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PART A

Part: A.

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Begins: 10/3/89
Ends : 19/10/89.

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PO - CH | NL | 0546.
Pt.A.

Chancellor (Lawson's) papers:
European Council of Finance Ministers
Meeting, April ~~1989~~ and October 1989.

PO - CH | NL | 0546.
Pt.A.

DD's : 25 Years

17/4/96.



FROM: J M G TAYLOR
DATE: 10 March 1989

pmf

MS SYMES

cc PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Mr Wicks
Mr Lankester
Mr R I G Allen
Mr H P Evans
Mr Walsh

**"GROWTH, TRADE AND DEBT IN MIDDLE INCOME DEVELOPING COUNTRIES":
PRESIDENCY PAPER FOR ECOFIN**

The Chancellor has seen this paper circulated by the Spanish Presidency for discussion at Monday's ECOFIN.

2. He has commented that this is not a badly written paper at all, though we do not want an EC debt initiative.

3. He notes in particular the suggestion (page 7) that a "international facility" might be created which would assist the process of debt reduction either through some form of guarantee or by transferring the ownership of some of the debt. He has commented that this will attract particular attention when the paper leaks (as it inevitably will).

JTG

J M G TAYLOR

Ch. This is the Presidency paper we
were worried about.

7 March 1989

CONFIDENTIAL

J.
13/3

(Presidency paper for discussion at ECOFIN on 13/3)

GROWTH, TRADE AND DEBT IN MIDDLE-INCOME DEVELOPING COUNTRIES

(Non-paper for the ECOFIN Meeting, 13 March 1989)

Not a Sarky work
paper @ all, this is
done by an EC
X will attach particular
attaches when the leaders
in 2 meeting will

7 March 1989

CONFIDENTIAL

GROWTH, TRADE AND DEBT IN MIDDLE-INCOME DEVELOPING COUNTRIES

(Non-paper for the ECOFIN Meeting, 13 March 1989)

During the decade of the 1980s, the worsening economic condition of a number of developing countries has become more preoccupying. Their situation has contrasted sharply with the improved outlook in the industrial countries.

Since a two track world economy is unacceptable and inefficient, the question of how to induce appropriate economic management and performance in the LDCs requires examination. This informal note outlines the main issues and some of the options for joint action by the Community and its Member states, especially in the areas of trade, finance, and the role of multilateral institutions.

1. The Causes of Uneven Economic Performance

While, in this long recovery, OECD countries' economic growth has been satisfactory, supported by strong trade and accompanied by declining inflation, developing countries have shown an uneven capacity to adapt to, and benefit from, this new environment.

The performance of fast-growing Asian NIEs, China and India, has contrasted with deteriorating prospects in Latin America, Sub-Saharan Africa, Middle East and the Mediterranean region:

Table 1: Growth and Inflation

	Real GDP Growth (Average % change 1981-1988)	Inflation*
Asian NIEs	8.6	3
China and India	8.1	6
Latin America	1.5	120
Sub-Saharan Africa	0.7	23
Middle East	-3.3	7
Mediterranean region	2.6	44

* Estimated weighted average of consumer prices

Among the causes of these divergent trends are a different vulnerability to high real rates of interest and falling commodity prices, a different capacity to exploit export opportunities in manufactures. Policy differences have also played a role. A further element in many cases has been the accumulation of external debt.

Slow growth and poor creditworthiness interact perversely: the diversion of resources from import and investment to external debt servicing hinders the improvement of export, output and adjustment.

Short-term expedients have often rendered the debtors' problems even more intractable. Worsening education, health and nutrition standards have affected domestic human resources. Deforestation and desertification have started to affect the global economy as well, giving rise to important environmental threats.

This paper's working hypothesis is that the poor prospects for indebted countries have significant implications for industrial countries. Their economic stagnation reduces export markets for the rest of the world, while increasing political and social risks.

2. Framework for analysis

Experience with debt initiatives for low-income countries in the Venice and Toronto Summits shows that concerted action by the Member States and the Commission gives the Community as a whole a considerable influence on decisions.

A common approach through multilateral actions and multilateral institutions could go a long way in the search for solutions to break the vicious circle of low growth and over-indebtedness in middle-income countries. Three interrelated issues should be considered.

Trade

Throughout history, trade has been both a means of development and a measure of success. The over-indebted middle income countries have been forced to compress imports in order to generate current account surpluses in the wake of sharply declining external finance. Their exports, especially in manufactures, have not kept pace with world trade.

The EC is an increasingly important trading partner of the LDCs.

of Latin America

Table 2: Trade with 15 highly indebted countries
(In \$ billions)

	Exports + Imports		Balance of trade	
	1981	1987	1981	1987
EC	60.5	64.4	+2.9	-8.5
USA	80.9	60.4	-0.5	-17.6
Japan	19.4	14.1	+3.2	-0.3
Other OECD	23.2	14.1	-1.4	+0.9

A greater integration of developing countries into the multilateral trade system and the discipline attached to the opening up of these countries would improve their development performance. On the part of OECD countries, further openness would be instrumental in enhancing the consistency between global objectives and trade policies.

Recent policy developments in the Community have been in this direction, including the reforms of the CAP. The Community is firmly committed to making a success of the Uruguay Round, in which tropical products have already been singled out for specific action. Moreover, structural adjustment should continue in the industrial countries so as to progressively eliminate non-tariff barriers in industrial products. In this respect 1992 will make an important contribution.

To enhance competitiveness, developing countries' economic reforms should also lead to increased openness through more active participation in the GATT. Important steps in this direction on their part could include the agreement on a timetable for tariff reduction and the integration of these reforms as far as possible in the GATT process. Measures should also be taken to encourage further foreign investment.

Negotiations aiming at this parallel liberalisation should take place in a multilateral framework. Developing countries still play only a minor role in the Uruguay Round, largely because of their attachment to special and differential treatment accorded in Part IV of the GATT. This treatment however has been partly eroded due to the reduction in tariff barriers, the increase in non-tariff barriers and the multiplication of bilateral agreements. A clear commitment by both industrial and developing countries to multilateralism could lead to a renewed vigour and adherence to the original principles of the GATT.

Finance

A recent World Bank survey on the Investment/GNP ratio for 90 LDCs, found that the historical average of 25% was associated with a growth rate of output of about 4%. Higher performers (the NIEs of Asia) have had investment shares of 30-40%. In Latin America the share fell to 15% in 1987-88, from 25-28% in the 1970s. There is a lesson to be learned from this. Better economic management in the less successful LDCs will allow them to exploit more fully their own resources, including a reversal of capital flight; and to generate a greater inflow of non debt-creating foreign capital. However, appropriate economic management, while necessary, may not be sufficient. In many cases the weight of past debts may prevent the implementation of successful domestic policies.

In turn, the organisation of adequate external financing to help highly indebted countries' structural reforms and new development priorities has its own limit: the limit being the extent to which external public sector creditors are willing to lend in the face of the commercial banks' withdrawal from providing finance to debtors.

How to close the gap between (i) the limited capacity to service debts solely through indigenous efforts and (ii) the limited availability of financing from external public sector sources? This gap can be closed in various ways.

- I. A greater role for commercial banks is essential. (a) Commercial banks could be offered rules of equivalence among the various options available to support the indebted countries. The absence of such rules has impeded the development of a fuller menu of options, just as the efforts of official creditors and donors to assist low-income countries were also hampered before the recent Paris Club consensus. (b) The tax and prudential treatment of banks' loss provisions in respect of their claims on developing countries is relatively varied and induces differences in assessment and distortions in competition among banks. Greater comparability of efforts by banks in different countries as a way to encourage their burden sharing could be achieved through concerted supervisory and fiscal changes.
- II. In 1985-1988 about \$30 bn voluntary debt-reduction transactions took place, half of them in 1988 alone. Voluntary debt reduction based on market-oriented financial techniques could help develop a secondary market for banks' claims. That could be expedited by international concerted regulatory and supervisory measures to enhance provisions for loan-loss reserves and for a strengthening of banks' capital bases. It could also be strengthened by the creation of an international facility that would, subject to the appropriate conditions, assist the process of debt reduction either through some form of guarantee or by transferring the ownership of some of the debt.

III. Increased flows of official development assistance should foster adjustment, in particular through quick-disbursing finance and long-term economic development assistance, taking into account human resources, social aspects and environmental protection.

Multilateral Institutions

Multilateral institutions have played, and will play, a central role in the debt strategy. This role has evolved. The IMF and the World Bank have been given new tasks which to some extent overlap: adjustment and monitoring over a longer period for the IMF, sectoral and structural adjustment for the World Bank. They have increased responsibilities with regard to the conception and implementation of structural reforms in countries over-indebted to banks. As structural adjustment is closely linked to trade reform, there is an increasing need for them to work more closely with the GATT.

Table 3: Net flows to highly indebted countries
(\$ billions average pa)

	1982-85	1986-88
IMF	3.4	-0.5
World Bank	2.4	2.6
IDB	2.5	1.4
Total	8.3	3.5

Each institution should be strengthened and their respective roles should be clarified. An agreement between EC Member States on this broad issue would be of great help, in parallel with the ongoing deliberations in the G10 context.

The Community is playing an increasing role in the structural adjustment process in Sub-Saharan Africa. The role will be further strengthened in the next ACP-EC convention. Effective action supposes however improved coordination within the Community as well as between the Community, its member states and the Bretton Woods institutions, concerning adjustment support in ACP and other developing countries.

*us. Omits
Pan 2 Club*

3. Main issues for discussion

The poor prospects for the developing countries, particularly the over-indebted countries, have significant implications for the industrial countries. Ministers may wish to discuss this topic around the following three main issues:

- If a broad approach embodying both trade and finance measures is desirable, how best can these two domains of policy be made to support each other? How can a multilateral approach fully support the need for reform and adjustment in specific over-indebted countries?
- In order to limit the transfer of risk from private to public creditors, a better sharing of efforts and responsibilities is needed. What measures are necessary to ensure a satisfactory burden sharing?
- The role of the multilateral institutions is a key one. What should be done to strengthen their role and to promote a better cooperation between them? Would for example an increase in IMF quotas and a new allocation of SDRs be necessary to indicate the industrial countries' determination to support the adjustment efforts and requirements of the highly indebted countries within the framework of programmes designed by the multilateral institutions? How should the lending programme of the World Bank and IDB develop?

CONFIDENTIAL

FROM: SUSIE SYMES (EC1)

DATE: 12 APRIL 1989

EXTN: 4441

CHANCELLOR

Ch: You might like early sight of the three briefs which I have flagged. I don't think you need look at the rest at this stage. I will pass on my comments to Ms Symes, for incorporation in the final draft.

cc

Mr Wicks
Mr Lankester
Mr R I G Allen
Mrs M E Brown
Mr Gieve
Mr Pirie

*Thomson - one or 2 samples
P.S. make for quarterly (s)*

ECOFIN 17 APRIL

I am attaching early briefing for ECOFIN, on most of the agenda. Some updating may be needed after COREPER tomorrow.

2. You may wish to look (first) at the line to take on the two main items: taxation of savings, at Brief C and C(i) (without all supporting documents), and tax approximation at Brief D.

3. On tax approximation, the main points for the press could be: specifically welcome Mme Scrivener's willingness to review the Commission's position; take credit for the UK's considerable achievement in pressing the - initially unpopular - UK view, since we have now established that the original (Cockfield) proposal were going down a blind alley.

4. On travellers allowances you will be able to judge at the time whether it is right to mention your wish to see a quadrupling of the present value limit; a draft speaking note is attached.

5. Also attached are Brief A(ii) successor regulation to 2892/77; Brief E on two company tax measures to encourage cooperation between undertakings in different member states; Brief F on the 18th VAT directive, Brief G on the statistical programme of the EC 1989-1992; and Brief I, giving statistics for the EC, US and Japan.

6. We will submit briefing on reciprocity in banking, own funds and the successor regulation to 2891/77 as soon as possible; and the usual steering brief on Friday 14 April as normal.

PS: let me see this

Susie Symes

SUSIE SYMES

ECOFIN 17 APRIL

PRESS LINE

Indirect taxation in the single market

- Commission's original*
- Welcome recognition at the Council today that the main elements of the ~~1987~~ package simply do not offer a viable way forward.
 - Mme Scrivener has taken a most flexible and constructive approach, recognising that Member States have varying needs and difficulties. Welcome her understanding of UK concerns on VAT zero rating; and on the need for excise duties on alcohol and tobacco to ~~fully~~ reflect health considerations.
 - UK has long been pressing for consideration of other approaches. I believe our technical proposals do offer a way forward to removal of fiscal frontiers without need for tax approximation.
 - Plain fact is that the VAT clearing house - and hence the origin system - is a non-starter. So too is excise duty harmonisation.
 - Priority now is to look for constructive solutions. UK has made proposals; so too have France and Belgium.
 - Mme Scrivener is rightly committed to removal of fiscal frontiers. So is the UK. As I said at the Finance Council last December, the aim of our approach is the total elimination of fiscal frontiers~~s~~ formalities, not just reduction. And the UK will continue to strive for real progress to that end.
 - [That is why, as a practical step, I have suggested that the Community consider quadrupling the 'tax paid' travellers allowances. People could bring up to £1000 worth of goods - excluding alcohol and tobacco - from other Member States without any Customs formalities. This would make clear the benefits of breaking down fiscal frontiers.]
 - [In the same spirit of ending petty restrictions on travellers, I have also suggested a fourfold increase in the lower allowance for goods - other than alcohol and tobacco - brought back from outside the Community or bought from duty free shops.]

*Thanks. C
ya ~~long~~
Ch. As regards
13/4
to improve
to take
low from the
point of a
press release*

TRAVELLERS' ALLOWANCES : SPEAKING NOTES FOR CHANCELLOR OF THE EXCHEQUER

a) Intra-EC travellers' allowances

[I welcome the constructive way in which we are now discussing the difficult questions of fiscal frontiers. But] we need not wait until the whole picture becomes clear before taking action. Where we can go forward we should do so.

One important area is the travellers' allowances of goods which individuals can take (tax paid) from one Member State to another. I suggested at ECOFIN in Crete last September that these should be substantially and progressively increased, even before 1992.

The allowances for tobacco and alcohol goods warrant further study because of the wide differences in excise duty rates and the health policy implications of increases. But the same considerations do not apply to goods subject only to VAT, where the current allowance stands at 390 ECU. I think it would be a helpful step towards a more liberal regime if we were to quadruple the present value limit, to at least 1550 ECU (£1000). Few measures would signal so clearly to the people of the Community that fiscal frontiers, and the formalities that go with them, are on the way out.

I therefore suggest that the Commission might study this and bring forward a draft Directive to bring 1992 nearer in this important area.

b) Third country travellers' allowances

To avoid allegations that 1992 will mean "Fortress Europe" we should also demonstrate that we welcome business and personal contacts between the Community and the rest of the world. We have allowed the third country value allowance, at 45 ECU, to become too low. It causes genuine resentment - both among Community nationals returning home and third country nationals entering Europe for tourism or business - that they can bring so little in without Customs formalities. The OECD recommends a duty and tax exemption of £120, which at present rates would suggest an increase to 180 ECU.

I recognise that an increase has been resisted in the past by some member states because the 45 ECU figure is also applied to duty-free shopping within the EC. In the interests of our image in the world, and of removing petty restrictions on returning EC nationals, it is perhaps worth paying the price of an increased duty-free anomaly. The debate on the future of duty-free shopping within the EC would be unaffected.

I therefore invite the Commission to make suitable proposals to raise the third country allowance.

TRAVELLERS' ALLOWANCES : BACKGROUND NOTE

Intra-EC allowances

1. The allowance for "other goods" (ie goods other than tobacco, spirits, wine etc) is at present 390 ECU. It has recently been raised from 350 ECU under biennial revalorisation for inflation. Because of exchange rate movements, the UK allowance will stay at £250. There is no provision in the Directive for Member States to make unilateral increases in allowances.
2. Derogations to the 390 ECU limit are currently in force for Ireland, Greece and Denmark authorising lower limits to the allowance. These reflect particular problems with cross-border shopping (eg Denmark) and/or currency difficulties (Ireland). Any proposal by the Commission to increase the allowances would probably have to continue these derogations to have any hope of success.
3. The Commission has tried in the past to increase the allowance by more than inflation. The last attempt (1983/1985) met strong resistance from Denmark, Greece and Ireland.

Third country/duty-free allowance

4. The "other goods" allowance for travellers arriving from outside the EC (or who have made purchases duty-free within the EC) has remained at 45 ECU since 1 January 1982. The UK equivalent has been £32 since 1987.
5. The Commission has made several attempts to raise this allowance. The UK strongly supported an attempt to raise it to 100 ECU (about £65), and called for further increases to around £120 to reflect an OECD Recommendation on Tourism. As with intra-EC allowances, unanimity was not achieved. Greece fears increased cross-border shopping (third countries on all sides), and this may also lie behind Irish objections.
6. The allowance also covers duty-free purchases within the EC, and Belgium has been opposed to any increase for as long as intra-EC duty-free shopping remains. A suggestion by the German Presidency in 1988 to cut the link between duty-free and non-EC purchases so as to raise the latter hit more objections - it is a "golden rule" that EC citizens must not be treated less favourably than those from third countries.



FROM: J M G TAYLOR
DATE: 14 APRIL 1989

MS SYMES (EC1)

cc PS/Chief Secretary
Mr Wicks
Mr Lankester
Mr H P Evans
Mr R I G Allen
Mrs M E Brown
Mr Gieve
Mr Pirie
Mr Call

Mr P R H Allen (C&E)

ECOFIN 17 APRIL

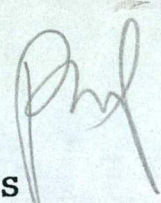
The Chancellor was grateful for your note of 13 April.

2. On the draft press line on indirect taxation, he had a couple of minor amendments. I have passed these on to you by telephone.

3. More importantly, however, he has asked about the precise meaning of the statement that: "... the aim of our approach is the total elimination of fiscal frontier formalities, not just reduction". Does this hold universally, or for traders? The Chancellor thinks that if it means the latter, we need to say so. And if it means the former, we are implying unlimited travellers' allowances, in which case we will need to have an answer to the cross-border shopping problem - which presumably is that this is how market forces work (though this will lose us allies).

A handwritten signature in dark ink, appearing to be 'JMG'.

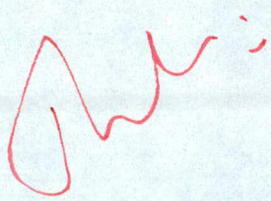
J M G TAYLOR

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FROM: SUSIE SYMES
 DATE: 14 April 1989
 Ext: 4441

PS/CHANCELLOR

cc PS/Chief Secretary
 Mr Wicks
 Mr Lankester
 Mr Culpin
 Mr H P Evans
 Mr R I G Allen
 Mrs M E Brown
 Mr Gieve
 Mr Call
 Mr P R H Allen (C&E)



ECOFIN 17 APRIL

The Chancellor asked about the statement in the draft press line that: "the aim of our approach is the total elimination of fiscal frontier formalities, not just reduction".

2. The key word is aim. It is our aim for all, not just traders, but without commitment to actually being able to achieve that aim. The big problems, at least for the UK at the moment, are tobacco and alcohol and the associated loss of revenue (and health) from unlimited allowances on cross-border shopping.

3. So to focus on aim is a bit of a fudge, and the issue is fudged in the Customs technical paper too. But to restrict the sentence to traders could suggest too much movement from the market forces approach, since, as you suggest, the cross-boarder shopping problem lessens as market forces work.

4. My inclination is to stick with the wording used at the December Council (although that was in private - perhaps Mr Gieve has a note of the line ^{used} _{to} ^{the} _{press}) Should the Chancellor prefer to be more cautious, I have provided some square bracketed text in the revised draft press line, which has been agreed with Richard Allen (C&E).

This is in Part 2 of the folder - attachment (j) behind brief D.

Susie Symes
 SUSIE SYMES

Conclude this. I don't think a brief party is reqd. CLR for Thursday 18/5/89
Are you generally content?
(Mr Wicks tells me, incidentally, that he assumes you will not want to table a ppr. in advance of the meeting setting out our views on Delors Stage 1).
Do you want a briefing meeting (or, say, Monday of next week) or are things sufficiently clear already?

FROM: N L WICKS
DATE: 8 MAY 1989
Ext : 4369

MRS M E BROWN (EC1)

cc PPS - 12/2
Mr Lankester
Mr R I G Allen
Mr Peretz
Mr H P Evans
Mr Odling-Smee
Mr Ilett (FIM2)
Miss O'Mara (MG1)
Ms Symes (EC1)

BRIEFING FOR THE INFORMAL ECOFIN

As we discussed, I think that the briefing for ECOFIN needs to cover the following.

(i) The world and UK economies: some notes for the Chancellor's contribution to any discussion on the world and UK economies (current developments, prospects etc).

(ii) Delors Report etc: I suggest that besides covering the ground in the Principal Private Secretary's briefing letter to No 10 for the De Mita etc visits, the brief might also give the Chancellor some material for making clear that the Delors Report was in many respects a sketchy document. Mr Lankester's "personal reflections" and the minuting they stimulated are a useful quarry. The purpose of this material would be for the Chancellor to lend support to those likely to argue that many further aspects need to be studied in the months ahead before decisions can be taken on the Report. The Chancellor might also use his intervention on these lines, for example to rub home the fundamental political consequences of the report, if it were to be implemented, to damped down expectations of the poorer members for more regional funds etc.

(iii) Withholding tax: briefing can be on normal lines, though I think that there needs to be more on the information provision aspect; for example, why cannot the UK accept a variant of the Danish/Dutch systems of automatic reporting of interest on

bank etc deposits? Do we rule out extending CRT deductions to all Community residents?

It would also be worthwhile, providing the Chancellor with information which demonstrates that compared to some tax authorities, our Inland Revenue has substantial powers, probably greater than the generality of other Community members, for tackling tax evasion. For example, my Dutch colleague told me recently that in the Netherlands the Revenue Service was able to reopen tax assessments for only the four (or was it three) previous tax years so that any tax dodger, if he kept his income out of sight of the Revenue for four (or three) years would be in the clear. Such an inhibition does not, I think, constrain the Revenue. The Revenue can also, I think, effectively transfer for the burden of proof from themselves to the taxpayer in disputed cases by levying large assessments on the unfortunate taxpayer and effectively saying "prove that the assessment should be lower". Again, this is a power that other tax authorities do not seem to have.

If this line of argument can be substantiated, it would be worth giving the Chancellor some material in order to make the point that we are not soft on tax evasion but have developed, and we think reasonably effective, means for dealing with it in a way which allows the Revenue to focus on recalcitrant taxpayers without damaging the capital markets.

- (iv) Indirect taxation: briefing should be on standard line.
- (v) Banking Directive: it is unclear whether this will arise, but briefing should be included just in case.
- (vi) Debt: I suppose there is a possibility that this may arise in view of the Spanish Presidency's wish for there to be a declaration on debt at the European Council.
- (vii) ECU rebasing: I shall speak to Trichet when I see him next Sunday to try to find out the latest position in the French Administration on the ECU rebasing. The Chancellor ought to have

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a short brief in case Beregovoy raises it with him, or the Chancellor feels that he wishes to raise it with him.

2. Could I suggest that you should have a word with David Bostock in UKREP to confirm that discussions in the Informal ECOFIN are likely to cover the first six items above and that briefing will not be required on other topics.

3. Finally, could Alex Allan confirm whether the Chancellor will wish to have a briefing meeting.

N.L.U.

N L WICKS

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FROM: J M G TAYLOR

DATE: 9 May 1989

Handwritten notes: 17/5
Signature

MR N L WICKS

cc Mr Lankester
Mr R I G Allen
Mr Peretz
Mr H P Evans
Mr Odling-Smee
Mrs M Brown
Mr Ilett
Miss O'Mara
Ms Symes

BRIEFING FOR THE INFORMAL ECOFIN

The Chancellor has seen your note of 8 May to Mrs Brown, and is content with what you propose.

2. He does not think that a briefing meeting is required. He has, however, asked us to fix a slot for Thursday 18 May - on a contingency basis - in case there is anything he needs to discuss at the last minute: Mrs Thorpe will arrange.

Handwritten initials

J M G TAYLOR

*Re Zero rates, Y is
clearly not, X
Re Commission
to come from
present proposals, & of
maximisation
reduces.*

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*Same V. Significant signs of
movement here (but which also bring
closer the day when we need to show
whether we are prepared to disclose any
this!)*

FRAME ECONOMIC

ABOLITION OF FISCAL FRONTIERS: COMMISSION PREPARATION FOR MAY
ECOFIN INFORMAL

SUMMARY

1. DRAFT COMMISSION COMMUNICATION TO COUNCIL TO BE DISCUSSED BY COMMISSION 17 MAY, AS PROBABLE BASIS FOR MRS SCRIVENER'S COMMENTS AT INFORMAL. NEED FOR PRAGMATIC FOURFOLD INCREASE IN TRAVELLERS' ALLOWANCES BY 1992. MINIMUM VAT RATE OF 15 PER CENT AS POSSIBLE WAY FORWARD. CASE FOR ZERO RATES ACCEPTED. VAT SYSTEM: MIXTURE OF DESTINATION AND ORIGIN SYSTEMS: CIFARING HOUSE WITH REDUCED ROLE. EXCISES: MINIMUM RATES FOR TOBACCO AND ALCOHOL, BANDS FOR MINERAL OILS. BONDED WAREHOUSES AND TAX STAMPS.

DETAIL

2. WE HAVE RECEIVED IN CONFIDENCE (PLEASE PROTECT) A COPY OF A DRAFT COMMISSION COMMUNICATION TO THE COUNCIL ON 'THE COMPLETION OF THE INTERNAL MARKET AND THE APPROXIMATION OF INDIRECT TAXES'. THE DRAFT WILL BE DISCUSSED BY THE COMMISSION ON 17 MAY: IF APPROVED IT IS LIKELY TO FORM THE BASIS OF MRS SCRIVENER'S INTERVENTION ON THIS SUBJECT AT THE ECOFIN INFORMAL. ITS PRINCIPAL DRAFTSMAN IS HER DEPUTY CHEF DE CABINET (PETITE).

3. TEXT MUFAXED TO ALLEN (CUSTOMS), GILHOOLY (TREASURY), ARTHUR (FCO) AND W PARKER (CABINET OFFICE).

MAIN POINTS OF DRAFT COMMUNICATION

4. THERE IS A BROAD CONSENSUS WITHIN THE COMMUNITY ON THE CENTRAL IMPORTANCE OF INDIRECT TAX IN THE COMPLETION OF THE INTERNAL MARKET, ON THE NEED TO NARROW THE GAPS BETWEEN VAT AND EXCISE RATES IN DIFFERENT MEMBER STATES, AND ON THE NEED TO ABOLISH 'FISCAL FRONTIERS INCOMPATIBLE WITH A TRUE SINGLE MARKET'.

5. THERE REMAIN SUBSTANTIAL DISAGREEMENTS ON THE 'METHODS' TO BE USED. ON VAT THE DEBATE SHOULD CONTINUE, WITH THE OBJECTIVE OF REACHING A CONSENSUS. ON EXCISES THE COMMISSION INTENDS TO PRESENT

REVISED, MORE FLEXIBLE PROPOSALS.

6. PRAGMATISM IS THE KEY TO GETTING EARLY COUNCIL AGREEMENT.

7. IT WILL NOT BE POSSIBLE ABRUPTLY TO CHANGE TAX RATES AND SYSTEMS ON 1 JANUARY 1993 - SO THERE HAS TO BE A 'TRANSITIONAL PERIOD' DURING WHICH DECISIONS CAN BE TAKEN AND THE NECESSARY CHANGES MADE, AND DURING WHICH ENTERPRISES CAN PREPARE FOR THE NEW ARRANGEMENTS (NO EXAMPLES GIVEN).

8. DURING THE TRANSITIONAL PERIOD TRAVELLERS' ALLOWANCES SHOULD BE SUBSTANTIALLY INCREASED, IN THREE STEPS (BEGINNING OF 1990, 1991 AND 1992). QUANTITATIVE ALLOWANCES ON PRODUCTS SUBJECT TO EXCISES SHOULD DOUBLE: MONETARY ALLOWANCES ON OTHER ITEMS SHOULD BE QUADRUPLED.

9. VAT RATES. THE COMMISSION'S PROPOSALS REMAIN THE BASIS FOR THE COUNCIL AND EP DISCUSSION. BUT ANOTHER POSSIBILITY WOULD BE TO SET A MINIMUM BASIC RATE OF VAT (AT LEAST 15 PER CENT). NEIGHBOURING MEMBER STATES WITH IMPORTANT CROSS BORDER TRADE MIGHT NEED TO AGREE TO MOVE VAT RATES CLOSE TOGETHER: SUCH AGREEMENTS COULD TAKE 'A FORM TO BE DECIDED' AND COULD DEAL WITH SPECIFIC PROBLEMS WITHOUT IMPOSING UNNECESSARY CONSTRAINTS ON MEMBER STATES. THERE WOULD STILL BE A REDUCED RATE BAND.

X | 10. VAT ZERO RATES. IF THE COUNCIL COULD AGREE WHICH PRODUCTS SHOULD BE SUBJECT TO NORMAL AND REDUCED RATES, THE COMMISSION COULD ACCEPT THAT MEMBER STATES SHOULD BE FREE TO CHOOSE TO APPLY ZERO RATES TO A VERY LIMITED NUMBER OF PRODUCTS (FEWER THAN NOW) PROVIDED THERE WAS NO RISK OF DISTORTION OF COMPETITION. THE PAPER DOES NOT (REPEAT NOT) SAY THAT THESE ZERO RATES WOULD BE TEMPORARY, AND REMARKS THAT THE COMMISSION'S POSITION IS NOW MORE FLEXIBLE THAN IN ITS EARLIER PROPOSALS, WHICH CONCEDED THE POSSIBILITY OF ZERO RATES FOR A TRANSITIONAL PERIOD ONLY. SOCIAL POLICY IMPORTANCE OF ZERO RATES ACKNOWLEDGED.

11. VAT SYSTEM. A NEW APPROACH IS NEEDED, DIFFERENTIATING BETWEEN TYPES OF TRANSACTION. THE PAPER SUGGESTS THE FOLLOWING:

(A) MAIL ORDER SALES. VAT PAID IN COUNTRY OF DESTINATION BY A 'FISCAL REPRESENTATIVE'.

(B) MOTOR VEHICLES (A MAJOR FRENCH CONCERN). VAT IN COUNTRY OF DESTINATION, ON REGISTRATION OF VEHICLE.

(C) SALES TO NON REGISTERED PUBLIC BODIES (LOCAL AUTHORITIES ETC) AND TO EXEMPT TRADERS (BANKS ETC). VAT PAID AT RATE OF COUNTRY OF DESTINATION. (THIS COULD INVOLVE OBLIGATION TO BUY THROUGH REGISTERED TRADER: 'SELF-SUPPLY': OR PAYMENT OF TAX REPRESENTING DIFFERENCE BETWEEN RATE IN COUNTRY OF PURCHASE AND COUNTRY OF USE.

(D) TRANSACTIONS WITHIN A GROUP. VAT SUSPENDED UNTIL SALES TAKE PLACE OUTSIDE THE GROUP.

(E) OTHER TRANSACTIONS AMONG REGISTERED TRADERS. ORIGIN SYSTEM, AS PROPOSED BY THE COMMISSION SO FAR. A TRUE INTERNAL MARKET (BECAME GOODS CIRCULATE, TAX PAID, AS WITHIN A MEMBER STATE) AND A DISINCENTIVE TO FRAUD. CLEARING MECHANISM REQUIRED BUT MUCH SIMPLIFIED BECAUSE (1) CATEGORIES (A) - (D) EXCLUDED: (2) CLEARING CAN BE BASED ON TRADE STATISTICS, NOT INDIVIDUAL RETURNS: (3) ONLY MEMBER STATES' NET VAT SURPLUS AND DEFICITS ON INTRA EC TRADE WOULD BE CLEARED, NOT GROSS AMOUNTS.

12. EXCISES. HARMONISATION (IE A SINGLE RATE) NOT ACCEPTABLE. WIDE DIVERSITY AMONG MEMBER STATES. HEALTH POLICY.

13. EXCISE RATES SHOULD BE ARTICULATED IN TERMS OF REFERENCE OR BENCHMARK RATES ('VALEURS REPERES'), TO BE REGARDED AS LONG TERM OBJECTIVES, BUT SHOULD BE SET FLEXIBLY:

(A) FOR ALCOHOL AND TOBACCO, SUBJECT TO MINIMUM RATES FROM 1 JANUARY 1993:

(B) FOR MINERAL OILS, WITHIN RATE BANDS.

14. CIRCULATION OF GOODS SUBJECT TO EXCISES. LINKED BONDED WAREHOUSES (DUTY SUSPENSION REGIME FOR CROSS BORDER TRANSCATIONS): PROBABLY TAX STAMPS FOR SALES WITH MEMBER STATES: NO RESTRICTIONS ON CROSS BORDER SHOPPING BY PRIVATE INDIVIDUALS (FROM 1.1.93).

15. PROPOSALS ON EXCISES PROMISED BEFORE JULY. NO MENTION OF GEOGRAPHICAL RATE BANDS.

COMMENT

16. THE DRAFT COMMUNICATION DOES NOT REPRESENT THE WHOLESALE ABANDONMENT OF ALL THE COMMISSION'S EARLIER IDEAS OR THE WHOLESALE ADOPTION OF ALL OUR OWN IDEAS. ITS AUTHORS STILL FEEL THE NEED TO ASSERT THE LONG TERM OBJECTIVE OF MOVING RATES CLOSER TOGETHER, OR

(EG ON EXCISES) PUTTING SHORT TERM FLEXIBILITY WITHIN A FRAMEWORK OF TARGET RATES. ON EXCISES, NUMBERS HAVE YET TO BE PUT ON THE COMMISSION'S CONCEPT OF FLEXIBILITY. ON ZERO RATES TOO THE DEVIL WILL BE IN THE DETAIL. THE VAT SYSTEM PROPOSED RETAINS THE CLEARING HOUSE: UNDERESTIMATES ITS DIFFICULTIES (WHAT HAPPENS IF MEMBER STATES' NET REVENUE GAINS AND LOSSES ON INTRA COMMUNITY TRADE DO NOT SUM TO ZERO?): AND LOOKS COMPLICATED FOR CATEGORIES (A) TO (D).

17. BUT FOR ONCE THE SILVER LINING IS LARGER THAN THE CLOUD. THE DRAFT PAPER EMBODIES SUBSTANTIAL CONCESSIONS TO THE IDEAS PUT FORWARD BY THE UNITED KINGDOM OVER RECENT MONTHS. IT ACKNOWLEDGES THE IMPORTANCE OF ZERO RATES, ACCEPTS THE CHANCELLOR'S CHATHAM HOUSE CALL FOR A QUADRUPLING OF TRAVELLERS' ALLOWANCES (OVER THREE YEARS - NOTHING IN THE COMMUNITY HAPPENS IMMEDIATELY), AND, ON VAT RATES, ADMITS THE POSSIBILITY OF PROGRESS BY COOPERATION AMONG MEMBER STATES RATHER THAN BY COMMUNITY LEGISLATION. THE SUGGESTION THAT THE COMMISSION SHOULD PUT FORWARD A MINIMUM VAT RATE IS A CLEAR STEP TOWARDS OUR 'MARKET FORCES' APPROACH: MRS SCRIVENER DOES NOT FEEL ABLE FULLY TO EMBRACE OUR IDEAS BECAUSE OF OTHER MEMBER STATES' CONCERNS ABOUT 'BEGGAR MY NEIGHBOUR' TAX POLICIES.

18. THE UNITED KINGDOM CABINETS HAVE ASKED FOR BRIEFING TODAY. WE ARE TAKING THE LINE SO FAR THAT THE PAPER MARKS A MAJOR SHIFT IN THE RIGHT DIRECTION, BUT REITERATING HMG'S CONTINUING OBJECTIONS TO ANY LEGISLATIVE APPROXIMATION, THE NEED TO CONSERVE OUR PRESENT COVERAGE ON ZERO RATES, AND THE DESIRABILITY OF THE COMMISSION: REGARDING THE NEW IDEAS ON EG THE VAT SYSTEM AS A CONTRIBUTION TO THE DEBATE AND NOT ANOTHER STRAITJACKET A LA COCKFIELD.

HANNAY

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PAGE 4
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FROM: J M G TAYLOR

DATE: 12 May 1989

Handwritten notes:
Pmp
~~Handwritten scribble~~
12/5

MR WICKS

cc PS/Paymaster General
PS/Economic Secretary
Mr Lankester
Mr R I G Allen
Mrs M E Brown
Ms Symes
Mr Tyrie

Mr Jefferson Smith C&E
Mr P R H Allen C&E

ABOLITION OF FISCAL FRONTIERS: COMMISSION PREPARATION FOR MAY ECOFIN INFORMAL

... The Chancellor has seen UKREP Telno 1515 (attached).

2. He has commented that it is clearly right that, on zero rates the devil will be in the detail. It is ominous that the number of products to which it is proposed zero rates can be applied is fewer than now.

3. He has commented that the Commission will need to come forward with precise proposals, and of a maximalist nature.

Handwritten initials: JG

J M G TAYLOR

UNCLASSIFIED

If you want to say something post Ecofin, this is a good opportunity. He can decide on Saturday.

FROM: MICHAEL GUNTON
DATE: 18 MAY 1989

- 1. MR GIEVE
- 2. CHANCELLOR

JC

cc Mr Bush

MS

ECOFIN BIDS

We have turned down a bid from the BBC Radio "Today" programme for the Chancellor to appear on Friday morning before his departure for the Ecofin meeting.

However, we have approached BBC Radio's "The World This Weekend" who were very enthusiastic about him appearing on the Sunday lunchtime programme if possible. They would interview him in a radio car in Downing Street immediately upon his return. I pointed out that the arrangement could not be finalised until his UK arrival time was confirmed but that we would confer with them during the latter part of Saturday. This was acceptable. The News Editor on duty on Saturday is Simon Andrew on 01-927-4100.

the meeting had finished and

Michael Gunton

MICHAEL GUNTON

OK ✓

mp

FROM: MICHAEL GUNTON

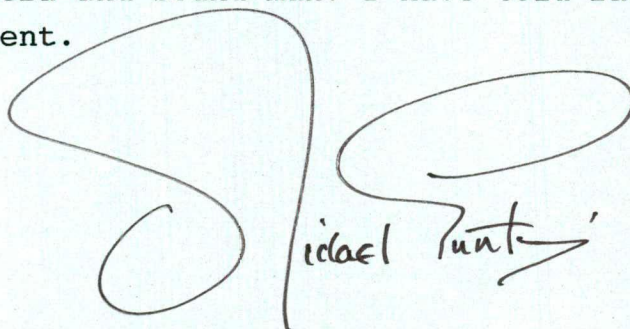
DATE: 19 MAY 1989

CHANCELLOR

cc Mr Gieve

DEPARTURE FOR ECOFIN

Both ITN and BBC TV News have asked for permission to film your departure from No.11 for Spain at lunchtime. I presume you will have no objections. I have confirmed that their intention is to send only a camera and sound man. I have told radio stations there will be no comment.



Michael Gunton

MICHAEL GUNTON

Duncan

FROM: MRS JULIE THORPE

DATE: 19 May 1989



MR MI GUNTON

cc Mr Gieve
Mr Bush

mwp

ECOFIN BIDS

The Chancellor has seen your minute of 18 May and agrees with Mr Gieve that an interview with BBC Radio's "The World this Weekend" is a good opportunity to say something post-ECOFIN and that we can decide on Saturday.

Julie Thorpe

MRS JULIE THORPE
Diary Secretary

RESTRICTED AND PERSONAL

FROM: A G TYRIE

DATE: 22 May 1989

CHANCELLOR

cc: Paymaster General
Economic Secretary
Mr Wicks
Mr Gieve
Mrs Chaplin
Mr Call

Ch: OK? 20 22/5

A EURO ELECTION LINE ON ECOFIN

We need a line to take in response to the suggestion in some of the newspapers that our line has softened on ERM and EMU, for instance in the Guardian attached. I gather you had a word with the Paymaster before this morning's press conference.

2. What about something like:

"The Government's position on the ERM is unchanged. As the Chancellor made clear at ECOFIN the Government wants to see what can be done to improve economic and monetary co-operation within the framework of the existing treaty.

On the Delors report the ECOFIN council agreed that a lot more study was required before any decisions could be taken. Implementation would, in any case, require Treaty amendment. The UK Government has made it clear that it opposes any further amendment to the Treaty of Rome".

3. Nigel Wicks has seen this.

4. It seems to me that the outstanding question is whether you want to claim that you have succeeded in decoupling stage 1 from stages 2 and 3. The line I am suggesting falls short of that.

5. This is not included in today's briefing note to candidates but we will definitely want one tomorrow. The Party Chairman is having a round up meeting at 6.00p.m. tonight and it would be very helpful to provide a line for that.

*Country press
This was - Ann.
to plan, on last Fri.
If can wait
it got to
to be
in c
million*

*I have discussed
this with the
ministers.
No Party Chairman.
Both think this is
the answer to
the suggestion
from*

*A G TYRIE
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Lan, 'soften'
1052.
state, a
Guardian*

petitive in the 1980s to restrict the national economy.

The report by the Institute of Economic Affairs and mainly written by Professor Michael Beesley accuses British Telecom of preventing half the nation's phone customers from using its sole competitor, Mercury Communications, by delaying

Next year the Government is due to review the results and reset the framework for the next decade.

Beesley's new report says the most likely outcome of the current duopoly is that Mercury will grow faster than BT, but not so fast as to threaten BT's profit growth. Present policy, it says, in-

staff than is warranted by the size of the network." It concedes, however, that Mercury and other future competitors can achieve higher productivity because staffing levels have fitted modern technology from the outset without BT's inherited problems.

The report argues that if

link their networks to switch phone calls. Before that restrictions should be relaxed on private circuits and public resale service providers should be licensed.

The Future of Telecommunications by M Beesley and B Laidlaw. £5.50. IEA, 2, Lord North St, London SW1 3LB.

trade, negotiations with Korea. After a series of bargaining sessions, Korea agreed to liberalise its market in an effort to avoid sanctions.

The Commerce Secretary, Mr Robert Mosbacher, left little doubt yesterday that he would be pressing as hard as possible in Cabinet this week to condemn Japan along with at least two other countries Brazil and India.

Mr Mosbacher, who made the case against Japan in a television interview, faces stiff opposition from the Secretary of State, Mr James Baker, who fears the impact on US-Japanese relations which already have been strained by the dispute over the manufacture of the FSX fighter.

If Japan were to be named as an unfair trader under the so-

Political considerations are said to have played a role with the Administration in order to avoid any action which might undermine the fragile democracy in Korea.

The European Commission also is likely to issue a condemnation.

In the case of the European allies US officials are said to have been impressed by the threat in Brussels to take Super 301 declaration to the General Agreement on Tariffs and Trade, the governing authority for world trade.

Britain softens on monetary union

John Palmer, European Editor in S'Agaro, Spain.

IN A marked softening of its previous position, the British Government is allowing the European Community to prepare for possible steps towards monetary union, including an EEC central bank and a single currency.

The agreement may defer — or at least defer — the crisis in relations between Mrs Thatcher and her fellow Community heads of government which threatens the EEC summit in Madrid next month.

With the agreement of the Chancellor of the Exchequer, Mr Nigel Lawson, Community

finance ministers meeting here over the weekend decided to investigate urgently how they could begin a first phase for closer economic and monetary co-operation, perhaps beginning in July 1990.

At the same time they will study what practical steps need to be taken to achieve the goal of ultimate monetary union set out in the recent report, prepared by central bank governors and other experts, under the President of the Commission, Mr Jacques Delors.

The Chancellor was careful to reiterate the Government's opposition to any change in the Treaty of Rome and its belief that monetary union would involve an unacceptable loss of

national political sovereignty. But he favourably surprised some other EEC finance ministers by making no attempt to obstruct the preparation of what the meeting described as "work for the launching stage" of monetary union.

"One can measure the progress which has been made in recent weeks when you remember that it would have been impossible for the British Government to have agreed six months ago what it agreed today," said the Spanish finance minister, Mr Carlos Solchaga, who chaired the meeting.

Mr Delors himself described Mr Lawson's approach as "very constructive" but warned that any future attempt to block

treaty changes needed to move to monetary union would be "another European failure".

When asked about Mrs Thatcher's unrelenting hostility to European monetary union he said: "I am very impressed with the high level of debate on this question in Britain.

"We will be able to judge Mrs Thatcher's attitude to the future of Europe is at the summit in Madrid."

France, Italy and Spain as well as the Commission want the first phase of economic co-operation to include a commitment to implement the more ambitious second and third stages to monetary union set out in the Delors report.

BA out in front as profits flag

This week

Robin Stoddart

FLY-AWAY profits will be the exception among the week's mixed bag of company results, as they will in general as economic growth is braked, but British Airways should be able to keep shareholders seated in reasonable comfort.

Proposals and additions should help to improve the situation and the rise in interest charges will have been slowed by the South African disposal, but packaging and paint may be entering a slower growth phase.

The expansion moves in the US look well-timed and support for the shares has not been lacking.

Only Thursday's trade figures provide any obvious threat to the stock market's new confidence.

Big six brewers to limit ownership

Ben Laurance

BRITAIN'S six big brewers appear poised to offer to limit their ownership of pubs to one-third of the outlets in each of Britain's 643 Petty Session District licensing areas.

A Brewers' Society spokesman said yesterday it was "premature" to speculate on any deal between brewers, who want the Monopolies Commission report on beer shelved, and the Department of Trade,

Allied-Lyons, Courage, Scottish & Newcastle, Whitbread and Grand Metropolitan — leaving regional and local companies' estates untouched.

The Brewers' Society is expected to test the water with its 33 per cent ceiling proposal this week when it meets Consumer Affairs Minister, Mr Francis Maude, this week.

Figures for 1986, compiled for the MMC, show there are relatively few licensing districts where brewers would have to sell pubs to meet the 33 per cent test. (Since 1986, Grand Metro-

The yellow metal looses its allure

By Robin Stainer

GOLD'S fall last Friday to a three-year low of \$365.50 an ounce is the latest sign of the malaise among precious metals. Silver is at its lowest for two years and platinum has also declined sharply, despite its excellent fundamentals.

Some pundits are predicting further losses — especially for gold. The gloomiest view is that, hit by oversupply and the desertion of speculators for interest-yielding investment rivals and for commodities with a brighter outlook, the price could be down to \$285 before the year is out. This was the decade's low so far, touched in 1985 at the end of the steady decline from 1980's all-time high of \$850.

E D and F Man International said last week it expected a "slow but steady downward drift." Shearson Lehman Hutton's metals research team also thinks gold could go lower, but the price is expected to average \$420 in

Asian investors to hold on

Taiwan, which over Japan in 1988 to head the import table, bought 60,000 tonnes in the first four months of this year, compared with 40,000 in the same period last year.

Interest in gold generally has been cut by the recession in stock markets and the improvement in the dollar against traditional rivals for investment in cash. Any hot money for commodities, more so for gold, has been going into palladium attracted by the reports of a successful fusion experiment using the metal. It recently hit an eight-year high.

But palladium, along with cotton and tin, is one of the exceptions to the general downward trend for commodity prices. Inflation and therefore the price of gold and other commodities as a hedge to the value of one's wealth.

Gold's latest fall has been helped by the rise in US prices for oil, which was smaller than expected by the signs that oil

Guardian 22 May 1984



FROM: J M G TAYLOR

DATE: 22 May 1989

A handwritten signature in dark ink, appearing to be 'JMG'.

MR TYRIE

cc PS/Paymaster General
PS/Economic Secretary
Mr Wicks
Mr Gieve
Mrs Chaplin
Mr Call**A EURO ELECTION LINE ON ECOFIN**

The Chancellor was grateful for your note of 22 May.

2. He has discussed this with the Party Chairman. Both he and the Party Chairman think ^{this} is misconceived. The answer to the suggestion that our line on either ERM or EMU has "softened" is simply: "Tosh". ECOFIN is already stale, the Guardian is mischievous but unimportant, and it would be counterproductive to be building up this non-issue. If anyone wants anything else, they should be referred to the Chancellor's CPC pamphlet.

A handwritten signature in dark ink, appearing to be 'JMG'.

J M G TAYLOR

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TELNO 158
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FRAME ECONOMIC

MIPT: INFORMAL ECOFIN, 19-21 MAY

1. THE MINISTERS HAD A THOROUGH DEBATE ON THE ECONOMIC AND POLITICAL IMPLICATIONS OF THE PROCESS OF ECONOMIC AND MONETARY UNION AS SET OUT IN THE REPORT OF THE AD HOC COMMITTEE CREATED BY THE EUROPEAN COUNCIL IN HANOVER.
2. THE MINISTERS REAFFIRMED THE OBJECTIVE OF THE PROGRESSIVE REALISATION OF ECONOMIC AND MONETARY UNION AS STATED IN THE MANDATE GIVEN BY THE EUROPEAN COUNCIL IN HANOVER, WITHIN A CONTEXT OF SOCIAL AND ECONOMIC COHESION.
3. MINISTERS AGREED THAT THE REPORT IS A VALUABLE AND COMPREHENSIVE BASIS FOR FURTHER WORK.
4. WHILE A RANGE OF DIFFERENT VIEWS WAS EXPRESSED, THERE WAS A GENERAL VIEW THAT IT WOULD BE USEFUL IF THE COMPETENT BODIES (ECOFIN COUNCIL, COMMISSION, MONETARY COMMITTEE AND COMMITTEE OF CENTRAL BANK GOVERNORS) SHOULD:
 - PREPARE, AS A MATTER OF URGENCY, WORK FOR LAUNCHING THE MEASURES SET OUT IN STAGE 1 AS INDICATED IN THE REPORT.
 - DEFINE THE OPERATIONAL ELEMENTS OF STAGES 2 AND 3 AS INDICATED IN THE REPORT SO THAT A DECISION CAN BE TAKEN IN DUE COURSE ON THE CONVOCATION OF AN INTERGOVERNMENTAL CONFERENCE.

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FRAME ECONOMIC

INFORMAL ECOFIN

1. THE SPANISH PRESIDENCY HOSTED, WITH CONSIDERABLE EFFICIENCY, AN INFORMAL MEETING OF EC FINANCE MINISTERS AND CENTRAL BANK GOVERNORS AT S'AGARO ON THE COSTA BRAVA ON 19-21 MAY. THE CHANCELLOR AND THE GOVERNOR ATTENDED FOR THE UK. THERE WERE TWO PLENARY DISCUSSIONS OF SOME THREE HOURS EACH, AND A DISCUSSION OVER LUNCH, AS WELL AS BILATERALS AND INFORMAL CONTACTS.

SUMMARY

2. THE PRINCIPAL BUSINESS WAS THE DISCUSSION FORESHADOWED IN THE CONCLUSIONS OF LAST JUNE'S EUROPEAN COUNCIL THAT FINANCE MINISTERS SHOULD EXAMINE THE DELORS COMMITTEE'S REPORT ON EMU BEFORE THE EUROPEAN COUNCIL IN MADRID. THE OUTCOME OF THE DISCUSSION WAS A GENERAL VIEW THAT IT WOULD BE USEFUL IF THE COMPETENT BODIES (ECOFIN COUNCIL, COMMISSION, MONETARY COMMITTEE AND COMMITTEE OF CENTRAL BANK GOVERNORS) SHOULD PREPARE, AS A MATTER OF URGENCY, WORK FOR LAUNCHING THE MEASURES SET OUT IN STAGE 1 AS INDICATED IN THE REPORT: AND SHOULD DEFINE THE OPERATIONAL ELEMENTS OF STAGES 2 AND 3 AS INDICATED IN THE REPORT SO THAT A DECISION CAN BE TAKEN IN DUE COURSE ON THE CONVOCATION OF AN INTERGOVERNMENTAL CONFERENCE. THE COMMISSION INTRODUCED THEIR NEW APPROACH ON INDIRECT TAX APPROXIMATION, WHICH WAS GENERALLY REGARDED AS AN IMPROVEMENT ON THE OLD COCKFIELD PROPOSALS. THERE WAS A STOCKTAKING ON THE POSITION REACHED ON DISCUSSIONS ON WITHHOLDING TAX AND THE MUTUAL ASSISTANCE DIRECTIVE. INTERNATIONAL DEBT WAS DISCUSSED OVER LUNCH.

DELORS REPORT

3. THE CHANCELLOR, AFTER MAKING CLEAR THAT HIS COMMENTS SHOULD BE SEEN IN THE CONTEXT OF WHAT HE SAID AT THE LAST ECOFIN MEETING IN LUXEMBOURG, EMPHASISED THAT THE POLITICAL ASPECTS OF THE DELORS COMMITTEE'S RECOMMENDATIONS WERE FUNDAMENTAL. THESE ASPECTS NEEDED MUCH GREATER DISCUSSION. THEY TOUCHED ON THE SOVEREIGNTY OF PARLIAMENTS, WHICH IN THE UK WERE FUNDAMENTAL TO

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OUR CONSTITUTION. HE SAW NO NEED FOR AN INTERGOVERNMENTAL CONFERENCE (IGC) IN THE FORESEEABLE FUTURE. THE TASK BEFORE THE COMMUNITY NOW WAS TO CONSIDER HOW TO IMPROVE ECONOMIC AND MONETARY CO-OPERATION WITHIN THE FRAMEWORK OF THE EXISTING TREATY. NOR COULD HE ACCEPT THE STIPULATION IN PARAGRAPH 39 OF THE REPORT THAT A DECISION TO ENTER UPON THE FIRST STAGE SHOULD BE A DECISION TO EMBARK ON THE ENTIRE PROCESS. HE AGREED WITH RUDING (NETHERLANDS) THAT THERE WAS NO BASIS FOR THE COMMITTEE'S ASSUMPTION THAT REGIONAL AND STRUCTURAL POLICIES SHOULD BE EXPANDED. FINANCE MINISTERS AND CENTRAL BANK GOVERNORS SHOULD BE FULLY INVOLVED IN ANY FOLLOW-UP WORK.

4. MOST MINISTERS WELCOMED THE GENERAL THRUST OF THE REPORT, WITH THE EXCEPTION OF THE CHANCELLOR, PETERSEN (DENMARK) AND TO SOME EXTENT SANTER (LUXEMBOURG). RUDING WAS UNCERTAIN WHEN AN IGC SHOULD BE CONVENED: THOROUGH PREPARATION WAS NECESSARY. AMATO (ITALY) THOUGHT THAT THE WORK OF THE REPORT NEEDED FURTHER DEEPENING AND AN IGC SHOULD BE DECIDED UPON LATER. BEREGOVY (FRANCE) THOUGHT THAT DISCUSSIONS ON A NEW TREATY SHOULD BEGIN AS SOON AS POSSIBLE. PETERSEN, WHILE SUPPORTING PROGRESS IN STRENGTHENING THE EMS AND ECONOMIC CO-OPERATION GENERALLY, BELIEVED THAT THE COMMUNITY SHOULD HAVE MORE EXPERIENCE BEFORE EMBARKING ON THE GRAND DESIGN OUTLINED IN THE COMMITTEE'S REPORT AND ON CONSEQUENT TREATY AMENDMENT. MAYSTADT (BELGIUM) WAS READY TO CONTEMPLATE AN IGC, BUT THOUGHT THAT THE ESSENTIAL POINT WAS NOT ITS DATE OF CALLING, BUT THE DATE OF AGREEMENT IN PRINCIPLE THAT IT WOULD TAKE PLACE. REYNOLDS (IRELAND) SAID THAT A TOO HASTY IGC WOULD BE UNHELPFUL AND MORE CONSIDERATION WAS NECESSARY. ROUMELIOTIS (GREECE) ENCOURAGED THE THOUGHT OF AN IGC ONCE THE COMPETENT BODIES HAD CLARIFIED THE TECHNICAL ASPECTS. WAIGEL (GERMANY) SUGGESTED THAT CONSIDERATION OF CALLING AN IGC SHOULD AWAIT THE EXAMINATION OF TECHNICAL ISSUES RAISED IN THE REPORT. SANTER THOUGHT THAT THE FIRST STEP WOULD BE TO SEE WHAT COULD BE DONE UNDER THE EXISTING RULES FOR STAGE 1 AND THEN PERHAPS PROCEED FURTHER, IF THE POLITICAL WILL WAS THERE, AND THE RIGHT POLITICAL CONDITIONS HAD BEEN ESTABLISHED FOR A SUCCESSFUL IGC. THE STIPULATION IN PARAGRAPH 39 OF THE REPORT, THAT A DECISION TO ENTER UPON THE FIRST STAGE OF EMU SHOULD BE A DECISION TO EMBARK UPON THE ENTIRE PROCESS, CAUSED NO DIFFICULTY FOR RUDING, AMATO, BEREGOVY, WAIGEL AND, WITH SOME EQUIVOCATION, SANTER. PETERSEN EMPHASISED THAT HIS GOVERNMENT COULD NOT ACCEPT THE COMMITMENT IN THAT PARAGRAPH, AND SUGGESTED THAT IT WOULD BE HELPFUL IN THAT CONTEXT TO DISTINGUISH BETWEEN POLITICAL AND LEGAL COMMITMENTS. MAYSTADT AND RUDING HOPED THAT THE CONCEPT OF A TWO-TIER EUROPE COULD BE

AVOIDED, THOUGH THE SITUATION COULD NOT BE EXCLUDED THAT A GROUP OF COMMUNITY MEMBERS MIGHT WISH TO BEGIN THE PROCESS WITHOUT DELAY. REYNOLDS, ROUMELIOTIS, CADILHE (PORTUGAL) AND PEREZ (SPAIN) EMPHASISED THE IMPORTANCE OF MORE SUPPORT FOR REGIONAL AND STRUCTURAL POLICIES AS A CONDITION OF EMU. RUDING AND WAIGEL SPOKE IN A CONTRARY SENSE. A NUMBER OF MINISTERS URGED THE UK TO JOIN THE ERM. ALL AGREED THAT ECOFIN MINISTERS AND THE CENTRAL BANK GOVERNORS COMMITTEE SHOULD BE INVOLVED IN ANY FOLLOW-UP WORK AGREED AT THE EUROPEAN COUNCIL.

5. AT THE END OF THE DISCUSSION IT WAS AGREED THAT THE PRESIDENT (SOLCHAGA) SHOULD SUMMARISE THE DISCUSSION IN HIS REMARKS TO THE PRESS AS IN MIFT. HIS REMARKS WOULD BE GIVEN ON HIS OWN PERSONAL RESPONSIBILITY, BUT ON THE BASIS THAT OTHER MINISTERS WOULD NOT SEEK TO REBUT THEM IN PUBLIC. SOLCHAGA DULY READ OUT THE WORDS IN MIFT, IN SPANISH, WITH A SLIGHTLY DIFFERENT ENGLISH TRANSLATION GIVEN TO THE JOURNALISTS. SO FAR AS IS KNOWN, NO WRITTEN TEXT WAS ISSUED AND YOU SHOULD NOT REGARD MIFT AS AN OFFICIAL OR AUTHORISED TEXT.

6. IF ASKED ABOUT THE PRESIDENT'S STATEMENT, YOU SHOULD MAKE CLEAR THAT THE UK'S POSITION HAS NOT CHANGED. WE ARE OPPOSED TO TREATY AMENDMENT, BUT AS THE CHANCELLOR MADE CLEAR IN HIS PRESS CONFERENCE AT S'AGARO, WE ARE KEEN TO SEE WHAT CAN BE DONE TO IMPROVE ECONOMIC AND MONETARY CO-OPERATION WITHIN THE FRAMEWORK OF THE EXISTING TREATY. THE PRIORITY ACCORDED TO THE PRACTICAL AGENDA OF MEASURES DESIRABLE AND FEASIBLE IN THE NEAR-TERM IS THEREFORE TO BE WELCOMED.

INDIRECT TAX APPROXIMATION

7. MOST MINISTERS GAVE A WARM WELCOME TO COMMISSIONER SCRIVENER'S NEW APPROACH, THOUGH ALL RAISED DETAILED POINTS OF DIFFICULTY, SOME OF A SUBSTANTIAL NATURE. THERE WAS GENERAL AGREEMENT WITH THE COMMISSIONER'S SUGGESTION FOR AN URGENT WORK PROGRAMME AT TECHNICAL LEVEL.

WITHHOLDING TAX

8. THE COMMISSION MAINTAINED ITS PROPOSAL FOR A DIRECTIVE ON WITHHOLDING TAX DESPITE THE OPPOSITION OF FIVE DELEGATIONS (UK, LUXEMBOURG, GERMANY, THE NETHERLANDS AND GREECE) AND RESERVES OF DENMARK AND SPAIN. ON THE MUTUAL ASSISTANCE DIRECTIVE, ELEVEN DELEGATIONS COULD ACCEPT THE PROPOSAL, WITH CERTAIN REMARKS, WHILE ONE (LUXEMBOURG) WAS OPPOSED. WAIGEL, AFTER DETAILING THE REASONS WHICH HAD LED HIS COUNTRY TO ANNOUNCE THE ABOLITION OF THE WITHHOLDING TAX, CALLED ON MINISTERS TO WORK TOGETHER TO FIND A CONSTRUCTIVE SOLUTION, PERHAPS BASED ON THE HARMONISATION OF DOMESTIC PROCEDURE AND ACTIONS TO COMBAT TAX FRAUD. (FROM BILATERAL CONTACTS, IT SEEMS THAT HE HAS IN MIND MEASURES WHICH

DO NOT COMMIT MEMBER STATES TO NEW ACTIONS.) BEREGOVY, AFTER RECALLING THAT THE FRENCH PEOPLE THOUGHT THAT THE LIBERALISATION OF CAPITAL MOVEMENTS WAS LINKED TO THE HARMONISATION OF WITHHOLDING TAXES, SAID THAT THERE MIGHT BE INSURMOUNTABLE DIFFICULTIES IN IMPLEMENTING CAPITAL LIBERALISATION UNLESS THERE WAS A SOLID AGREEMENT FOR ACTION TO COMBAT FISCAL FRAUD AND EVASION. (BEREGOVY'S REMARK MAY (UNDERLINED) IMPLY THAT THE FRENCH RECOGNISE THAT THE WITHHOLDING TAX IS DEAD AND THEY WILL NOW PRESS FOR MORE INFORMATION SHARING AND CO-OPERATION BETWEEN TAX AUTHORITIES, PERHAPS THROUGH AN ENHANCEMENT OF THE MUTUAL ASSISTANCE DIRECTIVE.) THE CHANCELLOR ASSOCIATED HIMSELF WITH WAIGEL'S POSITION. AMATO SHARED BEREGOVY'S POLITICAL FEARS. SANTER WAS PREPARED TO CONSIDER THE MUTUAL ASSISTANCE DIRECTIVE AS WELL AS THE APPROACH IN ARTICLE 4 OF THE CAPITAL LIBERALISATION DIRECTIVE, PROVIDED THAT THE WITHHOLDING TAX DIRECTIVE WOULD NOT PROCEED.

9. THE PRESIDENT SUMMED UP THE DISCUSSION AS SUGGESTING THAT IT WOULD BE IMPOSSIBLE TO FIND A UNANIMOUS POSITION ON THE WITHHOLDING TAX DIRECTIVE, WHICH POSED ENORMOUS POLITICAL DIFFICULTIES. PROGRESS LOOKED TO BE EASIER ON THE MUTUAL ASSISTANCE DIRECTIVE. THE PRESIDENCY HAD A MORAL DUTY TO TRY TO FIND A WAY FORWARD IN VIEW OF THE LINK WITH CAPITAL LIBERALISATION. HE WOULD MAKE FURTHER REPORTS ON BOTH DIRECTIVES AT THE JUNE ECOFIN AND PUT FORWARD A REVISED TEXT ON THE MUTUAL ASSISTANCE DIRECTIVE.

INTERNATIONAL DEBT

10. THE PRESIDENT ENDEAVOURED, WITHOUT SUCCESS, TO PERSUADE MINISTERS OVER LUNCH TO SUPPORT A COMMUNITY MIDDLE INCOME DEBT INITIATIVE. THE MATTER WILL BE DISCUSSED AGAIN AT LUNCH AT THE JUNE ECOFIN.

HOWE

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PAGE 4
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FROM: N L WICKS
DATE: 24 MAY 1989
Ext : 4369

CHANCELLOR OF THE EXCHEQUER

cc CST
PMG
EST
Sir P Middleton
Sir T Burns
Mr Lankester
Mr Scholar
Mr R I G Allen
Mr H P Evans
Mr Odling-Smee
Mr Ilett
Mr Peretz
Mrs M E Brown
Miss O'Mara (MG1)
Mrs Chaplin (CX)
Mr Tyrie (FST)

*Ch. PM will be briefed to
ask you to report on
the ECOFIN.*

24/5

INFORMAL ECOFIN: SPEAKING NOTE FOR CABINET

I attach a draft speaking note for use at Cabinet tomorrow reporting on the Informal ECOFIN.

2. Attached also are the reporting telegrams. Your office will also have my full record of the discussion. *- behind.*

3. You will want to ensure that there is no substantive discussion on any of the items which results in policy conclusions in the Cabinet minutes. It would, for example, be most unhelpful for the minutes to give instructions on how to carry forward the indirect taxation discussions in the Community. If discussion gets too detailed, I suggest that you say that the Ministers principally concerned should discuss this separately.

N.L.W.

N L WICKS

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DRAFT SPEAKING NOTE FOR CABINET

The Informal ECOFIN at S'Agaro over the weekend discussed:

- the Delors Report on EMU;
- indirect tax harmonisation; and
- withholding tax.

EMU

2. Most Ministers, with the exception of Denmark, seemed to be ready to go down the road to EMU charted in the Report. There was, however, some recognition of the political consequences of the Report's recommendations and a number of countries (Germany, Luxembourg, Denmark and possibly Netherlands) said that there should be no rush to calling an Intergovernmental Conference. But I suspect that the ECOFIN forum is likely to be the most cautious regarding the Delors Committee's proposals. Heads of Government and Foreign Ministers ["luxury Ministers"], of other member states, are likely to look more favourably on the Report's proposals.

3. I made clear that the political aspects of the recommendations were fundamental, and they needed much greater discussion. They touched on the sovereignty of

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Parliaments, which in the UK were fundamental to our constitution. I made clear, too, that I saw no need for an Intergovernmental Conference. The task now before the Community was to consider how to improve economic and monetary co-operation within the framework of the treaty. Nor could we accept the stipulation in paragraph 39 of the Report that a decision to enter upon the first stage should be a decision to embark upon the entire process. I agreed with those Ministers (Ruding and Waigel) who had argued that there was no basis for the Committee's assumption that regional and structural policies should be expanded. I urged that Finance Ministers and Central Bank Governors should be fully involved in any follow-up work.

4. At the end of the discussion it was agreed that the President (Solchaga) should summarise the discussion in his remarks to the press in a prepared text. He would give his remarks on his own personal responsibility, but on the basis that other Ministers would not seek to rebut them in public.

5. The text was just about all right from our point of view. It has, of course, no formal or operative effect. The relevant passage is:

While a range of different views was expressed, there was a general view that it would be useful if the competent bodies (ECOFIN Council, Commission,

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Monetary Committee and Committee of Central Bank Governors) should:

- prepare, as a matter of urgency, work for launching the measures set out in Stage 1 as indicated in the report.

- define the operational elements of Stages 2 and 3 as indicated in the report so that a decision can be taken in due course on the convocation of an Intergovernmental Conference.

6. Some points to note on this text.

"The measures set out in": this avoids the implication that the UK is willing to sign up to Stage 1 and thus accept paragraph 39 of the Report.

"So that a decision can be taken": this leaves open the question of whether an Intergovernmental Conference should or should not be called.

The two turrets effectively delink work on measures for Stage 1 where we can be positive and Stages 2 and 3 which would require treaty amendment.

[ONLY TO USE IF RAISED - UK attitude to the ERM: the statement carries no implication whatsoever about the

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timing of the UK's entering into the ERM. None of the competent bodies referred to are competent to decide upon the timing of UK membership of the ERM - that is a matter for the UK itself.]

Indirect Tax Approximation

7. Following intensive lobbying by the UK (and other countries) Mme Scrivener reported on the new approach which she has put forward to replace Lord Cockfield's. [ONLY TO BE USED IF ASKED - Its main features are:

- rate convergency during the transitional period before 1993;
- quadrupling VAT paid travellers' allowances and doubling excise duty paid allowances in three stages to 1992;
- a standard VAT rate at a minimum rate;
- optional zero rates to be retained on a very limited number of products otherwise liable to the reduced rate and where there would be no risk of trade distortion;
- technical proposals for removing fiscal frontier controls which reduce the role of the unsatisfactory clearing house approach;

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- excise duties on alcohol and tobacco to be subject to a minimum rate and duties on mineral oils to be approximated within tax bands.]

8. This new approach is much better than the original one - for example, its recognition of zero rates. But it has some undesirable features - particularly the proposal to approximate rates through regulation. We will still need to continue arguing that any approximation necessary should be achieved through market forces. Ministers generally welcomed the new approach, but made clear that they still had substantial points of difficulty. Discussions will now proceed in Brussels.

Withholding Tax

9. This was a stocktaking discussion. The Commission maintained its proposal for a withholding tax directive despite the opposition of five delegations (UK, Luxembourg, Germany, the Netherlands and Greece) and reservations from Denmark and Spain. On the Mutual Assistance Directive (about co-operation between tax authorities) 11 delegations can accept the proposal, with certain reservations, and one (Luxembourg) is opposed, though that country made clear during the discussion that they would lift their opposition if the withholding tax Directive was withdrawn.

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10. Discussion at ECOFIN focused on the problems which France particularly, Italy and Belgium allege they will face when the Capital Liberalisation Directive comes into force. They fear that taxpayers will evade tax by shunting their capital into Community markets where there is no withholding tax. The concern seem to be more political than economic - accusations in France that the Socialist Government has provided facilities for owners of capital to evade taxes and to shift the tax burden towards earners. There is, of course, no legal link between implementation of the Capital Liberalisation Directive and introduction of a Community withholding tax. And the answer to French fears of tax evasion is that they should tighten up their tax system.

11. I suspect that discussion in the Community will now focus on the Mutual Assistance Directive, which might be spruced up somewhat so as to give the French a political fig leaf for claiming that steps had been taken to prevent tax evasion and thus allowing them to implement the Capital Liberalisation Directive.

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Conservative and Unionist Central Office

cc Andrew Tyrie

32 Strand Square Westminster SW1P 3HH Telephone 01-222 9000

Memorandum from: Brendan Bruce

To: John Whittingdale
cc Chairman
Deputy Chairman

Date: 1st June 1989

PEB: JUNE 13th

1. The script is attached for the Prime Minister's approval.
2. The Broadcast is aimed primarily at the Conservative party supporter who is either:
 - a) Against foreigners (and particularly Brussels bureaucrats) 'interfering in Britain's affairs';
 - b) Thinks that this is an unimportant or irrelevant election;
 - c) Is a little worried or confused about our stance on Europe.
3. To all these viewers, we have a simple message 'If you don't vote Conservative, you will have socialism attempting to climb back in through the back door. You can play an important part in stopping this by voting Conservative on Thursday.'
4. The first three minutes will hammer this theme home by the use of stark black and white captions, clearly stating what socialism through the back door will mean in practice to the ordinary person. A rather stern and impressive voice will read these captions.

5. The screen will then burst into colour. We shall see the Prime Minister in her study. This section will be photographed by Terence Donovan, the famous portrait photographer. The colours of her dress and jewellery sparkle, but it is the face and especially the eyes we fix upon. We listen to her speaking. The tone is almost of a Prime Ministerial broadcast. It is visionary and self-confident. It is a voice speaking for Britain. She looks to the future. She speaks of our destiny and our commitment. But it is also clear that in terms of getting the practical benefits of this commitment, she thinks we need strong and vigilant leadership. The viewer is reassured that we can safely leave Britain's interests in her hands.

6. The screen returns to the caption "Don't let Labour in through the back door' echoing the advertising campaign. The blackness opens like a door coming ajar. A new caption appears 'Vote Conservative this Thursday'. The 'door' slams shut (and we hear the sound of it slamming shut), we understand it is the Conservatives slamming the back door. The torch symbol appears and the words 'The Conservative Party'.

7. The technique is simple, because we have a simple message to put across. The tone is self-confident and authoritative and I can think of nothing more effective in exciting the hearts of our supporters than this refreshingly different and direct approach. I commend it to the Prime Minister.



PARTY ELECTION BROADCAST: 13th JUNE 1989

VISUAL

AUDIO

WE OPEN TO A SCREEN WHICH, LIKE THE LATEST POSTER, HAS A BLUE LINE AROUND IT.

A CAPTION APPEARS IN THE MIDDLE OF THE SCREEN IN WHITE TYPE ON A BLACK BACKGROUND. THE TRADITIONAL CONSERVATIVE TYPEFACE.

A VOICE OVER READS ALOUD WHAT IS WRITTEN ON THE CAPTION BOARD.

THE CAPTION IS REPLACED BY ANOTHER, THEN ANOTHER. EACH TIME THE VOICE READS THEM.

CAPTION: BY THIS TIME NEXT WEEK, THE LABOUR PARTY COULD BY TRYING TO GOVERN THIS COUNTRY.

CAPTION: NOT FROM NO. 10 DOWNING STREET, BUT FROM STRASBOURG.

CAPTION: IF YOU DON'T VOTE, THE LABOUR PARTY DOESN'T HAVE TO WIN A GENERAL ELECTION.

SFX: Absolute silence.

MVO: By this time next week, the Labour Party could be trying to govern this country.

MVO: Not from No. 10 Downing Street, but from Strasbourg.

MVO: If you don't vote, the Labour Party doesn't have to win a General Election.

By joining up with the European Socialists, it can influence the way this country is run.

overlooked.

CAPTION: IF YOU DON'T VOTE, A TRADE UNION ACTIVIST COULD BE JOINING THE BOARD OF EVERY COMPANY IN THIS COUNTRY.

MVO: If you don't vote, a Trade Union activist could be joining the Board of every company in this country.

MVO: A frightening thought for foreign investors.

We have created more new jobs in this country than in the rest of the European Community put together.

CAPTION: IF YOU DON'T VOTE, IT WILL MEAN A RETURN TO LABOUR'S BUREAUCRACY AND RED TAPE

MVO: If you don't vote, it will mean a return to Labour's bureaucracy and red tape.

Stifling the enterprise that has grown up in Britain under the Conservatives.

CAPTION: IF YOU DON'T VOTE, WHO WILL FIGHT TO KEEP TAXES OFF:

MVO: If you don't vote, who will fight to keep taxes off:

THE NEXT THREE CAPTIONS APPEAR DOWN THE SCREEN LIKE A SHOPPING LIST.

CAPTION: YOUR CHILDREN'S CLOTHES?

MVO: Your children's clothes?

CAPTION: YOUR CHILDREN'S SHOES?

MVO: Your children's shoes?

CAPTION: THE FOOD IN YOUR SHOPPING BASKET?

MVO: The food in your shopping basket?

Unfortunate to reinforce these pledges but I don't think we can object.

[In fact this is about the only tax area where Lab. could be trusted a little!]

They've said they would, but with their past record, can you trust them?

CAPTION: IF YOU DON'T VOTE, WILL WE
GET A GOOD DEAL MORE OR A GOOD DEAL
LESS?

MVO: If you don't vote, will we
get a good deal more, or a
good deal less?

In the last 5 years, Margaret
Thatcher got some £5 billion
back from the Community, that's
£240 for every family in
Britain.

CAPTION: IF YOU DON'T VOTE, WHO WILL
MAKE A STAND AGAINST THE THREAT OF:

MVO: If you don't vote, who will
make a stand against the
threat of:

EACH CAPTION REPLACES THE NEXT.

CAPTION: RABIES?

MVO: Rabies?

CAPTION: HEROIN?

MVO: Heroin?

CAPTION: TERRORISM?

MVO: Terrorism?

CAPTION: IF YOU DON'T VOTE, YOU HAVE
ONLY YOURSELF TO BLAME

MVO: If you don't vote, you have
only yourself to blame.

WE DISSOLVE THROUGH TO MRS. THATCHER
SHE SITS COMFORTABLY IN HER STUDY.
SHE TURNS FROM A T.V. UPON WHICH SHE
HAS WATCHED THE SAME P.E.B. AS THE
VIEWER.

PM: The European Community stands
on the threshold of the most
important period in its history.

We are creating a single market
for all our citizens.

A market of over 320 million people worth billions of pounds.

We will have free movement of people and free movement of goods - without abolishing ~~our~~ *essential* frontier controls.

1992 will be an historic opportunity for Britain

So we must be vigilant in promoting and protecting Britain's interests and (like other European countries) we must fight our corner.

We've lead the way in Europe in cutting taxes, now our opponents want to go back to higher taxes for millions of ordinary, hard-working people.

Only the Conservatives can be trusted to safeguard the gains of the last decade, and to rise to the challenge of the next.

That means keeping Europe committed to the policies of freedom and enterprise.

There is no doubt in my mind that our destiny is in Europe as part of the Community.

On the things we can do better together than alone, I want to see us work more closely.

But Community policies must tackle problems in a practical way, step by step.

The Conservative vision is of a family of nations, understanding each other better, appreciating each other more, but relishing our national identity and making sure we keep our national character.

We have to look to our children's and grand-children's future.

A Conservative vote on Thursday is a vote for that future.

WE MIX THROUGH TO OUR ORIGINAL
CAPTION BOARDS. A CAPTION APPEARS.

AS THIS APPEARS, A SMALL DOOR
OPENS IN THE SCREEN.

CAPTION: DON'T LET LABOUR IN
THROUGH THE BACK DOOR.

SFX: Door creaks open.

THIS CAPTION IS REPLACED BY THE
STATEMENT:

CAPTION: VOTE CONSERVATIVE
THIS THURSDAY.

AS THIS APPEARS, THE DOOR SLAMS
SHUT. IT IS REPLACED BY THE
CONSERVATIVE BURNING TORCH LOGO

SFX: Door slams shut.

CAPTION: THE CONSERVATIVE PARTY.



FROM: A C S ALLAN

DATE: 5 June 1989

MR TYRIE

cc Mrs Chaplin
Mr Call

A handwritten signature in black ink, appearing to be "P. W." or similar, located to the right of the "cc" list.

EURO ELECTIONS PEB

The Chancellor was grateful for your minute of 2 June. He feels that the amendment to page 4 (to change "abolishing our frontier controls" to "abolishing essential frontier controls"), is important. In the first place it is untrue as it stands; in the second place frontier controls are not desperately popular.

A handwritten signature in black ink, appearing to be "A C S Allan", located below the main text.

A C S ALLAN

UNCLASSIFIED

FROM: N L WICKS
 DATE: 16 June 1989
 EXT : 4369

CHANCELLOR OF THE EXCHEQUER

cc Economic Secretar
 Sir P Middleton
 Sir T Burns
 Mr Lankester
 Mr R I G Allen
 Mr H P Evans
 Mr Peretz
 Mr Riley
 Mrs M E Brown
 Ms Symes

With [unclear]

JULY ECOFIN

The Secretary of Monetary Committee telephoned me this week to say that the French Presidency (from 1 July), supported by Vice President Christopherson, were keen to improve the economic discussion which takes place when ECOFIN considers the annual economic report, the guidelines for Member States and the quarterly report at their July meetings. They were therefore thinking of proposing that the discussion should be in super restricted session - Ministers, one official and possibly central bank governors. The French were consciously modelling the arrangement on the G7 procedure. They also wanted, it seemed, to exclude ambassadors since some Finance Ministers would not speak frankly in front of Foreign Office officials.

2. I said that I did not think that you would object to this approach.

3. We will see whether it in fact transpires.

N.L.W.

N L WICKS

UNCLASSIFIED



FROM: J M G TAYLOR
DATE: 19 JUNE 1989

Handwritten signature

MR WICKS

cc PS/Economic Secretary
Sir P Middleton
Sir T Burns
Mr Lankester
Mr R I G Allen
Mr H P Evans
Mr Peretz
Mr Riley
Mrs M E Brown
Ms Symes

JULY ECOFIN

The Chancellor has seen your note of 16 June. He has commented that the French proposal for the economic discussion in July seems worth trying.

Handwritten flourish

J M G TAYLOR



FROM: J M G TAYLOR
DATE: 19 JUNE 1989

[Handwritten signature]

MR WICKS

cc As before,

- cc PS/Economic Secretary
- Sir P Middleton
- Sir T Burns
- Mr Lankester
- Mr R I G Allen
- Mr H P Evans
- Mr Peretz
- Mr Riley
- Mrs M E Brown
- Ms Symes

It now transpires the ECOFIN is on the same day as the Governors' meeting in Basle. So the branching is simply likely to float the idea, perhaps in a restricted session, that Governors should be invited for the next serial discussion.

*Can't read
(? Presidency)*

Yes

JULY ECOFIN

N 20.6

The Chancellor has seen your note of 16 June. He has commented that the French proposal for the economic discussion in July seems worth trying.

[Handwritten signature]

J M G TAYLOR

440/24

PERSONAL AND CONFIDENTIAL

pyg

CHANCELLOR

FROM: A G TYRIE
 DATE: 20 June 1989
 cc Mrs Chaplin

*Thanks.
 I should
 agree.*

WHERE DO WE GO FROM HERE?

You asked for comments on Nigel Forman's note. I half agree with it.

2. The question of EC membership has always had the potential to split the Conservative Party (and the Labour Party for that matter). So on European issues it is particularly important for the leadership to try to find as much common ground as possible with backbench opinion. Unfortunately, that's not happening at the moment so the Party appears to be split.

3. I don't think we lost the European Elections because we were negative on European issues. Having done quite a bit of canvassing in this campaign I can state with confidence that, as far as Barbican voters are concerned, issues mattered not a whit! We lost the European Elections because we appear to be a divided Party (on Europe amongst other things) and because interest rates are high. I very much doubt if Labour can take votes off us by appearing more pro-European than us, but they could do so by appearing to be more united.

4. For what it's worth, I do think that there is a view of Europe around which the vast majority of the Conservative Party could unite, but it is not the quite policy we have now. The vast majority of the Party don't think that the Community should be spending our money for us and are suspicious of grand designs to centralise and plan economic and monetary policy from Brussels. In which case, why on earth did we sign the Single European Act, which doubled spending on regional policy and committed us to EMU?

5. I think the vast majority of people could agree on a more positive attitude to Europe, consisting of:

- A commitment to co-ordinate an anti-inflation policy at a European level, which could include membership of the ERM and ultimately a considerable amount of monetary co-operation beyond that.

- Strong support for the deregulatory and free markets aspects of the Single European Act, combined with even stronger opposition to any increase in Euro spending.

6. On the domestic scene that would distinguish us clearly enough from Labour. They don't care about inflation and they want to spend other people's money.

7. At the Community level a firm commitment to press for co-ordination of an anti-inflationary monetary policy would give us a chance, over a period of years, to get alongside the Germans. We should be looking to make agreement with the Germans on monetary policy and, as quid pro quo, getting them to agree to cuts in Community spending. After all, between us we pay for almost all of it.

8. At the moment our policy seems to be the opposite. I have been spending the last few months trying to justify outrageous Euro spending in all the Euro Election literature. We have all been hard at work thinking of forms of words which cover up differences on Euro-monetary policy. And the PM has been annoying the Germans by siding with the French in some 'German baiting' over SNF.

9. I am sure that Nigel Forman is right to say that young people don't comprehend what the Prime Minister is on about when she talks about "the threat from Europe". Nor does "the threat to our sovereignty" mean much to them. If we are to avoid doing ourselves more damage in the future we have to find a European policy which appears less extreme. (Of course I accept that it is difficult to find something that would satisfy everybody in the Party and that my line might not be it.) The alternative is to leave the thorn in our side. If we do that we have to accept the risk that, at some stage, the British excursion into Europe could end in tears and withdrawal.


A G TYRIE

FROM: J P RICHARDSON
DATE: 30 June 1989
x 5415

3/7

- 1. MR CHIVERS (Pay 2)
- 2. MISS WRIGHT

- cc PS/Chancellor
- PS/Chief Secretary
- PS/Financial Secretary
- PS/Paymaster General
- PS/Economic Secretary
- Sir P Middleton
- Mr Wicks
- Dame Anne Mueller
- Mr Tyrie
- Mr Kelly
- Mr Mercer
- Mr Jordan
- Mr Barker
- Mr Windsor

EXPLANATORY MEMORANDUM ON EUROPEAN COMMUNITY LEGISLATION

The attached Explanatory Memorandum covers a routine Commission proposal and as such raises no points of principle and strictly follows a pay method which the UK has already supported. The Commission proposal is therefore being submitted for Parliamentary Scrutiny under cover of an unsigned Explanatory Memorandum.

The Commission proposal is in four parts, though following examination by the Council's Working Party on Staff Regulations, it has been agreed to postpone any decision on the part of the proposal which deals with the creation of a separate weighting for Munich with effect from 1 January 1988. An amended draft regulation excluding this part of the proposal will be submitted for consideration by the Council of Ministers. The remaining parts of the proposal concern the correction of the salary scales of Community staff applicable from 1 July 1988 by applying a 0.3 per cent increase to take account of adjustments to the Civil Service salary scales in Italy; the correction of the weightings for Spain, Greece and Portugal with effect from 1 July 1988; the interim staff pay adjustments due from 1 January 1989 in those countries of employment where the cost of living between July and December 1988 exceeds the 2.75 per cent threshold for adjustment, which are abated by an amount equal to half the forecast annual reduction in purchasing power for national civil servants in Member States up to 30 June 1989.

J P RICHARDSON

Official text not available

EXPLANATORY MEMORANDUM ON EUROPEAN COMMUNITY LEGISLATION

Proposal for a Council Regulation correcting the remuneration and pensions of officials and other servants of the European Communities with effect from 1 July 1988 and adjusting the weightings applied thereto with effect from 1 January 1989.

Submitted by HM Treasury

30 June 1989

Subject Matter

This proposal is in four parts. Following examination by the Council's Working Party on Staff regulations, a decision on the first part of the proposal to create a separate weighting for Munich with effect from 1 January 1988 has been postponed. An amended draft regulation excluding this part of the proposal will be submitted for consideration by the Council of Ministers, for which as yet no date has been fixed.

The second part of the proposal is to correct the salary scales applicable from 1 July 1988 by applying a 0.3 per cent increase to take account of adjustments to the Civil Service salary scales in Italy.

The third part of the proposal corrects the weightings for Spain, Greece and Portugal with effect from 1 July 1988, following a study by the Commission's Statistical Office to improve the accuracy of the cost-of-living indices within these countries.

The fourth part of the proposal is for a routine interim pay adjustment which conforms with the provisions of the pay determination method on which the Treasury submitted an Explanatory Memorandum on 3 December 1981 (Document 8064/81).

Between annual reviews an interim adjustment may be made after 6 months if local inflation is in excess of a 2.75 per cent threshold. The intention is to maintain reasonable equality of purchasing power with Brussels for staff working in different countries. The proposal is that pay be adjusted only in those countries where the rate of inflation exceeds the threshold. The adjustments are abated by an amount equal to half the forecast annual reduction in purchasing power for national civil servants in Member States up to 30 June 1989.

Of the member states, in Greece, Italy (except Varese), the UK, Spain and Portugal, the reported rates of inflation for the 6 months prior to 1 January 1989 are high enough to warrant an adjustment to staff pay. The proposed adjustments are 9.5 per cent for Greece, 2.5 per cent for Italy (except Varese), 3.8 per cent for the UK, 5.1 per cent for Spain and 7.3 per cent for Portugal. With the relatively high inflation in Greece and Portugal it is proposed that the adjustment be backdated (this conforms with the agreed pay method).

The proposal will be put to the Council for a qualified majority vote. The proposal strictly follows a pay method which the UK has already supported and has no implications for UK policy nor does it impact on UK law.

The Commission estimates that the total net cost of this proposal, to be met from existing provision in the Communities budget for 1989, is 2.52 MECU (roughly £1.68m).

*Discussion first
@ Technical level*

*The new
Scrivener
paper*

6 juillet 1989

DOCUMENT INFORMEL DE REFLEXION DE LA COMMISSION

**RENFORCEMENT DE LA COOPERATION FISCALE
EN RELATION AVEC
LA LIBERATION DES MOUVEMENTS DE CAPITAUX**

Introduction

A l'occasion de sa réunion de Madrid les 26 et 27 juin 1989, le Conseil européen a "marqué sa préoccupation à l'égard du retard constaté dans la recherche d'une solution au problème de la fiscalité de l'épargne et souligné la nécessité de faire en sorte que la libération des mouvements de capitaux ne facilite pas les fraudes fiscales". Il a demandé au Conseil "d'intensifier ses efforts pour trouver une solution satisfaisante au problème de la fiscalité de l'épargne afin d'arriver à un accord avant le 1er juillet 1990".

La Commission partage pleinement ces conclusions.

Elle rappelle à cet égard les propositions qu'elle a déposées le 8 février 1989 (doc. COM(89)60 final) concernant un régime commun de retenue à la source sur les intérêts et l'assistance mutuelle des autorités compétentes des Etats membres dans le domaine des impôts directs et de la TVA. Madame Scrivener a confirmé, lors de la réunion informelle des Ministres de l'Economie et des Finances de S'Agaro, que la Commission maintenait ces propositions.

A titre complémentaire, elle suggère un certain nombre de voies dans lesquelles pourrait être recherché un renforcement de la coopération fiscale entre les Etats membres. Tel est l'objet du présent document de réflexion, sans caractère exhaustif, dont la Commission avait annoncé la présentation au Conseil ECOFIN du 19 juin dernier.

*

Remarques préliminaires:

En premier lieu, quelle que soit la solution qui sera retenue au plan communautaire, il est de la responsabilité des Etats membres de prendre toutes les mesures nécessaires dans l'élaboration et l'application de leurs législations fiscales respectives, afin de lutter contre les risques de fraude.

En second lieu, les mesures suggérées ici excluent celles qui, telle la généralisation de la déclaration automatique au fisc des intérêts versés par les établissements financiers, exigeraient la levée générale du secret bancaire.

* * *

1. Mesures d'incitation à la déclaration des revenus d'épargne par les contribuables

Pour assurer une déclaration correcte des revenus d'épargne, il est indispensable que les contribuables soient informés de la façon la plus précise possible de leurs obligations ainsi que des

sanctions qu'ils encourent en cas de déclaration fausse ou incomplète, comme cela est mis en oeuvre dans certains Etats membres.

Ces efforts de meilleure information relèvent en premier lieu des formulaires et documents des administrations fiscales. Ils concernent aussi les établissements financiers qui peuvent, notamment dans les documents qu'ils envoient à leurs clients, leur rappeler leurs obligations de déclaration fiscale en ce qui concerne les revenus qu'ils leur versent.

Ces mesures, qui doivent être mises en oeuvre au plan national, pourraient utilement faire l'objet d'échanges de vues au niveau communautaire pour identifier les pratiques les plus efficaces.

2. Renforcement de l'assistance mutuelle

La proposition de directive du 8 février 1989 vise à supprimer la possibilité pour un Etat membre, lorsque certaines conditions sont remplies, de se prévaloir de l'existence de pratiques administratives pour refuser de donner suite à une demande d'assistance mutuelle relative à des cas de fraude portant sur les revenus d'épargne.

Cette directive, qui permettrait de donner un caractère plus effectif à l'assistance mutuelle, semble pouvoir faire l'objet d'un accord, à la suite de la réunion informelle de S'Agaro.

En outre, on pourrait envisager d'élargir le champ d'application de la directive sur l'assistance mutuelle aux impôts sur les successions et les donations.

3. Suivi des mouvements de capitaux

L'article 4 de la directive du 24 juin 1988 sur la libération des mouvements de capitaux précise que les dispositions en cause "ne préjugent pas le droit des Etats membres de prendre les mesures indispensables pour faire échec aux infractions à leurs lois et règlements, notamment en matière fiscale (...) et de prévoir des procédures de déclaration des mouvements de capitaux à des fins d'information administrative ou statistique. L'application de ces mesures et procédures ne peut avoir pour effet d'empêcher les mouvements de capitaux effectués en conformité avec le droit communautaire".

Des procédures de ce type existent dans plusieurs Etats et notamment aux Etats-Unis.

NB.

Il pourrait être suggéré aux Etats membres d'instaurer une déclaration des mouvements de capitaux dépassant un certain montant.

4. Généralisation de l'entraide judiciaire

L'entraide judiciaire fait l'objet d'une convention du 20 avril 1959 conclue dans le cadre du Conseil de l'Europe.

Afin de permettre à l'entraide judiciaire de devenir pleinement effective sur le plan fiscal, il conviendrait que tous les Etats membres signent et ratifient la convention, y compris le protocole concernant les infractions fiscales.

L'adhésion de tous les Etats membres à cette convention permettrait également d'accroître dans une certaine mesure l'efficacité de la répression de la grande fraude liée à la criminalité et notamment au trafic de la drogue.

5. Coopération internationale

La Commission, à maintes reprises, a souligné l'importance du renforcement de la coopération fiscale sous toutes ses formes au-delà des frontières de la Communauté.

La libération des mouvements de capitaux ne porte pas seulement sur les mouvements de capitaux à l'intérieur de la Communauté mais s'exerce aussi vis-à-vis des pays tiers.

C'est pourquoi la Commission propose de relancer les discussions que ce soit au plan bilatéral avec les Etats-Unis, le Japon et les pays de l'AELE, ou dans des cadres multilatéraux appropriés.

Au sein de l'OCDE, la Commission propose de lancer une réflexion sur les conditions d'une concurrence loyale sur le marché des capitaux assorties d'un renforcement des moyens de lutte contre la fraude.

FROM: SUSIE SYMES (EC1)
DATE: 7 JULY 1989

x4441

CHANCELLOR

ECOFIN 10 JULY

You are attending ECOFIN in Brussels on 10 July at 1100. You will be accompanied by Mr Taylor and me; Mr Wicks will join you in Brussels.

2. The agenda is expected to be:
 - (a) multilateral surveillance (in restricted session);
 - (b) the second quarterly economic review.
3. Briefs are also attached on items to be raised over lunch:
 - (c) taxation of savings;
 - (d) emu;

Multilateral surveillance

4. Covered in Brief A.

5. The French Presidency want to encourage rather deeper and less formal discussion of the Community's economic prospects. We are expecting M. Beregovoy to ask Ministers to make a short opening statement, leading into a cross table discussion. There may be a second surveillance discussion in December. We now expect the Presidency to take the more formal discussion of the second quarterly economic review during this session.

Second quarterly economic review

6. Covered in Brief B.

7. The Commission's second quarterly review of the economic situation updates their Annual Economic Report (published last October and adopted by the Council, after minor amendments, in December 1988). The review reaffirms the policy guidelines set out in the Annual Economic Report, and notes the generally favourable situation and prospects in the Community. The Commission identify three main risks: rising inflation; divergence of economic performance, particularly on budgetary positions; and continued current account disequilibria.

Taxation of savings

8. Covered in Brief C.

9. There will probably be a short paper, which we do not yet have; but the Presidency expect little discussion since nobody will have read it. This item is merely a marker of the new Presidency's intention not to let the issue drop. The French Presidency have indicated their intention to proceed cautiously so as not to frustrate the chances of agreement on some measures, however modest.

EMU

10. Covered in Brief D.

11. We expect a short, procedural discussion with substance left until the 8-9 September informal in Antibes. The Commission may indicate their working timetable; you might sound out the Presidency's plans.

CONFIDENTIAL

12. The usual comparative statistics on the EC, US and Japan are included in Brief E.
13. Personality notes are attached (top copy only).
14. Copies of this briefing go to those on the attached list.

Susie Symes

SUSIE SYMES

CONFIDENTIAL

CIRCULATION

Chancellor
Mr Wicks
Mr R I G Allen
Mr H P Evans
Mrs M E Brown
Mr Gieve
Mr L Parker, Cabinet Office
Mr M A Arthur, FCO
Mr D Bostock, UKREP 1 copy by hand in London
7 copies to Brussels

Steering brief only

PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir Peter Middleton
Mr Culpin
Mr Odling-Smee
Mr Peretz
Mr Riley
Mr Sedgwick
Mr Bonney
Mr Grice
Mr Ilett
Miss O'Mara
Mr Deane
Mr Edmonds
Mr Michie
Mr Williams
Mrs Chaplin
Mr Tyrie

The Governor B/E
Mr L Price B/E
Mr M Jay - Paris
Mr D Broucher - Bonn
Miss C Elmes - Rome
Mr L G Faulkner - The Hague
Mr Isaac - IR
Mr Sullivan - IR



FROM: J M G TAYLOR

DATE: 11 July 1989

A handwritten signature in black ink, appearing to be "JMG".

MR N L WICKS

cc PS/Financial Secretary
PS/Economic Secretary
Sir P Middleton
Mr Scholar
Mr Culpin
Mr Peretz
Mr R I G Allen
Mrs M Brown
Mr Gilhooly
Mr Tyrrie

Mr Isaac - IR
PS/IR
Mr Jefferson Smith - C&E

TAX AND CAPITAL MOVEMENTS

... I attach a copy of the new Scrivener paper, which was distributed at yesterday's ECOFIN.

A handwritten signature in black ink, appearing to be "JMG".

J M G TAYLOR

1. MR WICKS *wcd*
2. CHANCELLOR *11-7*

FROM: SUSIE SYMES (EC1)
DATE: 11 JULY 1989
x 4441

cc PS/Economic Secretary
PS/Paymaster General
Sir P Middleton
Sir T Burns
Mr Scholar
Mr R I G Allen
Mr H P Evans
Mr Odling-Smee
Mr Riley
Mrs M E Brown
Mr Deane
Mr Edmonds

CABINET 12 JULY, REPORT ON 10 JULY ECOFIN

I attach a short note of points for your report to Cabinet on the 11 July ECOFIN in Brussels.

Susie Symes

SUSIE SYMES

*SYMES
→
CX
11/7*

CABINET 12 JULY, REPORT ON 10 JULY ECOFIN

1. The first ECOFIN of the French Presidency; a short and satisfactory meeting which focused on the current economic situation in the Community.

Multilateral surveillance and Economic Situation

2. The Council discussed the Commission's second quarterly review of the economic situation, and welcomed the continuing good economic performance and prospects in the Community. All Ministers agreed on the importance of containing inflation and preventing inflationary expectations being incorporated into wage cost developments. Countries with fiscal deficits and growing public sector debt - particularly Greece - were urged to control their public expenditures and reduce fiscal deficits. There was some discussion of the current account surpluses and deficits.

3. Perhaps because of the French Presidency's aim to encourage a deeper (and restricted) discussion, there was also considerable criticism of German industrial subsidies.

Economic and monetary union - work programme

4. Over lunch, Delors and Christophersen outlined the work programme to follow up the Madrid Council. There will be a 'first exchange of views' at the informal ECOFIN in Antibes on 8-10 September, followed by further discussions in ECOFIN and a report back to the European Council on 8-9 December.

5. I registered the main questions that the UK wants to be given full consideration. I was able to agree with Delors that it would be important to consider four questions:

a. how much centralisation of monetary and economic policy could be needed;

b. What further 'structural' policies and budgetary transfers might be required;

c. to what extent rules were needed for the conduct of policy, in particular whether the Delors report had gone too far are budgetary policy;

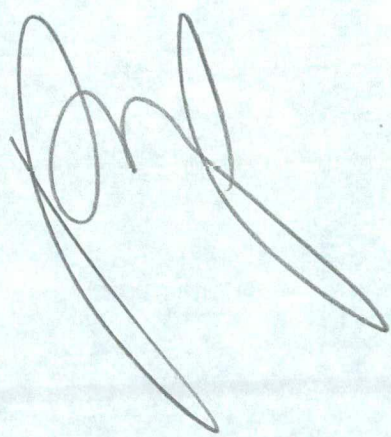
d. whether a common currency was necessary for monetary union.

6. I stressed that in addition Ministers would have to address substantive issues including: alternative approaches - on which the UK would have points to make; the problems of democratic accountability that the UK had already raised in Madrid; and thorough consideration of all the elements in Stage 1 as summarised at Paragraphs 51-32 of the Delors report. Glad to say Delors accepted my points.

Taxation of savings

7. There was no discussion at all, but the Commission circulated a note which implicitly recognises that the withholding tax is dead and that the best way forward would be through mutual assistance, including wider co-operation with the US, Japan and other OECD countries to prevent tax evasion.

1. MR WICKS
2. CHANCELLOR

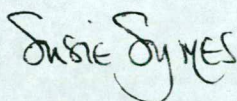


FROM: SUSIE SYMES (EC1)
DATE: 11 JULY 1989
x 4441

cc PS/Economic Secretary
PS/Paymaster General
Sir P Middleton
Sir T Burns
Mr Scholar
Mr R I G Allen
Mr H P Evans
Mr Odling-Smee
Mr Riley
Mrs M E Brown
Mr Deane
Mr Edmonds

CABINET 12 JULY, REPORT ON 11 JULY ECOFIN

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SUSIE SYMES

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Lord Advocate's Chambers
Fielden House
10 Great College Street
London SW1P 3SL

Telephone: Direct Line 01-276 6810
Switchboard 01-276 3000
Fax 01-276 6834

Miss Moira Wallace
HM Treasury
Parliament Street
LONDON SW1P 3AG

13 July 1989

Dear Miss Wallace,

**INFORMAL MEETING OF MINISTERS OF JUSTICE -
THE HAGUE, 20 JUNE 1989**

I attach, for your information, a copy of a note on the above meeting which has been produced by the Council of Europe secretariat.

*Yours sincerely,
Alan Maxwell.*

**ALAN MAXWELL
PRIVATE SECRETARY**

CH/EXCHEQUER	
REC.	14 JUL 1989
ACTION	EST
COPIES TO	

✓
14/7



AHR

I (89) 56
3.7.89INFORMAL MEETING OF THE EUROPEAN JUSTICE MINISTERS

The Hague, 20 June 1989

Council of Europe Justice Ministers meeting in the Hague on 20 June 1989 discussed ways in which citizens and private bodies can be involved in the fight against crime.

They also reviewed the question of liability and proof in electronic monetary transactions.

The Informal Meeting of the European Ministers of Justice, which was held at the invitation and under the chairmanship of the Minister of Justice of the Netherlands, Frits KORTHALS ALTES, brought together Ministers from the 23 member States of the Council of Europe. Their counterparts from Canada, the Holy See and - for the first time - from Hungary also attended as observers.

The Hungarian Minister of Justice, Dr. Kálmán KULCSAR, gave a report on recent developments in the field of human rights and constitutional reforms in his country confirming that Hungary is firmly committed to becoming a pluralist society.

The Dutch Minister expressed his satisfaction that the exchange of views he had recently started with his Hungarian colleague had now led to a dialogue in the framework of the Council of Europe. The Norwegian Minister (Norway currently chairs the Council of Europe's Committee of Ministers), the Spanish Minister (Spain holds the Presidency of the European Community) and the Austrian and Italian Ministers also responded to the Hungarian Minister's speech.

The 23 Council of Europe member states :

Austria, Belgium, Cyprus, Denmark, Finland, France, Federal Republic of Germany, Greece, Iceland, Ireland, Italy, Liechtenstein, Luxembourg, Malta, Netherlands, Norway, Portugal, San Marino, Spain, Sweden, Switzerland, Turkey, United Kingdom



Forty years
Council of Europe
Quarante ans
Conseil de l'Europe

Les 23 Etats membres du Conseil de l'Europe :

Autriche, Belgique, Chypre, Danemark, Finlande, France, République Fédérale d'Allemagne, Grèce, Islande, Irlande, Italie, Liechtenstein, Luxembourg, Malte, Pays-Bas, Norvège, Portugal, Saint-Marin, Espagne, Suède, Suisse, Turquie, Royaume-Uni

On the first theme "Public/private partnership in fighting crime" the introductory report presented by the Chairman summed up the Netherlands policy of social crime prevention, implemented since 1985 to combat the rising rate of the commonest forms of crime. Through this scheme, subsidies were provided to some 80 different municipalities for a variety of projects such as the appointing of caretakers at housing estates, better supervision in schools to prevent truancy, neighbourhood-watch schemes and victim-support centres. In order to intensify and extend this new policy a new department was recently set up in the Dutch Ministry of Justice, the Crime Prevention Directorate.

Crime prevention policies appeared to be a central concern of many other European governments as well. It was clear from the discussion of the report that the fight against criminality is no longer seen as the exclusive responsibility of the criminal justice system. Other government bodies and the private sector also have an important part to play in controlling crime, in particular by means of crime prevention. These various crime prevention efforts need to be co-ordinated at European level.

The Ministers agreed that, in order to reduce crime, the social roots of the problem must be tackled. To achieve this, governments need support from the private sector at local level in at least three areas: improving the living conditions of groups most at risk of becoming delinquents; providing better support to the victims of crime; facilitating mediation between the victim and the offender and the reinsertion of offenders into society.

In France and in the Scandinavian countries national crime prevention councils have been set up. The business community is one of the partners in these councils. An important part in crime prevention is also played by private security companies.

In the United Kingdom, crime prevention is clearly a priority policy. Across the UK, 66000 neighbourhood-watch schemes have been set up, with the support of local police. Almost all larger towns have their own victim-support centres. Recent initiatives are directed in particular at the strengthening of community life and surveillance in big city neighbourhoods with high crime rates.

The problem of computer hacking was also raised. It appeared that the business community is often reluctant to report cases of hacking and computer crime to the police for fear of adverse publicity. In order to overcome this obstacle, a "forum" for computer crime was recently established in the Netherlands. Members of this "forum" are specialised police officers, prosecutors and representatives of industry. All companies which have fallen victim to hackers and other forms of computer crime are invited to report their cases to this body which will look into the matter privately and confidentially.

In his summing up, the Chairman expressed the hope that, in a Europe without frontiers, anyone who is the victim of a crime anywhere in Europe will receive adequate support, regardless of nationality. At present in many countries national residents who are victims of violence are entitled to financial compensation paid by the State, whereas visitors from other European countries are not. This situation should be remedied.

The Ministers agreed that co-operation within the Council of Europe should be intensified in four areas.

- the collection of comparable statistical information on criminality;
- exchanges of views and experience on crime prevention between the member states;
- the study of the role and powers of private security companies, whose transnational operations make harmonisation all the more desirable;
- the development of European standards for technical crime prevention devices (locks, burglar alarms etc.) and of guidelines for crime-resistant forms of architecture, urban planning, and car design.

* * *

The second report by Mr KORTHALS ALTES, "Legal problems in connection with modern payment systems", examined electronic fund transfers (via cash dispensers, automated teller machines, point-of-sale and home-banking terminals).

In discussing the risks involved in such transactions due to technical faults or fraud, the Netherlands report advocated that these should be assumed by the bank where no significant negligence on the part of the consumer can be proved. This should however be limited to principal losses, interest losses and certain risks, particularly in the event of the card being lost or stolen or the personal identification number being divulged to third parties.

Ministers pointed out that the current systems have certain weaknesses from the point of view of security and it would be unfair to adopt rules which to a large extent place the risks that are inherent in the system itself on the consumer, with the exception that consumers should always bear a certain risk if the card is lost or stolen, in order to encourage users to be careful. Should this be considered unreasonable towards the cautious consumer, a compromise could be reached by limiting the user's risk to a modest amount, as is nowadays the case with guaranteed cheques and credit cards.

There are general terms and conditions of certain banks in which the consumer must bear the whole risk of unauthorised use of the card, until the time of notification to the bank of the card's loss. The prevailing view in the Conference was that this is not reasonable and that in some way a change must be realised. Regulations governing liability and evidence should be quickly established.

These regulations can take the form of framework legislation; it can also be left entirely to the banks to draw up contractual terms of conditions. A majority of Ministers expressed a preference in principle for self-regulation, although governments within the Council of Europe should try to establish principles which are subsequently implemented in the general terms and conditions of the banks.

Concerning the problems of evidence, it appeared that this is a very complicated matter with many implications which make it all the more desirable that rather detailed and specific rules on the burden of proof and the evidence requirements be laid down. Since the bank has superior access to its own computer files, a rather heavy burden of proof or duty of rebuttal should be laid on the bank.

The Conference was in favour of a further exchange of views within the framework of the Council of Europe during which the possibilities of establishing concrete model rules, especially concerning the allocation of risks, be looked at. The final aim of this activity being the protection of the consumer, the results should be reached within a short period of time. It was also pointed out that any model rules should be flexible, so as not to discourage competition and innovation.

Agreed. TV, Dutch, TDA, Whish, un H. A. H. V. PS @

FROM: R I G ALLEN (EC)
DATE: 16 AUGUST 1989

CHANCELLOR

Ch. - As RIGA says, it could give the wrong signal to press this problem at this stage. Advice to have problem (Mand) to kill off the fallback idea - which looks quite wrong - led. play in to the hands of Genscher etc.

cc: Financial Secretary
Sir P Middleton
Mr Wicks (o.r)
Mr H P Evans (o.r)
Mrs Brown (o.r)
Mr McIntosh
Mr Tyrie (o.r)
Miss J Wheldon (T Sol)

FINANCE MINISTERS' REPRESENTATION AT EUROPEAN COUNCILS

You will recall that at the July ECOFIN you suggested that Finance Ministers should attend European Council meetings when subjects of direct concern to them (eg EMU) were being discussed.

2. I received a call from the Dutch Finance Ministry this morning to ask whether we had taken our thinking on this matter any further. Would we be raising it again at the informal ECOFIN in Antibes? If so, the Dutch would be supportive.

3. The problem, you will recall, is that Article 2 of the Single European Act does not allow Finance Ministers to attend European Council meetings, even in a secondary or advisory capacity:

"The European Council shall bring together the Heads of State or of Government of the Member States and the President of the Commission of the European Communities. They shall be assisted by the Ministers for Foreign Affairs and by a member of the Commission."

Now is clearly not the time to be pressing for a Treaty amendment to allow for the participation of Finance Ministers: for us to do so at this stage would imply that the UK was in favour of an IGC. To do so later, however, when the decision to set up an IGC has been taken, is another matter. In short, I would suggest, this is something to bear in mind for later on, but not to raise in Antibes.

4. The Dutch floated a further idea with me, namely that Finance Ministers might attend a parallel meeting of ECOFIN designed to coincide with, in time and place, the 6-monthly European Councils, with appropriate mechanisms being set up for communication between the two fora. I can see a number of problems with this proposal:

- it would be administratively very cumbersome;
- precise coordination of the agenda for the two meetings, and of the mechanisms for exchanging draft communiques, etc would be needed to ensure that decisions on (say) EMU were properly synchronised: very difficult to achieve in practice;
- as a result, there would be no adequate check on the actions of Heads of State and Ministers for Foreign Affairs: there would be a clear risk that the views of Finance Ministers would go by default.

The Economic Summit is not an appropriate model because of the substantial element of pre-cooking in the final communique and because Finance Ministers attend all the plenary sessions.

5. In short, the Dutch idea seems to me so much of a second-best solution that I would not have thought it worth pursuing. If you agree, I would propose to make fairly discouraging noises to the Dutch, but to point out that the idea of a Treaty amendment could be worth following up if and when a decision to set up an IGC has been taken.

PS. If my original idea is proposed to other countries, I will support it for a number of years. I will be a Treaty amendment. IMA

- 2 -

R I G ALLEN



FROM: J M G TAYLOR
DATE: 21 August 1989

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

MR R I G ALLEN

cc PS/Financial Secretary
Sir P Middleton
Mr Wicks
Mr H P Evans
Mrs M Brown
Mr McIntosh
Mr Tyrie

Miss Wheldon - T.Sol.

FINANCE MINISTERS' REPRESENTATION AT EUROPEAN COUNCILS

The Chancellor was grateful for your note of 16 August.

2. He agrees with your conclusions. The Dutch idea is, he thinks, wholly unattractive.

3. He has commented that if his original idea is proposed by others at Antibes, then he would be bound to support it, for implementation as and when the Treaty is next amended.

Handwritten initials in black ink, possibly 'JMGT'.

J M G TAYLOR



FROM: S J FLANAGAN
DATE: 30 August 1989

MR R I G ALLEN

cc

2

PS/Chancellor
Sir P Middleton
Mr Wicks
Mr H P Evans
Mrs Brown
Mr McIntosh
Mr Tyrie
Miss Wheldon-TSol

MP P

FINANCE MINISTERS' REPRESENTATION AT EUROPEAN COUNCILS

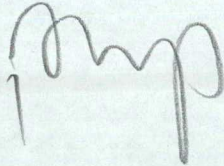
The Financial Secretary has seen your minute of 16 August to the Chancellor. He notes that Article 2 would not allow a Finance Minister to attend instead of a Foreign Minister, but does not see why one could not attend as well.

S J FLANAGAN
Private Secretary

FROM: R I G ALLEN (EC)
DATE: 5 SEPTEMBER 1989

PS/FINANCIAL SECRETARY

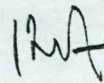
cc: **PS/Chancellor**
Sir P Middleton
Mr Wicks
Mr H P Evans
Mrs Brown
Mr McIntosh
Mr Tyrie
Miss Wheldon - T Sol



FINANCE MINISTERS' REPRESENTATION AT EUROPEAN COUNCILS

In response to my minute of 16 August, the Financial Secretary asked whether Article 2 of the Single European Act would allow a Finance Minister to attend the European Council in addition to, though not in place of, the Foreign Minister (your minute of 30 August).

2. The answer to this is that, as always in the Community, there should be no problem if all Member States and the Commission were content for Finance Ministers to attend. But if any Member State were to object, they would be able to rely on Article 2 and argue that it is so drafted as to exclude from the European Council any Minister not named.



R I G ALLEN

CONFIDENTIAL

FROM: N L WICKS
DATE: 12 SEPTEMBER 1989
Ext : 4369

CHANCELLOR OF THE EXCHEQUER

cc PMG
FST
Sir P Middleton
Sir T Burns
Mr H P Evans
Mr Odling-Smee
Mr Scholar
Mr R I G Allen
Mr Peretz
Mr Riley
Mrs M E Brown
Miss O'Mara (MG1)
Mrs Chaplin (CX)
Mr Tyrie (FST)

NICKS
→
CH/EX
12/9

INFORMAL ECOFIN COUNCIL AT ANTIBES ON SATURDAY 9 SEPTEMBER

I understand that you want to send a short minute to the Prime Minister about the Antibes Council. A draft is attached.

N.L.W.

N L WICKS

I think this needs shortening & to be made more personal. I have suggested some changes

J

Think. After now?
P.S. do we need this?
or to I have
broken?

CONFIDENTIAL

CONFIDENTIAL

DRAFT MINUTE FOR THE CHANCELLOR OF THE EXCHEQUER TO

PRIME MINISTER

INFORMAL ECOFIN COUNCIL AT ANTIBES

The French Presidency held at Antibes on 9 September the regular ~~Informal~~ ^{As you know,} ECOFIN. The Governor and myself ^{of the Informal ECOFIN at Antibes at the weekend.} represented the United Kingdom. The discussion covered the proposed revisions to the 1964 Decision on co-operation between EC Central Banks and the 1974 Convergence Decision; developments on EMU after Stage 1; the taxation of savings; indirect taxation; and preparations for the forthcoming IMF/ World Bank ~~Annual Meetings.~~

2. There was an uncontentious discussion ^{of Stage 1 of Delors.} on the proposed revisions on the 1964 and 1974 Decisions which are necessary for the launching of Stage 1 of EMU on 1 July 1990 in accordance with the Madrid Council's decisions. I took the line set out in my minute of 5 September: ^{emphasising} namely that formal co-ordination should be kept to a minimum and that the best way of promoting common objectives, such as improved economic performance, should be to allow market forces to operate freely throughout the Community; ~~co-ordination~~ agreements agreed for Stage 1 should not involve or shadow institutional changes; and that the arrangements ~~for discussion of monetary policy~~ should acknowledge the

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relative roles of Finance Ministers and Governors are different in different countries. // Other Ministers spoke in broadly similar terms though one point of disagreement concerned the attendance of Central Bank Governors at ECOFIN's regular multilateral surveillance discussions. France ^{joined us} and ^{we} ourselves ⁱⁿ argued ^{aguing} for attendance by all Central Bank Governors while Germany, with support ^(Some ~~other~~) from other member states, argued for attendance by only the Chairman of the Governors' Committee, lest attendance by all should compromise the position of the constitutionally independent Central Banks. No doubt some formula can be devised which reconciles ^{Here} both points of view. The Commission accepted that whatever the legal position, the two ^{revising to the 1964 & 1974 decisions} texts should be agreed by consensus. The Presidency is aiming for Council agreement at the ECOFIN on 13 November. I warned ^{which will be} that ^{we have no} this timetable was tight, but said that we would try to meet it. ^{reason for postponing holding it back if our concerns are met.}

3. ^{Looking beyond} Regarding developments after Stage 1, I said that the path to EMU should be guided by 3 principles: subsidiarity, competition and stable prices. ^{The only acceptable form of} EMU would ^{one} ~~then~~ be brought about by the natural forces of the market, not by central planning or bureaucratic vision. The completion of Stage 1 would have very considerable, and presently underestimated, consequences for the European economy and would unleash forces which would increasingly require countries to achieve and sustain lower inflation if they were to maintain the attraction

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of their own currencies. The ~~next~~ logical step for giving a decisive push in this direction after Stage 1 would be to examine the scope for moving all further barriers, restrictions and controls so that genuine competition made currencies increasingly interchangeable. This would, in effect, provide the regime for a system of ~~competing~~ ^{free} national currencies, within the framework of the EMS. Such a process would be more likely to lead to stable prices than the single currency option. I undertook to circulate a paper elaborating these ideas ~~if possible prior to the November ECOFIN.~~ There was little reaction in the ~~Council to my statement pending circulation of the paper.~~

Hope

*Style not requiring
new European institutions
or the transfer of sovereignty
that is implicit in Delors
p. 10 - p. 15*

(A)

4. Most Finance Ministers seemed to favour the broad approach put forward in the Delors Report, ~~but~~ many had hesitations and doubts over the timetable and substance. The Danes, Germans, Dutch and Spanish ^{all} stressed the need for full and adequate preparation before the calling of an IGC and cautioned against trying to press ahead too fast. ~~There was, predictably, a strong wish that Finance Ministers should keep preparations in their hands for as long as possible, It remains to be seen, whether the French and the Germans, in particular, will be able to withstand pressures from their Foreign Ministries for early involvement. It was agreed that the High Level Group should do no more than identify and clarify questions on the basis - if a Dutch suggestion~~

~~Portuguese?~~

and a number are now clearly looking up to the problems of sovereignty & accountability that we have emphasised. (There is a whole article by the Portuguese Finance Minister also here (see also lunch))

and it is clearly in our interests to do this

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was accepted - of agreed documents from the Committee of Governors and the Monetary Committee. ECOFIN will have a further discussion of EMU on 13 November.

5. As we agreed at our discussion on 6 September, I am now preparing ^{the} fuller paper on our approach, ^{ECOFIN} together with a draft of the note for ECOFIN.

is to have its next discussion of this issue on November 13 & that will be the last before the December European Council. I think we need

6. On taxation of savings, Commissioner Scrivener accepted ~~that there would be no agreement on a withholding tax~~ ^{was effectively dead and} and suggested that ^{we should focus on} the Commission's proposal on mutual assistance between tax authorities should be strengthened. I urged the Commissioner to withdraw formally the proposal for the withholding tax and undertook to consider the Commission's proposals for mutual assistance as constructively as possible.

that a

Mme. ^{She} Scrivener made clear that the Commission were seeking a comprehensive agreement indirect on taxation covering all outstanding issues. There was a general welcome among Ministers for the progress achieved in the ad hoc group ~~(much of it based on earlier UK ideas)~~ and for the flexibility afforded by the Commission's new approach. I emphasised our commitment to the abolition of fiscal frontiers, repeated the UK's opposition to enforced tax approximation and, in a bilateral with the Commissioner, emphasised the importance which we attached to zero rates. Mme. Scrivener was well seized of this last point. Both taxation of savings and

*bring out
more fully
below*

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Therefore to circulate the paper in time for that meeting if we are not to miss the boat. I will of course send you a draft in good time for discussion before then.

indirect taxation will be discussed at the October ECOFIN.

7. If you agree, I will report on Thursday to Cabinet on the lines of this minute.

8. I am sending a copy of this minute to the Foreign Secretary and to Sir Robin Butler.

The progress we have made on the tax front, mercifully, provides a useful ^{model} ~~parallel~~ ~~with~~ for our approach to EMU. The LSER I think broadened our market approach as an alternative to Cookfield's proposals ~~they~~ ~~it~~ ~~was~~ ~~written~~ ~~off~~ in the press in very similar terms to the coverage on Tuesday. However by widening the discussion we did bring home ^{to} other countries the unacceptable aspects of the Commission's approach & ~~be one now much closer to well on the way to winning the war~~

The whole issue is now as a better job.

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P Jefferson Smith
Deputy Chairman

Board Room
H M Customs and Excise
New King's Beam House
22 Upper Ground
London SE1 9PJ
Telephone: 01-382 5011

FROM: P JEFFERSON SMITH

DATE: 6 OCTOBER 1989

CHANCELLOR

DRAFT LETTER TO M BEREGOVOY

The draft conclusions of ECOFIN came to you under a "cher colleague" letter from M Beregovoy, so that would be a peg for your letter to him. In drafting what follows, I have been explicit about our points of difficulty and proposed solutions; but the Financial Secretary may have a view on how far he wants to trail the [square bracketed] solutions in advance.

"Thank you for your letter of 5 October, with which you sent me a draft of the conclusions of the meeting of ECOFIN on 9 October. I much regret that owing to commitments connected with our Party Conference I am not able to attend the meeting myself. But Peter Lilley will be attending in my place and I have had the opportunity to discuss the issues very fully with him.

The progress made under your Presidency is admirable and a remarkable achievement. I am most keen that the United Kingdom should work with you to reach a satisfactory outcome. It may be helpful to you to know that I find the draft conclusions generally acceptable, subject to two points.

Distribution:

Paymaster General
Financial Secretary ✓
Economic Secretary
Mr R I G Allen
Mr W White
Mr Tyrie

Chairman
Mr P R H Allen
Miss Leech
Mr Bonney, UKREP

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Firstly, the reference in the second paragraph to levying tax in the country of consumption "for a transitional period" gives unnecessary encouragement to those who would wish to move quickly to an origin basis of tax. [A better phrase might be "on a provisional basis".]

Secondly, for reasons you will be familiar with, I fear that I cannot accept the references in item 2 of the numbered items to approximation of rates and to determination of the level and extent of variation of rates. As you know, I strongly favour and have publicly advocated substantial increases in travellers' allowances. [I would fully support a conclusion that "removing limits on purchases by travellers will make it possible to introduce freedom of movement and purchase by individuals, subject to safeguards to ensure that transactions of a commercial character bear tax in the country of destination."] I hope we could agree on a formula [on these lines,] which would enable the United Kingdom to give its support to this important aim without having to register dissent on approximation."



P JEFFERSON SMITH

28/10

me?

FROM: N L WICKS
DATE: 13 OCTOBER 1989
Ext : 4369

PRINCIPAL PRIVATE SECRETARY

cc Sir P Middleton
Sir T Burns
Mr H P Evans
Mr R I G Allen

Chancellor

Do you agree? I do but would meet JM earlier ie before ^{second} of meeting with the PM.

EUROPEAN COMMUNITY ISSUES *Jc*

I suggest that the Chancellor might have a bilateral with the Foreign Secretary early in November - after the paper for ECOFIN has been circulated and before the General Affairs Council - about:

i. The Foreign Secretary's line on the EMU paper at the General Affairs Council (which will precede ECOFIN).

ii. The tactical handling of the Strasbourg European Council. This Council is likely to consider EMU, indirect taxation (and perhaps taxation of savings), the social charter and R&D as well as other issues. The preparation of our line in Whitehall, the presentation of our position and the playing of our hand at Strasbourg, all raise tricky issues.

2. I think that a talk between the Chancellor and the Foreign Secretary on these matters would be useful.

I agree with you (only with PM on EMU)

N.L.W.

N L WICKS

Jc

Please arrange bilateral with Major re PM's meeting on EMU.

FROM: A E W WHITE (EC1)
DATE: 18 OCTOBER 1989

x4441

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

- cc: PS/Financial Secretary
- PS/Paymaster General
- Sir Peter Middleton
- Sir Terence Burns
- Mr Wicks
- Mr H P Evans
- Mr Odling-Smee
- Mr R I G Allen
- Mr Riley
- Miss O'Mara
- Mr Dyer
- Mr Molan

- Mr Allen - C&E
- Mr Isaac - IR

Ant
18/10

Ch.
OK?

W
18/10

OK

ECOFIN 9 OCTOBER: ARRANGED PQ

I attach for your approval an arranged Parliamentary Question and Answer reporting the discussions at last week's ECOFIN.

2. If you are content with the draft, I would be grateful if Jonathan Taylor would inform Parliamentary Section.

Wilf White

A E W WHITE

UNCLASSIFIED

ECOFIN: ARRANGED PQ

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

DRAFT REPLY BY []

The ECOFIN Council met in Luxembourg on 9 October. [I/The Financial Secretary] represented the United Kingdom.

The Council discussed the abolition of fiscal frontiers, where outline agreement was reached on a number of technical issues relating to VAT, in particular the importance of retaining the destination principle. There will be a further discussion at the November ECOFIN. The taxation of savings was also discussed, and it was agreed that the Commission should bring forward draft outline proposals on measures to strengthen mutual assistance and to combat tax fraud, for discussion at the meeting of ECOFIN in November. ~~Following a lunchtime discussion,~~ ^{It was agreed to send} a letter ~~was sent~~ to the European Investment Bank inviting them to make loan finance available to Poland and Hungary under the Bank's normal criteria for lending from its own resources. The Commission's proposals for borrowing under the New Community Instrument and through Euratom ^{were} also discussed, but no agreement was reached.

UNCLASSIFIED



FROM: J M G TAYLOR
DATE: 19 OCTOBER 1989

A handwritten signature in dark ink, appearing to be 'JMG'.

MR A E W WHITE

cc PS/Financial Secretary
PS/Paymaster General
Sir P Middleton
Sir T Burns
Mr Wicks
Mr H P Evans
Mr Odling-Smee
Mr R I G Allen
Mr Riley
Miss O'Mara
Mr Dyer
Mr Molan

Mr Allen - C&E
Mr Isaac - IR

ECOFIN 9 OCTOBER: ARRANGED PQ

... The Chancellor was grateful for your note of 18 October. He has slightly amended the draft PQ, and a revised version is attached.

Handwritten initials, possibly 'JMG', in dark ink.

J M G TAYLOR

ECOFIN: ARRANGED PQ

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