nor employment.

Perhaps, most absurd, most British farmers have certainly not gained since their costs of feed have been inflated beyond belief, the customer has reduced the quality of his food and vast numbers have been persuaded

to borrow money for new equipment whose earning capacity has proved inadequate, causing debt, bankruptcy and even suicide.

The present agreement by which the British contribution to the EEC budget is limited and may end this winter; EEC proposals for financing the deficit are only at the talking stage but a rise in VAT contribution from 1.4% to 1.6% would not cover it; the verdict against the UK Government to force extension of VAT to all items not yet covered is expected early next year with extension of VAT to food to follow.

The EEC has also been transferring to national budgets costs of storage of CAP surplus food and more than £100m. a year has recently been "invisibly" transferred to UK national budget..

The burden of the CAP is one reason why Britain's manufacturing trade deficit with the EEC reached £10 billion in 1986 compared with the surplus we had in 1972, the last year before we began to adopt the CAP system.

The danger to the EEC

The Cheaper Food League is intended to be an alliance both of pro- and anti-EEC Britons. Quite apart from the food cost, the CAP costs the EEC budget £15.4 billion a year and that budget deficit may be this year around £3.5 billion depending on how weak the US \$ is and the prices of food around the world.

The financial crisis is driving the EEC:

- * to garner in money in any way it can; an example being the unfair and ill-considered proposal to tax vegetable oils at high rates which if not resurrected, will have to be replaced by other taxation;
- * to bargain with the present "concessions" to Britain on its contribution to the EEC budget;
- * to make the budget issues take priority over the need to get food prices down to world levels;

With the entry of new poor Mediterranean members, the CAP cost is becoming more acute and the impossible friction created is destroying the very being of the EEC, with or without the UK as a member of the CAP.

An Open Letter to the German Chancellor from nine leading German academics dated 6th March, 1987, sets out the threat the CAP poses to the E.E.C.

The damage to our allies

The proposal by the EEC, yet again shelved, to impose a tax on vegetable oils equivalent to half the present price of margarine to raise new revenue and make the butter mountains saleable would be a direct blow to the exports of American soya bean oil and Malaysian palm oil; it can only result in even greater surplus of vegetable oils on world markets.

This mere threat reflects many EEC food dumping operations which have become a crisis for the whole western world as they hammer home the outrageous harm done to the Western Alliance by artificially destroying the livelihood of so many people who are otherwise our natural friends and allies.

The EEC's subsidised exports benefit the Kremlin which buys, for instance, butter or margarine cheaply and sells it on to Soviet people at a full price. EEC dumping on world markets causes poverty in Australia and New Zealand and adds stress to their alliance with us.

The USA meanwhile is subsidising its own food exports at its own people's expense. The US response, to abolish all agricultural aid by 1997 and to have free trade in agricultural products, is unlikely to receive any favourable response from anywhere in the EEC except Britain. Without a lead from Britain, steps toward a trade war with several of Britain's closest trading partners are inevitable.

Damage to Underdeveloped countries

The CAP surpluses are a threat to the livelihood of many developing countries because these are sold at huge discounts into the natural markets for these countries' exports of food.

The EEC restricts imports from anywhere other than certain African, Caribbean and Pacific countries; even from these, it severely restricts sugar imports. It has been estimated that as long ago as 1973, in that year alone EEC policies cost developing countries \$7.4m. in sugar trade.

Agriculture employs 70-80% of the population in the low income underdeveloped countries and "The best way to give peasant farmers any incentive to grow in the 1990's is the certainty of sales afterwards."

The OPPORTUNITY

The financial crisis in the EEC is caused by the Common Agricultural Policy. But national governments can and do aid farmers for various local reasons and no doubt would be able to obtain regional aid from the EEC to deal with specific problems such as Sicily or hill farmers.

Britain as a result of this crisis, faces:

- * a European court decision in early 1988 that VAT must be extended to construction, protective clothing, etc. The Government has refused to impose this VAT but knows that the European Court may well impose it irrespective of the British government's wishes;

- * in any event, at the Copenhagen summit in December an increased VAT or other contribution to EEC revenues mainly to pay for the increased costs of the CAP, past, present and future,;

- * further attempts within the EEC to recover the concessions on revenue given to the UK by its fellow EEC members three years ago at the Fontainebleau EEC summit;

- * the proposed tax on vegetable oils which will need to be resurrected to meet the EEC deficit unless other taxes are raised, would increase the price of margarine and vegetable cooking fats by say 48%, proportionately more on the cheaper than the dearer, and contrary to health recommendations, encouraging the use of high cholesterol animal fats.

So derisive a view of the British government's power to stop this has been taken that Mrs. Thatcher is not wooed but called insultingly a "housewife".

Ministers have assured the nation that the proposed increase in V.A.T. from 1.4% to 1.6% will be subject to Parliament's approval. Ministers should also state that the same revenue will not be raised by other means without approval by Parliament. Parliament must refuse to pay and the Government, if necessary, be prepared to object in the European Court that the Treaty of Rome does not mean support for farmers irrespective of need, including other sources of income, farmers' artificial costs caused by the CAP etc.

THE CHEAPER FOOD LEAGUE'S FUNCTION

Britain needs to obtain its food at the lowest possible cost and to return its agriculture to a basis of the commercial need for locally grown food. The League will campaign for that. As a by-product, it will promote healthy discussion, for our Parliament finally to decide on:-

- * the need for transitional aid to farmers and especially the funding of debt on unprofitable farm machinery already incurred;

- * the need for regional aid;

- * the need for food reserves and farm machinery that might be needed in the case of a protracted war;

- * aid for farmers affected by European/N. American dumping where the farmers can show that commercially they should be in the growing of these crops.

We expect members of the League to have widely different views on these issues and this debate to be a healthy part of the campaign.

The League will: hold meetings, circulate written work and generally campaign on the needs:-:

- * to get the price of food down;

- * to reduce the cost to the Government, the taxpayer and the consumer of the CAP;

- * to get Britain out of the Common Agricultural Policy to achieve these aims and to remove the damage to the world caused by the CAP.

CONSTITUTION AND OFFICERS

The formation meeting of the Cheaper Food League was held at the House of Lords on November 26th, and December 14th, 1987, at the house of Lords. Copies of the constitution as adopted are available from the Secretary. The officers and committee elected were as follows:

Chairman: Teddy Taylor, M.P. **Vice Chairman:** Eric Deakins **Treasurer:** Lord Bruce of Donington **Secretary:** Andrew Alexander **Committee:** Mrs. Teresa Gorman, M.P. Ron Leighton, M.P. Austin Mitchell, M.P. Charles Smedley.

MEMBERS to 24.2.1988

Acatos & Hutcheson plc
Andrew M.K. Alexander
Paul R. Anderton
T.G. Arthur
B.E. International Foods Ltd.
Edward Barber
Miss Julia Bastian
Mrs. Margaret Beckett, M.P.*
John Bird, M.E.P.*
Sir Richard Body, M.P.
John Bowis, M.P.
Rt.Hon.Sir Rhodes Boyson, M.P.
N.H. Brown, M.P.
Rt.Hon.Lord Bruce of Donington,
F.C.A.
Robert Burrage
Ronald Burgess
John Coleman
Robin Corbett, M.P.
Stan Crowther, M.P.

Dr. Stephen Davies
Eric Deakins
Rt.Hon. Sir Edward du Cann, KBE

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Mrs. Vivien Empson
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David Morris, M.E.P.*

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Mrs. D. Norris
S.A. Notholt
J.A. Obdam
Dr. Dennis O'Keeffe

Rt. Hon.Sir G. Pattie, M.P.

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Ravi Sampanther
Sir Alfred Sherman
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Hon. Mrs. P. Thorold

M.D.K. Turner

Sir John Wedgewood, Bt.

Rt. Hon. Lord Whaddon
Whitewell House Foods Ltd.
Sir Robin Williams, Bt.

* written support

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Economic Secretary

FROM: P G Wilmott
DATE: 28 April 1988

*In relation to the 3 questions
on P5, OSF will need to
consider completely the v. situation
of P3. What is the distribution
of the goods? Is it possible?
I really do not see how
we can charge VAT
on prescription
drugs in
most cases
What about
the no
chemists
in*

- cc **Chancellor**
- Chief Secretary
- Paymaster General
- Financial Secretary
- Mr Scholar
- Mr Culpin
- Miss Sinclair
- Mr Michie
- Mr Saunders
- Mr Cropper
- Parliamentary Clerk
- Mr Jones - Parliament-
ary Counsel

EUROPEAN COURT OF JUSTICE: SPECTACLES AND OTHER GOODS SUPPLIED WITH MEDICAL CARE

Your announcement, when the European Court judgment on spectacles and other goods supplied with medical care was published on 23 February, said that time was needed to consult with trade interests and others before any definite decisions could be taken on how to implement it. This note reports on the outcome of our discussions with the professional associations concerned, and seeks your decision on detailed proposals for legislation.

We have now met the major professional associations in the optical and hearing aid fields. They appear resigned to the imposition of VAT on their goods; they accept (with varying degrees of reluctance) that a zero rate would not be legal under the terms of

-
- Internal distribution:
- | | |
|--------------------|-------------|
| CPS | Mr Allen |
| Mr Jefferson Smith | Mr G Taylor |
| Mr Nissen | Ms Barrett |
| Mr Michael | Mr Monk |
| Mr Trevett | Mr Geddes |

the Sixth Directive, and, while some showed interest in a reduced rate of tax, they recognise the difficulties involved. We have discussed with them in some detail the technicalities of applying VAT to spectacles and hearing aids, and we do not foresee any serious administrative problems.

One issue raised in our discussions does, however, require your decision. This concerns the dispensing of spectacles and contact lenses by eye hospitals. The activities of hospitals are covered by a different provision in the Sixth Directive from that dealing with the medical professions, and the European Court was not asked to adjudicate on them. The Association of Optometrists suggested in our discussions that NHS hospital dispensing in certain areas was to some extent in direct competition with their own members. We have discussed this with DHSS officials, who believe that any distortion of competition is more apparent than real. They say that eye hospitals are supposed to cater only for those with serious eye problems, and that the provision of spectacles is in many cases only incidental to other treatment. Eye hospitals account for only a small proportion of the total market; many patients are given a voucher to buy spectacles from an independent optician rather than having them dispensed by the hospital. There is a statutory NHS charge (of £25 per lens) for contact lenses, and most health authorities aim simply to cover costs when charging for spectacles directly dispensed.

At present it would seem that eye hospitals' dispensing presents little serious threat to independent opticians; charges made are normally a little below commercial levels but the clientele are not for the most part self-selected. The future, however, is more uncertain; current pressures on health authorities to seek additional sources of income could encourage them to be more commercial in their approach. It must be for decision whether the tax charge to be imposed on spectacles should embrace hospitals from the beginning - when the question of hospitals will probably

not be seen as a separate issue - or whether action should be delayed until, if it ever happens, there is clear evidence of direct competition - a time when the issue of NHS charges is likely in the forefront of public debate. On balance it might be more prudent to make provision to tax eye hospitals now.

X } Apart from spectacles and hearing aids, we have identified only one other area potentially affected by the Court judgment. This is the dispensing of drugs and medicines by professionals other than pharmacists. Prescriptions dispensed by registered pharmacists are zero-rated, and therefore not affected by the judgment, but dispensing by doctors has always been exempt from the tax. So far as doctors' dispensing under the NHS is concerned (it is common practice in rural areas, where pharmacists are few and far between, for GPs to dispense to their own patients), we have, after discussions with DHSS officials, concluded that this can be regarded as outside the scope of the tax: the supply of the goods to the patient is by the Family Practitioner Committee, who are not in business for VAT purposes, and not by the individual doctor. As for private prescriptions, very few doctors will have a turnover over the VAT registration limit - the BMA estimate probably not more than half a dozen practices. Those who are over the limit, however, will be caught by the new tax charge. We have discussed the problem with the BMA; they accept that it is small in scope and that there does not seem to be any way, compatible with the Court judgment, in which it can be avoided. Those affected may seek to associate a pharmacist in the dispensing activity, thus making themselves eligible for zero-rating, or they may give up dispensing altogether (it is claimed that they provide this service more for the convenience of their patients than for any profits involved). Even if any of the practices concerned did elect to register and charge tax, the price increase to patients would be less than 15%; doctors have always been at a disadvantage compared with pharmacists in their dispensing in that, being exempt, they cannot recover tax paid on their purchases of drugs and medicines.

Finally, there remains the question of the timing of legislation and its implementation. Mr Barnes' note of 18 February records your decision that a new Clause should be introduced at Committee stage of the current Finance Bill. Timing could to some extent depend on progress on the Health and Medicines Bill, which contains powers to withdraw the universal free eye test and free dental check-ups. After its stormy Report stage in the Commons, the Bill now awaits consideration in the Lords; the provisional date for Second Reading is 6 June, and Royal Assent is unlikely before the autumn. Whenever legislation is introduced to impose a tax on spectacles, this is likely to reopen the controversy about charges for eye tests, and it might be advisable to warn DHSS Ministers in advance of the proposed timetable, to ensure that there are no unforeseen snags. We assume, however, that, in the absence of the unforeseen, you will wish to stick to the decision to legislate for the tax charge earlier rather than later, and to proceed through the Finance Bill rather than by Treasury Order.

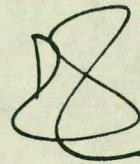
So far as the date of implementation is concerned, your provisional decision before the Budget was that this should be 1 July. Our discussions with trade associations, however, have been more drawn out than we expected, and this timetable now looks very tight; moreover, one trade association (the Association of British Dispensing Opticians) has asked that the tax charge should not be imposed in the busy run-up to the summer holiday period. Other trade associations were not particularly concerned about the timing; their sole request was that the imposition of tax should not coincide with the ending of the free eye test (and thus impose a twofold administrative burden on them). The latter, however, now looks unlikely until the beginning of 1989 at the earliest. Altogether, an implementation date of 1 September might be preferable to 1 July.

With an operative date of 1 September, the necessary Finance Bill resolution could be tabled at any time during Committee Stage, which on present plans is scheduled to finish around the end of

June. In this case there would probably be no great harm in giving more than the traditional 6-8 weeks notice of changes in tax rates; opticians are already experiencing a boom in business as people seek to avoid the threatened eye test charges, and a long period of notice of the tax change would probably not lead to much greater revenue forestalling. It would be a tactical decision whether to publish the proposed Finance Bill legislation before the opening of the debate on the Health and Medicines Bill in the Lords, thus providing ammunition to the opponents of both measures in both Houses, or whether to delay it until afterwards and so run the risk of provoking allegations of deviousness.

We would be grateful for your decision on:

- a) whether eye hospitals should be included in the new tax charge;
- b) whether the proposed implementation date should be changed from 1 July to 1 September; and
- c) the timing of the tabling of the necessary Finance Bill legislation.



P G WILMOTT



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*pp pl. 1 + then return
to H.M.C.*

FROM: P G WILMOTT
 DATE: 5 May 1988

PS/ECONOMIC SECRETARY

cc: **PS/Chancellor**
 PS/Chief Secretary
 PS/Paymaster General
 PS/Financial Secretary
 Mr Scholar
 Mr Culpin
 Miss Sinclair
 Mr Michie
 Mr Saunders
 Mr Cropper
 Parliamentary Clerk
 Mr Jones - Parly
 Counsel

*1 / Trust X S
 need to be made v. clear from beginning*

**EUROPEAN COURT OF JUSTICE : SPECTACLES AND OTHER
 GOODS SUPPLIED WITH MEDICAL CARE**

Miss Wallace's note of 3 May asked about prescriptions dispensed by doctors.

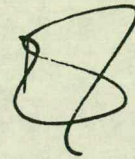
The distinction in treatment between doctors and pharmacists stems from the consultations with the medical professions before VAT was introduced. The BMA then took the view that doctors should not be obliged to register for tax and keep records and accounts open to official inspection; they were concerned both about the administrative burden and about preserving the confidentiality of patients' records. They accepted, it would appear, that, so far as private prescriptions were concerned, this would put doctors at a disadvantage compared to pharmacists, in that they would be unable

Internal distribution:

CPS	Mr Allen
Mr Jefferson Smith	Mr G Taylor
Mr Nissen	Ms Barrett
Mr Michael	Mr Monk
Mr Trevett	Mr Geddes

Evidence for this?

X to reclaim tax paid on purchases of drugs and medicines. It is unlikely that doctors in rural areas will be affected by the tax charge springing from the ECJ judgment. NHS dispensing, in our view, is outside the scope of the tax and it seems improbable that any rural practice will have a turnover in private prescriptions over the VAT registration limit. The practices who the BMA believe may be affected are in London and possibly one or two other large towns. (We are told that the main reason for doing their own dispensing is to protect their patients from the high mark-up charged on private prescriptions by West End retail chemists.) X



P G WILMOTT

CONFIDENTIAL



FROM: P D P BARNES
DATE: 23 May 1988

MR WILMOTT - C&E

cc PS/Chancellor
PS/Chief Secretary
PS/Paymaster General
PS/Financial Secretary
Mr Scholar
Mr Culpin
Mr R I G Allen
Mr Michie
Mr Saunders
Mr Cropper
Mr Dyer

Mr Jenkins - OPC

Mr Jefferson Smith - C&E
Miss Barrett - C&E
PS/C&E

EUROPEAN COURT OF JUSTICE : SPECTACLES AND OTHER GOODS SUPPLIED
WITH MEDICAL CARE

Thank you for your minute of 20 May.

2. We have still to hear formally from the Minister of Health, but I understand from his office that he has no objection to the details of the proposed VAT legislation being made public ahead of the Health and Medicines Bill debate in the Lords this Thursday. Subject to the Chancellor's views, the Economic Secretary would be grateful if you would make arrangements for the new Clause to be tabled this Wednesday. After taking advice from Parliamentary Counsel, and seeking the views of other Minister's offices, the Economic Secretary thinks, however, that it would be more sensible to table all Ways and Means Resolutions at the same time, and therefore thinks that the Ways and Means Resolution on VAT should not be tabled at this stage.

3. Subject to the Chancellor's comments, the Economic Secretary is content with the press release, but thinks that the background

CONFIDENTIAL

note should say that the amendments have been prepared after discussions with the trade and other interested parties.

P D P BARNES

Private Secretary

*The Right Honourable
Lord Cockfield
Vice-President of the Commission
of the European Communities*

*Rue de la Loi 200
B-1049 Brussels
Tel. 235.25.14 - 235.26.10*

25. V. 1988

Dear Nigel,

I take great pleasure in sending you with this letter a personal copy of the report on the study carried out for the Commission of the "Cost of Non-Europe". As you will no doubt be aware, the report is the result of two years' work by a team of independent consultants and economic analysts, led by Dr Paolo Cecchini. It represents the first comprehensive and scientific evaluation of the benefits to be derived from the completion of the Community's internal market.

The report contains a convincing demonstration both of the immense benefits which can be expected to flow from the single European market and of the need to implement the White Paper programme completely and effectively, by 1992 at the latest, as called for by the Heads of State and Government in Milan in June 1985.

The report is being published in all Community languages and is being marketed, as you will see, in a popular and easily accessible form. The supporting research material, amounting to some 6 000 pages, is also being published.

*Nigel,
Arthur.*

The Rt.Hon. Nigel Lawson, MP,
Chancellor of the Exchequer,
H.M. Treasury,
Parliament Street,
London SW1P 3AJ.

FROM: A J C EDWARDS

DATE: 25 MAY 1988

CHANCELLOR

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

CABINET, 26 MAY:

EC MATTERS

The main development since last week has been the Tuesday's Foreign Affairs Council, which made little progress on the outstanding issues of the Italian problem, relief for Spain and Portugal and the expenditure projections for the proposed Inter-Institutional Agreement. Sir G Howe will doubtless report.

2. If there is any discussion, you may like to underline the importance of winning our point on Spanish and Portuguese relief. The amounts of money involved for the UK are not enormous (some 23 to 35 mecu over the next 5 years). But two important issues of principle are at stake - preservation intact of the Fontainebleau system and adherence to the Brussels European Council conclusions. It would anyway be an absurdity to agree to contribute to the financing of our own abatement. The Paymaster General is writing to Sir G Howe about this with some constructive suggestions.

3. You will probably not think it necessary to revisit the matters discussed last week. The main points, however, are:

- The Paymaster General has written firmly to Tietmeyer about the 1988 Community Budget.
- Lord Plumb has still not signed the 1988 Budget but may do so after Friday's Trilogue meeting.

AJCE

A J C EDWARDS

MR WYNN OWEN

FROM: N G FRAY

DATE: 2 June 1988

cc Mr Lankester
Mr Monck
Mr Scholar
Mr Burgner
Mrs Lomax
Mr Burr
Mr Ilett
Mr Flanagan

MERGERS POLICY: WEST GERMANY AND ITALY

I attach two free-standing factual notes on mergers practice in West Germany and Italy. The information contained in the notes has been largely culled from recent articles in the 'FT' and 'The Economist' and, in the case of West Germany, Jonathan Charkham's paper on German boards.

2. I also attach a league table showing the major stockmarkets' capitalisation as a percentage of GDP. It is striking that Italy, West Germany and France are very much at the bottom of the league.

3. It would appear that a successful hostile bid by UK companies in these two countries is virtually impossible, primarily for non-competition structural reasons.


NIGEL FRAY

WEST GERMANY

United Kingdom law provides for various types of framework for businesses ranging from partnerships to PLCs. German law does likewise. Although most of German industry is carried out by two types of incorporated company:

- GmbH (Gesellschaft mit beschränkten Haftung; literally "company with limited liability").
- AG (Aktiengesellschaft; literally "share company").

2. In GmbHs share transfers are by contracts in notarial form. This is a formal and cumbersome procedure making share certificates unnecessary and therefore uncommon. Shares in AG companies are nearly all in bearer form. There is a striking contrast with the UK as regards the market value of shares. Shares in UK domestic companies amount to 64% of GDP, as against 14% in Germany. Only 464 of German companies are quoted and in many of these either the original proprietors still have significant stakes or the banks do.

The Banks

3. The larger German banks (eg Deutsche, Dresdner and Commerzbank) have a long tradition of a wide and deep relationship with industrial companies. The banks own, or effectively control, big share stakes in many companies. The bulk of funds for companies is channelled through the banks and they dominate the organised capital markets. The firm relationship between company and bank is not lightly put aside. Banks become counsel and guide to proprietors and this bond can last for decades.

4. The banks are substantial shareholders in industry, holding more than 25% of the equity in 41 companies. For example, Deutsche holds 28.5% of Daimler-Benz.

Merger Regime

5. The West German merger control regime provides for prior notification of mergers to the Federal Cartel Office in certain cases. A merger must be prohibited if it results in or strengthens a

position of market dominance. Certain presumptions of dominance are set out in the relevant legislation, including a market share of 33%. Where the Federal Cartel Office prohibits a merger, the parties have legal remedies against the decision: also a right of appeal to the Federal Minister of Economics. Mergers which have been prohibited by the Federal Cartel Office may be authorised by the Minister if there are compelling reasons of national interest (eg employment, international trade, defence or energy considerations).

6. There is a general assumption that it is not worth launching a hostile takeover bid. Indeed, some West German companies have taken steps to limit voting rights to avoid takeovers from abroad. This is because, up to the present time, the management of German companies has not had to take into consideration the possibility that they might have to face a hostile takeover bid.

7. This assumption has been so strongly held that it has seldom been thought worthwhile to test it. Even where the banks themselves have a significant holding they would not contemplate taking a profit if an unwanted bid appeared, as it would not only ruin their relationship with the company concerned but also expose them to criticism in the media - especially if the bidder were foreign.

Attitude to an EC Merger Regulation

8. The Germans are very worried at the potential in Article 2(4) - the authorisation clause - for the Commission to develop an "industrial strategy" and want to limit the authorisation powers of the Commission as much as possible. They are also concerned about control on grounds of "a substantial change of competitive structure": the test should be whether a merger creates or strengthens a dominant position.

ITALY

Before the October crash the Milan bourse was becoming an increasingly large source of capital for industry, supplying a fifth of its financial resources in 1986. Nevertheless, the Italian stockmarket remains underdeveloped compared with those abroad. To the end of 1987 stockmarket capitalisation was equivalent to only 13% of GDP.

Italian Industry - The Power of the Dynasty

2. Only about 200 companies are listed on the bourse, of which probably no more than a dozen are actively traded. Italian family firms are reluctant to come to the market if it means they may lose control.

3. Italian industry remains dominated by a handful of powerful families and individuals. The Agnelli family, which owns 40% of Fiat, Italy's biggest private sector company, remains at the centre of power. Fiat now has a virtual monopoly on the production of cars in Italy, with 60% of domestic car sales, prompting lively debate in Italy about whether Fiat is becoming too powerful.

4. Italy's dynasties have become almost bid proof. The merchant bank, Mediobanca, which is majority owned by three big banks which in turn is owned by IRI, the state holding company has been the linchpin of Italian capitalism since it was established in 1946. Mediobanca's former chairman, Mr Enrico Cuccia, was Italy's leading financier for almost 40 years. The 3 IRI banks; Banca Commerciale Italiana, Banco di Roma and Credito Italiano own 56.9% of Mediobanca - a fact which in any other country would give them control. Not in Italy.

5. A secret pact devised by Mr Cuccia in 1955 gave equal voting rights to a select group of private shareholders (including Fiat and Pirelli) who had just 6% of the shares. Mediobanca thus became an exclusive club serving the interests of the industrial elite. Mediobanca exercised enormous power. No business deal could succeed without the nod from Mr Cuccia. Family firms were thus shielded from the threat of takeover.

6. This system is beginning to break down. But many firms have devised ways to prevent shares falling into unfriendly hands. Hostile takeovers remain extremely difficult if not impossible.

The Banks

7. Italian banks are relatively small compared with those in other European countries - there are more than 1100 banks, including a multitude of tiny rural savings banks. The Bank of Italy wants to encourage mergers. But takeovers are expensive, as many of the regional banks are highly profitable and attempts to merge also tend to get swamped by regional politics.

8. After 1992, the principle of "mutual recognition" will allow, for example, a West German bank to operate in Italy according to West Germany's more liberal banking law. This would give foreign banks a huge advantage, so the Bank of Italy is being forced to relax its rules. Italian banks are now moving into new activities (eg lending for longer periods, setting up merchant banking subsidiaries to advise on corporate finance, etc).

Merger Regime

9. Italy has no legislation which places formal limits on the flow of foreign investment, but potential large-scale corporate takeovers tend to undergo political scrutiny and may even lead to a national controversy. There are no specific merger control provisions, except in the case of newspaper mergers (but no prior notification or control). There are, however, several sectoral provisions affecting mergers - notably in areas of banks and insurance companies:

Insurance - prior authorisation by Ministry of Industry and Commerce.

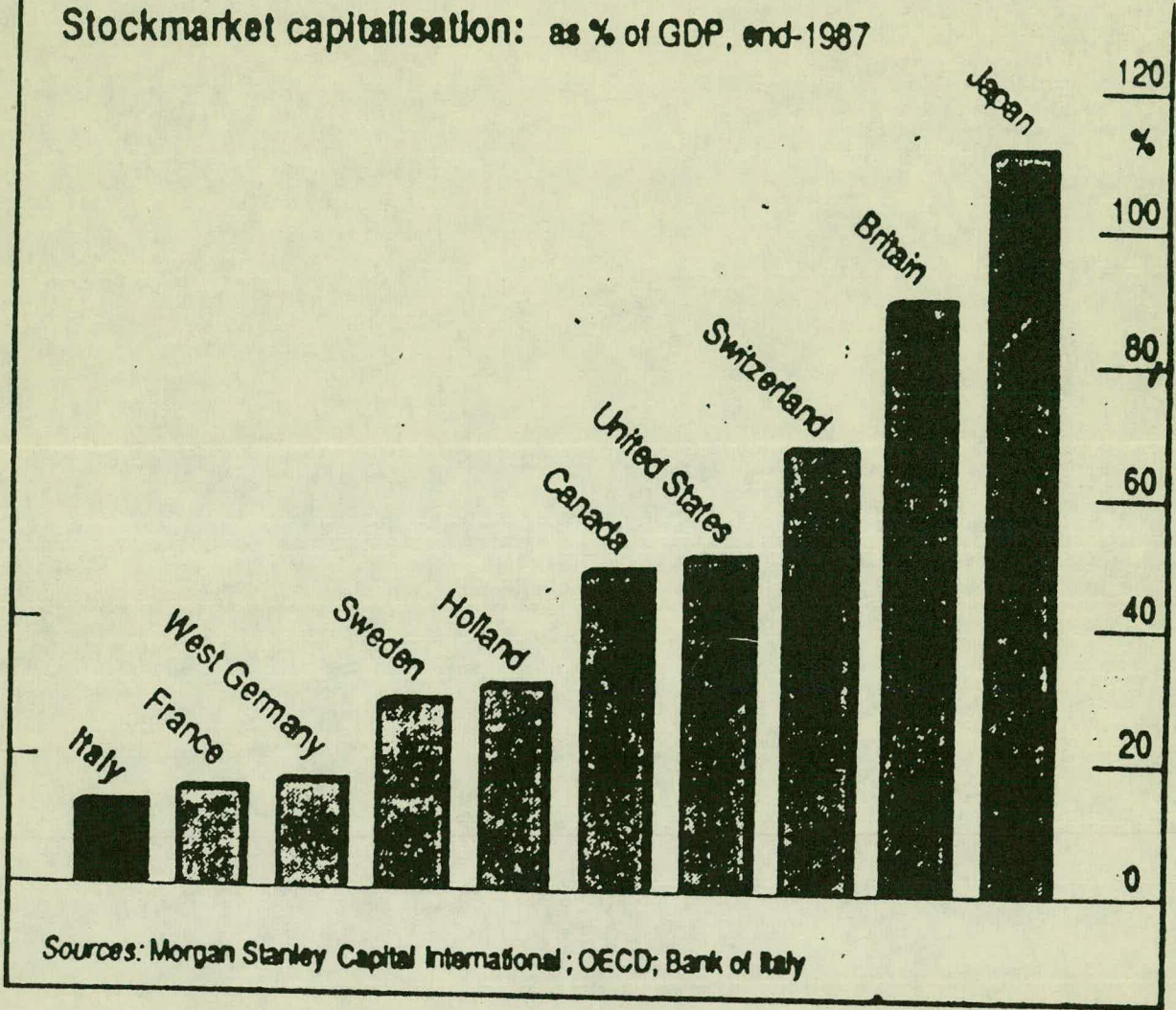
Banks - prior authorisation by the Bank of Italy is required.

State-owned companies - mergers are generally subject to the specific authorisation of the competent Ministries.

Attitude to an EC Mergers Regulation

10. Italy is opposed to a "double filter" of national controls and have placed a reservation on this ground.

Stockmarket capitalisation: as % of GDP, end-1987



Sources: Morgan Stanley Capital International; OECD; Bank of Italy

RESTRICTED

Mr. Flanagan
To see + return pl.

R. g/b.

115574
MDADAN 9273

ADVANCE COPY

23 00

✓ Mr R. G. Allen.

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FM LUXEMBOURG
TO IMMEDIATE FCO
TELNO 134
OF 082150Z JUNE 88
AND TO DESKBY 090700Z UKREP BRUSSELS
INFO ROUTINE OTHER EC POSTS

FRAME INDUSTRIAL

(FROM UKREP BRUSSELS)

COREPER (DEPUTIES) : 8 JUNE 1988

MERGER CONTROL REGULATION

SUMMARY

1. PRESIDENCY GAVE NOTICE OF THEIR INTENTION TO GET A CONSENSUS ON THEIR THREE 'FUNDAMENTAL QUESTIONS'. LITTLE MOVEMENT. HELPFUL COMMISSION REPLY ON ISSUE OF RETENTION OF NATIONAL CONTROLS IN SENSITIVE SECTORS. FURTHER DISCUSSION NEXT WEEK, IN PREPARATION FOR 22 JUNE IMC.

DETAIL

2. GRUNHAGE (PRESIDENCY) STRESSED THE IMPORTANCE OF MERGER CONTROL IN THE CONTEXT OF COMPLETION OF THE SINGLE MARKET. HE FOCUSED DISCUSSION ON THE THREE MAIN QUESTIONS IN THE GROUP REPORT (DOC 6603/88). THE PRESIDENCY'S AIM WAS TO REACH A CONSENSUS ON THESE POINTS AT THE 22 JUNE IMC, TO PAVE THE WAY FOR A DECISION ON THE REGULATION BY THE END OF THE YEAR.

3. VAN BEUGE (NETHERLANDS) SAID THAT THE ISSUE WAS STILL UNDER STUDY IN THE HAGUE, AND THE PRESENT DISCUSSION WAS TAKING PLACE TOO EARLY FOR HIM TO BE ABLE TO STATE DEFINITIVE POSITIONS. ELLIOTT (UK) SAID THAT THE UK WOULD NOT HAVE A FINAL VIEW ON THE PROPOSAL UNTIL THE DETAILED EXAMINATION HAD COME TO A CONCLUSION. EVERYTHING HE SAID LATER IN THE DEBATE MUST THEREFORE BE SUBJECT TO A GENERAL RESERVE, AND NONE OF THE UK'S ANSWERS TO THE QUESTIONS SHOULD BE REGARDED AS DEFINITIVE. THERE WERE A NUMBER OF ISSUES OF CONCERN TO THE UK: THE RELATIONSHIP BETWEEN EC AND NATIONAL CONTROLS: THE CRITERIA FOR APPRAISING MERGERS: THE TIMESCALE FOR DECISION-MAKING: AND THE INTERACTION WITH ARTICLE 85/6. ELORZA (SPAIN) DREW ATTENTION TO CERTAIN BASIC SPANISH CONCERNS TO WHICH SOLUTION WOULD HAVE TO BE FOUND. CADET (FRANCE) SAID THAT HIS POSITION WAS SIMILAR TO THAT OF

THE UK: THE FRENCH POSITION WOULD BE DETERMINED IN THE LIGHT OF THE CONTINUING DISCUSSIONS. HE ADDED THAT THERE WERE IN FRANCE'S VIEW MORE THAN THREE BASIC QUESTIONS. O'LEARY (IRELAND) SAID THAT THE PACE OF STUDY HAD BEEN RAPID AND HIS MINISTERS HAD NOT YET TAKEN A POSITION ON THE RESULTS OF THE FIRST READING. HE ADDED, HOWEVER, THAT MERGER CONTROL WAS CENTRAL TO CREATION OF THE SINGLE MARKET. PORTUGAL GAVE THEIR GENERAL SUPPORT TO THE COMMISSION PROPOSAL, EXCEPT IN REACTION TO THE APPLICATION OF ARTICLES 85/6.

QUESTION1: PRIMACY OF EC REGIME OVER NATIONAL CONTROLS

4. GRUNHAGE NOTED THAT THE MAJORITY FAVOURED A SOLUTION THAT GAVE PRIMACY ONLY TO COMMISSION DECISIONS WHICH EXPRESSLY PROHIBITED OR AUTHORISED A MERGER, AND APPEALED TO THE MINORITY TO RECONSIDER THEIR POSITIONS. PIETROMARCHI (ITALY) BELIEVED THAT THE PRESENT TEXT OF ARTICLE 6 INVOLVED DOUBLE CONTROL, AND REFERRED TO THE NEW VERSION WHICH ITALY HAD SUBMITTED. LEPOIVRE (BELGIUM) WANTED TO AVOID DOUBLE CONTROLS BUT WAS READY TO LISTEN TO THE COMMISSION'S VIEWS. CASPARI (COMMISSION) SAID THAT THERE WOULD BE NO ROOM FOR DIFFERENT DECISIONS BY A MEMBER STATE IF THE COMMISSION TOOK A NEGATIVE DECISION OR, HAVING REGARD TO THE WHOLE PICTURE, TOOK A POSITIVE DECISION. THERE MAY, HOWEVER, BE SITUATIONS IN WHICH THE COMMISSION FELT THAT A DECISION WAS NOT JUSTIFIED WITHIN THE INITIAL TWO MONTH PERIOD, EG BECAUSE THE COMPETITIVE STRUCTURE AT EC LEVEL WAS NOT INFLUENCED, AND IN THOSE SITUATIONS THE BALL WOULD GO BACK INTO THE COURT OF THE MEMBER STATES.

5. ELLIOTT SAID THAT THE UK BELIEVED THAT THERE WERE A NUMBER OF AREAS WHERE IT WOULD BE NECESSARY FOR MEMBER STATES TO DECIDE WHETHER OR NOT MERGERS TOOK PLACE, EG IN SENSITIVE SECTORS SUCH AS PRESS AND BROADCASTING, PRUDENTIAL CONTROLS ON BANKING AND FINANCE, OR CONTROLS ON CERTAIN ACQUISITIONS BY THIRD COUNTRIES. AT THIS STAGE IT WAS THEREFORE NOT POSSIBLE FOR THE UK TO SAY THAT THE COMMISSION SHOULD AUTOMATICALLY HAVE THE FINAL WORD. CASPARI SAID THAT THE PRIMACY OF EC LAW DID NOT MEAN THAT MEMBER STATES COULD NOT APPLY LAWS THAT LAID DOWN RULES ON EG, CONDITIONS FOR BANKING OR IN ORDER TO DEAL WITH UNFRIENDLY TAKEOVERS, PROVIDING THOSE LAWS WERE IN CONFORMITY WITH EC LAW. IN BOTH THE EXAMPLES HE HAD QUOTED, THE NATIONAL LEGISLATION PREVENTED THE MERGERS FOR REASONS UNCONNECTED WITH COMPETITION. WHAT THE COMMISSION COULD NOT ACCEPT WAS THAT MEMBER STATES APPLIED COMPETITION LAW THAT DID NOT RESPECT THE PRIMACY OF EC LAW.

6. FRIED (FRG) AGREED WITH THE COMMISSION'S BASIC POSITION BUT WANTED IN ADDITION SCOPE FOR NATIONAL DECISIONS IF THE COMMISSION

STARTED THEIR FORMAL EXAMINATION PROCEDURES BUT DID NOT COMPLETE THEM WITHIN THE DEADLINE. CADET COULD NOT GIVE A DEFINITIVE VIEW AT THIS STAGE. THERE WAS A NEED TO SAFEGUARD SPECIFIC REGIMES OUTSIDE THE COMPETITION FIELD, AND THE COMMISSION'S INDICATIONS IN THIS RESPECT HAD BEEN USEFUL.

QUESTION 2: COMPULSORY PRIOR NOTIFICATION.

7. GRUNHAGE ASKED WHETHER THE MINORITY WOULD BE ABLE TO RALLY AT THE 22 JUNE IMC TO THE MAJORITY'S ACCEPTANCE OF COMPULSORY PRIOR NOTIFICATION. NO-ONE ROSE THE THE BAIT. CASPARI TOOK THE OPPORTUNITY TO ASK WHETHER THE UK'S CONCERNS ON DEADLINES (RECORDED ON PAGE 4 OF DOC 6603/88) RELATED TO ARTICLE 7(4). ELLIOTT TOOK NOTE OF THE QUESTION. MORE GENERALLY, WE COULD SEE THAT PRIOR NOTIFICATION COULD ASSIST THE PROCESS OF SCRUTINY AND WERE THEREFORE UNLIKELY TO HAVE FUNDAMENTAL DIFFICULTIES WITH IT, PROVIDED UNDERTAKINGS HAD CERTAINTY AS TO WHEN MERGERS WERE NOTIFIABLE AND PROVIDED OUR CONCERNS ON TIMESCALES COULD BE SATISFACTORILY MET. WE DID NOT BELIEVE IT WAS STRICTLY NECESSARY FOR NOTIFICATION TO HAVE SUSPENSORY EFFECT, SINCE THE RISK THAT A MERGER FOUND TO BE UNDESIRABLE COULD BE SUBJECT TO COMPULSORY DIVESTMENT WAS IN ITSELF USUALLY A SUFFICIENT DETERRENT.

QUESTION 3: CRITERIA FOR INTERVENTION

8. GRUNHAGE INVITED THE MINORITY TO CONSIDER RALLYING TO THE MAJORITY VIEW THAT A CHANGE OF COMPETITIVE STRUCTURE WAS A SUPERFLUOUS CRITERION.

9. CASPARI DEFENDED THE COMMISSION'S PROPOSAL THAT THE OTHER CRITERION SHOULD BE THE CREATION OF A DOMINANT POSITION AND NOT MERELY ABUSE OF THAT POSITION. IF THE REGULATION ONLY DEALT WITH THE ABUSE OF A DOMINANT POSITION IT WOULD HAVE NO RAISON D'ETRE. FRIED SUPPORTED THE COMMISSION: GERMANY WANTED A REGIME THAT WOULD PERMIT INTERVENTION BEFORE DAMAGE ACTUALLY HAPPENED. LEPOIVRE, LYMBEROPOULOS (GREECE) AND PORTUGAL WERE ALSO READY GO ALONG WITH THE COMMISSION.

10. ELLIOTT NOTED THE UK'S DOUBTS. WE WERE CONCERNED TO KNOW WHETHER THE CRITERIA MEANT THAT CREATION OF A DOMINANT POSITION IN ITSELF WAS OBJECTIONABLE OR WHETHER IT WOULD BE NECESSARY TO DEMONSTRATE ABUSE. WE WERE CONCERNED TOO ABOUT THE POSSIBILITY OF NON-COMPETITIVE CRITERIA BEING USED BY THE COMMISSION. ONCE THE REGULATION DEPARTED FROM OBJECTIVE COMPETITION POLICY CONSIDERATIONS INTO WHETHER, EG, A MERGER PURSUED GENERAL EC OBJECTIVES, THE GROUND WOULD BE UNCLEAR AND THE COMMISSION WOULD HAVE TOO MUCH DISCRETION.

RESTRICTED

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MDADAN 9273

CASPARI'S REPLY ONLY ADDRESSED THE FIRST POINT: THE CRITERION WOULD BE THE CREATION OF A DOMINANT POSITION AS DESCRIBED IN ARTICLE 2(2), NOT THE ABUSE OF THAT POSITION. THE GROUP CHAIRMAN SUGGESTED THAT THE WAY FORWARD MIGHT BE TO TIGHTEN UP THE DEFINITION OF DOMINANCE.

CAMPBELL

YYYY

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MR ALLEN DTI
MR MACAUSLAN TSY
MR WYNN-OWEN TSY

NNNN

FROM: P WYNN OWEN
DATE: 10 June 1988

- 1. MR MONCK
- 2. CHANCELLOR

- cc PS/Paymaster General
- Sir P Middleton
- Mr Lankester
- Mr Burgner
- Mr R I G Allen
- Mrs Lomax
- Miss Barber
- Mr Bent
- Mr Burr
- Mr Ilett
- Miss Noble
- Mr Kroll
- Mr Parkinson
- Mr Flanagan

Thanks. The essential nature of the problem has been highlighted, current, by the Rowley affair. It has emerged that most (Swedish) have arrangements (by the committee) which make them a source of merger, which will remain of importance in EC proposals. We have only our own arrangements, which will be supported by the committee. This will become a major issue.

EC MERGER CONTROL

This minute reports on the latest state of play on EC Mergers and brings to your attention the Law Officers latest advice concerning the Attorney General's remarks at the OD(E) on 28 April, as promised in Mr MacAuslan's minute of 5 May.

2. Official discussions in Brussels on the details of the merger control regulation have made little or no progress. We commented in advance on the proposed UK line for the last Working Party meeting on 24/25 May and a recent Coreper discussion, and, in certain key respects, they stuck to it quite well - reiterating the UK's general reserve on the regulation at both meetings and making a number of detailed criticisms. Sadly, however, there appears to be considerable steam behind this within the Commission, abetted by the German Presidency, and it seems likely this issue could run right through to the Hanover Summit. Sir David Hannay has reported that Sutherland feels strongly about this and has questioned the UK's good faith. If Sutherland cannot get agreement to the issues on the agenda at the Internal Market Council on 22 June, he has said he would withdraw the proposed regulation and publish guidelines the Commission would use in implementing Articles 85 and 86: more mergers would be caught and there would be lengthy uncertainties as a result of the ex-post procedure.

3. On a Ministerial level. in the margins of a recent discussion with Kenneth Clarke (about shipbuilding) Sutherland is reported as noting the French position was now a bit more positive on the draft

*MMC
supp. to
Sutherland
recipients
This
will
become
a
major
issue.*

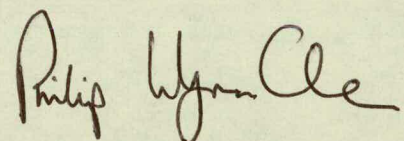
mergers regulation, while, so far as we know, the Lord Young/Sutherland bilaterals on BAe/Rover have hardly touched upon EC Mergers at all. A Maude/Sutherland bilateral is likely before the 22nd June Internal Market Council (IMC), with the IMC itself also discussing the issue.

4. At an EQS meeting on the Hanover Summit in the Cabinet Office yesterday, there was a brief discussion of this issue. Mr Allen reiterated your views and noted there was no Ministerial agreement on the issue. Sir David Hannay thought it possible that it might nonetheless come up at the Hanover Summit on 27/28 June, following the 22 June IMC. Chancellor Kohl's letter to the Prime Minister, preparing for Hanover, mentioned this issue (copies of his letter and the Prime Minister's reply attached). If it did come up, Sir David Hannay advised that the UK should put its arguments robustly and succinctly against the current draft Regulation. But he thought we could not rule out something appearing in the Hanover conclusions, in which case he thought the UK should seek to ensure it was as vague as possible.

5. The Cabinet Office have helpfully requested that DTI clear their line with other departments for each meeting in Brussels. The Cabinet Office have also invited Lord Young to write round in time for OD(E) consideration on Thursday 16 June (and DTI officials confirmed at EQS that he was likely to do so).

6. The Law Officers have now attempted to justify the Attorney General's remarks at OD(E) on 28 April (Michael Saunder's letter of 20 May to Roger Lavelle attached). It would be foolish lightly to disregard such advice (particularly given the news that the Commission may progress via guidelines under Articles 85 and 86), but it does seem to us that Mr Saunders stretches the odd point a little in as yet largely uncharted legal waters.

7. We will submit briefing next Wednesday for the OD(E) on Thursday 16 June.





FROM: S P JUDGE
DATE: 10 June 1988

PS/CHANCELLOR OF THE EXCHEQUER

cc Sir Geoffrey Littler
Mr Lankester
Mr R I G Allen
Mr Mortimer
Mr Mercer
Mr Bonney
Mr Kaufmann
Mr C Evans

EC FINANCE: THE INTER-INSTITUTIONAL AGREEMENT

The Paymaster General has seen Mr Mercer's submission of 9 June, and has commented that the proposed line is "sensible and coherent".

S P JUDGE
Private Secretary

MINISTER IMMEDIATE

BY

HAND



10 DOWNING STREET

From the Private Secretary

CH/EXCHEQUER	
REC.	13 JUN 1988 13/6
ACTION	MR MERCER
COPIES TO	PM G. SIR G. LITTLE
	MR LANKESTER
	MR RIG-ALLEN
	MR MORTIMER
	MR BONNEY
	MR KAUFMANN
	MR EVANS

12 June, 1988.

Dear Alex.

ppp

EC FINANCES: INTER-INSTITUTIONAL AGREEMENT

The Prime Minister has considered the Chancellor's minute of 10 June setting out the line which he proposes to take in the discussion of the draft Inter-Institutional Agreement with the European Parliament at ECOFIN on Monday, 12 June. She is not at all happy with the outcome of the discussion so far, and the fact that it is now proposed we should rely on Council Declarations for some of the points which are absolutely key ones for us. The Council have gone back on decisions enshrined in Declarations in the past, for instance, the Declaration on legally binding budget discipline at the Fountainebleau European Council. The Prime Minister fears that the further Council Declarations proposed in the Chancellor's minute will be as vulnerable as others have proved in the past. What is at stake now is the integrity of the German Presidency and their duty to ensure that the conclusions of the Brussels European Council are properly implemented.

The points which particularly concern the Prime Minister are (ii) and (iv) in the Chancellor's minute. On (ii), she feels that the text itself really must refer to the European Council's undertaking that non-obligatory expenditure other than the structural funds and multi-annual programmes will remain within the maximum rate. On (iv), the text must reflect exactly what the Brussels European Council decided, namely that the principle of annuality in Budget management will be observed. On points (i) and (iii), Council Declarations will probably serve.

The Prime Minister does not underestimate the difficulty of putting these points right at this late stage, but believes that they are too significant, both in themselves and to prevent any further process of erosion of the Brussels European Council's conclusions, to let go.

I am sending copies of this letter to Tony Galsworthy (Foreign and Commonwealth Office) and Trevor Woolley (Cabinet Office).

[Handwritten signature]
C.D. Powell

Alex Allan, Esq.,
 HM Treasury.



FROM: A C S ALLAN
DATE: 13 June 1988

*1 BC to Maltin
4/6
2. Puy*

MR WYNN OWEN

cc PS/Paymaster General
Sir P Middleton
Mr Lankester
Mr R I G Allen
Mr Burgner
Mrs Lomax
Mr Burr
Mr Ilett
Miss Noble
Miss Barber
Mr Bent
Mr Kroll
Mr Parkinson
Mr Flanagan

EC MERGER CONTROL

The Chancellor was grateful for your minute of 10 June. He commented that the essential nature of the problem has been highlighted by the Rowntree affair. It has emerged that most European countries (not just the Swiss) have arrangements (eg the commercial bank holdings in Germany) which enable them to block a contested merger; and these arrangements would remain untouched by the EC proposals. We have only our own MMC arrangements, which would be swept aside. Thus the sensitive reciprocity issue would become even worse.

ACSA

A C S ALLAN

FROM: M PARKINSON
DATE: 14 JUNE 1988

1. MR R ALLEN
2. CHANCELLOR

cc: Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Sir G Littler
Mr Lankester
Mrs Lomax
Mr Peretz
Mr Mortimer
Mr F K Jones
Mr Tyrie

OD(E) 16 JUNE: ISSUES FOR THE HANOVER EUROPEAN COUNCIL

You are attending OD(E) at 8.45am on 16 June. The meeting will consider preparations for the Hanover European Council. This submission provides a brief on the paper by Sir Geoffrey Howe on issues for the Hanover Council.

Background

2. Following discussion at EQS on 9 June, Sir Geoffrey Howe's paper sets out the issues for the Hanover Council and invites agreement on our main objectives.

The FCO paper

3. The FCO paper recommends that our objectives for Hanover should be:

(a) to ensure that further work on monetary cooperation is directed to practical steps, with any wider study linked to Central Bank Governors and ECOFIN.

(b) to secure a single market package, and single market priorities for the next 18 months, on the lines set out in Lord Young's paper (OD(E)10 on which there is a separate brief).

(c) to ensure that Conclusions language on social issues does not commit us to specific measures.

4. The paper notes that the German Presidency want a strategic discussion at Hanover, without too much detail, on the economic situation, monetary cooperation, Single Market issues and social issues and unemployment.

Objectives

5. We suggest that you will wish to support the main objectives recommended by the Foreign Secretary, in particular that further work on monetary cooperation should focus on practical steps and any study should be carried out through existing Community machinery.

Line to take

6. Apart from endorsing the paper's conclusions, you may like to draw on the following points in discussing it:

- the economic situation. Chancellor Kohl is expected to report on the outcome of the Toronto Economic Summit. We would wish to avoid any major new discussion at Hanover.

- Monetary Cooperation. Kohl will want to give fresh impetus to developing monetary cooperation, but you know (from your discussion with Stoltenberg on 13 June) that there are still divided counsels in Bonn about how best to do so and it is still not clear what the Presidency's intentions are. There may be further opportunity to pursue this in the margins at Toronto. Our objective should be to steer any study towards practical steps where early progress could be made, such as greater use of the ecu as an intervention and reserve currency, wider cross-holdings of Community currencies in foreign exchange reserves and other short term issues identified by the Monetary Committee in their report to the informal ECOFIN in May. It is not sensible to devote time and resources to a wider study of more futuristic ideas, such

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as a European Central Bank which in any case could not be a true Central bank so long as nation states exist in Europe. But if there were nevertheless to be a study of wider issues it would best be taken forward in the normal way by Finance Ministers themselves in ECOFIN, together with the Monetary Committee and Central Bank Governors' Committee. (If the Presidency seek to direct the study only to the Central Bank Governors, we should ensure that it is a referendum to ECOFIN).

- Single Market. This is covered by Lord Young's paper with the main issues summarised in the FCO paper.

- Social issues and unemployment. As the FCO paper says, we would want to avoid writing into the Conclusions a commitment to work for common standards on matters such as working conditions. Unemployment should be combatted by non-inflationary macroeconomic policies and microeconomic policies to promote market flexibility and enterprise.

M PARKINSON

FROM: P WYNN OWEN
DATE: 15 June 1988

1. MR BURR
2. CHANCELLOR

cc PS/Paymaster General
Sir P Middleton
Mr Lankester
Mr Monck
Mr Burgner
Mr R I G Allen
Mrs Lomax
Miss Barber
Mr Bent
Mr Ilett
Miss Noble
Mr Kroll
Mr Parkinson

OD(E), 16 JUNE: EC MERGER CONTROL

You are attending OD(E) tomorrow morning, which will effectively settle the line for the Hanover European Council. There is likely to be a brief discussion of Lord Young's letter to you of 15 June on EC Mergers, proposing a line for the 22 June Internal Market Council (IMC). This note provides a draft speaking note (attached).

2. My note of 10 June provided background. Mr Allan's minute of 13 June noted that the Rowntree affair had highlighted the essential nature of the problem - that most European countries have arrangements which enable ^{them} to block a contested merger; and that these arrangements would remain untouched, while our own MMC arrangements would be swept aside. Mr Allan's minute of today to Mrs Lomax noted your view that forcing German banks to divest themselves of industrial shareholdings should be a condition of our acceptance of any EC mergers directive.

3. We think you should deploy such points at OD(E). We had been doing some work on this - Mr Fray's minute of 2 June attached (top copy only) identifies some of the barriers to contested takeovers in Germany and Italy. But the Treasury is not best placed to do a more detailed study of non-competition barriers in each member state. So we suggest you should seek OD(E) agreement to the Cabinet Office European Secretariat coordinating a thorough study by departments of the problem - identifying facts, specifying options for removing such barriers, and discussing possible UK campaigns on such issues. Presumably the DTI and FCO will need to lead in collecting information, but the Treasury should participate, as well as perhaps MAFF and the Bank. This should

BRIEF
ON
YOUNG
LETTER

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result in a report-back to OD(E). The attached speaking note briefly details what is required.

4. Lord Young's letter provides a line for the 22 June IMC which is consistent with that taken in recent Brussels meeting (the Coreper discussion record to which he refers is attached - top copy only). You should ask that we reiterate our general reserve on every occasion, while being more actively critical of Commission proposals. That means a tougher line than Lord Young's suggestion of "open-mindedness about the principle, combined with continued willingness to contribute constructively to discussions".

5. You will want to record that you do not agree with all that is said in the four itemized points in the letter - eg on (ii), we still do not accept the principle of any Commission "exclusive jurisdiction". In this context, you might ask how we could protect privatised companies against "nationalisation" by other EC public companies (we believe the Commission would find it very difficult to discriminate against public undertakings, so tactically we might press for such a concession). But it would probably not be right to press for a quick kill at the 22 June IMC. This could appear inconsistent with asking for work by officials on non-competition barriers in other countries and, more importantly, it could provoke Commissioner Sutherland to promote the issue to the Hanover Summit on 27 June.

6. Lord Young's letter is ominously silent about the Hanover Summit. It may be that he is not ruling out the possibility of agreeing to a reference to the Mergers directive in the Hanover Communique or future work programme. Sir David Hannay suggested as much at the recent EQS meeting. This poses a serious danger, in that we could thereby lose the principle at one fell swoop. You should say that the Prime Minister must be briefed to resist any reference to this at Hanover. She might even raise our very real reciprocity concerns, if necessary. Depending on how OD(E) goes, you might consider speaking to her before Hanover on this issue.

7. I attach a draft speaking note.

Philip Wyn Owen

P WYNN OWEN

SPEAKING NOTE FOR OD(E), 16 JUNE - EC MERGERS

- Time not ripe to indicate agreement for any Commission proposal. Must preserve reserve of principle, while actively criticising draft.
- Rowntree highlighted basic problem, which must be tackled first. In most European countries (not just Switzerland) non-competition arrangements block contested takeovers by foreign firms (eg commercial bank holdings in Germany; tight family control in Italy). Such arrangements untouched by EC proposals, while MMC safeguard would be swept aside. Sensitive reciprocity issue would become even worse.
- Suggest officials (led by Cabinet Office but including Treasury, DTI, FCO and perhaps also MAFF and Bank) should look closely at this and produce a paper for us on:
 - (a) The facts about barriers to bids in other EC countries, not only on competition grounds, but also in company law and practice, Stock Exchange and takeover rules, and owner and shareholder attitudes;
 - (b) Specific options for removing such barriers, with negotiating aims;
 - (c) Arguments for and against UK mounting campaigns, bilateral or otherwise, to pursue such options.
- Still have major problems with details of draft Directive. Cannot agree line given on points itemized by Lord Young as "our main concerns" - eg on his (ii), I still do not accept case for any Commission "exclusive jurisdiction". How could we, in this case, for example, defend privatised utilities from purchase by state-owned European companies?
- In meantime, crucial to hold line at 22 June IMC and to ensure that there is no reference to this in the Hanover conclusions or future priorities.
- If necessary, DTI Ministers and Prime Minister must be ready to make clear our fundamental concern about lack of reciprocity for contested takeovers.

1. MR R ALLEN
2. CHANCELLOR

FROM: M PARKINSON
DATE: 15 JUNE 1988

cc: Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Sir G Littler
Mr Lankester
Mrs Lomax
Mr Peretz
Mr Mortimer
Mr F K Jones
Mr Tyrie

BRIEF
FOR
OD(E)
(88)
10

SINGLE MARKET: GERMAN PRESIDENCY PACKAGE AND FUTURE PROSPECTS

You are attending OD(E) at 8.45am on 16 June. The meeting will consider preparations for the Hanover European Council. This submission provides a brief on the paper by Lord Young on the German Presidency Package and future prospects.

Background

2. Chancellor Kohl wrote to EC Heads of Government on 20 May outlining his single market priorities for agreement by the end of the Presidency. The Prime Minister replied on 1 June, endorsing the Presidency approach and setting out our own priorities post-Hanover. Following discussion at EQS on 9 June, Lord Young's paper assesses the prospects for Hanover.

The DTI paper

3. The DTI paper recommends that:
 - i) the UK should make every effort to ensure that road haulage liberalisation and capital liberalisation are agreed by the end of the Presidency;
 - ii) our objectives for the Hanover single market conclusions should be to stress that the single market is about liberalisation not harmonisation for its own sake; the

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- Council should set practical priorities for the future as set out in the Prime Minister's letter to Chancellor Kohl; we should work to prevent rhetorical flourishes on tax approximation, merger controls and the "social dimension";
- iii) further work should be put in hand, as appropriate, on difficult future issues such as the "social dimension", abolition of frontier controls and external aspects;
- iv) conclusions in the Annex to the paper on the major issues of the Presidency package should be endorsed.

Objectives

4. We suggest that your objective should be to support Lord Young's approach on the theme of liberalisation and the future priorities set out by the Prime Minister, while emphasising the need to prevent any commitment in principle at Hanover on the Commission's proposals on tax approximation and merger controls.

Line to take

5. Apart from endorsing the paper generally, you may like to draw on the following points in discussing it:

- On liberalisation of capital movements, you will wish to report on the successful outcome of the ECOFIN meeting on 13 June. There was unanimous agreement on both the Directive providing for complete liberalisation of capital movements and the medium term balance of payments financial assistance Regulation. There are to be transitional arrangements for Spain, Greece, Ireland and Portugal who will have until the end of 1992 to comply fully with the Directive. In the light of French concerns, the Commission will produce proposals on fiscal distortion, evasion and fiscal fraud but with no prior Council commitment to approve the proposals. The UK succeeded in deleting unacceptable references on "complementary measures" regarding full membership of member states in the ERM.
- On public procurement, the Annex to the DTI paper notes that it is unlikely that a common position could be reached on

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the new works Directive (a UK priority) in time for inclusion in a package, but the Hanover Council should be able to look forward to agreement in the Greek Presidency. A UK priority for further work is agreement on effective compliance measures to ensure that the rules are properly enforced. As regards procurement in the "excluded" sectors (proposals expected to be adopted shortly by the Commission covering water, energy, transport and telecommunications), any comment in the Council's conclusions needs to endorse the principle of open procurement, but not to imply that we necessarily support the Commission's specific proposals.

- merger control. The paper notes that Lord Young is writing separately about handling at the 22 June Internal Market Council. Mr Wynn Owen will be briefing on this. This is not in the Presidency package and we would not want the issue featuring in future priorities at Hanover; *immediately behind*
- tax approximation. You have submitted a separate paper for OD(E). As Lord Young's paper notes, we must continue to pursue the market approach and the reduction of frontier controls, while avoiding any commitment to the Commission's proposals at Hanover;
- financial services. This is one of the five priorities suggested by the UK for progress over the next 18 months. Our main priority is the second Banking Directive promoting mutual recognition of banking supervision within the Community. Rapid progress is unlikely until the late autumn;
- "social dimension" and external aspects. As the paper notes, we should emphasise the deregulatory theme of the single market to improve employment prospects and avoid social engineering measures. You will wish to agree that the benefits of the single market would be lost if accompanied by increased protection against third countries and that we should resist attempts to include ill-conceived reciprocity provisions.

M PARKINSON

FROM: M PARKINSON
DATE: 15 JUNE 1988

- RA 15/6*
1. MR R ALLEN
 2. CHANCELLOR

cc: Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Sir G Littler
Mr Lankester
Mrs Lomax
Mr Peretz
Mr Mortimer
Mr Michie
Mr F K Jones
Mr Tyrie

OD(E) 16 JUNE: HANOVER EUROPEAN COUNCIL

You are attending OD(E) on 16 June.

2. I attach briefs on the papers by Sir Geoffrey Howe on issues for the Hanover European Council (OD(E)(88)9) and by Lord Young on the single market OD(E)(88)10). There is no separate brief on your note on tax approximation, (OD(E)(88)12) which you have provided as a background paper; you will wish to emphasise the need to avoid any commitment or priority at Hanover to the Commission's proposals. Mr Adams is providing a separate brief on the Home Secretary's letter on the right of residence Directive referred to in Lord Young's paper.

M. Parkinson

M PARKINSON

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

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1P 3AG

CH/EXCHEQUER	
REC.	15 JUN 1988
ACTION	MR P. Nynn Owen
COPIES TO	PS/PMG SIR P. Middleton MR Lankester MR Monck MR Burgner MR R.I.G. Allen Mrs Loman, MR Ilett, MR Burt Miss Noble, Miss Barber

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Our ref DWLADV
Your ref
Date 15 June 1988

MR Bent MR Kroll MR Parkinson
MR Flanagan

Nigel

EC MERGER CONTROL REGULATION

At its meeting on 28 April, OD(E) invited me to report on progress in discussions on an EC Merger Control Regulation, before the Internal Market Council next discussed the issue. The Council is due to consider this subject on 22 June.

Against the background of our general reservation of principle, officials have explored the scope for improvements to the regulation in the main areas where we have concerns. Our main concerns are:

- (i) Scope. A regulation should apply to a relatively small number of genuinely Community-wide mergers
- (ii) Interface with national controls. Within the scope of the regulation, we should seek so far as possible to avoid "double jeopardy" for firms. The Commission should therefore have exclusive jurisdiction (subject to further exploration of the scope for national prohibition on specific grounds or in specific sectors).
- (iii) Interface with Articles 85 and 86. Even outside the scope of the regulation, Commission powers under Articles 85 and 86 should be removed as part as far as possible.

YOUNG
→
CH/EX
15/6

- (iv) Criteria for intervention. The Commission's powers to "authorise" mergers should be defined as narrowly as possible, with the emphasis on competition rather than "industrial strategy".

Some progress has been made on some of these issues; though there is a long way still to go before we can reach a considered assessment of the merits of the proposal. On scope, we have the support of approximately half the Member States for an increase in the thresholds, both for the overall size of merger caught, and for the size of de minimis exceptions. But a clear divergence of interest is beginning to emerge as between the larger Member States which have effective merger control systems of their own, and the rest, who are looking to a Community regulation as a means of protecting national firms from foreign takeover. On the scope for national prohibition, the Commission have stated that national states' competition laws must respect the primacy of EC law, but that this did not mean that Member States could not apply laws that laid down rules on other matters, eg. conditions for banking, or to deal with unfriendly takeovers, provided that these laws were in conformity with EC law. This issue is a key one for many Member States, and further discussion has been set aside for the future.

On other issues, discussion is at a very early stage. There is general agreement that below the threshold of the regulation, Commission powers under Articles 85 and 86 should be minimised; the French in particular attach importance to this. There are legal limits to this process - a regulation cannot disapply the Treaty. But it should be possible, given the political will on all sides, to reduce the effective application of Articles 85 and 86 to mergers. On the criteria for intervention, the French have challenged the philosophical basis of the Commission's draft, and oppose the concept of mergers being prohibited simply because they create or enhance a dominant position.

It is clear from this that it will be some considerable while before a proposal emerges which is clear enough on these key issues to enable us to take a decision of principle for or against a regulation. Our position should remain one of open-mindedness about the principle, combined with continued willingness to contribute constructively to discussions.

Our position at the Council meeting on 22 June should be to maintain our current line. It is premature for the Council to be asked to take firm decisions, either on the regulation as a



the department for Enterprise

whole or on any significant aspect of it. We should make clear that the various issues which are still subject to discussion are closely interrelated, and it is not possible to reach a firm position on any one of them until the shape of the regulation as a whole is clear.

It is possible that the Presidency will nevertheless put before the Council the three questions covered at COREPER, and ask for Member States' views on 1) the primacy of the EC regime over national controls; 2) the principle of compulsory pre-notification; and 3) the criteria for intervention. I propose that the UK delegate should make clear that we regard such questions as premature, and cannot take a firm position; but that he should indicate the nature of our concerns in very general terms, on the lines of the COREPER discussion.

*Law,
David*

FROM: R E ADAMS

DATE: 15 June 1988

1. MRS CASE
2. CHANCELLOR

ARZ
15/6

cc Chief Secretary
Sir P Middleton
Mr Anson
Mr Phillips
Mr R Allen
Mr Revolta or
Mr Bolt
Mr Parkinson
Mr Ramsden
Mr Call

BRIEF
ON
HVED
LETTER

OD(E)16 JUNE: RIGHTS OF RESIDENCE

You are attending OD(E) at 8.45am on 16 June. The meeting will consider preparations for the Hanover European Council. This submission provides a brief on the letter by the Home Secretary on the proposed Directive on the Rights of Residence.

Background

2. The proposed Directive would grant a right of residence in any member state to economically inactive nationals of any other member state. The principle restriction is that these people should not have access to public funds in the host state.

3. Chancellor Kohl, in his letter of 20 May included in his list of priorities for the Hanover European Council the question of right of residence. The Prime Minister has asked for a paper setting out the Government's position as she is not clear about the need for such a measure. The Treasury's view has been that we are not convinced of the case for the Directive but could accept a student only Directive as a compromise.

The Home Office Paper

4. The Home Office paper notes that we do not accept that economically inactive Community Citizens come within the scope of the Treaty although this view seems to be shared only by Denmark. The Council of Ministers' legal service has asserted that the Directive would be intra-vires. The acceptability of the Directive is questionable given the doubts about the

Community competence in this area and about the provision on non-recourse to public funds. The latter is a particular concern given that there is a danger that the European Court of Justice could strike out the provision as discriminatory. The option of a students-only Directive which we have supported earlier seems no longer practicable. In the unlikely event that the Commission accepted it, they would return with proposals to cover other economically inactive nationals. The attraction of the Directive as excluding EC students from the UK maintenance grants only applies if the provision on non-recourse to public funds could be maintained.

Objectives

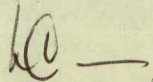
5. We suggest that your objective should be to avoid UK commitments to the Directive unless the two objections on competence and non-recourse to public funds can be met.

Line to take

6. You may draw on the following points in discussion:

- As Mr Hurd's letter says, it is far from clear that a Directive covering the economically inactive is needed.
- Mr Hurd raises two key doubts about the acceptability of the Directive regarding the extension of Community competence and non-recourse to public funds. We should clearly not agree to a Directive if the key provision on non-recourse to public funds could be struck out as discriminatory or if a concession on competence facilitates the extension of competence to other areas. More work should be done to assess the full implications of the cession of competence. Also, the Law Officers' advice should be obtained on the risk that the prohibition of non-recourse to public funds could be struck out. Until there are satisfactory answers on these issues it would not be prudent to endorse the principle of a Directive on this subject.

7. This submission has been agreed with EC, ST and HE2.


R E ADAMS

September meetings, I proposed that the poorest, most heavily indebted countries, particularly in sub-Saharan Africa, should be given special access to any extra SAF funds. We have been following this up with the Fund Staff and in the Fund Board, and I hope you will be able to support us there too.

It really does seem to be essential that we act now to help these countries. There is no prospect whatsoever that they can get out of their present mess by their own efforts alone. If we do not provide some sort of help for them to do so, there is a real danger they will simply default on their debts and abandon any attempt at adjustment. We would then lose what leverage we have to persuade them to follow sensible policies.

NIGEL LAWSON

→ let simply default
and/or
major default.

*amp.*

FROM: A C S ALLAN

DATE: 15 June 1988

MRS LOMAX

cc Sir P Middleton
Mr Monck
Mr Scholar
Mrs Brown
Miss Noble
Mr Neilson
Mr Cropper
*Mr Burr***LUNCH AT MORGAN GRENFELL: 9 JUNE**

The Chancellor saw your note of your lunch at Morgan Grenfell on 9 June. He strongly agrees with Craven's point that the most important step to open up other markets in corporate control would be to force German banks to divest themselves of industrial shareholdings. Indeed, this should be a condition of our acceptance of any EC mergers directive.

ACS

A C S ALLAN

FOR CABINET
FOLDER

FROM: R I G ALLEN
DATE: 12 JULY 1988

CHANCELLOR

- cc Paymaster General
- Economic Secretary
- Sir P Middleton
- Sir G Littler (or)
- Mr Lankester
- Mr Scholar
- Mr Peretz
- Mr Mercer
- Mr Mortimer
- Mr Parkinson
- Mr Tyrie

CABINET: 14 JULY

There are a couple of matters on the EC front which (time permitting) you might want to mention at Cabinet on Thursday: the outcome of yesterday's ECOFIN meeting and Second Reading of the European Communities (Finance) Bill.

in Foreign Secy?

ECOFIN

2. You might want to make the following points:

- the Economic Secretary represented the UK: useful progress was made on several fronts;
- at lunch, Delors announced that the Committee, under his chairmanship, established at the Hanover Council to review progress towards monetary union, would hold its first meeting on 13 September in Basle. Arrangements for the Secretariat, working methods and programme would be settled at that meeting. The Committee would aim to report to Finance Ministers by mid-April 1989. Rومeliotis concluded that it would be helpful if Ministers could be kept in touch with progress: Delors might report orally to ECOFIN from time to time;

- the Council broadly endorsed the Commission's second quarterly review of the economic situation;
- there was a procedural discussion on the Commission's indirect tax approximation proposals. Lord Cockfield listed a number of questions on which the September informal ECOFIN could concentrate, but the Greek Presidency confirmed that Ministers would wish to have a wider-ranging discussion (based on the recent report of the High Level Group). Your present inclination is to submit a paper on the UK (market-based) approach to tax approximation prior to the September meeting;
- the Council agreed a common position by qualified majority on the major shareholdings directive which sets requirements for the disclosure of shareholdings by those who acquire or dispose of shares in EC companies. The UK supported the proposal which improves the transparency of share dealings in the Community.

European Communities (Finance) Bill

3. Points to make are as follows:

- there was a Second Reading Debate on this Bill on 11 July: the Foreign Secretary opened and the Paymaster General wound;
- the Bill seeks Parliamentary approval for the new Own Resources Decision, designed to provide finance for the Community Budget until 1992 at least, and for making payments under the inter-governmental agreement (IGA) to help finance the 1988 budget. The Bill, when passed, will add the Own Resources Decision and the IGA to the list of Treaties in Section 1(2) of the European Communities Act, 1972. The Commission are expected to make the first requests for IGA payments from 1 August;

- the Bill is part of a wider package of measures - agreed in outline at the Brussels European Council in February - which will provide for improved and legally binding budget discipline both for agricultural and non-agricultural spending. The Fontainebleau abatement system has been preserved intact;
- the Bill passed by a comfortable majority (323-195 on the Motion for Second Reading), 12 Conservatives voting with the Opposition. The remaining stages will not be completed until after the Recess. IGA payments cannot be made from the Consolidated Fund until after Royal Assent but, in the interim, the way is now clear to make payments from the Contingencies Fund.

12A

R I G ALLEN

COMMISSION
OF THE
EUROPEAN COMMUNITIES



Brussels, 02 VIII. 1988

SG (88) D/ 9536

Mr Nigel LAWSON
Chancellor of the Exchequer
Parliament Street
GB-SWIP 3AJ LONDON

CH/EXCHEQUER	
REC.	08 AUG 1988 ✓ 88
ACTION	CST
COPIES TO	

Dear Minister

State aid for regional development is given a special place in Articles 92-93 of the EEC Treaty. When assessing whether regional aid proposals can be considered to be compatible with the common market the Commission is required to safeguard against distortions of competition insofar as trade between Member States may be affected. In this context, it will be recalled that Article 130 B of the EEC Treaty requires that implementation of the common policies and of the internal market, including competition policy, should contribute to the achievement of promoting overall harmonious development of the Community, the strengthening of its economic and social cohesion, and the reduction of disparities between the various regions and the backwardness of the least-favoured areas. In this connection, the Commission applies the principle that regions which are clearly demonstrated on the basis of objective criteria to be in need of state aid should receive such aid in proportion to the gravity of the regional imbalances they face, having regard both to the national and Community context and to the distortions of competition which are caused by such aid. Since the early 1970s the Commission has regularly issued Communications to explain to Member States and to the general public the principles it follows in evaluating national regional aid proposals.

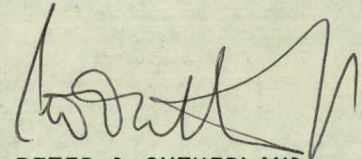
Regional aid in most parts of the Community is assessed on the basis of Article 92.3(c) and the Commission has developed an objective method to assist it in its task of evaluating these aids with a view to ensuring that they do not distort competition or affect trading conditions to an extent contrary to the common interest. This method has been used in various cases and both the method and the results have been described to your authorities in many letters and decisions in recent years. Nonetheless, I believe it is useful in the interests of transparency to provide a general explanation of the method and the underlying philosophy. The attached Communication contains the thresholds currently in use and a list of regions where

regional aid is currently approved under Article 92.3(c). It should be noted that this list may be updated regularly to reflect structural socio-economic developments.

In the light of the successive enlargements of the Community and the provisions of the Single European Act on economic and social cohesion, the Commission has also decided to develop a method for the application of Article 92.3(a) to regional aid in the poorest regions of the Community in order to take account of their specific structural handicaps. The attached Communication explains the Commission's method together with the list of regions established by the Commission as eligible for the application of Article 92.3(a) of the EEC Treaty.

Taken together both methods constitute a comprehensive framework for the assessment of national regional aid throughout the Community. In order to ensure the widest possible public understanding of the methods, the attached Communication will shortly be published in the Official Journal of the Community.

Yours faithfully



PETER D SUTHERLAND

Member of the Commission

Encs

COMMUNICATION OF THE COMMISSION ON THE METHOD FOR THE APPLICATION OF
ARTICLE 92(3)(a) AND (c) TO REGIONAL AIDS

On 21 December 1978 the Commission informed the Member States of the principles which, in accordance with the powers vested in the Commission by Article 92 et seq. of the EEC Treaty, it would apply to regional aid systems in force or to be established in the regions of the Community. These principles were set out in the form of a Communication which was published in the Official Journal of the European Communities¹. This communication partly redefined the principles of coordination already established² and amended and supplemented the methods for their implementation, including the common method of evaluation of the intensity of aid.

In its 1979 Communication the Commission established a number of differentiated ceilings of aid intensity for various categories of region in order to avoid the bidding up of aid levels in the wake of the removal of customs and trade barriers inside the Common Market. The very nature of regional aid requires that it be awarded selectively. Many regions in the Community do not need regional aid. Regions that are shown to need assistance should receive aid in proportion to the gravity of the regional imbalances they face. The ceilings set out in the Communication are intended to act as maximum limits reflecting the nature and gravity of regional problems across the Community. Within these parameters the Member States notify proposed levels of regional aid to the Commission, often at lower levels, which subsequently approves or amends them in its decisions under Articles 92/93.

Article 92(3) provides two distinct possibilities where the Commission may consider regional aid compatible with the common market - Articles 92(3)(a) and (c) which apply to different degrees of

¹ OJ No C 31, 3.2.1979.

² Communications of 26 February 1975 and 23 June 1971.

regional disadvantage. The Commission adopted a method for the application of Article 92(3)(c) in 1983 and this method has been used for all the decisions which the Commission has taken since then.

Only occasional use has been made of Article 92(3)(a) when approving national regional aids in the past. However, successive enlargements of the Community have broadened the range of its regional diversity and confirmed the need to develop new policy instruments for the control of regional aid. At the same time Article 130 of the Single European Act gives a new impetus to greater economic and social cohesion and provides that in particular the Community shall aim at reducing disparities between various regions and the backwardness of the least favoured regions. In response to these needs the Commission has in 1987 adopted a method for the application of Article 92(3)(a) to national regional aids.

In order to promote a greater understanding and transparency of the decisions taken by the Commission under Articles 92/93 with respect to national regional aid systems, the Commission, with the support of the European Parliament, has decided to publish its methods of assessment which are described below.

I.

Method for the application of Article 92(3)(a) to national regional aids

Article 92(3)(a) provides that aid to promote the economic development of areas where the standard of living is abnormally low or where there is serious underemployment may be considered compatible with the common market.

1. Principles of Method

In applying Article 92(3)(a) the Commission bases its decisions on a method of assessing the relative level of development of different regions compared to the Community average. The method is based on the following principles:

- The socio-economic situation of Article 92(3)(a) regions ^{is} assessed primarily by reference to per capita GDP/PPS using the Community index for the region.
- Regions are assessed on the basis of NUTS³ Level III geographical units.
- The relative level of regional development is compared to the Community average.
- Regions to be classified as Article 92(3)(a) regions are those regions where a majority of the level III regions located in a level II region have a GDP/PPS threshold of 75 or lower thus indicating an abnormally low standard of living and serious underemployment.

2. Choice of Indicators

The method uses GDP per head measured in purchasing power standards (PPS), a measure based on a comparison of the prices in the Member States for the same sample of production and services. This provides a method of measuring living standards which allows for differences in the cost of living between the regions of different Member States.

Under-employment concerns all those who are not fully employed in some way. In general, where under-employment is great productive output will tend to be low and as such will also be reflected in GDP data. For the areas concerned - predominantly rural areas with an under-developed industrial base or a limited level of service activities - unemployment statistics are not a satisfactory measure of under-employment. The general low level of technology in the industrial infrastructure and the unsophisticated range of service activities lead to a relative emphasis on labour in the productive process. This can mask a significant level of under-employment which remains unrevealed by unemployment data.

³

Nomenclature of Statistical Territorial Units. There are 822 NUTS Level III regions in the Community of twelve.

3. Geographical Unit

The basic geographical unit used in the analysis is the level III region. However, for the purposes of determining eligibility as a 92(3)(a) region reference is made to the situation of the majority of level III regions in the larger (level II) region. This allows the situation of an individual level III region which differs sharply from the surrounding regions to be taken into account. If a relatively favourable region is located in an otherwise backward area, it can be included under 92(3)(a) provided a majority of the level III regions in the corresponding level II region satisfy^{ies} the GDP/PPS threshold requirement. On the other hand, however, a more disadvantaged region will be excluded if this requirement is not satisfied.

A list of the regions selected by this method is attached in Annex I. It can be seen that these regions lie mainly on the Southern and Western periphery of the Community.

4. Exceptional Regions

In addition to the regions selected by the above method, two further regions have been added to the list in order to take account of their exceptional situations. One is Northern Ireland because of its particularly difficult situation. The other is Teruel which, although adjacent to other more developed regions, is one of the most under-developed regions in Spain, is very sparsely populated, has a high level of dependence on agriculture and which neighbours other 92(3)(a) regions.

5. Aid ceilings

The 1979 Principles of Coordination set 75 % net grant equivalent of initial investment as the highest permissible aid intensity. It has therefore been decided to fix 75 % net grant equivalent as the ceiling on aid intensity which will apply in 92(3)(a) areas.

The Principles of Coordination⁴ provide that ceilings of aid

⁴ OJ No C 31, 3.2.1979, Point 9.(iv).

intensity must be adapted according to the kind, intensity or urgency of the regional problems. Whilst all 92(3)(a) regions have severe regional problems relative to a Community standard, significant disparities in living standards and under-employment may exist between regions inside the same Member State.

Consequently, the Commission will use its discretionary power to require a regional differentiation in aid intensity below 75% NGE. As such the relevant ceiling of aid intensity for a regional aid system will be the maximum notified by the Member State to the Commission in accordance with Article 93(3) and approved by the Commission when making its subsequent decision under Articles 92/3.

6. The range of aid instruments required to promote regional development in Article 92(3)(a) areas

Regional aids in the Community can be broadly divided into two categories: aid linked to initial investment or job creation and those of a continuing character, designed to overcome particular or permanent disadvantages (operating aid).

Given the severe disadvantages of 92(3)(a) regions, aids linked to initial investment may not always be suitable or sufficient to attract investment into the region or to allow indigenous economic activity to develop. Companies located in these regions typically face additional cost burdens because of location and infrastructure deficiencies which can permanently hamper their competitiveness. Under certain conditions, some operating aids can bring a positive benefit to the poorest parts of the Community. Firstly, some regions may experience such serious cost and infrastructural disadvantages that even the maintenance of existing investment is extremely difficult. In the early stages of development, maintenance of existing investment, perhaps on a short to medium-term basis, can form a sine qua non for the attraction of new investment which will help in turn to develop the region. In many Article 92(3)(a) regions, a broadly-based industrial structure does not yet exist. Most of the companies are very small, they operate in traditional sec-

tors and will not expand without an outside stimulus. In such difficult environments, it may be justified to permit certain types of assistance such as marketing aids in order to enable companies in these regions to participate effectively in the Community's Internal Market, both as producers and consumers. Without them, the opportunities offered by the Internal Market may remain out of reach. Secondly, some regions may suffer from such severe structural disadvantages, e.g. caused by remote location, that they are almost insuperable. As a practical example, island regions in peripheral locations can suffer a permanent cost disadvantage with respect to trade because of the burden of additional transportation expenses. The same holds true for communication costs. Operating aids of this type can foster closer links between the least-developed regions and the central regions, thereby promoting overall economic integration in the Community. In recognition of the special difficulties of these regions, the Commission may, by way of derogation, authorise certain operating aids in Article 92(3)(a) regions under the following conditions:

- that the aid is limited in time and designed to overcome the structural handicaps of enterprises located in Article 92(3)(a) regions;
- that aid be designed to promote a durable and balanced development of economic activity and not give rise to a sectoral overcapacity at the Community level such that the resulting Community sectoral problem produced is more serious than the original regional problem; in this context a sectoral approach is required and in particular the Community rules, directives and guidelines applicable to certain industrial (steel, shipbuilding, synthetic fibres, textiles and clothing) and agricultural sectors, and those concerning certain industrial enterprises involving the transformation of agricultural products are to be observed;
- that such aids are not granted in violation of the specific rules on aid granted to companies in difficulty;

- that an annual report on their application is sent to the Commission, indicating total expenditure (or loss of revenue in the case of tax concessions and social security reductions) by type of aid and an indication of the sectors concerned;
- that aids designed to promote exports to other Member States are excluded.

II.

Method for the application of Article 92(3)(c) to national regional aids

Article 92(3)(c) provides that aid to facilitate the development of certain economic areas, where such aid does not adversely affect trading conditions to an extent contrary to the common interest may be considered compatible with the common market.

1. Principles of Method

In applying Article 92(3)(c), the Commission bases its decisions on a method which allows the socio-economic situation of a region to be examined, both in its national and its Community context. This enables the Commission, in the Community interest, to verify that a significant regional disparity exists and, if so, to authorize the Member State concerned, irrespective of its level of economic development, to pursue a national regional policy. The Commission's decisions are based on the following principles:

- Regions are assessed on the basis of the NUTS level III geographical unit (in justified exceptional circumstances a smaller unit may be used).
- In the first stage of analysis the socio-economic situation of a region is assessed on the basis of two alternative criteria: per capita gross domestic product (GDP) or gross value added at factor cost (GVA) and structural unemployment.

- A second stage of analysis considering other relevant indicators completes the first stage.

2. First Stage of Analysis

The socio-economic situation of a region is considered in relation to certain thresholds which are calculated in two steps. The first step relates to a minimum regional disparity in a national context whilst in the second step this minimum required disparity is adjusted to take account of the situation of those Member States which have a more favourable level of development in a Community context.

Since aid can only be accepted when it facilitates the development of certain economic areas, this requires a certain backwardness of the region within the Member State, i.e. a minimum negative regional disparity in the national context not withstanding the relative situation of the Member State within the Community. This minimum regional disparity in the national context is considered to be satisfied for the region, if:

- income as measured by per capita GDP/GVA (Gross Domestic Product / Gross Value Added) is at least 15% below, or/and
- structural unemployment is at least 10% above

the Member State average. This is achieved if the GDP/GVA index for the region is not above a basic threshold of 85 or/and if the structural unemployment index is not below a basic threshold of 110. In each case the index for the Member State equals 100.

A relatively more flexible threshold for structural unemployment has been fixed to take into account the important need to reduce unemployment.

At the same time aids can only be accepted when they do not adversely affect trading conditions to an extent contrary to the common interest. Since it is against the common interest to increase the existing differences between regions and the back-

wardness of less favoured areas, the Commission has determined that for aid to be granted to regions in Member States for which the indicator shows a more favourable situation than the Community average, the national regional disparities of such regions must be correspondingly greater.

It is therefore necessary to establish the relative position of the Member States within the Community. In measuring this position, two European indices are calculated for each Member State. They express the Member State's position with respect to income and to structural unemployment as a percentage of the corresponding Community average. These indices are calculated as average values over a five-year period and are updated annually. In the second step the European index is used to adjust the respective basic threshold for each Member State which is better off than the Community average, according to its relative position within the Community, by applying the following formula :

$$\left(\text{basic threshold} + \frac{\text{basic threshold} \times 100}{\text{European index}} \right) : 2 = \text{modified threshold}$$

Since the situation of each region is examined in the first place in the national context, the construction of the formula attenuates the impact of the European index. The better the situation of a Member State compared with the Community average, the more important must be the disparity of a region within the national context in order to justify the award of aid.

The thresholds in force on 1 November 1987 are shown in Annex II. Annex III contains a list of regions currently approved for regional aid under Article 92.3(c) together with the maximum intensities approved by the Commission for those regions.

In order to avoid the situation where the structural unemployment threshold becomes too rigorous, a maximum required disparity corresponding to an index of 145 is fixed. This facilitates the award of aid in regions with a very difficult unemployment

situation in a national context even though the same situation may not be so unfavourable in a Community context. Given the smaller variation in the threshold for GDP/GVA it has not been necessary to establish a maximum required disparity.

3. Second Stage of Analysis

The first stage of analysis outlined above permits a basic examination of the socio-economic situation of a region in its national and Community context in terms of unemployment and income levels. However, many other economic indicators can also be used to bring into more precise focus the socio-economic situation of a particular region. Therefore, meeting the relevant threshold in the first stage does not automatically qualify a region to receive state aid. The first basic stage of analysis must be complemented by a second stage which allows other relevant indicators based on available Community and national statistical data to be taken into account. These other relevant indicators may include the trend and structure of unemployment, the development of employment, net migration, demographic pressure, population density, activity rates, productivity, the structure of economic activity (in particular the importance of declining sectors), investment, geographic situation and topography and infrastructure. In some circumstances, and especially for regions which are at the margin of the thresholds applied in the first stage of analysis, it is possible that the second stage may reveal an adequate justification for regional aid even in regions which do not fully satisfy the thresholds established in the course of the first stage.

4. Ceilings of Aid Intensity

Differentiated ceilings of aid intensity are established in accordance with the principle fixed at Point 9.(iv). of the Coordination Principles⁵. This provides that aid intensity must be adapted according to the kind, intensity or urgency of

⁵ OJ No C 31, 3.2.1979.

regional problems, as has been envisaged by the different ceilings fixed under Point 2 of the Coordination Principles (20, 25, 30 %).

In practice the ceilings approved by the Commission when taking Article 92/3 decisions are often lower, and frequently significantly lower, than the above maxima.

List of Article 92(3)(a) Regions

GREECE)	
IRELAND)	ALL of Member State
PORTUGAL)	
FRANCE	Overseas Departments	Guadeloupe Guyane Martinique Reunion
ITALY	Calabria	Reggio di Calabria Cosenza Catanzaro
	Basilicata	Potenza Matera
	Sicily	Agrigento Enna Palermo Messina Trapani Caltanissetta Catania Ragusa Siracusa
	Puglia	Brindisi Lecce Foggia Bari Taranto
	Campania	Napoli Benevento Avellino Salerno Caserta
	Molise	Campobasso Isernia
	Sardinia	Nuoro Oristano Cagliari Sassari
	Abruzzi	Teramo L'Aquila Pescara Chieti

SPAIN Extremadura

Badajoz
Caceres

Andalucia

Granada
Cordoba
Jaen
Sevilla
Almeria
Malaga
Cadiz
Huelva

Castilla Mancha

Albacete
Cuenca
Toledo
Cuidad-Real
Guadalajara

Galicia

Orense
Pontevedra
Lugo
La Coruna

Castilla Leon

Zamora
Avila
Salamanca
Soria
Leon
Palencia
Valladolid
Segovia
Burgos

Murcia

Canarias

Las Palmas
Tenerife

Teruel

Ceuta and Melilla

United Kingdom

Northern Ireland

ANNEX II

Thresholds Used by the Commission ^{at} on 1 October 1987

	<u>GDP/GVA</u> <u>per head</u>	<u>Structural</u> <u>Unemployment</u>
B	82	110
F	77	118
NL	79	110
DK	73	121
D	74	136
UK	83	110
I	85	116
IRL	85	110
L	77	145
GR	85	128
ESP	85	110
POR	85	125

REGIONS APPROVED FOR REGIONAL AID UNDER ARTICLE 92.3 c AT 1 OCTOBER 1987

NOTE : UNLESS OTHERWISE INDICATED AID INTENSITY CEILINGS ARE GIVEN IN GROSS TERMS IN FRANCE, GERMANY, LUXEMBURG AND THE NETHERLANDS AND IN NET TERMS IN BELGIUM, DENMARK, ITALY, SPAIN AND THE UNITED-KINGDOM.

1. FRANCE

=====

A. AID INTENSITY LIMITED TO 25 % OR 50000 FF PER JOB CREATED

CREUSE, CANTAL, AUDE, LOZERE, PYRENEES-ORIENTALES, HAUTE-CORSE, CORSE DU SUD.
PARTS OF ARDENNES, NORD, PAS-DE-CALAIS, MEURTHE-ET-MOSELLE, MEUSE, MOSELLE, VOSGES,
BAS-RHIN, HAUT-RHIN, LOIRE-ATLANTIQUE, COTES-DU-NORD, FINISTERE, ILLE-ET-VILAINE,
MORBIHAN, CHARENTE-MARITIME, PYRENEES-ATLANTIQUES, ARIEGE, AVEYRON, LOT, TARN,
CORREZE, HAUTE-VIENNE, ARDECHE, LOIRE, ALLIER, HAUTE-LOIRE, PUY-DE-DOME, GARD,
HERAULT.

B. AID INTENSITY LIMITED TO 17 % OR 35000 FF PER JOB CREATED

CALVADOS, MANCHE, MAINE-ET-LOIRE, MAYENNE, VENDEE, CHARENTE, DEUX-SEVRES, VIENNE,
DORDOGNE, LANDES, LOT-ET-GARONNE, GERS, HAUTES-PYRENEES, TARN-ET-GARONNE.
PARTS OF ARDENNES, HAUTE-MARNE, AISNE, SOMME, SEINE-MARITIME, CHER, INDRE, ORNE,
NORD, PAS-DE-CALAIS, MEURTHE-ET-MOSELLE, MEUSE, MOSELLE, VOSGES, HAUT-RHIN,
HAUTE-SAONE, LOIRE-ATLANTIQUE, COTES-DU-NORD, FINISTERE, ILLE-ET-VILAINE, MORBI-
HAN, CHARENTE-MARITIME, GIRONDE, PYRENEES-ATLANTIQUES, ARIEGE, AVEYRON, HAUTE-GA-
RONNE, LOT, TARN, CORREZE, HAUTE-VIENNE, ARDECHE, LOIRE, ALLIER, HAUTE-LOIRE,
PUY-DE-DOME, GARD, HERAULT, BOUCHES-DU-RHONE, VAR.

2. ITALY (1)

=====

(until 31.12.1987)

A. AID INTENSITY LIMITED TO 15 %

PARTS OF TOSCANA, MARCHE, UMBRIA, LAZIO.

B. AID INTENSITY LIMITED TO 8 %

PARTS OF PIEMONTE, VALLE D'AOSTA, LIGURIA, LOMBARDIA, TRENTINO-ALTO ADIGE,
VENETO, FRIULI-VENEZIA GIULIA, EMILIA-ROMAGNA.

C. AID INTENSITY LIMITED TO 7 %

PARTS OF TOSCANA, MARCHE, UMBRIA, LAZIO, PIEMONTE, VALLE D'AOSTA, LIGURIA, LOM-
BARDIA, TRENTINO-ALTO ADIGE, VENETO, FRIULI-VENEZIA GIULIA, EMILIA-ROMAGNA.

3. THE NETHERLANDS

=====

A. AID INTENSITY LIMITED TO 20 % NET

LIJMEGEN, ZUID-OOST DRENTHE, DELFZIJL.
PARTS OF OOST-GRONINGEN, ZUID-LIMBURG.

B.AID INTENSITY LIMITED TO 25 %

OVERIG GRONINGEN, TWENTE, HELMOND, LELYSTAD, TILBURG, DEN BOSCH, MAASTRICHT,
VALKENBURG, SITTARD.
PARTS OF OOST-GRONINGEN, NOORD-FRIESLAND, ZUID-OOST FRIESLAND.

C.AID INTENSITY LIMITED TO 15 %

ARNHEM, ZUID-WEST FRIESLAND.
PARTS OF NOORD LIMBURG, NOORD-FRIESLAND, ZUIDOOST-FRIESLAND, NOORD OVERIJSEL.

4. BELGIUM

=====

A.AID INTENSITY LIMITED TO 20 % OR 3500 ECU PER JOB CREATED WITH A MAX OF 25 %

HASSELT, MAASEIK, TONGEREN, LIEGE, CHARLEROI, MONS.
PARTS OF SOIGNIES, THUIN.

B.AID INTENSITY LIMITED TO 15 % OR 2500 ECU PER JOB CREATED WITH A MAX OF 20 %

TURNHOUT, DIKSMUIDE, VEURNE, IEPER, BASTOGNE, MARCHE-EN-FAMENNE, NEUFCHATEAU,
DINANT, PHILIPPEVILLE, ARLON, VIRTON.
PARTS OF THUIN, HUY, VERVIERS, NAMUR.

5. LUXEMBURG

=====

A.AID INTENSITY LIMITED TO 25 %

PARTS OF ESCH-SUR-ALZETTE, CAPELLEN.

B.AID INTENSITY LIMITED TO 20 %

PARTS OF ESCH-SUR-ALZETTE, CAPELLEN.

C.AID INTENSITY LIMITED TO 17.5 %

LUXEMBURG, GREVENMACHER, WILTZ, CLERVAUX.

6. UNITED-KINGDOM

=====

A.AID INTENSITY LIMITED TO 75 % OR 10000 ECU PER JOB CREATED (FOR ENTERPRISES
WITH NO MORE THAN 10 EMPLOYEES AND WHERE FIXED INVESTMENT DOES NOT EXCEED
600000 ECU)

SHETLAND ISLANDS, ORKNEY ISLANDS, THURSO, WICK, SUTHERLAND, INVERGORDON AND DINGWALL,
SKYE AND WESTER ROSS, INVERNESS, FORRES AND UPPER MORAY, BADENOCH, LOCHABER, WES-
TERN ISLES, OBAN, ISLAY/MID ARGYLL, DUNOON AND BUTE, CAMELTOWN.

B.AID INTENSITY LIMITED TO 30 % OR 5500 ECU PER JOB CREATED WITH A MAX OF 40 %

ENGLAND : LIVERPOOL, WIDNES AND RUNCORN, WIGAN AND ST HELENS, WIRRAL AND CHESTER
WORKINGTON, BISHOP AUCKLAND, HARTLEPOOL, MIDDLEBROUGH, NEWCASTLE-UPON-
TYNE, SOUTH TYNESIDE, STOCKTON-ON-TEES, SUNDERLAND, ROTHERHAM AND MEX-
BOROUGH, SCUNTHORPE, WHITBY, CORBY, FALMOUTH, HELSTON, NEWQUAY, PENZAN-
CE AND ST YVES, REDRUTH AND CAMBORNE.

SCOTLAND: ARBROATH, BATHGATE, CUMNOCK AND SANQUHAR, DUMBARTON, DUNDEE, GLASGOW, GREENOCK, IRVINE, KILMARNOCK, LANARKSHIRE.

WALES : ABERDARE, CARDIGAN, EBBW VALE AND ABERGAVENNY, FLINT AND RHYL, HOLY-HEAD, LAMPETER AND ABERAERON, MERTHYR AND RHYMNEY, NEATH AND PORT TALBOT, PONTYPRIDD AND RHONDDA, SOUTH PEMBROKESHIRE, WREXHAM.

C.AID INTENSITY LIMITED TO 20 % OR 3500 ECU PER JOB CREATED WITH A MAX OF 25 %

ENGLAND : ACCRINGTON AND ROSSENDALE, BLACKBURN, BOLTON AND BURY, PART OF MANCHESTER, OLDHAM, ROCHDALE, DARLINGTON, DURHAM, MORPETH AND ASHINGTON, BARNSELY, BRADFORD, DONCASTER, GRIMSBY, HULL, SHEFFIELD, BIRMINGHAM, COVENTRY AND HINCKLEY, DUDLEY AND SANDWELL, KIDDERMINSTER, TELFORD AND BRIDGNORTH, WALSALL, WOLVERHAMPTON, GAINSBOROUGH, BODMIN AND LISKEARD, BUDE, CINDERFORD AND ROSS-ON-WYE, PLYMOUTH.

SCOTLAND: AYR, ALLOA, BADENOCH, CAMPPBELTOWN, DUNFERMLINE, DUNOON AND BUTE, FALKIRK, FORRES, GIRVAN, INVERGORDON AND DINGWALL, KIRKCALDY, LOCHABER, NEWTON STEWART, SKYE AND WESTER ROSS, STEWARTRY, STRANRAER, SUTHERLAND, WESTERN ISLES, WICK.

WALES : BANGOR AND CAERNARFON, BRIDGEND, CARDIFF, FISHGUARD, HAVERFORDWEST, LLANELLI, NEWPORT, PONTYPOOL AND CWMBRAN, PORTHMADOC AND FFESTINIOG, PWLLHELI, SWANSEA.

D.AID INTENSITY LIMITED TO 11 % WHERE AID DOES NOT EXCEED 100000 ECU

INNER URBAN AREAS OF HACKNEY, ISLINGTON, LAMBETH, BRENT, HAMMERSMITH AND FULHAM, LEEDS, LEICESTER, NOTTINGHAM, TOWER HAMLETS, WANDSWORTH, BURNLEY, EALING, GREENWICH, HARINGEY, LEWISHAM, NEWHAM, SOUTHWARK.

E.AID INTENSITY LIMITED TO 7.5 % OR 3500 ECU PER JOB CREATED WITH A MAX OF 11 %

ADMINISTRATIVE DISTRICTS OF CEREDIGION, MEIRIONNYDD, BRECKNOCK, MONTGOMERY, RADNOR.

7. DENMARK

A.AID INTENSITY LIMITED TO 25 % OR 4500 ECU PER JOB CREATED WITH A MAX OF 30 %

BORNHOLM, FEROE, SAMSO AND OTHER ISLANDS.
PARTS OF VIBORG, NORDJYLLAND.

B.AID INTENSITY LIMITED TO 20 % OR 2500 ECU PER JOB CREATED WITH A MAX OF 25 %

PARTS OF SONDERJYLLAND, LOLLAND, FYN OG LANGELAND.

C.AID INTENSITY LIMITED TO 17 % OR 3000 ECU PER JOB CREATED WITH A MAX OF 22 %

PARTS OF NORDJYLLAND, VIBORG, RINGKOBING, RIBE, SONDERJYLLAND, AARHUS.

8. SPAIN

A. AID INTENSITY LIMITED TO 45 %

PARTS OF MADRID, ASTURIAS.

B. AID INTENSITY LIMITED TO 30 %

CANTABRIA.

PARTS OF ALICANTE, CASTELLON, VALENCIA, ASTURIAS, ZARAGOZA, VIZCAYA, ALAVA.

C. AID INTENSITY LIMITED TO 20 %

GUIPUZCOA.

PARTS OF ZARAGOZA, VIZCAYA, ALAVA, HUESCA, NAVARRA, BARCELONA.

9. GERMANY (2)(3)

A. AID INTENSITY LIMITED TO 23 %

AMBERG, SCHWANDORF.

B. AID INTENSITY LIMITED TO 18 %

HEIDE-MELDORF, CUXHAVEN, BREMERHAVEN, WILHELMHAVEN, EMDEN-LEER, AMMERLAND-CLOPPENBURG, OLDENBURG, MEPPEN, NORDHORN, LINGEN, DETMOLD-LEMGO, STEINFURT, AHAUS, BOCHOLT, KLEVE-EMMERICH, RECKLINGHAUSEN, BRILON, ALSFELD-ZIEGENHAIN, DAUN, IDAR-OBERSTEIN, COCHEM-ZELL, TRIER, BITBURG-PRUM, SAARBRUCKEN, ROTHENBURG O.D.T., PIRMASENS, NORDFRIESLAND, STRAUBING, PASSAU.
PART OF LANDAU I.D.PF.

C. AID INTENSITY LIMITED TO 15 %

ST. E-BREMERVORDE, SYKE, UNTERWESER, BREMEN, ROTENBURG/WUEMME, FALLINGBOSTEL, GRAFSCHAFT DIEPHOLZ-VECHTE, NIENBURG-SCHAUMBURG, HAMELN, COESFELD, DUISBURG-OBERHAUSEN, BOCHUM, DORTMUND-LUDINGHAUSEN, SOEST, BAD KREUZNACH, ALZEY-WORMS, WEISSENBURG IN BAYERN, NEUMARKT I.D. OBERPFALZ, NORDLINGEN, ITZEHOE, SOLTAU, HOLZMINDEN-BOXTER, NEUSTADT A.D. SAALE, BAMBERG, WEIDEN I.D. OBERPFALZ, REGENSBURG.
PART OF OSNABRUCK.

D. AID INTENSITY LIMITED TO 12 %

FLensburg-SCHLESWIG, LUNEBURG, DEGBENDORF.

1) WITH EFFECT FROM 1 JANUARY 1988, NEARLY ALL REGIONAL AID IN CENTRE-NORTH ITALY HAS BEEN WITHDRAWN.

2) THE ZONENRANDGEBIET, BERLIN(WEST) AND THE LANDER REGIONAL SCHEMES ARE NOT INCLUDED IN THIS LIST.

3) WITH EFFECT FROM 1 JANUARY 1988

REGIONS APPROVED FOR REGIONAL AID UNDER ARTICLE 92.3 c AT 1 OCTOBER 1987

NOTE : UNLESS OTHERWISE INDICATED AID INTENSITY CEILINGS ARE GIVEN IN GROSS TERMS IN FRANCE, GERMANY, LUXEMBURG AND THE NETHERLANDS AND IN NET TERMS IN BELGIUM, DENMARK, ITALY, SPAIN AND THE UNITED-KINGDOM.

1. FRANCE

=====

A. AID INTENSITY LIMITED TO 25 % OR 50000 FF PER JOB CREATED

CREUSE, CANTAL, AUDE, LOZERE, PYRENEES-ORIENTALES, HAUTE-CORSE, CORSE DU SUD.
PARTS OF ARDENNES, NORD, PAS-DE-CALAIS, MEURTHE-ET-MOSELLE, MEUSE, MOSELLE, VOSGES,
BAS-RHIN, HAUT-RHIN, LOIRE-ATLANTIQUE, COTES-DU-NORD, FINISTERE, ILLE-ET-VILAINE,
MORBIHAN, CHARENTE-MARITIME, PYRENEES-ATLANTIQUES, ARIEGE, AVEYRON, LOT, TARN,
CORREZE, HAUTE-VIENNE, ARDECHE, LOIRE, ALLIER, HAUTE-LOIRE, PUY-DE-DOME, GARD,
HERAULT.

B. AID INTENSITY LIMITED TO 17 % OR 35000 FF PER JOB CREATED

CALVADOS, MANCHE, MAINE-ET-LOIRE, MAYENNE, VENDEE, CHARENTE, DEUX-SEVRES, VIENNE,
DORDOGNE, LANDES, LOT-ET-GARONNE, GERS, HAUTES-PYRENEES, TARN-ET-GARONNE.
PARTS OF ARDENNES, HAUTE-MARNE, AISNE, SOMME, SEINE-MARITIME, CHER, INDRE, ORNE,
NORD, PAS-DE-CALAIS, MEURTHE-ET-MOSELLE, MEUSE, MOSELLE, VOSGES, HAUT-RHIN,
HAUTE-SAONE, LOIRE-ATLANTIQUE, COTES-DU-NORD, FINISTERE, ILLE-ET-VILAINE, MORBI-
HAN, CHARENTE-MARITIME, GIRONDE, PYRENEES-ATLANTIQUES, ARIEGE, AVEYRON, HAUTE-GA-
RONNE, LOT, TARN, CORREZE, HAUTE-VIENNE, ARDECHE, LOIRE, ALLIER, HAUTE-LOIRE,
PUY-DE-DOME, GARD, HERAULT, BOUCHES-DU-RHONE, VAR.

2. ITALY (1)

=====

(Until 31.12.1987)

A. AID INTENSITY LIMITED TO 15 %

PARTS OF TOSCANA, MARCHE, UMBRIA, LAZIO.

B. AID INTENSITY LIMITED TO 8 %

PARTS OF PIEMONTE, VALLE D'AOSTA, LIGURIA, LOMBARDIA, TRENTINO-ALTO ADIGE,
VENETO, FRIULI-VENEZIA GIULIA, EMILIA-ROMAGNA.

C. AID INTENSITY LIMITED TO 7 %

PARTS OF TOSCANA, MARCHE, UMBRIA, LAZIO, PIEMONTE, VALLE D'AOSTA, LIGURIA, LOM-
BARDIA, TRENTINO-ALTO ADIGE, VENETO, FRIULI-VENEZIA GIULIA, EMILIA-ROMAGNA.

3. THE NETHERLANDS

=====

A. AID INTENSITY LIMITED TO 20 % NET

NIJMEGEN, ZUID-OOST DRENTHE, DELFZIJL.
PARTS OF OOST-GRONINGEN, ZUID-LIMBURG.

SCOTLAND: ARBROATH, BATHGATE, CUMNOCK AND SANQUHAR, DUMBARTON, DUNDEE, GLASGOW, GREENOCK, IRVINE, KILMARNOCK, LANARKSHIRE.

WALES : ABERDARE, CARDIGAN, EBBW VALE AND ABERGAVENNY, FLINT AND RHYL, HOLY-HEAD, LAMPETER AND ABERAERON, MERTHYR AND RHYMNEY, NEATH AND PORT TALBOT, PONTYPRIDD AND RHONDDA, SOUTH PEMBROKESHIRE, WREXHAM.

C.AID INTENSITY LIMITED TO 20 % OR 3500 ECU PER JOB CREATED WITH A MAX OF 25 %

ENGLAND : ACCRINGTON AND ROSSENDALE, BLACKBURN, BOLTON AND BURY, PART OF MANCHESTER, OLDHAM, ROCHDALE, DARLINGTON, DURHAM, MORPETH AND ASHINGTON, BARNSELY, BRADFORD, DONCASTER, GRIMSBY, HULL, SHEFFIELD, BIRMINGHAM, COVENTRY AND HINCKLEY, DUDLEY AND SANDWELL, KIDDERMINSTER, TELFORD AND BRIDGNORTH, WALSALL, WOLVERHAMPTON, GAINSBOROUGH, BODMIN AND LISKEARD, BUDE, CINDERFORD AND ROSS-ON-WYE, PLYMOUTH.

SCOTLAND: AYR, ALLOA, BADENOCH, CAMPPBELTOWN, DUNFERMLINE, DUNDOON AND BUTE, FALKIRK, FORRES, GIRVAN, INVERGORDON AND DINGWALL, KIRKCALDY, LOCHABER, NEWTON STEWART, SKYE AND WESTER ROSS, STEWARTRY, STRANRAER, SUTHERLAND, WESTERN ISLES, WICK.

WALES : BANGOR AND CAERNARFON, BRIDGEND, CARDIFF, FISHGUARD, HAVERFORDWEST, LLANELLI, NEWPORT, PONTYPOOL AND CWMBRAN, PORTHMADOC AND FFESTINIOG, PWLLHELI, SWANSEA.

D.AID INTENSITY LIMITED TO 11 % WHERE AID DOES NOT EXCEED 100000 ECU

INNER URBAN AREAS OF HACKNEY, ISLINGTON, LAMBETH, BRENT, HAMMERSMITH AND FULHAM, LEEDS, LEICESTER, NOTTINGHAM, TOWER HAMLETS, WANDSWORTH, BURNLEY, EALING, GREENWICH, HARINGEY, LEWISHAM, NEWHAM, SOUTHWARK.

E.AID INTENSITY LIMITED TO 7.5 % OR 3500 ECU PER JOB CREATED WITH A MAX OF 11 %

ADMINISTRATIVE DISTRICTS OF CEREDIGION, MEIRIONNYDD, BRECKNOCK, MONTGOMERY, RADNOR.

7. DENMARK

=====

A.AID INTENSITY LIMITED TO 25 % OR 4500 ECU PER JOB CREATED WITH A MAX OF 30 %

BORNHOLM, FEROE, SAMSO AND OTHER ISLANDS.
PARTS OF VIBORG, NORDJYLLAND.

B.AID INTENSITY LIMITED TO 20 % OR 2500 ECU PER JOB CREATED WITH A MAX OF 25 %

PARTS OF SONDERJYLLAND, LOLLAND, FYN OG LANGELAND.

C.AID INTENSITY LIMITED TO 17 % OR 3000 ECU PER JOB CREATED WITH A MAX OF 22 %

PARTS OF NORDJYLLAND, VIBORG, RINGKOBING, RIBE, SONDERJYLLAND, AARHUS.

8. SPAIN
=====

A.AID INTENSITY LIMITED TO 45 %

PARTS OF MADRID, ASTURIAS.

B.AID INTENSITY LIMITED TO 30 %

CANTABRIA.

PARTS OF ALICANTE, CASTELLON, VALENCIA, ASTURIAS, ZARAGOZA, VIZCAYA, ALAVA.

C.AID INTENSITY LIMITED TO 20 %

GUIPUZCOA.

PARTS OF ZARAGOZA, VIZCAYA, ALAVA, HUESCA, NAVARRA, BARCELONA.

9. GERMANY (2)(3)
=====

A.AID INTENSITY LIMITED TO 33 %

AMBERG, SCHWANDORF.

B.AID INTENSITY LIMITED TO 18 %

HEIDE-MELDORF, CUXHAVEN, BREMERHAVEN, WILHELMHAVEN, EMDEN-LEER, AMMERLAND-
CLOFFENBURG, OLDENBURG, MEPPEN, NORDHORN, LINGEN, DETMOLD-LEMGO, STEINFURT,
AHAUS, BOCHOLT, KLEVE-EMMERICH, RECKLINGHAUSEN, BRILON, ALSFELD-ZIEGENHAIN,
DAUN, IDAR-OBERSTEIN, COCHEM-ZELL, TRIER, BITBURG-PRUM, SAARBRUCKEN, ROTHENBURG
O.D.T., PIRMASENS, NORDFRIESLAND, STRAUBING, PASSAU.
PART OF LANDAU I.D.PF.

C.AID INTENSITY LIMITED TO 15 %

STADE-BREMERVORDE, SYKE, UNTERWESER, BREMEN, ROTENBURG/WUEMME, FALLINGBOSTEL,
GRAFSCHAFT DIEPHOLZ-VECHTE, NIENBURG-SCHAUMBURG, HAMELN, COESFELD, DUISBURG-OBER-
HAUSEN, BOCHUM, DORTMUND-LUDINGHAUSEN, SOEST, BAD KREUZNACH, ALZEY-WORMS, WEISSEN-
BURG IN BAYERN, NEUMARKT I.D. OBERPFALZ, NORDLINGEN, ITZEHOE, SOLTAU, HOLZMINDEN-
HOXTER, NEUSTADT A.D. SAALE, BAMBERG, WEIDEN I.D. OBERPFALZ, REGENSBURG.
PART OF OSNABRUCK.

D.AID INTENSITY LIMITED TO 12 %

FLENSBURG-SCHLESWIG, LUNEBURG, DEGGENDORF.

+++++
(1) WITH EFFECT FROM 1 JANUARY 1988, NEARLY ALL REGIONAL AID IN CENTRE-NORTH ITA-
LY HAS BEEN WITHDRAWN.

(2) THE ZONENRANDGEBIET, BERLIN(WEST) AND THE LANDER REGIONAL SCHEMES ARE NOT IN-
CLUDED IN THIS LIST.

(3) WITH EFFECT FROM 1. JANUARY 1988.

B.AID INTENSITY LIMITED TO 25 %

OVERIG GRONINGEN, TWENTE, HELMOND, LELYSTAD, GILBURG, DEN BOSCH, MAASTRICHT,
VALKENBURG, SITTARD.
PARTS OF OOST-GRONINGEN, NOORD-FRIESLAND, ZUID-OOST FRIESLAND.

C.AID INTENSITY LIMITED TO 15 %

ARNHEM, ZUID-WEST FRIESLAND.
PARTS OF NOORD LIMBURG, NOORD-FRIESLAND, ZUIDOOST-FRIESLAND, NOORD OVERIJSEL.

4. BELGIUM
=====

A.AID INTENSITY LIMITED TO 20 % OR 3500 ECU PER JOB CREATED WITH A MAX OF 25 %

HASSELT, MAASEIK, TONGEREN, LIEGE, CHARLEROI, MONS.
PARTS OF SOIGNIES, THUIN.

B.AID INTENSITY LIMITED TO 15 % OR 2500 ECU PER JOB CREATED WITH A MAX OF 20 %

TURNHOUT, DIKSMUIDE, VEURNE, IEPER, BASTOGNE, MARCHE-EN-FAMENNE, NEUFCHATEAU,
DINANT, PHILIPPEVILLE, ARLON, VIRTON.
PARTS OF THUIN, HUY, VERVIERS, NAMUR.

5. LUXEMBURG
=====

A.AID INTENSITY LIMITED TO 25 %

PARTS OF ESCH-SUR-ALZETTE, CAPELLEN.

B.AID INTENSITY LIMITED TO 20 %

PARTS OF ESCH-SUR-ALZETTE, CAPELLEN.

C.AID INTENSITY LIMITED TO 17.5 %

LUXEMBURG, GREVENMACHER, WILTZ, CLERVAUX.

6. UNITED-KINGDOM
=====

A.AID INTENSITY LIMITED TO 75 % OR 10000 ECU PER JOB CREATED (FOR ENTERPRISES
WITH NO MORE THAN 10 EMPLOYEES AND WHERE FIXED INVESTMENT DOES NOT EXCEED
600000 ECU)

SHETLAND ISLANDS, ORKNEY ISLANDS, THURSO, WICK, SUTHERLAND, INVERGORDON AND DINGWALL,
SKYE AND WESTER ROSS, INVERNESS, FORRES AND UPPER MURAY, BADENOCH, LOCHABER, WES-
TERN ISLES, OBAN, ISLAY/MID ARGYLL, DUNDOON AND BUTE, CAMELTOWN.

B.AID INTENSITY LIMITED TO 30 % OR 5500 ECU PER JOB CREATED WITH A MAX OF 40 %

ENGLAND : LIVERPOOL, WIDNES AND RUNCORN, WIGAN AND ST HELENS, WIRRAL AND CHESTER
WORKINGTON, BISHOP AUCKLAND, HARTLEPOOL, MIDDLESBROUGH, NEWCASTLE-UPON-
TYNE, SOUTH TYNESIDE, STOCKTON-ON-TEES, SUNDERLAND, ROTHERHAM AND MEX-
BOROUGH, SCUNTHORPE, WHITBY, CORBY, FALMOUTH, HELSTON, NEWQUAY, PENZAN-
CE AND ST YVES, REDRUTH AND CAMBORNE.

MERCER
20/10

ec2.ss/mcm/sf

FROM: M C MERCER
DATE: 20 OCTOBER 1988

I agree.

RA

27/10

- 1. MR R I G ALLEN
- 2. CHANCELLOR

- cc: Chief Secretary
- Paymaster General
- Sir P Middleton
- Sir G Littler
- Mr Lankester
- Mr Anson
- Mr Burgner
- Mr Turnbull
- Mr Edwards
- Mr MacAuslan
- Mr Potter
- Mr Evans
- Mr Towers
- Mrs Phillips

Oh. This looks v. bad.
 In the first instance, content for
 Mr Mercer to take the line at
 'X' (para. 8) at tomorrow's Hannay
 meeting?

20/10

Yes. This

proposed is not an unacceptably
 but outrageous in EC time, since the
 argument has always been that
 regional policy is for growth
 at a European level
 behind

EC STRUCTURAL FUNDS: ADDITIONALITY

In my submission of 18 October to the Chief Secretary I warned that there was a risk of the Council agreeing, by qualified majority, to include in the "horizontal regulation" on the structural funds a provision which could prejudice the application of the UK's policy on the additionality of EC receipts. Our fears have been confirmed by the outcome of yesterday's COREPER, and this submission invites you to consider the next steps.

2. The current position is that, despite Sir David Hannay's best efforts at COREPER, the FAC on Monday will be invited to reach a common position on the following text (Article 9(2) of the horizontal regulation):

"In establishing and implementing the Community support frameworks, the Commission and the Member States shall ensure that the increase in the appropriations for the Funds provided for in Article 12(2) of Regulation (EEC) No 2052/88 has a genuine additional economic impact in the regions concerned and results in at least an equivalent increase in the total volume of official structural aid (Community and national) in the Member State concerned, taking into account the macro-economic circumstances in which the funding takes place."

national level.
 I was glad to
 state this
 and will also
 mention to PM &
 about this.

behind

3. In line with the Chief Secretary's letter of 19 October, the UK has reserved its position on this text: so have Spain and Ireland. But this does not constitute a blocking minority and Sir David Hannay advises that we cannot expect to improve our position at the FAC (Mrs Chalker makes much the same point in her letter of 19 October to Mr Newton).

behind

4. The most obviously objectionable features of the text are that it would (a) give the Commission a legal right to get involved in setting the overall level of member states' public expenditure, and (b) run directly counter to the UK's policy that EC receipts should finance, rather than add to, planned public expenditure.

5. We have consulted the lawyers, at short notice, about how serious in practice the threat to our policy on additionality might be. They advise that the implications of the text are unclear - not least since it refers to the "increase in", rather than to the totality of structural fund appropriations - but that the Article could give the Commission a powerful legislative basis for seeking to undermine our policy (which they have been trying to do for some time, though without the help of legislation). It is difficult to predict precisely how the Commission might behave. However, we cannot discount the possibility that they may be able legitimately to withhold structural fund receipts from the UK on the grounds that we were not prepared to ensure (and presumably demonstrate) "at least an equivalent" increase in official structural aid (ie public expenditure).

6. Mr Turnbull shares our view that the consequences for the management and control of public expenditure are potentially very serious. The regulation would, inter alia, be inconsistent with the provisions we are seeking to build into the new local authority capital control regime: and it could set a precedent which, over time, might damage the EUROPE arrangements. The qualifying reference in the text to "taking into account the macro-economic circumstances in which the funding takes place" does not provide an adequate let-out for the UK.

7. In these circumstances, we and GEP believe that everything possible must be done to prevent the Council agreeing to the text

in its present form. If, as UKREP advise, there is no realistic prospect of amending the text at the FAC on Monday, we think that the first step should be to remove this particular item of business from Monday's agenda. That would give time for further consideration of tactical and substantive issues.

X | 8. We shall discuss all this with Sir D Hanney and others at tomorrow's weekly EC co-ordinating meeting in the Cabinet Office. Our present inclination, subject to your views, and to reports from the front, is to recommend that the Foreign Secretary be advised to intervene with the Presidency. The FCO's present view is that this might not be practicable because Sir Geoffrey Howe is abroad; and that action at a lower level may be sufficient.

9. Depending on the outcome of tomorrow's discussions you may wish to consider whether you should speak to other Finance Ministers: ^{it} is undesirable that legislation having such important implications for public expenditure should be decided without their being directly involved. Stoltenberg and Beregovoy are the obvious candidates. We would of course provide further briefing as necessary. But it is worth noting at this stage that the Germans, who were on our side until last Monday, now believe that the most important concern is to ensure that southern member states do not simply pocket additional structural fund spending. As we understand the position, Genscher has prevailed over Stoltenberg. The French have never supported us on this issue and are probably a lost cause.

10. Given the potential seriousness of the public expenditure risk, you may wish to consider whether the Prime Minister should be alerted.

M. C. Mercer

M C MERCER

CONFIDENTIAL

FROM: R I G ALLEN
 DATE: 21 October 1988

CHANCELLOR OF THE EXCHEQUER

c c PS/Chief Secretary
 PS/Paymaster General
 Sir P Middleton
 Sir G Littler
 Mr Lankester
 Mr Anson
 Mr Burgner
 Mr Turnbull
 Mr A J C Edwards
 Mr MacAuslan
 Mr Potter
 Mr Evans
 Mr Towers
 Mrs Phillips

Miss J Wheldon
 (T.Sol)

RIG ALLEN
 EC
 STRUCTURAL
 FUNDS
 21 OCT.

*Thanks.
 NOW.*

EC STRUCTURAL FUNDS : ADDITIONALITY

This is an update of where things stand following this morning's Hannay meeting.

2. I am glad to say that we are now certain to achieve our immediate objective of buying more time by having the offending clause referred back to COREPER for further discussion. This trick will be captured by means of an arcane procedural device called the "Danish asterisk", a sort of poor relation of the Luxembourg Compromise. (This device originates from Danish constitutional problems in agreeing a position with their Parliament.) Items on the agenda from which the asterisk have been removed can no longer be put to a vote. There will therefore be no substantive discussion of the clause on Monday's FAC and minimal risk that it will precipitate the sort of unhelpful publicity which FCO fear.

3. This resolves the immediate problem. There is no need, therefore, for you to write to the Prime Minister or to contact Stoltenberg over the weekend. But the problem remains of what to do after Monday's FAC in order to bring about improvements in the text in areas in which we have, so far, been unsuccessful.

4. In Hannay's view, the prospects of achieving major improvements in the text are not particularly good:

- the French and German positions are fairly entrenched, for reasons explained in Mr Mercer's earlier minutes;
- continued support from the Irish and Portuguese is uncertain, and we no longer have Spanish support;
- the Commission are going to be difficult to budge, especially as they have already had to make a number of concessions on the drafting of the clause;
- UKREP's tentative view is that we could not invoke the Luxembourg Compromise because this is, in effect, secondary legislation (Council has already voted through the massive increase in structural fund monies) and the Council could approve the regulation in any event.

But lawyers are looking at this (see below)

5. This is a fairly bleak background, but not an entirely hopeless one. It was agreed that, early next week:

- Hannay should talk to David Williamson to clarify the Commission's thinking and see whether further changes in the text are negotiable;
- we should seek further legal advice on the interpretation of the current text;
- we should consider further the public expenditure implications of the text being adopted in something like its present form;
- further lobbying should be done by officials, both with Foreign Ministries and Finance Ministries, and with the Commission;

- a legal view should be sought from Cabinet Office on whether we could continue to block the instrument through the use of the Luxembourg Compromise, or other means.

6. It was agreed that, in the light of this further work, it might be desirable for you to talk to Stoltenberg, and perhaps Ruding; and for the Foreign Secretary to do some discreet lobbying. It was also agreed that, at some stage, we should alert the Prime Minister. We shall take stock of progress next week, and report back to you.

12/27

R I G ALLEN

CONFIDENTIAL

FROM: R I G ALLEN
DATE: 26 OCTOBER 1988

CHANCELLOR

cc Chief Secretary
Paymaster General
Sir P Middleton
Sir G Littler
Mr Anson
Mr Lankester
Mr Burgner
Mr Turnbull
Mr A J C Edwards
Mr Mercer
Mr Mortimer
Mr Tyrie**CABINET, 27 OCTOBER**

There are two items on my side on which you may wish to intervene at tomorrow's Cabinet: the European Communities (Finance) Bill and the problem of structural funds additionality on which I minuted you on 21 October.

European Communities (Finance) Bill, 1988

2. You might want to mention that the Bill successfully completed its Committee stage on 24 October; the Third Reading will be on 27 October; and we expect the Lords stages to be completed in a single debate on 8 November with Royal Assent following as soon as possible afterwards. This will give legal backing for the Communities new Own Resources Decision and allow IGA payments to finance the Community's 1988 Budget to be made from the Consolidated Fund.

Additionality

3. As I mentioned in my earlier minute, this is a potentially serious problem. The matter is likely to arise at tomorrow's Cabinet because the Foreign Secretary will be asked to report on the outcome of the Foreign Affairs Council in Luxembourg on 24 October, at which there was a lengthy discussion of the new

CONFIDENTIAL

structural funds implementing regulations, including the additionality article. The UK was successful in having the offending article referred back to COREPER for further discussion, but all of the other Member States were prepared to agree, or acquiesce in the Presidency's text. We have a breathing space of one week, perhaps two, before the next COREPER discussion. It is important to use this time productively to see whether we can secure improvements in the text. John Kerr has already had some informal, though as yet inconclusive, discussions in the margins of FAC with David Williamson (Commission). At a meeting in the Cabinet Office this morning to discuss next steps it was agreed that:

- (i) John Kerr should pursue his discussions with Williamson;
- (ii) there were various formulations which might get us off the additionality hook;
- (iii) given that some Member States are suspicious of the UK's motives, the best approach would be to seek to persuade the Presidency to propose an alternative text - with the tacit agreement of the Commission - incorporating amendments which we could live with;
- (iv) there should be some lobbying of Finance Ministries to find out why other Northern States are prepared to support the current text;
- (v) in line with (iii) above, there seemed little point in high level political lobbying at this stage, though that might become necessary if our efforts to improve the text run into the ground.

4. Another unfortunate development is the John Palmer story in today's Guardian (copy attached), which appears to have been inspired by the Commission rather than national delegations. We have prepared some press briefing to deal with the obvious

*(This is presumably
∴ they receive relatively
little from the structural funds +
∴ additionality isn't much of a
problem for them).
af*

inaccuracies in the Palmer story and we shall also be briefing the Prime Minister and Treasury Ministers for Parliamentary Questions tomorrow, and the Paymaster General for his Third Reading debate.

5. For Cabinet tomorrow, FCO will be advising Sir Geoffrey Howe to play the issue in low key. I believe this is the right approach. Against the background of the lobbying work going on at official level, I think there is little point in risking a full-scale debate in Cabinet: this could become ill-focussed if spending Ministers (eg Peter Walker) chose to take issue with our policy on (non) additionality. So I would recommend that you support the Foreign Secretary if, as we expect, he takes the line that (a) we are still negotiating on Article 9(2) and hope to secure improvements which would make it consistent with our public expenditure treatment of EC receipts; (b) other elements of the structural funds regulation remain to be settled; (c) we should take stock when this next round of discussions is complete. On the Palmer article, you will be able to refer to the briefing provided to the Prime Minister and the Paymaster.

6. Should the current official level discussions run into the ground (as they may), John Kerr and I agreed that it might be useful for you and the Foreign Secretary to have a word. We have not yet reached that point, but the Foreign Secretary may refer to the possibility.

RIA

R I G ALLEN

30p

Wednesday
October 26
1988

Published in London
and Manchester

The C

EEC may make Britain lay out £6bn more on regions

Brussels forces big spending

Exclusive

John Palmer in Brussels

THE Government may be forced by new European Community rules to increase public spending in the poorer regions and inner cities by as much as £6 billion more than it had planned over the next four years.

The EEC decided to increase regional and social development expenditure earlier this year, but Treasury ministers are furious that new regulations likely to be agreed to by the EEC Council of Ministers will in future force the British Government to match EEC spending pound for pound.

The Foreign Office minister, Mrs Lynda Chalker, refused to agree to the new scheme when it was debated by EEC foreign ministers in Luxembourg this week. Mrs Chalker was appalled at the consequences for British public spending restrictions, and by the bonus the scheme would bring to Labour authorities in the regions and inner cities. But Britain has now been told that, under the Single European Act, the Council can decide on the new rules

by a majority vote. Britain will have no power of veto.

In Whitehall there is bound to be bitter resistance to the Commission's right to veto regional and social spending policies in the United Kingdom. But for the mainly Labour local and regional authorities who will benefit, the new rules promise a big increase in the flow of public sector resources to tackle unemployment, training and other development priorities.

At the Brussels European summit in February, the EEC heads of government agreed to double spending on regional and social development, particularly in the poorer regions, as part of the move to the single European market of 1992. Of the £36 billion total, Britain is expected to contribute about 15 per cent.

The new rules require national governments to put up either 50 per cent of the money or 30 per cent in special cases, such as projects in Northern Ireland. Although similar conditions applied in the past in theory, only now are a majority of EEC governments willing to give the Commission real powers to be satisfied that "the extra resources committed by the member states are real and additional".

In the past, the British Gov-

ernment has simply reshuffled its existing spending plans so that some projects which it would have financed anyway have been funded by Brussels instead. The resulting saving has reduced the Public Sector Borrowing Requirement but denied the regions the full impact of spending which the European Community had intended.

In Northern Ireland, Scotland and other regions, the flow of resources has been halved compared with what it should have been under EEC law. But until the Single European Act was passed last year, the Brussels Commission was powerless to stop national governments pocketing EEC money intended for deprived regions.

"For the first time, other governments are willing to see the rules implemented, if only because they want to make sure that the southern European states, who are the big beneficiaries, also back development with resources of their own," one senior Commission source said last night.

"The British do not like it. They can always refuse to take the money on offer from the Community's structural funds, but that would be difficult to justify in the regions and the areas hit by industrial decline."



Typhoon aftermath . . . Pres died on the mainland and up

Lawson fierce La

John Carvel, Chief
Political Correspondent



HENNING CHRISTOPHERSEN
 VICE PRESIDENT OF THE COMMISSION
 OF THE EUROPEAN COMMUNITIES

Brussels

28. X. 1988

SG(88) D/ 12435

Phf

Dear Sir,

As you may already know, the Commission agreed last week to my proposal to issue an Amending Letter to the Community's 1989 Preliminary Draft Budget. I thought I would write to you personally to let you know the background.

You will recall that the Brussels European Council in February this year agreed amongst other things on new rules for Budgetary Discipline. These new rules involve a strict guideline for agricultural spending and reinforced discipline on other budget expenditure. In particular, the European Council agreed that the annuality principle should be tightened and that the Community should only call up from the Member States the own resources which were absolutely necessary.

With these principles firmly in mind, I considered it necessary to issue an Amending Letter to the 1989 budget. Both the revenue and expenditure sides are affected. In essence, the Amending Letter takes account of changes in economic circumstances since last spring: faster economic growth than foreseen, higher world agricultural prices and a stronger dollar than was assumed last spring. The Amending Letter also takes account of the latest data on the implementation of the 1988 budget.

^{own} Our resources from customs duties and agricultural levies are increased by around 1 000 million ecus; CAP support expenditure in 1989 is reduced by some 1 400 million ecus; and by a strict application of the annuality principle some 1 300 million ecus of unused credits in the 1988 budget (1 000 million ecu CAP, 300 million ecu other expenditure) are cancelled.

The global effect of these changes is to reduce the call up of resources from the Member States in 1989 by around 4 000 million ecus. For your country, I estimate this should mean a saving of some 700 million ecus compared with the original plans.

Mr. Nigel LAWSON
 Parliament Street
 London SW1P 3AG

UNITED KINGDOM

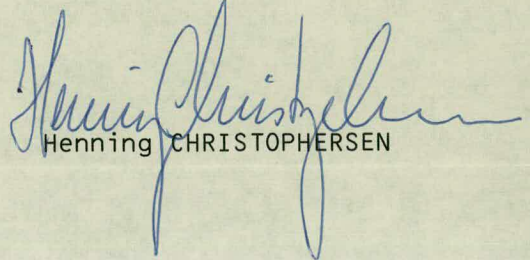
9/11

CH/EXCHEQUER	
REC.	-9 NOV 1988
ACTION	Mr R.I.G. ALLEN
COPIES TO	PMG. EST. SIR G. LITTLER, MR LANKESTER, MR MOUNTFIELD, MR H.P. EVANS.

I hope you will agree with me that these proposals mark a significant example in implementing the conclusions of the European Council on improved Budgetary Discipline and Management.

The Budget Ministers will be meeting to discuss these proposals on 22 November. I am therefore copying this letter to them.

Yours sincerely,



Henning CHRISTOPHERSEN



Inland Revenue

Meeting plan for tomorrow.

Savings and
Investment Division
Somerset House

FROM : B O'CONNOR
1 November 1988

*I hope this is what you
wanted. We can of course
provide more detail on any
aspect, before Friday's meeting.
bwb
1/11*

- 1. MR CORLETT
- 2. CHANCELLOR

EC : LIBERALISATION OF CAPITAL MOVEMENTS : TAXATION OF SAVINGS

1. You asked for a note setting out the existing withholding tax rates and rules in the major European countries (Mr Taylor's minute of 27 October).

2. The attachments to this note indicate the general position in each of the other member States in the EC and also in Switzerland. Member States fall into three broad categories:-

i. No provision for withholding tax

Denmark, Luxembourg, Netherlands.

ii. Provision for withholding tax but widely reduced to nil (either by exemption or repayment) under double taxation treaties

Germany, Ireland. The UK is in this category.

-
- cc. Financial Secretary
 - Economic Secretary
 - Sir P Middleton
 - Sir G Littler
 - Mr Lankester
 - Mr Scholar
 - Mr R I G Allen
 - Mr Culpin
 - Mrs Lomax
 - Mr Mortimer
 - Mr Ilett
 - Miss Noble
 - Miss O'Mara
 - Mrs Chaplin

- Chairman
- Mr Isaac
- Mr Bush
- Mr Corlett
- Mr Houghton
- Mr McGivern
- Mr Bryce
- Mr Sullivan
- Mr Davenport
- Mr Orhial
- Mr Alpe
- Mr O'Connor
- PS/IR

O'Connor
TO
CH/EX
1 NOV

iii. Provision for withholding tax and generally not reduced below about 10 to 15 per cent in double taxation treaties

Belgium

Greece (except in the treaty with the UK where rate is nil).

Italy (except in the treaty with Germany where rate is nil).

Portugal

Spain

3. France, rather curiously, falls between categories (ii) and (iii). The high withholding taxes are reduced to nil in the treaties with Denmark, Germany, Ireland and UK. With other member States, they range from 10 to 15 per cent.

4. The Swiss reduce the high 35 per cent withholding tax to nil in treaties with Denmark, Germany, Ireland and UK.

5. A table is also attached summarising the cross treaty rates of tax on interest for all the member States and Switzerland.

Handwritten notes:
12 is high
A note to detail
Cap. p.p.m.s.
A Southside
General case



B O'CONNOR

EC split on banking reciprocity

By David Buchan in Brussels

EUROPEAN Community finance ministers yesterday demanded that the European Commission produce a clearer definition of the foreign reciprocity conditions it wants to attach to EC banking liberalisation.

But they revealed themselves as deeply split into two camps on the Commission's proposal that foreign banks should only benefit from a planned single Community-wide banking licence to the extent that their home countries give EC banks reciprocal market access.

By joining together to request further clarification, the two camps may also hope to bring the Commission around to their way of thinking by the time ministers meet

on December 12 to consider again its Second Banking Directive.

Several northern countries with strong financial sectors, including the UK, West Germany, Luxembourg and the Netherlands are, as Mr Hans Tietmayer, the Bonn Finance Secretary, said yesterday, "very sceptical about the principle and practice of reciprocity" in international banking. UK officials claim a majority of the 12 states are sceptical.

France, however, showed itself yesterday to be very attached to international reciprocity, even to the extent of recommending that the principle be applied to another item on yesterday's agenda - harmonised EC share and bond prospectuses. And Mr Philippe

Maystadt, the Belgian minister, said he strongly supported reciprocity as a "non-protectionist" means of opening up world financial markets.

In fact, the Commission confirmed last month that it would not attach retroactive reciprocal conditions to banks already established in the EC, and over the weekend further clarified its position.

Mr Paolo Clarotti, head of the Commission's banking division, told a financial conference that Brussels would seek varying forms of national treatment for EC banks. Thus, in Switzerland, EC banks should be able to compete with local banks in practising "near universal" banking, while in the US EC banks would have to respect local rules fragmenting

the geographical scope and nature of banking.

In Japan, a market particularly hard to penetrate, a better deal might be sought than that available to Japanese banks, Mr Clarotti said.

He explained that while the proposed directive would protect the rights of all foreign-owned banks based in the Community whenever the measure came into force, any change in the ownership of such banks could trigger reciprocity provisions. This would apply to the current owners of the banks, not the banks themselves. But the directive, as currently written, would provide a let-out: bank-owning holding companies could change hands without triggering reciprocity conditions.

Accord nearer on rules for security issues

By David Buchan

EUROPEAN finance ministers last night edged towards agreement on common rules for the writing of security issue prospectuses.

The key to agreement, which may be reached formally when finance ministers meet next month, centres on the suggested exclusion of those Euro-share and bond issues whose sale is directed chiefly to institutional investors, and not to the individual "punter."

The proposal by Lord Cockfield, the internal market commissioner, is that Euro-security issues for which there is

"no generalised advertising campaign" need not fall under the proposed investor protection directive, first tabled in 1982.

This responds to the fears of Britain, Luxembourg and to some extent West Germany that over-regulation might drive Euro-securities business out of the Community to Switzerland and other financial centres.

The proposed directive would cover both national bond and share issues and also Euro-security issues, defined as "underwritten and distributed

by syndicates of which at least two members have their head offices in different states."

If the Cockfield proposal proves fully acceptable both to Britain and Luxembourg, and to those countries more concerned about protecting the smaller Euro-investor, it will cover only a relatively small part of Europe's share of the \$180bn-a-year Euro issues. European Community issuers account for about one third of this volume.

● The European Investment Bank (EIB) said yesterday it would lend up to £150m to Brit-

ish Aerospace to help finance the development of the new Airbus A-320 aircraft, **Reuter reports from Luxembourg.**

The European Community's development bank said in a statement it decided to make the loan because it involved increased co-operation between companies in different EC countries.

The loan is for 18 years and takes the form of a credit facility in which the company can choose to take up the loan or part of it at any time during a fixed period in one of a number of different currencies.

Luxembourg and UK lead fight on EC finance rules

By David Buchan and William Dawkins in Brussels

BRITAIN and Luxembourg will today lead the fight at a meeting of EC finance ministers to water down – if not wash away – key aspects of two European Commission proposals for the internal regulation, and external expansion, of Europe's financial services.

The finance ministers will try to break the deadlock on the Commission's 1982 proposal to harmonise the way prospectuses for share and bond issues are written in the 12 Community countries, a scheme which the UK fears might drive the Eurobond market outside the EC at a stroke.

For the first time they will also discuss the Commission's highly controversial proposal, launched earlier this year, to attach reciprocity conditions to foreign banks benefiting from the planned single European banking market.

In its proposed Second Banking Directive, the Commission has suggested that, if foreign-owned banks in the EC are to join their purely European counterparts in being able to operate under a single banking licence across the Community, the home countries of those foreign-owned banks must offer similar, or at least non-discriminatory, opportunities to EC credit institutions.

Discussion of the new banking directive, proposed last January, has created more heat than light. The Commission allowed an international row over reciprocity – fuelled by complaints from the US outside, and the UK inside, the Community – to develop before it made its first stab only last month at defining what it meant by reciprocity.

Halfway through the Commission's ambitious timetable to create a single European market by 1992, many of its sweeping proposals for the financial sector are only now surfacing. As this happens, Britain and Luxembourg, which are home to Europe's two most internationally-oriented financial centres, are forging a tactical alliance. Both countries feel they have the same competitive edge that Germany does in industry and

France in agriculture, and neither wants that edge blunted by over-regulation or interference from Brussels.

The future of the Eurobond market, where they are the EC's main players, is the other issue that joins them today. Mr Peter Lilley, the Economic Secretary to the UK Treasury, will today ask the European Commission to exclude Eurobonds from a draft directive on securities prospectuses or face an indefinite political blockage to its proposals.

A blocking minority of EC Governments, including West Germany and Ireland, also oppose the directive for differing reasons. But the Commission could attract sufficient majority support if it satisfied the fears of the UK and Luxembourg, shared to a lesser extent by Bonn and Dublin.

Britain, the main host for the enormously profitable Eurobond market, fears that the Commission's long-deadlocked prospectuses plan could overnight drive billions of dollars of business out of the European Community to other financial centres like Switzerland. Luxembourg has similar interests as another thriving Eurobond centre.

The scheme has aroused intense opposition from Eurobond trade bodies since being floated by the Brussels authorities in 1982. It suggests all new securities issues, including bonds and shares, should be accompanied by prospectuses. These would have to be handed in advance to competent authorities in each EC country.

The UK Government feels this would be anathema for a volatile and mobile market in which new issues often have to be distributed within a single day. It believes the market for Eurobonds – debt securities issued outside the countries of the currencies in which they are sold – has become among the world's largest securities markets precisely because it is lightly regulated.

Belgium is a strong supporter of the scheme, which it feels protects private Eurobond investors, of which there are many in Belgium.

ppp

FROM: R MOLAN
DATE: 1 December 1988

- 1. MR P G F DAVIS
- 2. CHANCELLOR

- cc: Chief Secretary
- Financial Secretary
- Paymaster General
- Economic Secretary
- Sir G Littler
- Sir T Burns
- Mr Lankester
- Mr Monck
- Mr Evans
- Mr Mountfield
- Mr Burgner
- Mr Matthews
- Miss Preston
- Mr Tyrrie

agree. 6 1/2

OK

Ch/

Content to write as proposal? (Sir GH has now replied, attached).

2/12

EC/GULF COOPERATION COUNCIL (GCC) TRADE NEGOTIATIONS

Lord Young's letter of 17 November to Sir Geoffrey Howe sets out a proposed UK approach for the discussions on the EC's mandate for these negotiations.

BACKGROUND

2. The Gulf States wish to obtain better access to the European market for their oil and gas petrochemical exports both for economic and political reasons - Israel already has preferential access for UK exports. The Community has signed a first stage agreement with the GCC which no more than formalises certain trade preferences granted already. Negotiations are scheduled to take place on a second stage agreement which could lead to the establishment of a free trade arrangement (FTA), ie no tariffs on goods traded between the signatories.

3. DTI and FCO oppose the idea of a FTA as such a bilateral deal would cut across the EC's commitment to multilateral trade negotiations in GATT and would place the European petrochemical industry at a disadvantage compared with their US and Japanese competitors who would still enjoy tariff protection. This second point reflects a concern that any agreement should not undermine

efforts to restructure the Community oil-refining and petrochemical industries and to maintain production capacity in these sectors. (As well as the UK, France, Italy and the FRG have sizeable petrochemical sectors.) DTI officials have said that they are not insisting that our industry must have a fixed absolute level of protection but rather that its position should be safeguarded relative to its US and Japanese competitors. Thus, within the EC the UK has been arguing for trade liberalisation in petrochemicals to be pursued through multilateral tariff reductions in the Uruguay Round. However, the Commission appear to remain in favour of a FTA.

Lord Young's letter

4. Lord Young expresses some scepticism about the commercial and economic value of any agreement given that the UK has a healthy balance of trade with the GCC countries. He indicates that we have one major specific interest to defend, petrochemicals, and he reaffirms the preference for multilateral tariff reductions rather than bilateral concessions. He also expresses concern about the possibility of the Gulf becoming a conduit for third country exports and Far Eastern countries building "screwdriver" plants in these countries so as to circumvent EC duties.

5. Lord Young's judgement is that it may be counterproductive to try to prevent a Commission mandate based on a FTA or to block progress, for tactical reasons, thereafter. But if there was any possibility that some room for manoeuvre could be left on the form of the agreement, he believes the UK should do what it can to preserve this while "keeping in the middle of the Community pack". In terms of the preparation of the mandate and the negotiations, Lord Young believes that the UK should insist on five conditions being met; these include a proper analysis by the Commission of the economic and commercial costs and benefits to the Community of a FTA and that any agreement protects our present and likely future economic interests. The latter point covers both the petrochemical situation and also the need for a satisfactory

safeguard clause, ie a provision allowing the imposition of quantitative restrictions on certain imports if they reach certain levels.

Discussion

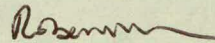
6. DTI's preference to see reductions in tariff pursued on a multilateral basis in the GATT Round is right in principle. The increased recourse by countries to bilateral deals may prove to be harmful to the multilateral trading system. The fact that only one GCC country (Kuwait) is a GATT member underlines this point. Although most other Member States are sympathetic to the UK's ^{ideas on a} multilateral reduction, no agreement has been reached within the Community on any such EC initiative. There is doubt as to whether the US and Japan would respond positively to such a proposal.

7. Assuming that the Commission press ahead with a mandate based on a FTA, the question arising is whether it is right not to positively support such an agreement because of (a) our objections to bilateral deals and (b) so as to protect the petrochemicals industry. In the case of (a), as the EC has signed up on a first stage agreement and is committed to a second stage, this objection is somewhat academic. In considering (b), the petrochemical industry can perhaps best be thought of as two industries: crude oil extraction and oil refining. There is no tariff on the imports of crude oil into the EC, so the UK's oil extraction industry would not be affected by an FTA. There are low levels of tariffs (eg 6%) on refined oil products (though the effective rate of protection for some products may be higher) and the removal of these would make it easier for refined products from the Gulf to compete in European markets. Any reduction in the EC prices of ex-refinery products would bring benefits to users as well as reduce the prices and profits of the UK refineries. The UK refining industry is relatively healthy with profits recovering, and liberalisation is in our view unlikely to cause serious problems for the restructuring of the industry. The DTI's plan to ask the Commission to carry out a cost-benefit analysis is welcome, as it would help quantify the likely effects.

8. However, the economic case for FTA may be overridden by the desire to maintain some degree of self sufficiency in this sector. The fear is that if the Community becomes dependent on the Gulf for the supply of petrochemicals, it will run the risk of facing shortages in times of conflict. The possibility that the EC will become over-dependent on the Gulf countries seems remote given the limited "threat" to EC producers posed by a FTA. Nevertheless, our assessment is that this broader consideration will win the day and there is little to be gained by arguing that there may be an economic case for a FTA. But it may be worth suggesting to Lord Young that, if the FTA option is not generally favoured, the UK should be prepared to positively consider an agreement which brings some measure of tariff liberalisation. You might also add that by failing to give positive support for a FTA we need to be careful not to give any misleading signals to the Commission about the UK's attitude to trade liberalisation as we approach 1992.

9. We understand that Mr Parkinson is being advised to endorse Lord Young's approach.

10. I attach a draft reply to Lord Young.



R MOLAN

DRAFT LETTER TO:

Pre type final

The Rt Hon Lord Young of Graffham
Secretary of State for Trade & Industry
1-19 Victoria Street
LONDON
SW1H 0AT

December 1988

EC/GCC TRADE AGREEMENT

Thank you for copying ^{to} me your letter of 17 November to Geoffrey Howe. *I have also seen Geoffrey's reply of 1 December.*

2. I agree ^{with you} that the ideal way of meeting the Gulf states' demands would be through promoting an initiative for multilateral tariff reductions in the GATT Round, and that this idea should continue to be pursued. ~~However, given that the Commission will be coming forward with a mandate for the second stage of the negotiations,~~ I accept your judgement ^{however,} that nothing would be gained by attempting to block proposals for an FTA. ~~and~~ I agree ^{top 2,} that we should insist that the five conditions set out in your letter should be met in ^{preparing} ~~the preparation of~~ the mandate and in the negotiations. ~~In particular,~~ the costs ^{particulars} and benefits analysis of an FTA will be ~~an important exercise.~~

3. However, if the FTA option proves to be unattractive to other Member States, ^{we ought} ~~it would be consistent with your aim of securing some benefit from the agreement for us~~ to be prepared to positively consider any proposals which would provide for a measure of tariff liberalisation, but which would not seriously disadvantage EC producers relative to their US and Japanese competitors.

4. ~~I might add~~ ^{think} ~~that we need to~~ ^{to ensure} be careful that, by failing to give positive support for a FTA, we do not give the wrong impression to the Commission about our general stance on EC external trade policy. In the run-up to 1992 the Commission ~~may~~ ^{will} be looking for ~~sings~~ ^{any} that we are less than fully committed to a liberal ~~policy~~ ^{back}.

5. I am sending copies of this letter to Geoffrey Howe, Peter Walker, George Younger, Tom King, John MacGregor, Malcolm Rifkind, Cecil Parkinson and Sir Robin Butler.

NIGEL LAWSON

THE RIGHT HONOURABLE

SIR LEON BRITTAN, QC
VICE PRESIDENT OF THE COMMISSION
OF THE EUROPEAN COMMUNITIES

RUE DE LA LOI, 200
1049 BRUSSELS - TEL. 235 25 14
235 26 10

30th January 1989

PERSONAL

✓

PP.PI.

PL

Mr Nigel,

Many thanks for your letter of 18th January about
M. Jean-Luc Dechery.

I would certainly have been very interested to consider him,
but unfortunately the two competition policy slots in my cabinet
have been filled, as indeed have all the other ones.

*As it happens my Chief de Cabinet has
come across him, and says he is very good.*

With best wishes,

Leon

The Rt.Hon. Nigel Lawson, MP,
Chancellor of the Exchequer,
Treasury Chambers,
Parliament Street,
London SW1P 3AG.

Edouard Balladur

The guys who were with me when we were in the cabinet... I'm not sure what we do about this. Shall I have a discreet word with Mr Lavelle, in the first instance?

Ch; Not very sure what we do about this. Shall I have a discreet word with Mr Lavelle, in the first instance? H

Paris, le 12 Janvier 1989

Cher Nigel,

Permettez-moi d'attirer votre attention sur le cas d'un de mes anciens collaborateurs.

M. Jean-Luc DECHERY, chargé à mon cabinet, des questions de concurrence et de réglementation, souhaiterait vivement entrer à Bruxelles au cabinet de M. BRITTON.

Je vous remercie de ce que vous pourrez faire pour lui.

Bien cordialement, cher Nigel

Edouard Balladur

Monsieur Nigel LAWSON
Chancellor of Exchequer
Parliament street

LONDON SWAP 3AG

Edouard Balladur

Director

FROM: R I G ALLEN
DATE: 9 FEBRUARY 1989

R.I.G. ALLEN
→ CA/EX
9/2

CHANCELLOR

cc Chief Secretary
Paymaster General
Sir P Middleton
Mr Anson
Mr Wicks
Mr Lankester
Mr Burgner
Mrs Brown
Mr Mercer
Mr Towers
Dr Slater
Mrs Phillips
Mr Tyrie

*Thank
N.A.M.*

EC FRAUD

You might like to be aware of how this issue is being taken forward at official level, following the discussion in Cabinet two weeks ago.

2. The Cabinet Office propose to put a paper to OD(E) in about 6-8 weeks' time. This will allow decisions to be taken well in advance of the European Council in Madrid, where the Prime Minister has said that she hopes to raise the issue. As a first step in this process, I am chairing an interdepartmental working group (including representatives of Treasury, MAFF, IBAP, Customs and Excise, DTI, FCO, Treasury Solicitors, Cabinet Office and the Efficiency Unit) which is examining the extent of the problem (in the UK and EC), reviewing recent developments and considering what should be done in respect of, first, measures to make fraud harder and, second, measures to deter and detect it. We shall be focussing on three main areas of the Budget: CAP, structural funds and own resources. We shall also be reviewing briefly the separate but related question of value for money in the Community Budget and considering how the Efficiency Unit's activities mesh in with the present anti-fraud efforts.

3. In considering the various options, we will need to take into account their practicability, resource implications and the extent to which they may require additional powers for the Commission and the Member States, or involve an extension of Community competence. There will clearly be hard political choices to be made, particularly if we reach the view that effective action against EC fraud will only be possible if we are prepared to contemplate a radical extension of the Commission's powers and/or its competence.

4. I held the first meeting of the group yesterday. This was very much an agenda-setting session and it is too early to predict what conclusions we shall reach. I will keep you in touch with developments.

5. EC fraud is likely to remain a lively issue over the coming weeks. Prior to the OD(E) meeting, there are a number of important set piece occasions at which fraud will loom large on the agenda for discussion: these include the forthcoming House debate on the Court of Auditors' annual report and its special report on intervention storage; and the ECOFIN discussion of the same reports on 13 March. The House of Lords Select Committee on the European Communities are also expected to be publishing shortly their report on EC fraud.

6. It seems sensible to go on encouraging those parts of the Community (particularly the ECA and the Anti-Fraud Unit) to carry on the good work. I would therefore propose to keep the Commission and ECA in touch with our thinking: they may have some useful ideas to contribute. And the European Parliament may be worth consulting in due course. There are indications from Sir Leon Brittan's Cabinet that he may be helpful to us (though I think it would be premature for you to raise it at your meeting with him tomorrow).

RIA

R I G ALLEN



Foreign and Commonwealth Office

CONFIDENTIAL

London SW1A 2AH

[Handwritten signature]

[Handwritten signature]

CH/EXCHEQUER	
REC.	13 FEB 1989
ACTION	Mr R. G. ALLEN
COPIES TO	Mr WICKS
	Mr LANKESTER
	Mrs BROWN
	Ms SYMES

13/2

13 February 1989

Dear Alex,

Anglo-French Summit, 27 February

We have, with No 10's agreement, proposed to the French that the Prime Minister be accompanied to the Paris Summit on 27 February by the Foreign, Home, Defence and Trade and Industry Secretaries, and the Minister for Agriculture, Fisheries and Food.

When informing the French of our Ministerial Summit delegation, we said that we naturally had it in mind that consultation between those Ministers originally proposed in the French list for the Summit (enclosed) would be taken forward, as appropriate, in bilateral meetings. The Foreign Secretary therefore hopes that, where discussions with the French would be useful, Ministerial colleagues will take advantage of the French offer and propose meetings. Early approaches would demonstrate our interest in intensifying exchanges. It would be helpful if we could be kept informed of plans for Ministerial contacts. I think that, in your own case, plans for a bilateral meeting with M. Beregevoy are already in hand.

I am copying this letter to Tom Jeffrey and Peter Wardle (DES), Clive Norris (Department of Employment), Roger Bright and Steve Watts (Department of the Environment), Eleanor Goodison (OAL); and for information to Brian Hawtin (MOD), Philip Mawer (Home Office), Neil Thornton (DTI), Shirley Stagg (MAFF) and Charles Powell (No 10).

Yours,

[Handwritten signature]

(J S Wall)
Private Secretary

Alex Allen Esq
PS/Chancellor of the Exchequer

CONFIDENTIAL

ANGLO-FRENCH SUMMIT : 27 FEBRUARY

FRENCH PROPOSALS ON MINISTERIAL PARTICIPATION

M Dumas

Minister of Foreign Affairs

M Chevenement

Defence Minister

M Joxe

Interior Minister

M Fauroux

Minister of Industry

M Jospin

Minister of Education, Youth and Sport

M Beregovoy

Minister of the Economy, Finance and Budget

Mme Cresson

Minister of European Affairs

M Soisson

Minister of Labour, Employment and Professional Training

M Lang

Minister of Culture, Communications, Major Works and the
Bicentenary

M Curien

Minister of Research and Technology

M Lalonde

Minister of State responsible for the Environment



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

CH/EXCHEQUER	
REC.	13 FEB 1989
ACTION	Mr MELLISS
COPIES TO	EST Sir P. MIDDLETON, Sir T. BURNS, Mr WICKS, Mr LANKESTER, Mr H.P. EVANS, Mr R.I. G. ALLEN, Mr EDMONDS, Mr TYRRE

13 February 1989

Dear Alex,

I enclose a copy of a message to the Prime Minister from President Mitterrand, proposing an initiative at the Economic Summit concerning the transparency of international financial dealings and the need to introduce controls to prevent abuse. The exact drift of the initiative is far from clear and the President's message is not very informative. But I would be grateful if you could let me have a draft reply from the Prime Minister in due course.

I am copying this letter and enclosure to Stephen Wall (Foreign and Commonwealth Office), and also to Nigel Wicks.

*Looks @
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a proposal
by next ~~of~~ to
Frank for name
James by
primary bank
capitalist
in the
no war - cause of drugs*

*you on web.
Charles Powell*

CHARLES POWELL

Alex Allan Esq
Treasury

AMBASSADE DE FRANCE
LONDRES

L'AMBASSADEUR

10th February, 1989

Dear Sir

I have just received the text of a message addressed to you by Monsieur François Mitterrand, Président de la République.

I enclose it herewith.

Yours

Luc de La Barre

Luc de La Barre de Nanteuil

The Rt. Hon. Margaret Thatcher, M.P.
Prime Minister,
10 Downing Street,
London S.W.1.

MESSAGE DE MONSIEUR FRANCOIS MITTERRAND

PRESIDENT DE LA REPUBLIQUE

A

THE RT. HON. MARGARET THATCHER, M.P.

PRIME MINISTER

Paris, le 10 février 1989

"Madame le Premier Ministre,

En vue de préparer le prochain Sommet des Sept je souhaiterais engager une réflexion sur le développement des transactions financières internationales.

Si ces activités constituent une composante essentielle du commerce international et du développement économique, l'absence de transparence et de contrôle de certaines transactions financières internationales conduit à des abus multiples et rend possible la couverture d'opérations financières illicites et le "blanchissement" de profits réalisés dans le commerce de la drogue.

.../...

C'est pourquoi je pense qu'il serait bon que nos Gouvernements, avec le concours du Fonds Monétaire International dans son domaine de compétence, étudient ensemble ces problèmes et les solutions envisageables.

Je vous prie de croire, Madame le Premier Ministre, à l'assurance de ma haute considération et de mes fidèles sentiments.

signé : François Mitterrand"../.

PS/CHANCELLOR

FROM: M C MERCER
DATE: 15 FEBRUARY 1989

cc: PS/Chief Secretary
PS/Paymaster General
Sir P Middleton
Mr Wicks
Mr Lankester
Mr R I G Allen
Mr Towers
Mrs Phillips

CABINET, 16 FEBRUARY: EC FRAUD

The subject of EC fraud may arise in two contexts at Cabinet tomorrow. First, the Minister of Agriculture will report on last Monday's Agriculture Council, at which he stressed the importance of firm action against fraud; the Presidency confirmed that they were planning a discussion on the subject at ECOFIN on 13 March.

2. Secondly, Lord Young may report on the difficult time which he had at the hands of Lord Cockfield during House of Lords questions yesterday (extract from Hansard attached at "A"). Two particular allegations were made:

- i) that the Treasury's recent explanatory memorandum on the Court of Auditor's report did not refer to fraud;
- ii) that the UK (in conjunction with all other member states) vetoed an anti-fraud proposal put forward by Lord Cockfield in 1986.

(i) above is wrong, (extract from the explanatory memorandum attached at "B"). As regards (ii) above, the proposal would have allowed the Commission to carry out investigative missions in member states. The UK voted against the proposal because it would have (a) represented a major extension of Community competence and (b) duplicated national efforts. A copy of the briefing for the march 1987 ECOFIN, at which the proposal was voted down, is attached at "C".

3. Current official work on fraud to prepare for an OD(E) discussion was described in Mr R I G Allen's note to the Chancellor of 9 February.

M. C. Mercer

M C MERCER

MERCER
EC
FRAUD
15/2

FROM: N P WILLIAMS
DATE: 17 February 1989

MR ALLAN

cc Mr Wicks
Mr Lankester
Mr R I G Allan
Mr Peretz
Mrs M Brown
Miss O'Mara
Ms Symes
Mr Nelson

ANGLO-GERMAN SUMMIT 20-21 FEBRUARY: ECONOMIC AND MONETARY
COOPERATION

I attach a final version of the brief on economic and monetary
cooperation for the Prime Minister's use at the Anglo-German
Summit, plus a covering letter.



N P WILLIAMS

RESTRICTED

DRAFT LETTER TO MR POWELL, NO 10

Charles Powell, Esq
No 10 Downing St
LONDON SW1

ANGLO-GERMAN SUMMIT 20-21 FEBRUARY: ECONOMIC AND MONETARY
COOPERATION

We held back the drafting of a brief on economic and monetary cooperation for the Prime Minister's use at the Anglo-German Summit until after her meeting last Wednesday. I now attach the brief, which I am also copying to Stephen Wall (Foreign and Commonwealth Office) and Roger Lavelle (Cabinet Office).

RESTRICTED



cc MR WICKS
MR Lancaster
MR RIG ALLAN
MR Peretz
MS Brown
MS O'Mara
MS Symes
MR Nelson.

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

17 February 1989

cc. NP. Williams.

Charles Powell Esq
No.10 Downing Street
LONDON SW1

NOT V. CLEVER

Dear Charles

ANGLO-AMERICAN SUMMIT 20-21 FEBRUARY: ECONOMIC AND MONETARY CO-OPERATION

We held back the drafting of a brief on economic and monetary co-operation for the Prime Minister's use at the Anglo-American Summit until after her meeting last Wednesday. I now attach the brief, which I am also copying to Stephen Wall (Foreign and Commonwealth Office) and Roger Lavelle (Cabinet Office).

Yours sincerely
J M G Taylor

J M G TAYLOR
PRIVATE SECRETARY

ANGLO-GERMAN SUMMIT: 20-21 FEBRUARY

ECONOMIC AND MONETARY COOPERATION

Our Objectives

General:

- To gain as much German support as possible for pragmatic approach to economic and monetary cooperation and the handling of the Delors Committee report.

Kohl:

- To sound out the personal position of Chancellor Kohl, and to impress on him the political difficulties inherent in proposals emerging from the Delors Committee.

Poehl:

- To encourage early practical steps not requiring Treaty amendment.

German Objectives

- To sound out UK position and, perhaps, to urge early UK membership of the ERM.

Our Arguments

- Important that Delors Committee's Report makes clear that full EMU would require massive shifts of economic and political sovereignty from member states.
- Such a shift would require fundamental amendment to the Treaty, going beyond the competence of members of the Committee who are monetary experts. Heads of State and

Government should draw the constitutional conclusions from the Report - Central Bank Governors should not make such recommendations.

- Report should focus on practical steps within existing Treaty to be taken in immediate future, rather than long-term objective of EMU which is premature and not necessary for the Single Market.
- UK could support practical early measures which do not require Treaty amendment including:-

i. abolition of exchange controls. An important step that all member states are now committed to. Implementation of this commitment is necessary for the Single Market and must be a priority. (Germany, like us, has removed all exchange controls);

ii. fiscal policy. A further precondition for the successful economic development of the Community is the gradual elimination of budget deficits, and meanwhile their financing in a non-monetary way;

iii. monetary cooperation

- we support continued and strengthened monitoring and coordination of monetary policy (if necessary this might entail a permanent secretarial and research capacity for Central Bank Governors' Committee, which the Germans support);
- private ecu: removal of national impediments to use of private ecu; government borrowing denominated and payable in ecu (our ecu Treasury Bill programme points the way); and increased

use of ecu in reserve holdings and intervention. (The Bundesbank has been unenthusiastic about the ecu, but Poehl has indicated recently that he may be less opposed to its use in intervention);

- reserve diversification and use of Community currencies in intervention. (The Germans will oppose this because they fear the implications of other countries' holdings of DM for domestic monetary control, and hold no currencies other than dollars in their reserves. But the UK proposal is only permissive);
- Procedure When Committee has reported, its work will be complete. It would be a mistake for Madrid Council to refer work back to it. Should remit further work to ECOFIN, with Central Bank Governors present as appropriate.

Our Response To Their Arguments

- [If German support for Treaty change] No. Implies readiness to accept massive shifts of economic and political sovereignty from member states. Major and wasteful diversion of effort from important task of completing Single Market. Treaty change is not required for the jobs that need doing now. UK Parliament will not give a blank cheque - ie enabling powers to be exercised at some undetermined future date.
- [If they raise spectre of "two tier Europe"] Negative development for all concerned - we would deplore it. Great pity that other member states have not yet brought themselves into upper tier by removing exchange controls and modernising archaic financial structures.

- [If European Central Bank raised] No secret that we believe study of this issue is premature to say the least.

German Views

Kohl - cautious pragmatist; has so far kept a low profile on monetary cooperation, but has been influenced by Genscher in the past.

Finance Minister Stoltenberg - pragmatist; concerned that Delors may try to push through radical proposals.

Foreign Minister Genscher - circulated ambitious proposals last March.

Poehl/Bundesbank - Poehl has argued in Delors Committee that EMU presupposes loss of sovereignty over economic and monetary policy that is only likely in context of close and irrevocable political integration. His overriding concern seems to be that if a European Central Bank were established, it should be entirely autonomous and on Bundesbank lines. Bundesbank remains opposed to reserve diversification, although some internal debate on the subject, and unenthusiastic above ecu, although signs of opposition waning.

Background

The Governor's tactics in the Delors Committee were discussed at your meeting of 15 February. You will clearly not wish to foreshadow exactly how the Governor will play this in the Delors Committee.

FROM: N P WILLIAMS
DATE: 22 February 1989

- 1. MISS O'MARA
- 2. CHANCELLOR

mon 22/2

- cc Mr Wicks
- Mr Lankester
- Mr R I G Allen
- Mr Peretz
- Mrs M E Brown
- Ms Symes
- Mr Nelson

Ch/OK? 22/2

ANGLO-FRENCH SUMMIT 27 FEBRUARY: ECONOMIC AND MONETARY COOPERATION

We thought that you might like to see the attached brief on economic and monetary cooperation for the Prime Minister's use at the Anglo-French Summit. The brief is based substantially on the text that you cleared for the Anglo-German Summit - the differences being those required by this particular context.

2. Once you have had a opportunity to comment on the brief, we will submit a final version for the PPS to send to No. 10 under a covering letter.

NPW

N P WILLIAMS

A. J. Jones

2. 7/11: see yr minute 10/12, 10/12, 10/12

Prepared by NPW

22/2

ANGLO-FRENCH SUMMIT: 27 FEBRUARY

ECONOMIC AND MONETARY COOPERATION

Our Objectives

- To make clear to the French why the UK favours a pragmatic approach to economic and monetary cooperation and the handling of the Delors Committee report.
- To emphasise the political difficulties of Treaty amendment.
- To encourage the French to underline their commitment to EMU by taking practical steps in that direction eg by removing their remaining exchange controls and issuing government debt denominated and payable in ecu.
- To sound out the personal position of President Mitterrand, and to impress on him the political difficulties inherent in proposals emerging from the Delors Committee.

French Objectives

- To press the case for firm commitments to progress towards EMU, and need for early institutional change.
- To sound out the UK position, and, perhaps, to urge early UK membership of the ERM.

Our Arguments

- Important that Delors Committee's Report makes clear that full EMU would require massive shifts of economic and political sovereignty from member states.

Assessment: The Committee's report is a first step & will do us well. Wh. matters v. 40%, without the strength of the...

- Such a shift would require fundamental amendment to the Treaty, going beyond the competence of members of the Committee who are monetary experts. Heads of State and Government should draw the constitutional conclusions from the Report - Central Bank Governors should not make such recommendations.
- Report should focus on practical steps within existing Treaty to be taken in immediate future, rather than long-term objective of EMU which is premature and not necessary for the Single Market.
- UK could support practical early measures which do not require Treaty amendment including:-

i. monetary cooperation

- reserve diversification and use of Community currencies in intervention. (The French are favourably disposed.)
- private ecu: removal of national impediments to use of private ecu; government borrowing denominated and payable in ecu (our ecu Treasury Bill programme points the way); and increased use of ecu in reserve holdings and intervention. (French have announced plans to launch medium to long-term bond denominated in ecu.)
- we support continued and strengthened monitoring and coordination of monetary policy.

ii. abolition of exchange controls. An important step to which all member states are now committed. Implementation of this commitment is necessary for

the Single Market and must be a priority. (France still has some controls to remove. The French, in particular, are concerned that dismantling exchange controls will lead to widespread tax evasion and, against that background, the Commission has issued draft proposals for a Community withholding tax. The French attach considerable importance to this issue, but have said that they will not go back on their commitment to remove exchange controls.);

iii. fiscal policy. A further precondition for the successful economic development of the Community is the gradual elimination of budget deficits, and meanwhile their financing in a non-monetary way;

- Procedure When Committee has reported, its work will be complete. It would be a mistake for Madrid Council to refer work back to it. Should remit further work to ECOFIN, with Central Bank Governors present as appropriate.

Our Response To Their Arguments

- [If French argue for Treaty change] No. Implies readiness to accept massive shifts of economic and political sovereignty from member states. Major and wasteful diversion of effort from important task of completing Single Market. *Only rethink changes Treaty* ~~Treaty change is not required~~ *to* for the jobs that need doing now. UK Parliament will not give a blank cheque - ie enabling powers to be exercised at some undetermined future date.
- [If French raise spectre of "two tier Europe"] ~~Negative development for all concerned - we would deplore it. Great pity that other member states have not yet brought themselves into upper tier by removing exchange controls and modernising archaic financial structures.~~

Deplore such divisive talk. Could only weaken Europe.

*Assess to progress
No cost
Further Bank
a week
to some.*

RESTRICTED

- [If European Central Bank raised] No secret that we believe study of this issue is premature to say the least.

[If suggested sterling should withdraw from the ecu as a non-participant in the ERM] ~~We have no intention of withdrawing.~~ In no one's interest to propose a change which would have far-reaching market implications.

French Views

The French remain the keenest advocates of rapid progress towards EMU. In private, they stress their pragmatism. But they have made clear that they have no reservations about possible institutional developments or Treaty change.

Mitterrand - not closely involved in recent discussions, but determined that the French Presidency - which will follow the Madrid Council - should mark a step forward in European construction, and sees monetary co-operation as a key area. He wants to see the Community pull together rather than apart, and realises the importance of working closely with the UK in achieving this. But - if only for tactical reasons - he is not above floating, or allowing others to float, suggestions of a two-tier Europe.

Prime Minister Rocard - out of an apparent concern to gain German support, has declared himself willing to contemplate an autonomous European Central Bank.

Finance Minister Berezovoy - the Tresor has been focusing on pragmatic measures (eg strengthening the EMS, including UK participation in the ERM, and greater use of Community currencies in intervention) as a way of promoting symmetry in obligations under the ERM.

De Larosiere, Governor of the Banque de France - appears to favour monetary union as locomotive for securing economic union. Advocated institutional step of creating European Reserve Fund to

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pool reserves, intervene on behalf of member states and play a role in monetary policy coordination - the Fund would be a first stage leading eventually towards a full European Central Bank.

Background

The Governor's tactics in the Delors Committee were discussed at your meeting of 15 February. You will clearly not wish to foreshadow exactly how the Governor will play this in the Delors Committee.

TH
A good speech.
Sugar for a man, or
good for a man, or
(the speech) As for
the sheep meat, which
country's
regime, which
country's
regime, which
country's

FROM: M SLATER
DATE: 2 March 1989

CHANCELLOR

cc. PS/Chief Secretary
PS/Paymaster General
Sir P Middleton
Mr Anson
Mr Monck
Mr Burgner
Mr RIG Allen
Mr Mercer
Mr Child

*I do not suggest you
read the speech itself which (at least
reproduced in this form) is heavy
going. But it is a useful quality.*

2/3

COMMENTS AND STATISTICS ON CAP BY DEPUTY DIRECTOR GENERAL OF AGRICULTURE, EUROPEAN COMMISSION

You may be interested in using in future speeches some comments and statistics of Peter Pooley, Deputy General Director General of DG VI, in a speech to the Agra Europe "Outlook" Conference in London on 23 February (copy attached). Mr Pooley notes that the priorities for CAP reform in 1989 are fruit and vegetables, especially citrus fruit, sugar, which has so far escaped any price cuts, and where strict quotas and high prices are "a recipe for an eternal distortion, and a good modern day illustration of why it was that medieval economies moved so slowly," and sheepmeat, where the CAP subsidy regime is described as "a bonanza in some parts of the country and a racket in others."

2. On sheepmeat, Mr Pooley notes that the cost of subsidies is increasing at an alarming rate. It will be 1.6 becu in 1989 and 2 becu in 1990 on current projections, on production of less than 1 million tonnes. Until recently, the CAP beef regime was held up as an example of profligate spending, but if sheepmeat expenditure reaches 2 becu, a comparative table of subsidies will look as follows:

<u>product</u>	<u>subsidy per tonne</u>
sheepmeat	2000 ecu
beef	400 ecu
poultry meat	35 ecu
pigmeat	25 ecu

3. Assuming an average lamb weighs 20 kg, the following comparisons are also interesting:

FEOGA subsidy per lamb	40 ecu
EC market price per lamb	50 ecu
New Zealand farm gate price of lamb	15 ecu

Martin Slater

MARTIN SLATER

AGRA EUROPE 'OUTLOOK' CONFERENCE, 1989

Keynote address by Peter Pooley, Deputy Director General
for Agriculture, European Commission

I am very pleased to be at your conference again this year. I was very pleased to have been absent last year. I had begun to get bored. Not bored with you, Mr Chairman, let alone with the lively band of Outlookers in front of us, but bored with myself. Three years running I had outlined to you the dreadful mess we found ourselves in, and the marvellous new ideas we had for extricating the CAP from imminent collapse and ruin. Each year after the first I had to report that we had escaped with the skin of our teeth, but this time around we had found the answers to our problems and all would be well - if only people would listen carefully to what I was saying. My year of absence, 1988, was a very good year. I can make quite a different style of keynote address in 1989. It may be quite as boring as usual for you, but it is going to be much more interesting for me.

However, this is not a speech of self-congratulation: well, only a little bit: I want to take a close look and a critical look at what has been achieved, as a basis for proposing what remains to be done - in relation, mainly, to the commodity régimes. Let me begin however by talking about two extremely important issues which I am not going to talk about, at least not much.

First, we must notice at least in passing the major shift in emphasis in agricultural policy towards the objectives of the Green Paper of 1985 and the Rural World document of 1988. The successful reforms in the areas of the market régimes and of financing have made this shift both more possible and more necessary. It was interesting that the January package of Council decisions included the completion of the reform of the beef régime, the significance of which I shall come to, and agreement on the broad lines of direct income aids. It was interesting that the package was negotiated by a new Commissioner not just for Agriculture but also for Rural Development. The turning point has been reached, a turning point of importance not just domestically but also internationally, in the context of the Uruguay Round. This Conference is devoted to commodities, and I do not want to take up your time talking about matters of background interest. But any serious CAP-watcher needs to note what is happening, and to take account of the gathering strength of the movement of opinion in Europe, amongst decision-takers and voters alike.

I have cited two Commission documents, which many of you have found indigestible. There is a tendency to regard such phenomena as the expression of the anxiety of a bunch of Brussels intellectuals to keep people thinking, keep the organisation moving, and keep up the employment rate for Eurocrats. That would be a big mistake. As with any other political institution, the Commission has to develop its initiatives in the light of its perception of the direction of public opinion. As we have seen with other initiatives, like 1992 or competition policy, so it has become clear in the last year or two that public opinion is moving in the direction indicated by the Commission, and rapidly. The prosings of princes and the catch-penny commentaries of media personalities alike urge the politician towards a policy for rural development in a wide sense, not just for agriculture. There is a new general will, and a new social contract implied, on countryside policy. It is crude and unsophisticated, but very powerful. The implied contract, between farmers and voters, reads in part ok, we voters will carry on subsidising you, if necessary directly, provided you do not embarrass us with surplus, or with scandalous frauds, and above all provided you keep our countryside (yes ours, not yours) in decent condition, sweet-smelling, clean-tasting and pretty to the eye. And by the way, stop sticking needles into your animals, and get them out of smelly disease-ridden huts.

Second point for non-discussion. I am not going to speculate about the Uruguay Round. Sorry, this is a sensitive time, I do not have the skill to pass the coded messages beloved of the media, I do not have the nerve to issue ultimata or threats. All I do is thank the Lord and my political masters that we have in a timely way restored some sanity to our agricultural policy. We have moved in a determined fashion towards the better balance described and desired at Punta del Este, and we have a secure base of moving further, if others will do so. And we all join in complimenting you, Sir, on securing Aart de Zeeuw to give us his authoritative view later today.

How much more sane our policy now is can be discussed. We have certainly been successful in reducing stocks, but that is the easy part. More difficult is the task of ensuring they do not rebuild. I am now going to flash some graphics on the screen. I am notorious for getting them the wrong way round, so that up-trends become down-trends, but old hands will see that some of them are indeed the mirror image of those I have shown in previous years. Here is the development of public stocks of butter (Graphic I). All these graphics show minimum, maximum and average stockfigures. Here is skimmed milk powder (Graphic II). These are my favourite graphics. Here is the picture on common wheat stocks these past few years (Graphic III). Not so dramatic, but still impressive when compared with the forecasts of three/four years ago of steadily and inevitably mounting stocks. Here is beef. (Graphic IV). Not very brilliant, but we have got down to a relatively low level just as the wicked old intervention system breathes its last. The 'minimum stock level' is in fact the end year level, and you can see it is lower than at any time since 1984. I won't tire your eyes with all the stock levels, but I can add that I expect to be more or less sold out of olive oil in a few months, and of oilseeds in a few weeks. Tobacco and dried grape stocks vary between low and zero. Then there is the one you always forget. Alcohol, the product of the wine surplus. Here is the picture of the development of alcohol stocks (Graphic V). No, it is not the wrong way round. It just goes up and up. Now, if we express those 9.1 million hectolitres as a white square, and show on it as a black section the quantity sold since I first came here in 1985, this (Graphic VI) is the result. No, that is not a mistake either. If you can see any black, it is a speck of dust in the magic lantern, because Council legislation has prevented us selling a single litre. So far. But now we have changed that, as well as beginning the grubbing up scheme, and the outlook for 1989 and beyond is, um, intoxicating.

Now, I could show you graphics on the level of purchases showing a similar picture - downward trends, for everything including even wine. However, it is future perspectives rather than past performance which is important in this respect. You know we have not bought any milk powder into intervention for years now, nor any butter - except the odd 40 tonnes from time to time from a man in Spain who offers at a silly price to prove to the world, I suppose, that he is still alive, though clearly not in his right mind. For the future, I am not expecting a resumption of significant intervention, but I am not entirely confident. The settlement on the SLOM might produce even more extra milk than the 600,000 tonnes foreseen. (For those of you who do not know what the SLOM is, I advise you not to learn, because the process will send you too out of your right mind and you may then yourselves start offering butter for intervention at silly prices). Pressure will continue to mount, also, to solve the problem of the milk shortage. Ah, I see the learned Dr. Friedeberg (whom God preserve) of Rotterdam, starting from his seat. Stay seated, Fred, I know there is no milk shortage as well you do, though you have more figures in your head to prove it than I do in mine. There is still a certain surplus of milk. There is however a shortage of milk, and certain products of milk, at the prices which some users grew accustomed to paying in times of overwhelming surplus and grotesque subsidisation. Politicians hear their cries, as their businesses adjust painfully, or in some cases fold and fail. We will need to watch very carefully how politicians respond.

Cereals, now. Well, yes, cereals. Vurry vurry difficult. It is a super stabiliser we have, though not quite as super as for oilseeds. And there is no doubt that cereals producers, like producers of all arable crops except possibly sugarbeet, are responding to the pressure of lower institutional prices and are despondent about the future, despite the good market prices of this post-drought year. Yes, we have heard the arable lobby cry 'wolf' before, but this time the sensitive ear can detect a change of tone: I do believe the sharp-toothed beast is at their back and hurrying near, in this country and in much of Europe. There is a strong incentive to move to set-aside, off-set by a strong incentive to plant more, as farmers have always done following a year of shortage induced by Nature. I shall listen with interest to what the experts have to say during this conference on the way this conflict will be resolved. The Commission has proposed, as you know, to go further over the next two years in reducing the scope and attractiveness of intervention. This has little to do with immediate market prospects - we would be proposing it whether we were expecting growth or reduction in production, because we really are convinced that intervention can and should function simply as an end-season safety-net. If you look at our report on the functioning of the intervention system you will see that through all the years of bugging about with the mechanisms one factor has been constant - 90% of purchases have been made in the last 2-3 months of the season. One can never extrapolate the experience of the past into the future with entire confidence, but I do invite you to look at the effects of the moves we have made over the past few years, all of which were forecast to produce a radical and damaging change in the pattern of intervention, and in the pattern of the market. Anyone remember end-of-season indemnities? My God, what a row over their abolition. I was informed by interested parties that we would save the 400 mecu they cost at the expense of 800 mecu more to be spent on intervention. We saved 400 mecu, and did not spend the 800 mecu. And so it was with progressive moves on the length of the intervention period, the change in the buying-in price, the reduction in the number and the size of monthly increments - not a wolf has been seen. I don't believe there is a wolf. However, my daughter, studying Economics at Cambridge, still believes in Father Christmas, the Christmas Tree Fairy, and the Easter Chicken, on the basis that you can never be absolutely sure of non-existence, and non-belief might have consequences, like no Christmas stocking. On this same basis, just in case there is after all a wolf, the changes for the arable crops are phased over two years.

On beef, I am confident that we have mastered the problem of overmuch, useless, senseless intervention which I have been orating about these past several years. The negotiation just finalised concentrated a great deal on the insertion of a 'safety net' or floor in the market to prevent the dreaded downward spiral of prices. Forget about that. The same problem was negotiated over, day and night, in 1986. There was no downward spiral in 87 and 88, nor will there be in 89 or 90. Much attention and political muscle was expended on the limitation to 200,000 tonnes - or was it finally 220,000 tonnes? I forget. You forget it. We shall get nowhere near that figure in the next two years - after which we can revise it, down or up. My confidence is based partly on the market outlook - intervention is already running at a quarter of last year's high level. What is more important however is that intervention from now on is no longer the regular, reliable, ever-present, undemanding customer it used to be. I have always said the important part of the beef reform is to destroy the continuity and reliability of intervention. Beef was the last major product for which intervention was always available at a foreseen price. Now that has gone, you will see a remarkable change in trade flows and traders' attitudes - just as in the dairy sector. Butchers and traders will, from April 3rd, start to trade the whole of their production, instead of allowing a part of it to fall off the hook into intervention: because, they will no longer have certainty as to whether intervention is available, or at what price. And I'll tell you another thing - they are actually going to enjoy it.

Intervention has never really been a worry for oilseeds, but I would like this Conference to note the dramatic change since I reported two years ago that production and expenditure were rocketing - and Oilworld told me I was wrong to be in a state of alarm when I should have been in a state of total panic. The fact that the stabilisers work is too clear to be worth dwelling upon. Production goes up, prices come down, production goes down, prices goes up, all within a financial envelope which is leak-proof. Or nearly so. We have some work ahead on the olive oil intervention system, which I am convinced can be improved without causing hardship. I cannot say I am happy, yet, with the soya régime, despite the fact that the stabiliser seems to work. Money is leaking away there where it shouldn't. One product we have had to struggle over this year is field beans. I think about 100,000 tonnes of the UK crop is going to fail to find a buyer, despite our best efforts. But this does not actually upset me too much - we never set out to produce a system which would function perfectly under the pressure of production doubling in a single year.

Isn't that all nice and dandy - well, nice and dandy as agricultural policies go, for they have been the ducks rather than the swans of public policies. There are a couple or so areas I regard as continuing disasters, but I shall leave them to last because of my liking for finishing on a down-beat. Let us step back from the detail for a moment to review the impact of the year of stabilisers. The importance of the stabilizers, for me, is not so much their overt function as an additional market measure, but rather the way in which they form a strong link between policy on prices and policy on intervention. Indeed, they strengthen both arms of policy. On prices, we have discussed at these conferences policies which were variously described as prudent, restrictive, and severe. Each was treated in the pages of your esteemed organ, Mr. Chairman, with a degree of scepticism. Agra Europe, and others, pointed out that the Commission's price policy, however described, could be undermined by a beneficent Council trying to rescue producers from the worst consequences, either directly by adjusting institutional prices or indirectly by changes in co-responsibility rates or green money rates. Now, with the stabilizers, we have what I would call an unremitting price policy. First, the level of institutional prices is linked to levels of production and/or levels of intervention, and so in some cases are rates of co-responsibility levy. The mechanism is more or less automatic, and the decision on its implementation rests with the Commission, not the Council. An indication of the level of acceptance of the new mechanisms is a report I noticed in the autumn right at the bottom of an obscure page in the Financial Times - an item of 3 or 4 sentences. The headline was - Commission reduces soya price by 10%. A couple of years ago, the soya price could not have been reduced by 10%, not by the Council and certainly not by the Commission. Or if it had been, the news would have made the front page, and a weighty leading article.

Second, the scope for agrimonetary compensation has been greatly reduced, in part by chance and in part by the various automatic and semi-automatic adjustments implemented or foreseen. Just to remind you here is a graphic (No VII) showing the levels of monetary gap for a representative product, cereals, applied this day, compared with this day two years ago. The prices package will improve the picture still further.

Third, the effect of institutional prices as a price guarantee has been progressively enfeebled. If you look at text-books published quite recently on the CAP you will see the intervention price described in general terms as a guaranteed price. Those text-books have to be revised, because the intervention price fixed by the Council, and indeed the guide price for products subject to an aid system, no longer provide the floor to the market, for two reasons. First, the new mechanisms turn the intervention price into a reference point, not a level of price of economic significance in itself. Second, the role of intervention has been profoundly changed.

Perhaps the most important element of all is the durability of the new systems. For the first time, we can look three or four years ahead and calculate fairly closely what the effect will be on prices of given levels of production. For me, the sweetest element in the new deal is a little matter of accounting most of you don't give a damn about. We are now able - indeed compelled - to write down the value of stocks as they arise. This is a major, major improvement. Never again will we face the excruciatingly difficult decision as to whether to sell or stock, that is to say to distort one year's budget or the next year's. This was one of the unhealthiest aspects of the old CAP, and the main reason why for a while we became technically insolvent while continuing to trade - which I can tell you now was the heaviest burden of shame I have carried in thirty years of spending public money.

Whenever the Commission is heard congratulating itself on successful policies or market management, as I have been doing, someone in the audience starts muttering about our good luck. Ah, they say if it had not been for the drought in North America, or the lucky chance of a rise in the dollar, or something, then the picture would have been a less happy one. This enrages me and my market managers. We never excuse ourselves by complaining about bad luck, and we resent the attribution of our successes to good luck. Our operations are very widespread, covering some twenty major sectors, and our risks of good luck or bad are widely spread also. What is good luck for one sector, like an unforeseen rise in the price of fodder crops, is bad luck in another, like the intensive animal production sectors. It is rare, when I meet my Directors on a Friday morning after some notable market event, that all are smiling or that all are dejected. I am allowed by the management of this conference to tell one story or anecdote, use one classical quotation, and one literary allusion. Perhaps I can best use my joke ration on this theme.

Many tales have been told about my famous labrador dog Sam, the great sage, wit and broadcaster and the alleged author of many seminal papers on CAP policy and negotiating issues. Many are untrue, but this one is absolute fact, without a word of a lie. I was accompanying him on a walk towards the woods along the sunken lane which runs down the side of our garden, and we were talking of this and that, when a pigeon left its perch high in a tree one side of the lane to fly to a tree on the other side. On its passage, it let drop a noisome load which, at a range of 15 meters, hit Sam plonk on the nose. "Good God", he said, "look what that dreadful bird did" - very visible, for a labrador dog, a pile on his nose bang in front of his eyes - "have you got a tissue for goodness sake?" I wiped him down and said "never mind Sam, you know, it's supposed to be good luck". "Good luck" screeched the pigeon "dammit, that wasn't good luck, it was bloody good shooting". To prove his point he flew back across the lane - and did it again, plonk on my bald patch.

The market service divisions are that pigeon. Because we cannot reveal the hand we are playing, our clever pieces of market management are often attributed to good luck rather than good judgement. We do not complain, because, as I said, our risks are widely spread and it is equally the case that our misjudgements and errors are not very visible. However, anyone on the inside will tell you that my boys and girls are now very expert at the extraordinarily difficult business of keeping one eye on the market, the other on the politics, and still hitting the target. You don't have to take my word for it entirely, because in some cases we do have to declare our hand in advance of a market operation. The best recent example was our exercise to dispose of our butter stocks. We were told to sell a very precise quantity of butter (1,030,000 tonnes) at a very precise cost (3.2 million ECU) in a very precise time span - and all these objectives were published, which is not in fact a great help. Our margin of error, in the event, was much less than one percent for all three parameters. That is what I call good shooting, by my friends, Sergio and Tom. There was no round of applause, no claims of good luck, in fact no notice was taken at all. Not a dog barked. So it goes, Sam.

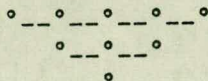
Two of the three major areas of continuing concern will be obvious from our price proposals - fruit and vegetables, especially some citrus fruit, and sugar. The third is sheepmeat, and that is a real disaster area in the old style. There is not much interest here in citrus fruit, so I will just say that we are trying to do what everyone wants us to do, which is to steer the products heavily in surplus towards juicing and away from destruction. The big row is over whether this should be done in a budget neutral way, or even with some small savings, as we propose: or whether we should spend extra money to gain this desired end. So far as the Commission is concerned, we are determined that processing aid should not be used in a way which institutionalises an outlet for a continuing structural surplus. On sugar, I am surprised that our proposal for a 5% price cut has come as a surprise to so many. The sugar-beet price has not been changed in five years, while the support for competing crops has been drastically cut. Everyone is saying, sugar should be no worry, because the régime is financed by the producers and because there are quotas. These are dangerous delusions. The high community sugar prices are kept high not just on the backs of farmers who pay levies, but also on the backs of consumers who pay a high price on the market. We cannot sit and watch the gap between sugar prices and those of cereals-based sweeteners widen indefinitely, because this will eventually produce intolerable strains on the system. And we must remember that quotas are not a good thing. They are a bad thing, though devilishly convenient. Add a high price to a strict quota system and you have a recipe for an eternal distortion, and a good modern day illustration of why it was that medieval economies moved so slowly. This is a message to milk producers also. It is interesting that the sugar lobby - a very powerful one - has pointed out in its counter-blast that the sugar-beet grower is also a cereals grower, and/or an oilseeds grower, and these sectors are under much pressure. We did know that, actually, and we did think about it. Thinking about it, we do not see why sugar production should be kept highly profitable to compensate certain farmers for the squeeze on their other enterprises.

Finally, sombrely, sheepmeat. Here I am going to turn on the magic lantern for the last time and show you some unpleasant pictures. Here (Graphic VIII) is the trend of sheepmeat production since the régime started. The next graphic (Graphic IX) shows the same line, with the trend in expenditure superimposed. The 1989 figure is 1.6 billion. Extrapolated, that line shows us heading fast for expenditure of 2 billion ecu. Sheepmeat expenditure going up will soon meet beef expenditure coming down. On a production of less than a million tons. I used to think the level of subsidisation of beef was worrying, but look at this bar chart (Graphic X) which shows the development of the cost to FEOGA per tonne of beef compared with sheepmeat. Sheepmeat is now (four) times more costly than beef, per tonne. Of course, there is external protection for beef, and little of that for sheepmeat - only a 10% tariff. However, imports of sheepmeat have been in decline, and the beef régime carries the burden of a heavy intervention system and export refunds on 10 or 12% of its production. Let me give you a few more homely comparisons to show the horror of that 2 billion ecu figure which is staring us in the face. Two billion spent on a million tonnes means 2,000 ecu per tonne. There are 50 20 kg lambs to the tonne. Each little lamb would then carry subsidy of 40 ecu. The market price for a 20 kg lamb in the UK is about 50 ecu; The farm gate price for a 20 kg lamb in New Zealand is 15 ecu. 40 ecu is the enhanced level of premium given to the producer of a prime steer. By comparison, expenditure from FEOGA per tonne of pigmeat production averages some 25 ecu: for poultry-meat, it is about 35 ecu).

All this expenditure on sheepmeat is despite a stabiliser, of sorts, and it is still uncertain how far that device will succeed in restraining the soaring cost. No wonder it is proving difficult to negotiate a reform of this régime - the last of the unreformed régimes, by the way. Everyone has so much to lose in bringing the régime back to sanity. And the longer the sector remains unreformed, the more they have to lose. A sheepmeat industry leader, from UK, wrote to me recently saying Mr. Pooley, you are discriminating against the sheepmeat producer. How should I reply? Those figures I have just cited enable me to say, Dear Sir, I have not been discriminating against lamb producers up to the present, but, by God Sir, I think I may have been neglecting my duty. I think it is time men and women of influence, of whom there are so many in this room, pressed Ministers to pull the plug on this régime. It has become a bonanza in some parts of the Community and a racket in others. And yet I know of producers, many of them in France, who were poor when the régime began and are now poorer still. What a rotten state of things. Delenda est Carthago.

I had to get my ration of one classical quotation in before the end. As to the literary allusion, I forget who it was - perhaps Mark Twain, master of the aphorism - who said that a story with a happy ending was a story which stopped before the end. The story of the CAP reform these past two years has been happier than we might have expected, and so far as commodities are concerned one sometimes gets the impression that it is coming to an end. The chapter on this latest reform of the CAP is near its close, but it is the latest reform and by no means the last. We were I think too defensive for too long of the old CAP, the original basic regulations our predecessors built with such care, and such pain. We should not become defensive of the new CAP, also built with pain, and pretend that the reforms achieved these last two years are definitive. Social change, environmental pressure, technological change, the Uruguay Round, economic and demographic change, all push us on - and, who knows, perhaps climatic change. To my mind, if the CAP stands still it becomes a sitting duck, asking to be shot dead. Frans Andriessen, of blessed, blessed memory made us fly, as a duck flies, now well out of gunshot range. Ray MacSharry, our new boss, is setting a very hot pace. There is at least a chance that the new Commission's mandate will see and extraordinary event, witnessed so far in Denmark alone of member states. That is to say, the metamorphosis of a duck into a swan. Swans are protected birds and may not be shot in any member state. I am not informed as to their degree of protection in the United States, or Cairns Group nations, but Aart de Zeeuw will tell us..

Mr. Chairman, that is all this old bird has to say. Your guests have half an hour to shoot me down.



FROM: N L WICKS
DATE: 3 MARCH 1989

CHANCELLOR OF THE EXCHEQUER

*This agenda
is too long
I can't do it
I want to concentrate on
No more work
OK?
3/13*

- cc EST
- PMG
- Sir P Middleton
- Sir T Burns
- Mr Lankester
- Mr Scholar
- Mr H P Evans
- Mr Peretz
- Mr R I G Allen
- Mrs M E Brown
- Mr Culpin
- Mr Odling-Smee
- Miss O'Mara
- Mr Ilett
- Mrs Chaplin

TALKS WITH M BEREGOVY

I had a talk yesterday with the French Treasury attache here about the subjects which you might cover in your talks with M Beregovoy. We thought that the agenda might be on the following lines:

(i) The economic situations in the UK and France.

(ii) Community issues:

- a. EMU, Delors etc;
- b. indirect taxation;
- c. taxation of savings;
- d. the Banking etc directives and reciprocity;
- e. rebasing the ECU;
- f. the Community budget, with particular reference to fraud;
- g. Beregovoy's view of priorities for the French Presidency.

(iii) The forthcoming meetings in Washington with particular reference to:

- a. prospects for the world economy, trade imbalances and the exchange rate;
- b. international debt, including the French initiative.

(iv) Expectations for the Economic Summit.

3. This is a formidable list, and you do not have much time. But I think that it provides a framework which would enable all topics of interest to be covered.

4. If you agree, I will seek confirmation from the French that they are happy with this agenda.

5. Agree?

N.L.W.

N L WICKS

FROM: EDNA YOUNG (IAE3)

DATE: 7 April 1989

x4473

1. MR MONCK *mm 7/4*
2. CHANCELLOR

cc Mr Wicks
 Mr Lankester
 Mr R I G Allen EC
 Mr Wilson IAE
 Mrs M E Brown EC1
 Mr Burr IAE3
 Ms Symes EC1

NSWJ.

PROPOSED EC MERGER CONTROL REGULATION: SIR L BRITTAN'S PROPOSALS

Sir Leon Brittan has proposed further amendments to the draft EC merger control regulation which are to be discussed at the Internal Market Council on 13 April. These consist essentially of increases in the thresholds which are small compared with UK objectives, and a suggested way of disapplying Articles 85 and 86 of the Treaty from mergers.

2. Sir Leon seems to be presenting his proposals as a major initiative, which would allow "clear political decisions" to be taken at next week's Council. But none of his proposals goes far enough to meet our concerns, and he makes no proposals at all on the criteria for decisions, which we have said previously is the central question around which the rest of the package would have to fall into place. Moreover June is the earliest we are likely to see the Commission's study on barriers to takeovers, proposals on which, as Mr Maude said at the December IMC, "would be fundamental to the possibility of the UK's accepting the regulation". DTI's soundings of other major players (including the French and Germans) indicate that they are no more willing than we to be bounced by the Commission next week.

3. The DTI have proposed that at the IMC Mr Maude should restate the UK's general reserve. He would make clear that, while Sir Leon's proposals represented a constructive attempt to make progress on a number of issues, they did not go far enough towards meeting our concerns in many respects. He would express particular concern about

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the absence of any reference to criteria, and make clear that our position on barriers to takeovers remained unchanged.

4. The approach was generally welcomed at an interdepartmental meeting this morning. The restatement of our general reserve and of the need to make progress on barriers before we can consider accepting the regulation meet those of your concerns which have not always been shared by DTI Ministers.

Future Action

5. Officials already have a remit to report back to OD(E) on ways of disapplying Articles 85 and 86 from mergers. OD(E) will probably need to look at the regulation as a whole in the light of next week's Council and the outcome of a quadrilateral meeting with the French, Germans and Spanish to be held on 24 April. This probably points to a further OD(E) discussion in early May.

Edna Young

EDNA YOUNG

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(FRAME GENERAL)

MR EDWARD HEATH'S SPEECH ON THE RIGHT PROGRAMME FOR EUROPE

SUMMARY

1. HEATH PHILIPPIC ON GOVERNMENT'S EUROPEAN POLICY LONG ON BILE AND SHORT ON SPECIFICS FOR ACTION. TARGETS INCLUDE INTER ALIA BRITISH VIEWS ON SOVEREIGNTY, EMU, FRONTIER CONTROLS AND SOCIAL EUROPE. ONLY NEW SUGGESTION IS TO ENHANCE EP ROLE BY MAKING ALL EC LEGISLATION SUBJECT TO APPROVAL OF THE EP AS WELL AS COUNCIL.

DETAIL

2. FOLLOWING ARE THE MAIN ELEMENTS IN THE SPEECH DELIVERED THIS EVENING BY MR EDWARD HEATH IN BRUSSELS AT THE INVITATION OF THE ROYAL INSTITUTE FOR INTERNATIONAL RELATIONS AND THE COLLEGE OF EUROPE. (COPIES BY FAX TO RESIDENT CLERK AND NEWS DEPT DUTY OFFICER AND BY HAND TO UKDEL NATO FOR SECRETARY OF STATE'S PARTY). MR HEATH'S SPEECH IS A KNOCKING SPEECH (EG GOVERNMENT SURROUNDED BY DIFFICULTIES OF ITS OWN MAKING) WHICH SETS OUT TO BE A COMMENTARY ON THE BRUGES SPEECH TARGETING DIFFERENT SECTIONS OF POLICY ONE AFTER THE OTHER. HE EXPLAINED HIS AIM AS QUOTE WIPING AWAY THE STAIN LEFT ON THE PRINCIPLES AND BELIEFS OF THE COLLEGE OF EUROPE BY THE BRUGES SPEECH.

GENERAL

3. HEATH ARGUED THAT THE WAY FORWARD WAS NOT TO EUROBASH, NOR SMEAR THE COMMUNITY AS SOCIALIST OR MARXIST. A POSITIVE APPROACH HAD THE SUPPORT OF THE MAJORITY OF THE BRITISH PEOPLE ACCORDING TO AN OPINION POLL OF 28 MAY. HE PARAPHRASED MRS THATCHER'S STATEMENT IN THE BRUGES SPEECH THAT OUR DESTINY IS IN EUROPE AS PART OF THE COMMUNITY. THE HEATH VERSION WAS QUOTE WE IN BRITAIN ARE EUROPEANS: WE ARE IN THE COMMUNITY TO STAY UNQUOTE. THE TREATY OF ROME WAS NEVER INTENDED AS A

CHARTER FOR ECONOMIC LIBERTY BUT AS ONE FOR EVER CLOSER POLITICAL UNION, AS WAS SET OUT EVEN MORE CLEARLY IN THE SINGLE EUROPEAN ACT. THE SEA'S IMPLICATIONS FOR DECISION MAKING WERE CLEAR TO PARLIAMENTARY COLLEAGUES WHO PASSED THE ACT BY A MAJORITY OF 159.

BRITISH ECONOMY

4. HEATH CLAIMED THE CHANCELLOR HAD MADE SOME SERIOUS ERRORS IN HIS MANAGEMENT OF THE BRITISH ECONOMY WHICH HAD UNDERMINED CONFIDENCE IN THE POUND. THE STRENGTH OF THE US DOLLAR AND WORLDWIDE TREND TOWARDS HIGH INTEREST RATES WERE TWO FACTORS THAT HAD NOTHING TO DO WITH QUOTE NATIONAL SOVEREIGNTY UNQUOTE.

SOVEREIGNTY

5. TRADITIONAL CONCEPT OF NATIONAL SOVEREIGNTY DOCTRINE OF A PAST PERIOD. THE PREMISE OF NATO WAS THAT AN ATTACK ON ONE WAS AN ATTACK ON ALL WHICH AMOUNTED TO A SURRENDER OF SOVEREIGNTY: THE SOVEREIGNTY CARD WAS TOO OFTEN PLAYED AT A TIME OF DOMESTIC POLITICAL DIFFICULTY TO DIVERT ATTENTION.

SINGLE EUROPEAN MARKET

6. A STANDARD PITCH ON THE SINGLE MARKET: TWELVE FORMS OF RED TAPE HAD TO BE SWEEP AWAY: COMMISSION PROPOSALS FOR STANDARDISATION OF PRODUCT REQUIREMENTS A REDUCTION IN PETTY BUREAUCRACY NOT AN INCREASE. PHYSICAL BARRIERS SHOULD GO: HEATH'S EXPERIENCE INDICATED THE BEST METHOD OF DETECTING TERRORISTS WAS NOT A UNIFORMED CUSTOMS OFFICER AT THE BORDER, BUT INTERNATIONAL COOPERATION, HENCE HIS SUPPORT FOR THE ANGLO-IRISH AGREEMENT.

SOCIAL POLICY

7. ON SOCIAL POLICY HEATH POINTED TO BRITAIN'S LONGEST ESTABLISHED SOCIAL POLICY IN THE EC, INCLUDING THE NATIONAL HEALTH SERVICE, AND SUGGESTED WAITING TO SEE THE COMMISSION PRODUCT TO JUDGE IF THERE WERE PARTS OF THE SOCIAL CHARTER THAT WERE UNWELCOME.

EMS AND EMU

8. A MAJOR SECTION IS DEVOTED TO THE NEED FOR A SINGLE EUROPEAN CURRENCY, A CENTRAL EUROPEAN BANK AND A COMMON ECONOMIC AND MONETARY POLICY. HEATH POURS SCORN ON THE BRITISH POSITION ON THE ERM AND MAINTAINS THAT THE MEMBERSHIP IS SUPPORTED BY THE CHANCELLOR, FOREIGN SECRETARY AND GOVERNOR OF THE BANK OF ENGLAND. AS TO THE DELORS REPORT, HE ARGUED THERE WAS LITTLE IN IT WITH WHICH AN INTELLIGENT CONSERVATIVE COULD NOT AGREE: AMENDING THE TREATIES FOR DEVELOPMENT OF A CENTRAL BANKING SYSTEM COULD ONLY BE DONE AFTER UNANIMOUS DECISION BY THE EUROPEAN COUNCIL, THE EUROPEAN PARLIAMENT AND RATIFICATION BY NATIONAL PARLIAMENTS, THUS MAKING IT FULLY DEMOCRATICALLY ACCOUNTABLE.

DEMOCRATIC ACCOUNTABILITY

X 9. THE ONE NEW PROPOSAL IS THAT ALL (REPEAT ALL) COMMUNITY LEGISLATION SHOULD ENTER INTO FORCE ONLY WHEN PASSED BY BOTH THE EUROPEAN COUNCIL AND BY THE EUROPEAN PARLIAMENT: THOSE WHO ACCUSED THE EC OF BEING UNDEMOCRATIC SHOULD BE THE FIRST TO SUPPORT DEVELOPMENT OF THE EUROPEAN PARLIAMENT. AS FOR THE MYTH OF THE GIGANTIC ALIEN BUREAUCRACY OF THE COMMISSION, IT HAD FEWER PEOPLE THAN THE SCOTTISH OFFICE.

10. A FINAL HEATHISM WAS DIRECTED AT THE PRESERVATION OF NATIONAL VALUES: THE DIFFERENT NATIONS WOULD CONTINUE TO RETAIN THEIR NATIONAL HERITAGE LONG AFTER EUROPE WAS POLITICALLY UNITED IN THE SAME WAY AS THE WELSH, SCOTS, FLEMISH ETC.

11. QUESTIONS AFTER CLEARLY RECOGNISED THAT THE SPEECH HAD BEEN DICTATED LESS BY A VISION OF EUROPEAN UNITY THAN BY POLITICAL ANIMOSITY. IN RESPONDING TO A QUESTION ABOUT THE REST OF EUROPE HEATH Poured COLD WATER ON THE APPLICATIONS FOR ACCESSION (MILITANT MOSLEMS IN TURKEY, DIFFICULTIES OF NEUTRALITY ETC.). ECONOMIC UNITY HAD TO BE FOLLOWED BY A EUROPEAN DEFENCE POLICY: THE LATTER WAS NECESSARILY PREDICATED ON POLITICAL UNITY AND A COMMON FOREIGN POLICY.

O'NEILL

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*Re X, in was
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Begin Council
but Italy asks no
BPC for a report
a short time.*

FRAME GENERAL

COREPER (AMBASSADORS) 12 JULY 1989

SUMMARY

NB (Z) DENOTES ITEMS NOT REPORTED ELSEWHERE

(I) POINTS (Z)

1. CLEARED, WITH UK PARLIAMENTARY SCRUTINY RESERVE ON POINT 5 (ACCESSION OF BOLIVIA AND PARAGUAY TO THE GATT) AND GERMAN WAITING RESERVE ON EC/ACP (REPORT OF EC/ACP COUNCIL OF MINISTERS FOR 1988).

EC/US

2. ITALY MADE CLEAR THAT THEY WOULD PRESS HARD AT THE FOREIGN AFFAIRS COUNCIL FOR EC COUNTER-RETALIATION ON HORMONES. NO-ONE ELSE SHOWED ANY SIGN OF SUPPORTING THIS.

TURKEY: TEXTILES

3. TO COUNCIL AS 'A' POINT WITH UK, PORTUGAL AND GREECE OPPOSED, AND UK AND PORTUGUESE MINUTES STATEMENTS.

OTHER BUSINESS: CSCG CONFERENCE ON EUROPEAN ECONOMIC COOPERATION

4. UNGERER (GERMANY) MADE A STATEMENT ABOUT THE IMPORTANCE OF COMPREHENSIVE PREPARATION WITHIN THE COMMUNITY AND MORE WIDELY FOR THE BONN CSCE ECONOMIC CONFERENCE. A DETAILED NOTE OF GERMAN IDEAS IS TO BE DISTRIBUTED.

OTHER BUSINESS: EMERGENCY AID TO ARGENTINA (Z)

5. EMERGENCY AID OF 0.4 MECU FOR ARGENTINA (CHILDREN'S FEEDING PROGRAMME) AGREED WITHOUT DISCUSSION.

EC/ACP

6. (A) LOME RENEGOTIATIONS. DISCUSSION OF OUTSTANDING LOME POINTS IN PREPARATION FOR FAC. MANY RESERVES REMAIN ON PRESIDENCY COMPROMISE TRADE PROPOSAL. WE, PORTUGAL AND NETHERLANDS DECLINED TO

Tdd

Ms Syme

TAKE DECISION ON GEOGRAPHICAL COVERAGE. SATISFACTORY COMPROMISES REACHED UNEXPECTEDLY ON SUBSTANCE OF STABEX, SYSMIN AND COMMODITIES. HOWEVER, SPAIN PLACED GENERAL RESERVE ON ALL DOSSIERS UNTIL AGREEMENT REACHED ON GEOGRAPHICAL COVERAGE.

(B) LOME 1988 STABEX SHORTFALL. A NUMBER OF MEMBER STATES INCLUDING UK SUPPORTED NETHERLANDS OPPOSITION TO COMMISSION AND COUNCIL LEGAL SERVICE VIEW ON ELIGIBILITY OF COTE D'IVOIRE STABEX CLAIM. SEVERAL INCLUDING UK ALSO INDICATED UNWILLINGNESS TO ACCEPT IN FULL COMMISSION PROPOSAL TO MAKE UP OVERALL SHORTFALL IN RESOURCES. FURTHER DISCUSSION IN COREPER NEXT WEEK: MEETING WITH ACP AMBASSADORS TO BE POSTPONED.

PREPARATION OF PARIS ECONOMIC SUMMIT

7. THE CHEF DE CABINET TO DELORS PROVIDED THE USUAL PRE-SUMMIT BRIEFING. HE NOTED THAT THERE WERE OUTSTANDING DIFFERENCES OF EMPHASIS ON THE CHINA DECLARATION. ON ECONOMIC/MONETARY AND DEBT ISSUES, REMAINING DIFFERENCES OF OPINION WERE UNLIKELY TO SURFACE AT THE SUMMIT ITSELF. ENVIRONMENT WOULD BE A MAJOR ITEM FOR THE FIRST TIME.

AGENDA FOR 17 JULY FOREIGN AFFAIRS COUNCIL

8. (A) AGENDA AS FOLLOWS:

- EP RESOLUTIONS
- FOLLOW UP TO 26/27 JUNE EUROPEAN COUNCIL
- EC/US
- EC/ACP (X)
- BROADCASTING DIRECTIVE (X)
- COMITOLGY
- OTHER BUSINESS: POLAND: FOOD AID (GERMAN STATEMENT) CONFERENCE OF THE REPRESENTATIVES OF THE MEMBER STATES.
- APPOINTMENT OF MEMBERS TO THE COURT OF FIRST INSTANCE.

(B) TELEVISION BROADCASTING DIRECTIVE

TOUR DE TABLE ON COMMISSION RE-EXAMINED PROPOSAL REVEALED MUCH GREATER GERMAN FLEXIBILITY THAN EXPECTED, BUT CLEAR FRENCH STATEMENT THAT THEY COULD NOT ACCEPT TEXT WITHOUT EUROPEAN PARLIAMENT AMENDMENTS ON LEGALLY BINDING QUOTAS. BELGIAN AND DANISH POSITIONS UNCHANGED, NETHERLANDS AND GREECE STILL UNDECIDED.

LUNCH: CHAIRMANSHIP OF FAO INDEPENDANT COUNCIL

9. DE SCHOUTHEETE (BELGIUM) SOUGHT COMMUNITY SUPPORT FOR BELGIAN CANDIDATE FOR CHAIRMANSHIP OF FAO COUNCIL AND DISPUTED PRINCIPLE OF ROTATION. BACKING FROM COMMISSION AND GREECE. UK, FRG, NETHERLANDS

AND IRELAND ARGUED FOR NORTH AMERICAN CANDIDATURE UNDER ROTATION SYSTEM. COREPER TO REVERT IN DUE COURSE.

LUNCH: ECONOMIC AND MONETARY UNION: WORK PROGRAMME

10. PRESIDENCY DESCRIBED WORK PROGRAMME FOR NEXT FEW MONTHS, VERY LARGELY IN SOME TERMS AS AT ECOFIN LUNCH (MY TELNO 2272).

LUNCH: CHINA APPLICATION FOR SEAT ON GATT TEXTILES SURVEILLANCE BODY
11. COREPER AGREED THAT THE EC SHOULD SUPPORT THE US REQUEST FOR POSTPONEMENT OF GATT WRITTEN PROCEDURE DEADLINE UNTIL END OF YEAR.

LUNCH: COURT OF FIRST INSTANCE

12. BELGIUM AND LUXEMBOURG HAVE NOW NOMINATED CANDIDATES. PRESIDENCY ESTABLISHED SOLE CANDIDATE FOR PRESIDENCY OF NEW COURT WAS VELACA (PORTUGAL) AND THAT NO-ONE WAS INSTRUCTED TO OPPOSE HIM. PRESIDENCY CONCLUDED OPTION OF REFERRING DECISION TO COURT FELL AWAY. AGREED THAT ALL WOULD TAKE INSTRUCTIONS. IF NO OBJECTIONS NOTIFIED BY LUNCH ON 17 JULY THE PRESIDENT AND THE MEMBERS COULD BE APPOINTED IN ONE GO. IF OBJECTIONS ONLY THE MEMBERS WOULD BE APPOINTED.

OTHER BUSINESS: HANDLING OF THE AUSTRIAN APPLICATION FOR EC MEMBERSHIP

13. PRESIDENCY LEAN TOWARDS IMMEDIATE REACTION TO AUSTRIAN APPLICATION, WITH DECISION ON REFERRAL TO THE COMMISSION AND ON THE REPLY TO BE GIVEN TO THE AUSTRIANS TO BE TAKEN AT THE COUNCIL ON MONDAY. MOST MEMBER STATES WILLING TO SUPPORT THIS, THOUGH BELGIUM ARGUED THAT MORE TIME WAS NEEDED FOR REFLECTION. OUR VIEW THAT THE REPLY TO THE AUSTRIANS SHOULD CONTAIN AN EXPLICIT REFERENCE TO THE NEUTRALITY ISSUE WAS STRONGLY SUPPORTED BY ITALY, SPAIN AND BELGIUM AND MORE AMBIGUOUSLY BY GERMANY. IRELAND, DENMARK AND THE NETHERLANDS WERE DOUBTFUL ON THIS POINT. THE PRESIDENCY UNDERTOOK TO CIRCULATE A DRAFT REPLY BY MONDAY AS A BASIS FOR MINISTERIAL DISCUSSION.

OTHER BUSINESS: COMMISSION REPRESENTATION IN EASTERN EUROPE

14. NIEMAN (NETHERLANDS) REFERRED TO DISCUSSIONS IN THE BUDGET COMMITTEE ON THE 1990 PDB CONCERNING THE COMMISSION'S INTENTION TO ESTABLISH A REPRESENTATION IN MOSCOW AND IN OTHER EASTERN EUROPEAN CAPITALS AND ASKED FOR COREPER DISCUSSION.

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FOREIGN AFFAIRS COUNCIL: 17 JULY
SUMMARY TELEGRAM
(NB (Z) DENOTES ITEMS NOT REPORTED ELSEWHERE)

[Handwritten signature]
[Red handwritten notes: "LW was 6", "see A/A"]

SUMMARY

1. A LONG DRAWN OUT COUNCIL, THE FIRST OF THE FRENCH PRESIDENCY, CHAIRED WITH GREAT PATIENCE BY DUMAS. REPLY TO AUSTRIAN MEMBERSHIP APPLICATION AGREED, BUT TRANSMISSION OF APPLICATION TO THE COMMISSION TO BE DISCUSSED FURTHER AT COREPER, AS A RESULT OF BELGIAN OPPOSITION. COMMISSION SET OUT FIRST IDEAS FOR HANDLING THE SUMMIT REMIT ON POLAND/HUNGARY. PARLIAMENT TO BE ASKED FOR A MONTH'S EXTENSION FOR BROADCASTING DIRECTIVE, BUT FRANCE AND GERMANY INDICATED BILATERALLY LIKELY AGREEMENT IN THE AUTUMN. NO AGREEMENT ON LOME MANDATE DESPITE 6 HOURS DEBATE.

2. YOU, MRS CHALKER AND MR PATTEN REPRESENTED THE UK.

AGENDA (Z)

3. THE PRESIDENCY CIRCULATED A REVISED AGENDA OMITTING COMITOLGY, WHICH WAS POSTPONED TO OCTOBER.

A POINTS (Z)

4. ALL IN DOCUMENTS 7738 AND 7760 ACCEPTED.

EP RESOLUTIONS (Z)

5. THE PRESIDENCY REFERRED TO RESOLUTIONS 1 - 4 (AIR TRANSPORT), 16 (BROADCASTING), 17 (EC/MALTA), 27 (CHINA), 53 (TITANIUM DIOXIDE WASTE), 64 (NIC V), 72 (RADIOACTIVITY IN FOODSTUFFS) AND 117 (LEAST PRIVILEGED GROUPS). PINHEIRO (PORTUGAL) REFERRED TO RESOLUTION 35 (EAST TIMOR).

COURT OF FIRST INSTANCE (Z)

6. MEMBERS APPOINTED AS IN DOC 7917/89. AGREEMENT THAT PRESIDENCY SHOULD GO TO THE PORTUGUESE (VILACA).

FOLLOW UP TO EUROPEAN COUNCIL

7. A LENGTHY TOUR DE TABLE ON FUTURE WORK ON EMU. SOME PRESSURE FOR A STRONG COORDINATING ROLE FOR THE FOREIGN AFFAIRS COUNCIL (FAC). FRANCE ANXIOUS FOR RAPID PROGRESS. THE PRESIDENCY PROMISED PROCEDURAL PROPOSALS, POSSIBLY INVOLVING THE SETTING UP OF A HIGH LEVEL GROUP.

TELEVISION BROADCASTING DIRECTIVE

8. AFTER A TOUR DE TABLE IN WHICH GERMANY (NO DOUBT AFTER COORDINATION WITH THE FRENCH) PRESSED FOR A ONE MONTH EXTENSION OF THE COOPERATION PROCEDURE, DUMAS (PRESIDENCY) CONCLUDED THAT NO QUALIFIED MAJORITY WAS YET ACHIEVABLE ON THE REEXAMINED COMMISSION PROPOSAL AND THAT THEY WOULD SEEK EXTENSION FROM THE EUROPEAN PARLIAMENT.

EC/US

9. UPBEAT ACCOUNT OF OVERALL EC/US RELATIONS FROM ANDRIESSEN IS OFFSET BY A TOUGH PRESENTATION FROM MACSHARRY ON SOYA AND HORMONES. ITALY CALLS FOR A FIRMER EC STANCE ON HORMONES, BUT STOPS SHORT OF DEMANDING IMMEDIATE COUNTER-RETALIATION. MACSHARRY SPEAKS AGAINST A DEROGATION FOR OX-TONGUES. HORMONES ISSUE COMES BACK TO NEXT COUNCIL FOR A FURTHER PROGRESS REPORT AND DECISIONS ON NEXT STEPS.

AID FOR POLAND AND HUNGARY

10. THE COMMISSION SAID THAT THE REMIT THEY HAD RECEIVED FROM THE ECONOMIC SUMMIT INVOLVED THREE ELEMENTS: THE IMMEDIATE SUPPLY OF EMERGENCY FOOD AID, LONGER TERM SUPPORT FOR THE RESOLUTION OF THE POLISH FOOD SUPPLY PROBLEM AND SUPPORT FOR ECONOMIC AND TRADE COOPERATION IN HUNGARY AND POLAND. ON THE FORMER, THEY WOULD BE SUBMITTING A PROPOSAL TO THE JULY AGRICULTURE COUNCIL, INVOLVING THE USE OF THE COMMUNITY'S SURPLUS STOCKS. THEY WOULD ALSO BE CALLING A MEETING BEFORE THE SUMMER BREAK OF OFFICIALS OF THE COUNTRIES CONCERNED BY THE SUMMIT REMIT. THE COMMISSION WILL ALSO PRODUCE SHORTLY A PAPER ON THE EIB'S ROLE IN PROVIDING LOANS TO THE EASTERN BLOC. IT WAS AGREED THAT COREPER SHOULD EXAMINE THE COMMISSIONS FORTHCOMING PROPOSAL ON FOOD SUPPLIES URGENTLY IN ORDER TO ALLOW A DECISION BY THE END OF JULY.

AID FOR ARGENTINA

11. ITALY PROPOSED PROGRAMME OF ASSISTANCE FOR ARGENTINA. UK REGISTERED OPPOSITION WHILE ARGENTINE DISCRIMINATION PERSISTED. COMMISSION AND PRESIDENCY TOOK NOTE AND SAW PROBLEMS IN RECONCILING OPPOSING POSITIONS.

EC/AUSTRIA

12. AUSTRIAN APPLICATION FOR EC MEMBERSHIP TRANSMITTED BY MOCK TO DUMAS (PRESIDENCY) THIS MORNING. EXTENDED DEBATE OVER FAC LUNCH ON EC RESPONSE. CONSENSUS BOTH ON IMMEDIATE REFERRAL OF APPLICATION TO COMMISSION AND ON REPLY TO AUSTRIANS WAS BLOCKED BY BELGIUM, SEEKING TO DELAY DECISIONS UNTIL OCTOBER FAC. BELGIUM FINALLY AGREED TO IMMEDIATE LETTER OF ACKNOWLEDGEMENT BEING SENT TO AUSTRIANS. THIS FLAGGED UP NEUTRALITY ISSUE AS UK AND OTHERS WANTED, BUT, AT BELGIAN INSISTENCE, WAS AMENDED TO AVOID PREJUDGING DECISION ON REFERRAL TO COMMISSION. COREPER TO CONSIDER FURTHER ON 20 JULY THIS LATTER ISSUE.

EC/ACP

13. AFTER SIX HOURS OF DEBATE ITALIAN AND GREEK INTRANSIGENCE ON TRADE LED TO BLOCKAGE ON ALL LOME QUESTIONS. AGREEMENT HAD BEEN CONFIRMED ON SUBSTANCE OF STABEX, SYSMIN AND COMMODITIES AND TO CONTINUE WORK ON GEOGRAPHICAL COVERAGE WITH AIM OF AGREEMENT IN OCTOBER. HOWEVER, IN FACE OF ITALIAN AND GREEK RESERVES PRESIDENCY (WITH SUPPORT OF COMMISSION AND NINE MEMBER STATES) EVENTUALLY DECIDED THAT AGREEMENT WAS IMPOSSIBLE ON TRADE, IN WHICH CASE THERE WAS NO POINT IN FURTHER DISCUSSION WITH THE ACP ON ANY POINTS.

LUNCH: PARIS ECONOMIC SUMMIT (Z)

14. COMMISSION AND PRESIDENCY GAVE A FULL AND UNCONTROVERSIAL REPORT OVER LUNCH: THERE WAS NO DISCUSSION, BUT SEE BELOW FOR POLAND.

LUNCH: PARIS AUDIOVISUAL CONFERENCE

15. FRENCH PRESIDENCY RESPOND POSITIVELY IF VAGUELY TO PRESSURE FROM UK, SUPPORTED BY NETHERLANDS, SPAIN AND BELGIUM, TO INVOLVE US/CANADA IN THE PARIS AUDIOVISUAL CONFERENCE OF 30 SEPTEMBER - 2 OCTOBER.

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