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PART B

Part B.

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Begins : 10/10/88  
Ends : 25/10/88

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CONFIDENTIAL



ELIZABETH HOUSE  
YORK ROAD  
LONDON SE1 7PH  
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CH/EXCHEQUER	
REC.	11 OCT 1988
ACTION	MISS J. SIMPSON
COPIES TO	FST, PMG, EST, Sir P. MIDDLETON, DAME A. MUELLER, MR SCHOLAR, MR PHILLIPS, MR DYER.

3

William Fleming Esq  
Cabinet Office  
70 Whitehall  
London SW1A 2AS

MP

10 October 1988

Dear Bill

**THE QUEEN'S SPEECHES ON THE PROROGATION AND THE OPENING OF PARLIAMENT**

Thank you for your letter of 30 September enclosing consolidated drafts of the two speeches.

2. Our Permanent Secretary spoke to you last week and explained that the Secretary of State was away and could not see the papers. I have now had the opportunity to consult him on the matter.

3. So far as the Prorogation Speech is concerned, my Secretary of State understands your desire to make the passage shorter but would prefer the following to the passage in paragraph 21 of the consolidated draft:-

"An Act has been passed to reform the education system by widening parental choice, making provision for a national curriculum, and increasing the autonomy of educational institutions."

4. So far as the speech for the Opening of Parliament is concerned, Mr Baker is very strongly of the view that education should be mentioned. A great effort will be required in the coming year to make a reality of the provisions of the Education Reform Act. My Secretary of State has therefore asked me to urge you to restore the very brief sentence that we suggested earlier, namely:-

"My Government will continue to take action to raise standards throughout education and to extend parental and student choice."

CONFIDENTIAL

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5. I am copying this letter to the Private Secretaries to all members of the Cabinet, to the Private Secretaries to the Law Officers, the Minister of State Privy Council Office, the Chief Whips in the Commons and Lords and to the Financial Secretary, Treasury.

Yours Sincerely

*P V D Swift*

P V D SWIFT  
Private Secretary

CONFIDENTIAL



cc PS/CEV 14/2  
 PS/EST  
 Sir G Lifford  
 Mr Hankster  
 Mr Scholer  
 Mrs Loman  
 Mr Jett  
 Mrs O'Mara  
 Mr Mortimer  
 Mrs Noble

EUROPEAN COMMUNITIES COMMITTEE  
 COMMITTEE OFFICE  
 HOUSE OF LORDS  
 LONDON SW1A 0PW

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direct line 01-210 5662

10 October 1988

Mr NP Williams  
 Mrs Sheldon - T/Sol  
 Mr O'Connor - 12

Dear Miss Simpson,

SUB-COMMITTEE A (FINANCE, TRADE AND INDUSTRY  
 AND EXTERNAL RELATIONS)

Enclosed is a revised list of possible questions, with just one addition at the end. The Committee is looking forward very much to hearing the Economic Secretary's evidence.

Yours sincerely,  
 William Sleath

W G SLEATH  
Clerk to Sub-Committee A

Miss Judith Simpson  
 Her Majesty's Treasury  
 Parliament Street  
 LONDON  
 SW1P 3AG



EUROPEAN COMMUNITIES COMMITTEE

SUB-COMMITTEE A (FINANCE, TRADE AND INDUSTRY,  
AND EXTERNAL RELATIONS)

**Possible Questions to the Treasury for the Economic Secretary**

1. Should the Commission have made more of an attempt to quantify the effect of the liberalisation of capital movements?
2. Are you concerned that demands for reciprocity in banking services are inconsistent with the agreement to liberalise capital movements 'erga omnes'?
3. Are you satisfied that the safeguard clause allowing temporary measures against short-term capital movements on the Member States' own initiative will not be used so frequently that it will jeopardise the 'European Financial Area'.
4. Will some harmonisation of supervisory and prudential rules to protect investors and savers be required?
5. Can you suggest the most likely content of the Commission's future proposals to eliminate or reduce the risks of tax distortion, evasion and fraud? What areas are likely to be covered (eg company taxation, taxation on capital income, collaboration between tax administrations)?
6. The liberalisation of capital movements will produce not only great opportunities for the United Kingdom financial services industry, but a wider range of competitors. How much of a risk is liberalisation at a time when the balance of payments is dependent on the City?
7. Might not the apparent reluctance of the United Kingdom to develop European monetary cooperation raise the spectre of a 'two-tier' Europe, and persuade third country investors to concentrate in other Member States?
8. It has been suggested that the EMS depends on some exchange controls to maintain stable exchange rates. The removal of this stabilising influence might force change in the EMS; either towards a weaker 'crawling peg' system or towards closed cooperation (either monetary union, or automatic transfers between central banks on a scale large enough to smother the effect of speculation). Is this likely, and what would be the consequences for United Kingdom policy towards the EMS in such circumstances?
9. Has there been pressure for currencies of Member States outside the ERM of the EMS to be removed from participation in the ECU?

10. Do you expect the denomination of Treasury bills in ECU to have a major impact on the development of the ECU? Do you expect other Member States to follow suit?

11. What do you expect the group set up at the Hanover Summit to consider monetary union to conclude?

12. Is monetary union essential to secure the benefits of the Internal Market in general, and the European Financial Area in particular?

FROM: MISS M O'MARA  
DATE: 10 October 1988

ECONOMIC SECRETARY

cc: PS/Chancellor\*  
Sir G Littler\*  
Mr Lankester\*  
Mr Scholar\*  
Mrs Lomax\*  
Mr Ilett\*  
Mr Mortimer\*  
Miss Noble\*  
Miss Simpson\*  
Mr N P Williams\*  
Miss Wheldon\* - TSD  
Mr O'Connor\* - IR  
Mr Bostock\* - UKREP

*Oh*  
*Some comments*  
*marked*  
*X some others*  
*AA*

\*with draft answers only

EUROPEAN FINANCIAL AREA: LORDS SELECT COMMITTEE ENQUIRY

I attach, as promised, a first shot at answers to the draft questions which the Clerk to the Committee has sent us, produced in consultation with FIM, the Revenue and the Bank. We shall let you have a final version once we have the questions as approved by the Committee itself.

2. I also attach:

- i. a note by Mr Mortimer on the nature of our commitment to EMU
- ii. an extract from a paper by Pöhl on the steps which the Community would have to take before achieving full EMU. (This effectively replaces our own paper on why there can be no monetary union without economic union. The points Pöhl makes are certainly ones on which you can draw but you should not reveal any knowledge of the paper itself which we have obtained on a confidential basis)
- iii. a copy of the Werner report
- iv. a compendium of Community monetary texts

*Mr SLS has written answers to questions from the Council to an answer given by the Commission - Mr O'Connor*



- v. an aide-memoire on the EMS, produced by the Bank
  - vi. a chart showing interest rate movements during 1988 in ERM countries, compared with those in the UK
  - vii. a submission to the Committee by the British Bankers' Association on the liberalisation of capital movements
  - viii. the conclusions of the semi-official French Lebeque report on the taxation of savings.
3. We have arranged for Mr Lindley of the Bank to attend the enquiry too, as you asked.

*mom*

MISS M O'MARA

1. Should the Commission have made more of an attempt to quantify the effect of the liberalisation of capital movements?

No. First, we must not forget that the Community already enjoys a substantial degree of freedom in capital flows. The UK, Germany, the Netherlands - and now Denmark - have already abolished all exchange controls. Although France relied on an extensive system of controls until 1986, the most significant controls in terms of volumes of financial transactions have been removed in the past two years and there are no restrictions at all on portfolio inflows and outflows. Italy has also gradually been removing its exchange controls over the past couple of years and at the beginning of this month, virtually all remaining Italian controls were abolished. Indeed, only Spain, Portugal, Greece and Ireland still have extensive exchange controls in place. ~~It would therefore be wrong to exaggerate the Directive's impact.~~

It would in any case have been difficult for the Commission to predict what the net effect of full-scale liberalisation would be. The abolition of controls could lead to large flows out of those currencies which had earlier enjoyed their protection. But equally, complete deregulation may also generate gross capital inflows as overseas investors no longer fear that once they have placed funds in a country, they could remain trapped there by exchange controls. Our own experience, together with that of the Germans and Dutch, suggests that the removal of this "mousetrap" effect could be significant.

Lastly, the Directive, quite deliberately, sets no single date on which all Member States must lift their remaining controls; it merely lays down an end date by which liberalisation has to be accomplished. Thus, although full liberalisation is not required under the Directive until 1 July 1990, or later in some cases, the Danes, for example, abolished all their remaining controls on 1 October this year. This staggered timetable would further complicate any attempt at quantification.

The short answer to this is "no - neither practically nor useful"

2. Are you concerned that demands for reciprocity and banking services are inconsistent with the agreement to liberalise the capital movements "erga omnes"?

The Commission's reciprocity proposals in the draft Second Banking Co-ordination Directive appear to impose a collective EC-wide procedure, applicable to each and every application from a third country institution and carry the risk that, as barriers within the Community are removed, new ones are built up around it. The UK has made it clear that it considers the Commission's proposal undesirable in principle and unworkable in practice and that it will continue to argue against them in Brussels.

By contrast, we wholly endorsed the "erga omnes" provision in Article 7 of the capital liberalisation Directive which states that as far as movements of capital to or from third countries are concerned, Member States "shall endeavour to attain the same degree of liberalisation" as that which applies to their operations with other EC residents. Indeed, this is a principle we have upheld fully in the UK ever since we established our own exchange controls in 1979.

? make point that capital controls vis a vis third countries completely ineffective if free movement within Europe & with UK, Germany etc having no third country controls.

Mark  
Cairns

3. Are you satisfied that the safeguard clause allowing temporary measures against short-term capital movements on the Member States' own initiative will not be used so frequently that it will jeopardise the "European Financial Area"?

X

Full freedom of capital movements marks a major step forward for some Member States and it is not surprising that they have pressed for some form of protection, in case they encounter major difficulties. But our experience with the abolition of controls in the UK was quite the opposite; the financial markets regarded it as a sign of our economy's strength, not weakness, and money flowed in, not out, of Britain. I suspect that will be true for other Member States too and that they will find their fears are exaggerated. So in practice I doubt whether they will seek to invoke the clause ~~very~~ frequently.

*at all*

However, should they do so, you will see that Article 3 of the Directive has been drafted carefully to avoid any risk that it might undermine the main liberalisation objective. First, protective measures can only be introduced where there is thought to be a major and quite separate problem. The Article speaks of short-term capital movements of "exceptional magnitude" imposing "severe strains" on foreign exchange markets leading to "serious disturbances" in the conduct of a country's monetary and exchange rate policies, reflected, in particular, in substantial variations in domestic liquidity.

*cannot*

Second, the decision ~~is not to~~ be taken by the individual Member State alone. It is subject to authorisation by the Commission, after consultation with the Monetary Committee and the Committee of Central Bank Governors. In urgent cases, the Member State can take the initiative. But it has to inform the Commission and other Member States at the latest by the date of the measures' entry into force and the Commission then has to decide, again after consultation with the Monetary Committee and the Committee of Central Bank Governors, whether the measures may continue or whether they should be amended or abolished. On top of this, the decisions taken by the Commission can be revoked or amended by the Council, acting by a qualified majority.

Third, protective measures cannot be introduced for more than six months.

Last of all, there is provision for the Council to examine before the end of 1992, whether the Article remains appropriate in both principle and detail, on the basis of a report from the Commission, following an opinion by the Monetary Committee and the Committee of Central Bank Governors. At the same time, Article 8 of the Directive stipulates that at least once a year, the Monetary Committee is to examine the situation on the free movement of capital resulting from the Directive and report to the Commission on the outcome.

I think all this indicates how seriously the commitment to full liberalisation is taken and how concerned the Community is that the safeguard clause should not undermine it.

4. Will some harmonisation of supervisory and prudential rules to protect investors and savers be required?

Some minimum harmonisation of supervisory standards throughout the Community is necessary to under-pin the liberalisation of European financial markets. Work is already taking place in Brussels on proposals which will provide for this. Initiatives being discussed include the second banking co-ordination directive, which aims to establish minimum harmonisation of conditions for the authorisation of banks and building societies (such as start-up capital, fit and proper shareholders and accounting and control mechanisms). Two related proposals, on Own Funds and Solvency Ratios, will provide for a Community-wide definition of capital and risk weighting of assets and also introduce a minimum risk asset ratio for the purposes of prudential supervision.

But it is important that harmonisation is not taken too far. Member States should be able to impose their own additional requirements if they think fit. The UK can then continue to exercise the flexible practitioner-based methods which are currently being implemented here.

*Handwritten notes in red ink:*

The rule of  
 making it for the  
 No (harmonisation) should  
 be adequate for  
 public depositors (and savers)  
 Also loan

(SLD) to + WSW  
 low @ Banker +  
 A.N. Kim

5. Can you suggest the most likely content of the Commission's future proposals to eliminate or reduce the risk of tax distortion, evasion and fraud? What areas are likely to be covered (eg company taxation, taxation on capital income, collaboration between tax administrations)?

The Commission have not yet made any proposals and so it is difficult for us to offer a view. [Present indications are that they are likely to propose some sort of minimal withholding tax on interest paid, perhaps coupled with new or extended arrangements for Member States' fiscal authorities to obtain information about deposits by their residents in other Member States.]

At present, many interest flows from the UK are exempt from UK tax either because our domestic law so provides (for example, eurobond interest) or because our network of bilateral double taxation treaties so provide. We have treaties with each of the other eleven Member States. Seven of these treaties - with Denmark, France, Germany, Greece, Ireland, Luxembourg and the Netherlands - provide that no tax is chargeable on interest in the source country.

We shall need to study carefully any proposals which the Commission make. But Article 6 of the capital liberalisation Directive does not, in itself, commit Member States to action. It provides simply for the Commission to submit proposals by 31 December of this year and for the Council to "take a position" on them by 30 June 1989. Moreover, any tax provisions must be adopted unanimously. But whatever happens on this issue, other countries are fully committed to complete liberalisation of capital movements within the Community.

*Do we want to volunteer all this -  
No*

Ditto

There are a number of questions which we shall need to ask the Commission when we see what they have proposed:

- i. How wide-ranging the withholding tax will be - is it proposed to apply to eurobond interest, wholesale money, interbank lending, corporate investment, or simply to individual bank deposit accounts?
- ii. Will it apply only to interest flowing between residents of Member States or will it also apply to interest paid to residents of other States?
- iii. Will the Commission regard the bilateral tax treaties as taking precedence or will they be overridden by any Directive?

In the light of the actual proposals, we shall then need to consider among other things:

- iv. Will they drive investment outside the EC?
- v. Will they tend to increase the cost of borrowing because investors will continue to want the same net return?
- vi. Will they impose severe burdens on banks and the tax authorities to administer, and how will they affect bank secrecy in the various Member States?

*Handwritten notes in red ink:*

Risk - Min  
 Cont - (omit)  
 This is a big one  
 (iv) + ~~confidential~~ confidential  
 bank secrecy / tax  
 [ ]



6. The liberalisation of capital movements will produce not only great opportunities for the United Kingdom financial services industry, but a wider range of competitors. How much of a risk is liberalisation at a time when the balance of payments is dependent on the City?

??  
Redundant  
notion

The UK has lived without exchange controls for nine years now and during that period London has consolidated its role as the financial capital of Europe. We have nothing to lose from full liberalisation. Since the abolition of exchange controls in 1979, there have been no restrictions on capital outflows from the UK.

~~Most remaining exchange controls elsewhere in the Community restrict outflows from their own residents, so their removal is more likely to lead to net inflows into the UK.~~

Silly  
point

One possible indirect effect is that the prospect of liberalisation will prompt Member States who currently impose restrictions to become more competitive. But UK firms have a long head start in coping with the rigours of open exchanges, and are well placed to respond to competitive pressures. Both the DTI and the Bank have taken steps to ensure that our financial services industry is well aware of the opportunities waiting to be seized. To the extent that, over time, the removal of any inward restrictions make it easier for UK investors to participate in investment opportunities elsewhere in the Community, this is wholly desirable.

Incidentally, a great deal of nonsense is currently being talked about the size of our current account deficit. In so far as the deficit reflects higher imports, stemming from an unsustainable growth in domestic demand, we have already taken action to slow that growth by raising interest rates. As the Chancellor has made clear, the deficit is entirely the result of private individuals and businesses making choices about their own financial affairs and will in time reduce as the current gap between private sector savings and private sector investment closes. Meanwhile, our firm monetary and fiscal policies will continue to maintain confidence in the Government's handling of the UK economy, ensuring that any deficit can be readily financed.

this is all a bit  
out-of-date. Redo  
not Berlin etc.

Right; plus for  
Walden  
authorities are aware  
flows see  
wherever new  
- logical or not.



8. It has been suggested that the EMS depends on some exchange controls to maintain stable exchange rates. The removal of this stabilising influence might force change in the EMS; either towards a weaker "crawling peg" system or towards closed co-operation (either monetary union, or automatic transfers between central banks on a scale large enough to smother the effect of speculation). Is this likely, and what would be the consequences for United Kingdom policy towards the EMS in such circumstances?

The scale and mobility of capital transactions within the Community has grown enormously over recent years and a considerable degree of relaxation in exchange controls has already taken place. Yet the ERM has coped with both developments. Monetary co-operation in such areas as the setting of interest rates and even, on occasion, the adjustment of fiscal policy has eased exchange rate tensions in the past and I am sure that will continue in future. But to the extent that growing integration has revealed shortcomings in the mechanism itself, the participants have shown themselves ready to strengthen it, as in the Basle/Nyborg agreement last year. There is no reason to think that they would not be prepared to modify the mechanism further, if necessary without changing its nature fundamentally. It is worth recalling that the mechanism did, despite the views of sceptics, survive the early 1980s when there were wide differences in Member States' inflation rates and that it has remained surprisingly stable more recently, despite wide dollar/deutschemark fluctuations.

Meanwhile, the UK's policy remains as it has always been - we shall join the mechanism when we consider the time is right.

*Handwritten notes in red ink:*  
The main point is that we must have the mechanism in the 1st para of the answer to (1): viz. we must be comfortable with the ~~idea~~ ~~of~~ ~~new~~ ~~controls~~ ~~or~~ ~~at~~ ~~least~~ ~~some~~ ~~kind~~ ~~of~~ ~~controls~~.

9. Has there been pressure for currencies of Member States outside the ERM of the EMS to be removed from participation in the ECU?

There has been no <sup>such</sup> pressure. If anything, the pressure has been the other way, with Spain and Portugal indicating that they would like to see the peseta and escudo included in the ecu basket.

A European Council Resolution of 5 December 1978 on the establishment of the EMS sets out the procedures for revision of the ecu basket in Article 2.3:

"The weights of currencies in the ECU will be re-examined and if necessary revised within six months of the entry into force of the system and thereafter every five years or, on request, if the weight of any currency has changed by 25 per cent.

Revisions have to be mutually accepted; they will, by themselves, not modify the external value of the ECU. They will be made in line with underlying economic criteria."

The ecu's weights were revised in September 1984 and therefore come up for review again in September 1989 but, as yet, there have been no discussions within the Community on any changes which might, or might not, be made then.

10. Do you expect the denomination of Treasury Bills in ECU to have a major impact on the development of the ECU? Do you expect other Member States to follow suit?

One of our objectives in announcing our own Treasury Bill programme was a concern to see the market in short-term ecu paper developed. Ecu bonds have been with us for some years but the short-term markets in ECU securities are still in their early stages. Until our own programme got under way, the only short-term ecu assets available to euromarket investors were a limited volume of bank deposits, certificates of deposits and some ecu-denominated euro-commercial paper notes issued under multi-currency facilities.

Our issue of Ecu Treasury Bills will broaden the range of short-term assets in ecu. Investors will in future have a wide choice of liquid ecu assets, while this first step towards the creation of an ecu money market will also increase flexibility for borrowers.

We very much hope that other Member States will follow our example. (The Italians have already issued their own ecu Treasury Bills but their one year maturity and the fact that they are subject to a withholding tax has made them unattractive to foreigners.) We believe that there is now considerable investor interest in high quality short-term ecu paper. The fact that a wide range of Community countries is represented in the group of international banks and securities houses which has undertaken to act as market-makers in our own Bills, should also encourage other members of the Community to make similar issues, thereby enhancing market liquidity still further.

11. What do you expect the group set up at the Hanover Summit to consider monetary union to conclude?

It is far too early to tell. The Group have only just held their second meeting. But the chairman of the Group, M Delors, has already made it clear publicly that the difficulty of the subject has generally been underestimated and that there is a great deal of thinking to be done.

It is no secret that the UK Government believes we should be focusing on the practical steps we can take in the near future in the direction of economic and monetary union rather than on some visionary ideal which may or may not be at the end of the road. This is why we are pressing those Member States who have not yet done so to meet their commitments under the capital liberalisation Directive and why we are advocating the development of the role of the private ecu. Indeed, we are showing the way - by our own abolition of exchange controls as far back as 1979, by the fact that we ourselves hold ecu in our official reserves and most recently by the launch of our own Ecu Treasury Bill programme. I am encouraged that the study group set up at Hanover largely consists of practitioners - central bank governors - who will see the importance of concentrating on what we can achieve in practical terms.

BF 14/10 MP  
19/10 1988

PS/ECONOMIC SECRETARY, TREASURY

PROPOSED PRICE INCREASES FOR THE REPORTS OF PARLIAMENTARY DEBATES


1. Thank you for your minute of 30 September with the attached letter from the Prime Minister's office giving approval for the proposed price increases.

... 2. I enclose draft Written Answers for both the Commons and Lords. These refer to a 7.50% reduction in the production costs at HMSO's Hansard Press which produces the Commons Hansard. (Lords Hansard is, as you may recall, currently printed by a commercial printer.). This reduction was achieved by eliminating a function in the production process last December, resulting in a reduction in the number of production staff by 14 at the start of 1988.

... 3. As to timing, HMSO would be content for the Written Answers to be announced at any convenient time before prorogation, whenever Ministers determine. However, Mr David Amess MP has a series of PQ's about Hansard sales and prices down for answer on 26 and 27 October and it may be preferable to get these announcements out of the way first.

4. I will write in due course to the Secretaries to the Lord Chancellor and Mr Speaker, the Clerk of the Parliaments and the Editors of the two Official Reports, to give them advance notice of the Written Answer and details of the price increases.

5. I am copying this minute and enclosures to the Lord President's office.

  
J A DOLE  
Controller and Chief Executive  
HMSO  
11 October 1988

ECONOMIC SECRETARY	
RECD	10 OCT 1988
AP	PS/CHX 2 PS/KST
COPIES TO	PS/FST PS/RMG
	Sir P Middleton
	Mr Scholer
	Mr Gieve Mr Phillie
	Mr Wood.

HER MAJESTY'S STATIONERY OFFICE

FOR WRITTEN ANSWER ON.....  
HOUSE OF COMMONS

DRAFT FOR WRITTEN QUESTION - HOUSE OF COMMONS  
OFFICIAL REPORT (PRICE)

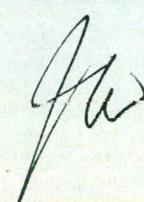
No. ....: To ask Mr Chancellor of the  
Exchequer, if he will make a statement on the  
price of the Official Report.

**DRAFT ANSWER**

Following a review by Her Majesty's Stationery Office, I have authorised an increase of 65p in the price of the daily part and Standing Committee debates with a proportionate increase in the price of the weekly part. Bound volumes will increase by £3.00, the volume index by 30p and the fortnightly index by 20p. Subscription rates and the scale of charges for reprints of Members' speeches appearing in the Official Report will also be raised. These increases, coupled with a reduction of 7.50% in the production costs at Hansard Press during the current session, will enable the level of central subsidy to be further reduced.

HMSO

11 October 1988





HER MAJESTY'S STATIONERY OFFICE

FOR WRITTEN ANSWER ON.....  
HOUSE OF LORDS

DRAFT FOR WRITTEN QUESTION - HOUSE OF LORDS  
OFFICIAL REPORT (PRICE)

No. ....: To ask Her Majesty's Government  
whether they will make a statement on the price of  
the Official Report.

**DRAFT ANSWER**

Following a review by Her Majesty's Stationery Office, my Honourable Friend the Economic Secretary has authorised an increase of 35p in the price of the daily part, with proportionate increases in the prices of the weekly part and index. Bound volumes will increase by £2.50 and the cumulative index by 5%. Subscription rates and the scale of charges for reprints of Peers' speeches appearing in the Official Report will also be raised. These increases will enable the level of central subsidy to be further reduced.

J A DOLE  
Controller and Chief Executive

HMSO

11 October



- 33 **Mr Dave Nellist** (Coventry South East): To ask the Secretary of State for Defence, if he will list in the Official Report the precise amounts paid to each of the following contractors by his Department in 1986-87: (a) The General Electric Co plc, (b) Rolls Royce Ltd, (c) British Telecommunications plc, (d) Lucas Industries plc, (e) BTR plc, (f) Austin Rover Group Ltd, (g) United Scientific Holdings plc, (h) Courtaulds plc and (i) Massey Ferguson Holdings Ltd. ¶A
- 34 **Mr Barry Jones** (Alyn and Deeside): To ask the Secretary of State for Wales, if he will make a statement on the future organisation of the Welsh Development Agency. What is his policy towards maintaining the free standing and unmerged status of the Welsh Development Agency; and if he will make a statement. ¶A
- 35 **Mr David Amess** (Basildon): To ask the Lord President of the Council, if he will publish in the Official Report, a list of Public Bills which were reprinted during the 1987-88 session; what was the reason for reprinting each Bill; and what was the cost. ¶A
- 36 **Mr David Amess** (Basildon): To ask the Lord President of the Council, what further progress has been made in purchasing a computer to assist with the processing of Early Day Motions and Questions in the Table Office; and if he will make a statement. ¶A
- 37 **Mr David Amess** (Basildon): To ask the Lord President of the Council, if he will seek to ensure that embargoed Parliamentary Papers are made available in the Norman Shaw North Issue Office at the same time as in the basement Vote Office; and if he will make a statement. ¶A
- 38 **Mr David Amess** (Basildon): To ask the Lord President of the Council, if he will seek to ensure that Her Majesty's Stationery Office deliver Parliamentary papers direct to the Norman Shaw North Issue Office; and if he will make a statement. ¶A
- 39 **Mr David Amess** (Basildon): To ask the Lord President of the Council, what was the cost of supplying the Norman Shaw North Issue Office with Parliamentary Papers in 1987 and to date; and how this compares with each year since 1979. ¶A
- 40 **Mr David Amess** (Basildon): To ask the Lord President of the Council, if he list, by grade, the total number of officials currently employed in the Norman Shaw North Issue Office; and how this compares with each year since 1979. ¶A
- 41 **Mr David Amess** (Basildon): To ask the Lord President of the Council, when he expects to reply to the Second Report from the Procedure Committee on the Use of Time on the Floor of the House (HC 350 1986-87); and if he will make a statement. ¶A
- 42 **Mr David Amess** (Basildon): To ask the Lord President of the Council, if he will move to refer the procedure for Private Members' Bills to the Select Committee on Procedure; and if he will make a statement. ¶A
- 43 **Mr David Amess** (Basildon): To ask Mr Chancellor of the Exchequer, what is the current cost of each single bound volume of Commons Hansard; what is the amount of subsidy per volume; and what were the figure for each year since 1970. ¶A
- 44 **Mr David Amess** (Basildon): To ask Mr Chancellor of the Exchequer, what is the current cost of each single bound volume of Lords Hansard; what is the amount of subsidy per volume; and what were the figures for each year since 1970. ¶A
- 45 **Mr David Amess** (Basildon): To ask Mr Chancellor of the Exchequer, how many bound volumes of: (a) Commons and (b) Lords bound volumes of Hansard were sold by Her Majesty's Stationery Office in 1987 and to date in 1988 and what were the figures for each year since 1970. ¶A

46 **Mr David Amess** (Basildon): To ask Mr Chancellor of the Exchequer, how many  
W copies of: (a) Commons Weekly Hansard, (b) Commons Daily Hansard and (c)  
Commons Weekly Hansard Index were sold by Her Majesty's Stationery Office in  
1987 and to date in 1988, and what were the figures for each year since 1970. ¶A

47 **Mr David Amess** (Basildon): To ask Mr Chancellor of the Exchequer, what is the  
W current price per copy of Commons Weekly Hansard; and what were the figures for  
each year since 1970. ¶A

48 **Mr David Amess** (Basildon): To ask Mr Chancellor of the Exchequer, what is the  
W current price per copy of Lords Weekly Hansard; and what were the figures for  
each year since 1970. ¶A

49 **Mr Barry Jones** (Alyn and Deeside): To ask the Chancellor of the Duchy of  
W Lancaster, if he will sanction the building of six 15k square feet advance factories  
at Deeside industrial park; and if he will make a statement. ¶A

50 **Mr Barry Jones** (Alyn and Deeside): To ask the Chancellor of the Duchy of  
W Lancaster, if he will meet the Deeside Enterprise Trust, Clwyd to discuss with the  
Trust members and the Alyn-Deeside Council the case for more advance factories  
on Deeside industrial park; and if he will make a statement. ¶A

## THURSDAY 27th OCTOBER

- 1 **Mr John L. Marshall** (Hendon South): To ask Mr Chancellor of the Exchequer, when he last met his counterparts in the European Economic Community; and if he will make a statement. *[Question Unstarred]*
- 2 **Mr David Amess** (Basildon): To ask the Lord President of the Council, if there are any plans to review the opening hours of the Norman Shaw North Issue Office; and if he will make a statement. ¶A
- 3 **Mr David Amess** (Basildon): To ask Mr Chancellor of the Exchequer, if he will publish in the Official Report a table showing the price per issue of the Official Report; the amount of subsidy per issue; and what was the figure for each year since 1970. ¶A
- 4 **Mr David Amess** (Basildon): To ask Mr Chancellor of the Exchequer, how many copies of the Official Report are sold; and what were the figures for each year since 1983. ¶A
- 5 **Mr David Amess** (Basildon): To ask the Lord President of the Council, what representations he has received concerning the implementation of the Services Committee Report on Access to the Precincts of the House; and if he will make a statement. ¶A
- 6 **Mr David Amess** (Basildon): To ask the Lord President of the Council, if he has any plans to review the access to the Vote Office of staff of honorary Members before 8.45 a.m. on sitting days; and if he will make a statement. ¶A
- 7 **Mr Barry Jones** (Alyn and Deeside): To ask the Secretary of State for Wales, what was the amount of cash spent on speech therapy services in 1982 and in 1986-87; what is the percentage increase in real terms; and if he will make a statement. ¶A
- 8 **Mr Barry Jones** (Alyn and Deeside): To ask the Secretary of State for Wales, what was the expenditure in physiotherapy services in the National Health Service in Wales in 1982 and 1986-87; what was the percentage increase; and if he will make a statement. ¶A
- 9 **Mr Barry Jones** (Alyn and Deeside): To ask the Secretary of State for Health, what sum of money he has (i) earmarked and (ii) paid to the British Telecom authorities for priority fault repair services for General Practitioners. ¶A
- 10 **Mr Barry Jones** (Alyn and Deeside): To ask the Secretary of State for Wales, if he will publish the Clwyd City Council report on Elim Crossroads, Alltami, Mold Clwyd; and if he will make a statement; if he will implement urgently the fundings of the report and make available cash for the proposed implements; and if he will make a statement. ¶A
- 11 **Mr Barry Jones** (Alyn and Deeside): To ask the Secretary of State for Wales, if he will list the short-term measures Clwyd City Council propose to improve road safety at Elim Crossroads; and if he will make a statement. ¶A
- 12 **Mr David Amess** (Basildon): To ask the Chancellor of the Duchy of Lancaster, how many working days are lost to his Department by staff sickness; and what are the figures for each month since 1983. ¶A
- 13 **Mr David Amess** (Basildon): To ask the Chancellor of the Duchy of Lancaster, how many working days are lost to his Department through staff suffering from: (a) migraine and (b) backache and what are the figures for each month since 1984. ¶A



FROM: S M A JAMES  
DATE: 30 SEPTEMBER 1988

MR DOLE - HMSO

cc PS/Chancellor  
PS/Chief Secretary  
PS/Financial Secretary  
PS/Paymaster General  
Mr Phillips  
Mr B O Dyer  
Mr Wood  
Mr Towers

PROPOSED PRICE INCREASES FOR THE REPORTS OF PARLIAMENTARY DEBATES

The Prime Minister has now approved the price increases for the reports of Parliamentary debates set out in the Economic Secretary's minute of 12 September and is content for an announcement of the increases to be made in the normal way by Written Answer (Mr Gray's letter to me of 29 September, not copied to all).

2. The Economic Secretary would be grateful for a draft Written Answer making the announcement and for advice on timing. The Lord President has as you know (Ms Smith's letter of 27 September) asked that the announcement makes it clear that the increase in price is being accompanied by a reduction so far as possible in production costs. We shall need to consult the Lord President both on timing and the substance of the announcement in due course.

A handwritten signature in cursive script, appearing to read "S M A James".

S M A JAMES  
Private Secretary



RS/CHX  
Mr Phillips  
Mr S Wood  
Mr Dole  
(HMSO)

10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

29 September 1988

PSL  
29/9

*Dear Sir,*

PROPOSED PRICE INCREASES FOR THE REPORTS OF PARLIAMENTARY  
DEBATES

The Prime Minister was grateful for the Economic Secretary's minute of 12 September. She has also seen the further background material you kindly let me have in your letter of 26 September.

The Prime Minister is content with the Economic Secretary's proposals, and for an announcement of the increases to be made in the normal way by Written Answer.

I am copying this letter to the Private Secretaries to the other members of E(A), Leaders of both Houses and to both Chief Whips.

Yours,  
Paul

Paul Gray

Miss S. James  
HM Treasury.

12 OCT 1988



DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Richmond House, 79 Whitehall, London SW1A 2NS

Telephone 01-210 3000

From the Minister for Health

CONFIDENTIAL

Rt Hon John Wakeham MP  
Lord President of the Council  
Privy Council Office  
Whitehall  
LONDON  
SW1A 2AT

FINANCIAL SECRETARY	
REC.	12 OCT 1988
ACTION	Mk. Saunders 111 OCT 1988
COPIES TO	PPS, CST, PMG, Sir. P. Middleton Mr. Anson, Mr. Phillips Miss. Peirson Mrs. Case

*See John*

CHILDREN AND FAMILY SERVICES BILL: PUBLIC CHILD LAW PROVISIONS

*Mc. Revolta*

X Tony Newton wrote to you and H Committee colleagues on 24 June about providing in the Children and Family Services Bill for recommendations in the Cleveland Inquiry report on emergency protection and child care procedures, and said that we would write again about other proposals for the Bill. As you know, the Bill has to be ready for introduction at the beginning of the new session and work is proceeding to that end.

2. The public law provisions of the Bill covering mainly emergency protection, care proceedings and local authority responsibilities will broadly follow our White Paper ('The Law on Child Care and Family Services', CM 62, Jan 1987) and will also mesh with provisions on private law reform based on the Law Commission's report on child law, guardianship and custody of July 1988, on which James Mackay will soon be consulting colleagues. The interested Departments have been fully involved in the development of policy on these matters. There are as a result not many matters on which I need to consult colleagues at this stage.

Emergency protection and medical assessment

3. You may recall that we have been pressed to provide for a medical assessment order as a lesser alternative to the new emergency protection order (EPO), which itself will replace the unsatisfactory place of safety order. The argument is that such an order should be available in non-emergencies when all that is needed is to have a child about whom there is concern but not alarm medically examined. The emergency protection order should not be used in non-emergencies, but there is concern that social workers may regard it as the only instrument available to them to have the child produced. This idea has some superficial attraction but two important weaknesses: as Lord Justice Butler-Sloss said in the Cleveland

report, it would be confusing to have two types of protection order and potentially dangerous to put before social workers and the courts the temptation to go for the softer option; and it could be used inappropriately against perfectly competent parents who choose to bring up their children without recourse to local services. There is also concern among professionals that introducing an element of compulsion with health assessment would disturb the professional-client relationship.

4. Lord Justice Butler-Sloss preferred a conditional provision to the EPO, allowing the child to remain at home on condition of being medically examined, and also suggested that magistrates should be able to adjourn EPO applications so that parents could be given an opportunity to have their say. However, these suggestions would also undermine the principle that emergency protection orders should be used only in clear emergencies.

5. We need to provide safeguards against inappropriate removal of the child, while also ensuring that removal is not delayed when there is clear evidence to justify emergency action. Tony Newton set out in his letter of 24 June further measures aimed at getting this balance right through the EPO arrangements. There will be a new duty on the holder of the order not to remove the child if, on his being seen, this proves not to be necessary, and to return the child if his continued removal becomes unnecessary. There will also be a new opportunity for parents to apply after 72 hours for the discharge of EPOs which had been applied for ex-parte.

6. Two of the most emotive issues in Cleveland were denial of parental access to children removed from home under place of safety orders and repeated medical examinations of the children. As promised in the White Paper, we shall write into the Bill a presumption of reasonable access which can be overridden only where this would be contrary to the child's interests. This right of access will be available not only to those with parental responsibility for the child, but also to anyone acting on their behalf, including a doctor if the parents want him present when the child is examined or to provide a second opinion. In line with the Judge's recommendation, we propose to strengthen these provisions by giving the court power to make directions on access and medical examinations while the Emergency Protection Order is current.

7. I believe that these enhanced proposals achieve an appropriate balance between ensuring that there is effective protection for children at risk and providing reasonable opportunities for the parents to challenge the order and participate in subsequent developments. I would expect to hold the line on this but in the aftermath of Cleveland we can expect further pressure, and I would be ready to look at this again if telling arguments are advanced during the passage of the Bill. Meanwhile, I should be grateful for agreement to proceed on the basis I have described.



### New Power of Entry

8. The Bill will consolidate existing responsibilities of local authorities to satisfy themselves of the welfare of children who are living in homes and other institutions for long periods. As proposed in the White Paper, these responsibilities will be extended to include long-term stay children in private hospitals and nursing homes (which are subject to the Registered Homes Act 1984). Those responsible for running these establishments will have to notify the local authority of such children and the Bill will provide for a non-notification offence. In line with existing legislation for other types of placement, it is proposed to give local authorities a power of entry in support of their visiting responsibility and to make obstruction of authorised persons carrying out their duty in respect of these children an offence. These provisions and re-enactment of existing powers of entry and offences have been agreed with Home Office officials.

### Care Orders made in Criminal Proceedings

9. I hope in consultation with John Patten soon to be able to put proposals to colleagues on a significant change to the disposals available to juvenile courts in criminal proceedings against young offenders. Because their use is declining and, as a result of the new legislation, there will be significant differences in the grounds for making and discharging these orders in criminal and civil care proceedings, it is proposed to abolish the power to make care orders in criminal proceedings under Section 7(7) of the Children and Young Persons Act 1969. We are currently consulting outside interests on a proposal to replace the criminal court's power to make care orders with a power when certain criteria are met to add a new requirement to supervision orders that the offender lives away from home for a specified period. The local authority would implement the requirement.

### Reports to Parliament

10. The Secretary of State is at present required to make three periodic reports to Parliament on children's questions - an annual consolidated and classified statistical abstract under the Child Care Act 1980, a triennial report on local authority services and voluntary provision for children, also under the 1980 Act, and a quinquennial report on provisions in the Children Act 1975 on adoption and custodianship. I intend to provide for continuation of the first, which gives the information of most interest to professionals and voluntary bodies - a breakdown of data on children in care, placements by type of accommodation, maintenance costs etc - but not the second and third. The time and effort that goes into preparing these two reports is disproportionate to their usefulness: indeed, as far as we know, very little use is made of them. Obviously, I shall have to be prepared to listen to arguments for their retention, but I hope this can be avoided.

P.R.

Content of the Bill

11. You will recall that John Moore reluctantly agreed to surrender highly desirable provisions on the regulation of facilities for under fives and other matters. I understand that Parliamentary Counsel now considers that the children's homes provisions could be accommodated more comfortably within broadly the size of Bill QL had in mind. I should welcome policy agreement to reintroducing all the points below: I understand that the other items would not require many additional clauses.

a. Children's Homes

I accept that our earlier intention of bringing the provisions on voluntary homes into line with those for private children's homes should not be pursued but I should like to reproduce these and similar provisions on local authority community homes with the necessary minor amendments consequential on other parts of the Bill, as they stand. Several clauses would be needed with some elements in a Schedule. This would allow the Child Care Act 1980 to be repealed in its entirety. The Children's Homes Act 1982 which deals with private homes will be amended but not replaced.

b. Regulation of Facilities for Under 5s and School Age Children

While we expect a generally favourable reception for the main provisions on public child care, failure to provide for reform of the 40-year old Nurseries and Childminders (Regulation) Act governing the registration of private and voluntary day care facilities for young children would be greeted with dismay. The main responsibility for looking at the quality of the arrangements to which very young children are entrusted must rest with parents but, as the White Paper noted, there are concerns about the dangers that may result from a lack of adequate care or supervision. We shall, I fear, be accused of showing scant regard for this age group and of dashing expectations raised by the White Paper and a consultation paper which preceded it. People will look for provision on facilities for school age children on which we also consulted. I propose not to replace the 1948 Act but to make sufficient amendments to modernise the wording used to describe the regulatory function. The amendments which might perhaps be in a schedule fall into three groups. I propose to limit the Act to children under five. This would have the effect of confining regulation of facilities for school age children (such as holiday and after school arrangements) to those which are classified as children's homes. Secondly I propose to define the scope more clearly to exclude from 'childminding' relatives, nannies, those with parental responsibility and occasional babysitters and to exclude from the definition of nurseries occasional creches eg for conferences. Thirdly the registration arrangements themselves need to be easier for local authorities to operate and fairer for the providers of services, eg by requiring reasons to be given for imposing conditions or refusing registration. I am discussing the details of these changes with other Ministers particularly concerned.

c. Adoption

Some consequential amendments to adoption legislation will be unavoidable. In addition, I am anxious to include a few improvements for which we have been pressed: one or two technical amendments to put right defects and obscurities in the 1975 Children Act; amendments requested by the Registrar General to enable him to assist adopted people, including those living overseas, seeking information about their origins; and a new Regulation making power governing the payment of adoption allowances by local authorities, to replace a cumbersome provision requiring Secretary of State's approval for each authority.

12. We should be able to provide in the Bill on introduction for children's homes and for adapting the 1948 Act and the Adoption Act 1976 to the other provisions it contains. My other proposals would need to be handled by Government amendment. Since these are areas where we can expect Opposition amendments, it will be helpful to be ready with our own proposals.

Resources

13. The provisions which we wish to re-instate should be neutral in cost terms. Otherwise I cannot add yet to the penultimate paragraph of Tony Newton's letter of 24 June, except to say that we have had discussions with the local authority associations about local authority costs which do not undermine the estimate of cost given in that letter. We have not yet been able to arrive at a final cost estimate. James Mackay's officials are reviewing urgently the effects of the proposals on court costs and legal aid. We are in touch with the Treasury about all this.

Special Standing Committee

14. Turning to handling of the Bill, Frank Field on behalf of the Social Services Committee has suggested that the Bill would be suitable for consideration by a Special Standing Committee when it goes before the House. The Social Services Committee reported usefully on child care in 1984 and the suggestion is no doubt intended to be constructive. Special Standing Committees can be useful in smoothing the path of complex technical Bills, but an extra stage of special sittings and the calling of witnesses could well delay more than it would assist progress of this Bill. It would provide campaigners on issues such as a family court an additional opportunity to harry the Government. We did of course consult widely on our proposals in the White Paper. If the business managers agree, however, we can afford to leave a final decision until we see how the Bill is received and progresses in the Lords. Meanwhile, Frank Field could be given a temporising reply.

E.R.

Conclusion

15. To facilitate the urgent final stages of drafting, I should be grateful for comments by Wednesday 19 October at the latest please. I am copying this letter to James MacKay, Douglas Hurd, Kenneth Baker and Peter Walker, to the Law Officers, to other members of H and QL Committees to Sir Robin Butler and to First Parliamentary Counsel.

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

DAVID MELLOR



10 DOWNING STREET  
LONDON SW1A 2AA

From the Private Secretary

6F 19.10

CH/EXCHEQUER	
REC.	12 OCT 1988
ACCOMP.	Miss Simpson
COPIES TO	CSZ, FST, PMG, ESZ, Sir P. Middleton, Mr Odling-Smee Mr Gieve, Mr Dyer.

11 October 1988

V 12/10

*Dear Jonathan*

DEBATE ON THE ADDRESS: 22 NOVEMBER

This is the usual annual call for your Department's contribution towards the Prime Minister's speech during the debate on the Address. As always, this should focus, where applicable, on the coming legislative programme.

Could I please have initial contributions by next Thursday, 20 October.

*L*

*Andy*

P. A. BEARPARK

Jonathan Taylor, Esq.,  
H.M. Treasury.



Caxton House Tothill Street London SW11

5803

Telephone Direct Line 01-273 .....  
 Switchboard 01-273 3000 Telex 91556  
 GTN Code 273 Facsimile 01

CH/EXCHEQUER	
REC.	13 OCT 1988 ✓ 13/10
ACTION	MISS SIMPSON
COPIES TO	FST, CST
	Mr Dyer
	Mr Pickford

William Fleming Esq  
 Cabinet Office  
 70 Whitehall  
 LONDON  
 SW1A 2AS

MP

Dear William,

12 October 1988

**THE QUEEN'S SPEECHES ON THE PROROGATION AND THE OPENING OF PARLIAMENT**

Your letter of 30 September asked for comments on these speeches.

I have now spoken to Shaun Mundy about my Department's contribution. My Secretary of State has asked that two references which you deleted from our original contribution to the opening of Parliament speech, be reinstated. With these changes, paragraph 18 of the speech would read:-

"My Government will introduce legislation to remove further unnecessary obstacles to employment, particularly in relation to women and young people, and to alter training arrangements."

I am sending copies of this letter to the Private Secretaries to all Members of the Cabinet, and to the Private Secretaries to the Law Officers, the Minister of State, Privy Council Office, the Chief Whips in the Commons and Lords and the Financial Secretary, Treasury.

Sincerely,

Beverley Evans

**BEVERLEY EVANS**  
 Private Secretary



FROM: A P HUDSON  
DATE: 12 October 1988

*Handwritten initials*

**MR TYRIE** (o/r)

cc Mr Cropper o/r  
Mr Call o/r

**MEMBERS' BRIEF**

There was a suggestion that a Members' Brief should be prepared on the economy, for when the House returns. Is this still alive? Has it been discussed in Prayers recently?

*Handwritten signature*

A P HUDSON

*This is commissioned + written.  
I will go through it later today +  
put it in to the CX for Wed  
Prayers.*

*A.17.K.*

*Handwritten number 529*



FROM: A P HUDSON

DATE: 12 October 1988

*bf 17.10  
pap*

MR TYRIE (o/r)

cc Mr Cropper o/r  
Mr Call o/r

**MEMBERS' BRIEF**

There was a suggestion that a Members' Brief should be prepared on the economy, for when the House returns. Is this still alive? Has it been discussed in Prayers recently?

A P HUDSON

*AGT will try to provide a draft brief for tonight. May be worth discussing at Prayers.*

*18.10.*



FROM: MISS M O'MARA  
DATE: 13 October 1988

ECONOMIC SECRETARY

cc: PS/Chancellor\*  
Sir G Littler\*  
Mr Lankester\*  
Mr Ilett\*  
Mr Mortimer\*  
Miss Noble\*  
Mr C B Evans\*  
Mr Kroll\*  
Miss Simpson\*  
Mr N P Williams\*  
Mr O'Connor\* - IR  
Miss Wheldon\* - TSD  
Mr Bostock\* - UKREP  
Mr Lindley\* - BoE

\* I have already  
indicated a very  
large number of vital  
changes that the  
answers require 1-11  
I have now slightly  
revised the answer to  
para 12. as

\* with draft answers  
only

**EUROPEAN FINANCIAL AREA: APPEARANCE BEFORE LORDS SELECT COMMITTEE**

The Clerk has now sent us the list of questions which the Committee has approved. They are exactly the same as before, with one addition at the end, and I attach a revised set of answers, with amendments to the original version side lined.

2. Mr Jay of our Paris Embassy told me earlier this week that he dined with Lord Kearton the Committee's Chairman, fairly recently. Lord Kearton mentioned the Committee's enquiry in this area and said that its members were particularly interested in the impact which capital liberalisation might have on the ERM. They clearly believe it could well undermine the present arrangements, as the Prime Minister herself has hinted in the House. You may therefore wish to look again at the Bank's paper on this subject, attached to my minute of 30 September, as well as the answer to Question 8.

3. Question 9 refers to pressure for the removal from the ecu of currencies of non-ERM participants. The answer claims there has been no pressure. This is, strictly, true but I attach a Paris telegram and two newspaper articles reporting comments made by M Beregovoy in June, suggesting that the UK had to choose between participation in the ERM and participation in the ecu.

When 5.12?  
Submissions on  
this should  
be

4. You asked whether there were any "bull points" which you might emphasise on Tuesday. We would suggest two:

i. abolition of exchange controls: Since this is highly relevant to the capital liberalisation Directive, we think it worth stressing that we abolished all our own inward and outward controls as far back as 1979, ahead of all the rest of the Community, apart from Germany.

ii. UK Treasury Bill programme: You will want to emphasise what a success the first tender on 11 October has been. I am attaching the press release the Bank issued immediately afterwards, indicating the extent of the oversubscription. 1 month and 3 month bills are still trading close to auction yields and 6 month bills, at 7.20 per cent, well within them.

5. On reflection, we would not suggest you launch any active assault on the concept of a two-tier Europe. (The issue comes up under Question 7 in any case.) The Chancellor has made it clear that it is a development we should deplore, although there is no harm in acknowledging, if the subject is raised by the Committee that if a two-tier Europe were to evolve, the City of London could scarcely be in the lower tier.

6. I also attach, as background:

i. a paper, written by Mr Peretz, on the preconditions for monetary union. This covers much of the same ground as the Pohl paper you have already seen but at rather less length. So, although it needs a little further work, it could serve as an aide memoire of the arguments

ii. a paper on the development of the private ecu which we have amended in the light of the Chancellor's comments sent to the Monetary Committee in Brussels

iii. a note by EC Division on the Commission's proposals on the use of the ecu in the EC Budget. (This is currently under active discussion in Brussels and may require updating by Tuesday)

- iv. a note by the Bank on procedural aspects of UK involvement in the EMS. You enquired whether a decision that sterling should join the ERM would require fresh UK legislation. Our legal advice is that it would not and that it would be "intra vires" the 1979 Exchange Equalisation Account Act, as long as the Government was entitled to withdrawal from the arrangement, if circumstances warranted it
- v. the Chancellor's "Sunday Telegraph" interview last week, with its reference to the EMS, which some members of the Committee may pick up
- vi. a slightly revised note on the current position within the Community on exchange control (amendments side lined), together with a note on the position in four major non-EC countries
- vii. a note on the Latin Monetary Union to which you referred last week, plus a note by the Bank on the Zollverein (the German Customs Union) which points out that:
  - (a) even within one country, monetary union was not achieved for more than 50 years after the beginning of customs union
  - (b) there were long standing difficulties in arriving at an acceptable common currency, despite a common silver standard
  - (c) the establishment of a wider free trade area was accompanied by political union, while monetary unification followed, rather than preceded, political unification.

Reference to this might be a useful diversionary tactic in answer to Questions 11 and 12 and would certainly display your erudition!

MOM

MISS M O'MARA

1. Should the Commission have made more of an attempt to quantify the effect of the liberalisation of capital movements?

No. First, we must not forget that the Community already enjoys a substantial degree of freedom in capital flows. The UK, Germany, the Netherlands - and now Denmark - have already abolished all exchange controls. Although France relied on an extensive system of controls until 1986, the most significant controls in terms of volumes of financial transactions have been removed in the past two years and there are no restrictions at all on portfolio inflows and outflows. Italy has also gradually been removing its exchange controls over the past couple of years and at the beginning of this month, virtually all remaining Italian controls were abolished. Indeed, only Spain, Portugal, Greece and Ireland still have extensive exchange controls in place. It would therefore be wrong to exaggerate the Directive's impact.

It would in any case have been difficult for the Commission to predict what the net effect of full-scale liberalisation would be. The abolition of controls could lead to large flows out of those currencies which had earlier enjoyed their protection. But equally, complete deregulation may also generate gross capital inflows as overseas investors no longer fear that once they have placed funds in a country, they could remain trapped there by exchange controls. Our own experience, together with that of the Germans and Dutch, suggests that the removal of this "mousetrap" effect could be significant.

Lastly, the Directive, quite deliberately, sets no single date on which all Member States must lift their remaining controls; it merely lays down an end date by which liberalisation has to be accomplished. Thus, although full liberalisation is not required under the Directive until 1 July 1990, or later in some cases, the Danes, for example, abolished all their remaining controls on 1 October this year. This staggered timetable would further complicate any attempt at quantification.

2. Are you concerned that demands for reciprocity and banking services are inconsistent with the agreement to liberalise the capital movements "erga omnes"?

The Commission's reciprocity proposals in the draft Second Banking Co-ordination Directive appear to impose a collective EC-wide procedure, applicable to each and every application from a third country institution and carry the risk that, as barriers within the Community are removed, new ones are built up around it. The UK has made it clear that it considers the Commission's proposal undesirable in principle and unworkable in practice and that it will continue to argue against them in Brussels.

By contrast, we wholly endorsed the "erga omnes" provision in Article 7 of the capital liberalisation Directive which states that as far as movements of capital to or from third countries are concerned, Member States "shall endeavour to attain the same degree of liberalisation" as that which applies to their operations with other EC residents. Indeed, this is a principle we have upheld fully in the UK ever since we established our own exchange controls in 1979.

3. Are you satisfied that the safeguard clause allowing temporary measures against short-term capital movements on the Member States' own initiative will not be used so frequently that it will jeopardise the "European Financial Area"?

Full freedom of capital movements marks a major step forward for some Member States and it is not surprising that they have pressed for some form of protection, in case they encounter major difficulties. But our experience with the abolition of controls in the UK was quite the opposite; the financial markets regarded it as a sign of our economy's strength, not weakness, and money flowed in, not out, of Britain. I suspect that will be true for other Member States too and that they will find their fears are exaggerated. So in practice I doubt whether they will seek to invoke the clause very frequently.

However, should they do so, you will see that Article 3 of the Directive has been drafted carefully to avoid any risk that it might undermine the main liberalisation objective. First, protective measures can only be introduced where there is thought to be a major and quite specific problem. The Article speaks of short-term capital movements of "exceptional magnitude" imposing "severe strains" on foreign exchange markets leading to "serious disturbances" in the conduct of a country's monetary and exchange rate policies, reflected, in particular, in substantial variations in domestic liquidity.

Second, the decision is not to be taken by the individual Member State alone. It is subject to authorisation by the Commission, after consultation with the Monetary Committee and the Committee of Central Bank Governors. In urgent cases, the Member State can take the initiative. But it has to inform the Commission and other Member States at the latest by the date of the measures' entry into force and the Commission then has to decide, again after consultation with the Monetary Committee and the Committee of Central Bank Governors, whether the measures may continue or whether they should be amended or abolished. On top of this, the decisions taken by the Commission can be revoked or amended by the Council, acting by a qualified majority.

Third, protective measures cannot be introduced for more than six months.

Last of all, there is provision for the Council to examine before the end of 1992, whether the Article remains appropriate in both principle and detail, on the basis of a report from the Commission, following an opinion by the Monetary Committee and the Committee of Central Bank Governors. At the same time, Article 8 of the Directive stipulates that at least once a year, the Monetary Committee is to examine the situation on the free movement of capital resulting from the Directive and report to the Commission on the outcome.

I think all this indicates how seriously the commitment to full liberalisation is taken and how concerned the Community is that the safeguard clause should not undermine it.

[NB If raised: Articles 73, 108 and 109 of the Treaty of Rome already provide for Member States to take protective measures in the capital movements field in certain circumstances, so this is nothing new.]

4. Will some harmonisation of supervisory and prudential rules to protect investors and savers be required?

Some minimum harmonisation of supervisory standards throughout the Community is necessary to underpin the liberalisation of European financial markets. Work is already taking place in Brussels on proposals which will provide for this. A wide range of initiatives in the financial services area have already been adopted or are under discussion. For example, the Second Banking Co-ordination Directive, now under discussion, will establish common minimum standards for the authorisation of banks and building societies by regulators. The proposed Investment Services Directive would allow an investment firm authorised in one state to provide services in any other Member State on the basis of its home country authorisation. Other measures which have been adopted include the UCITS Directive, which will allow firms dealing in unit trusts to operate throughout the Community, and the Non-Life Insurance Services Directive which allows insurers to cover most non-life risks through the provision of cross-frontier services. The key principle is that these financial services are all provided on the basis of home country authorisation.

However, it is important that harmonisation should not prevent Member States from imposing additional standards to protect depositors and ensure the soundness of authorised institutions. The UK will seek to maintain its flexible approach, whilst supporting the creation of minimum harmonised standards.



5. Can you suggest the most likely content of the Commission's future proposals to eliminate or reduce the risk of tax distortion, evasion and fraud? What areas are likely to be covered (eg company taxation, taxation on capital income, collaboration between tax administrations)?

The Commission have not yet made any proposals and so it is difficult for us to offer a view. Present indications are that they are likely to propose some sort of minimal withholding tax on interest paid, perhaps coupled with new or extended arrangements for Member States' fiscal authorities to obtain information about deposits by their residents in other Member States.

At present, many interest flows from the UK are exempt from UK tax either because our domestic law so provides (for example, eurobond interest) or because our network of bilateral double taxation treaties so provide. We have treaties with each of the other eleven Member States. Seven of these treaties - with Denmark, France, Germany, Greece, Ireland, Luxembourg and the Netherlands - provide that no tax is chargeable on interest in the source country.

We shall need to study carefully any proposals which the Commission make. But Article 6 of the capital liberalisation Directive does not, in itself, commit Member States to action. It provides simply for the Commission to submit proposals by 31 December of this year and for the Council to "take a position" on them by 30 June 1989. Moreover, any tax provisions must be adopted unanimously. But whatever happens on this issue, other countries are fully committed to complete liberalisation of capital movements within the Community.

There are a number of questions which we shall need to ask the Commission when we see what they have proposed:

- i. How wide-ranging the withholding tax will be - is it proposed to apply to eurobond interest, wholesale money, interbank lending, corporate investment, or simply to individual bank deposit accounts?
- ii. Will it apply only to interest flowing between residents of Member States or will it also apply to interest paid to residents of other States?
- iii. Will the Commission regard the bilateral tax treaties as taking precedence or will they be overridden by any Directive?

In the light of the actual proposals, we shall then need to consider among other things:

- iv. Will they drive investment outside the EC?
- v. Will they tend to increase the cost of borrowing because investors will continue to want the same net return?
- vi. Will they impose severe burdens on banks and the tax authorities to administer, and how will they affect bank secrecy in the various Member States?

6. The liberalisation of capital movements will produce not only great opportunities for the United Kingdom financial services industry, but a wider range of competitors. How much of a risk is liberalisation at a time when the balance of payments is dependent on the City?

The UK has lived without exchange controls for nine years now and during that period London has consolidated its role as the financial capital of Europe. We have nothing to lose from full liberalisation. Since the abolition of exchange controls in 1979, there have been no restrictions on capital outflows from the UK. Most remaining exchange controls elsewhere in the Community restrict outflows from their own residents, so their removal is more likely to lead to net inflows into the UK. One possible indirect effect is that the prospect of liberalisation will prompt Member States who currently impose restrictions to become more competitive. But UK firms have a long head start in coping with the rigours of open exchanges, and are well placed to respond to competitive pressures. Both the DTI and the Bank have taken steps to ensure that our financial services industry is well aware of the opportunities waiting to be seized. To the extent that, over time, the removal of any inward restrictions make it easier for UK investors to participate in investment opportunities elsewhere in the Community, this is wholly desirable.

Incidentally, a great deal of nonsense is currently being talked about the size of our current account deficit. In so far as the deficit reflects higher imports, stemming from an unsustainable growth in domestic demand, we have already taken action to slow that growth by raising interest rates. As the Chancellor has made clear, the deficit is entirely the result of private individuals and businesses making choices about their own financial affairs and will in time reduce as the current gap between private sector savings and private sector investment closes. Meanwhile, our firm monetary and fiscal policies will continue to maintain confidence in the Government's handling of the UK economy, ensuring that any deficit can be readily financed.

7. Might not the apparent reluctance of the United Kingdom to develop European monetary co-operation raise the spectre of a "two-tier" Europe, and persuade third country investors to concentrate in other Member States?

The UK is not reluctant to move towards economic and monetary union. The Single European Act which we adopted in 1986 refers in its preamble to the Paris communique of October 1972 when heads of government approved the objective of the progressive realisation of Economic and Monetary Union and Article 1 places on the Community an obligation to contribute to making "concrete progress towards European unity".

Actions speak louder than words in this area, as in so many others. Unlike the majority of Member States, we have already freed all capital movements and we have taken positive steps towards the development of the role of the ecu by holding ecu in our official reserves and, most recently, by launching our own Ecu Treasury Bill programme. If a "two-tier" financial Europe were to evolve - and we should very much deplore that - then it is hard to see how the City of London could possibly be in the lower "tier". Investors from third countries - as well as elsewhere in the Community - will continue to wish to place their funds in Europe's largest financial market, as they do now.

8. It has been suggested that the EMS depends on some exchange controls to maintain stable exchange rates. The removal of this stabilising influence might force change in the EMS; either towards a weaker "crawling peg" system or towards closed co-operation (either monetary union, or automatic transfers between central banks on a scale large enough to smother the effect of speculation). Is this likely, and what would be the consequences for United Kingdom policy towards the EMS in such circumstances?

The scale and mobility of capital transactions within the Community has grown enormously over recent years and a considerable degree of relaxation in exchange controls has already taken place. Yet the ERM has coped with both developments. Monetary co-operation in such areas as the setting of interest rates and even, on occasion, the adjustment of fiscal policy has eased exchange rate tensions in the past and I am sure that will continue in future. But to the extent that growing integration has revealed shortcomings in the mechanism itself, the participants have shown themselves ready to strengthen it, as in the Basle/Nyborg agreement last year. There is no reason to think that they would not be prepared to modify the mechanism further, if necessary without changing its nature fundamentally. It is worth recalling that the mechanism did, despite the views of sceptics, survive the early 1980s when there were wide differences in Member States' inflation rates and that it has remained surprisingly stable more recently, despite wide dollar/deutschemark fluctuations.

Meanwhile, the UK's policy remains as it has always been - we shall join the mechanism when we consider the time is right.

9. Has there been pressure for currencies of Member States outside the ERM of the EMS to be removed from participation in the ECU?

There has been no pressure. If anything, the reverse is true, for it seems quite possible that the Spanish and Portuguese currencies will be included in the ecu before they join the ERM.

The European Council Resolution of 5 December 1978 on the establishment of the EMS sets out the procedures for revision of the ecu basket in Article 2.3:

"The weights of currencies in the ECU will be re-examined and if necessary revised within six months of the entry into force of the system and thereafter every five years or, on request, if the weight of any currency has changed by 25 per cent.

Revisions have to be mutually accepted; they will, by themselves, not modify the external value of the ECU. They will be made in line with underlying economic criteria."

The ecu's weights were revised in September 1984 and therefore come up for review again in September 1989 but, as yet, there have been no discussions within the Community on any changes which might, or might not, be made then.

10. Do you expect the denomination of Treasury Bills in ECU to have a major impact on the development of the ECU? Do you expect other Member States to follow suit?

One of our objectives in announcing our own Treasury Bill programme was a concern to see the market in short-term ecu paper developed. Ecu bonds have been with us for some years but the short-term markets in ECU securities are still in their early stages. Until our own programme got under way, the only short-term ecu assets available to euromarket investors were a limited volume of bank deposits, certificates of deposits and some ecu-denominated euro-commercial paper notes issued under multi-currency facilities.

Our issue of Ecu Treasury Bills will broaden the range of short-term assets in ecu. Investors will in future have a wide choice of liquid ecu assets, while this first step towards the creation of an ecu money market will also increase flexibility for borrowers.

We very much hope that other Member States will follow our example. (The Italians have already issued their own ecu Treasury Bills but their one year maturity and the fact that they are subject to a withholding tax has made them unattractive to foreigners.) We believe that there is now considerable investor interest in high quality short-term ecu paper. The fact that a wide range of Community countries is represented in the group of international banks and securities houses which has undertaken to act as market-makers in our own Bills, should also encourage other members of the Community to make similar issues, thereby enhancing market liquidity still further.

11. What do you expect the group set up at the Hanover Summit to consider monetary union to conclude?

It is far too early to tell. The Group have only just held their second meeting. But the chairman of the Group, M Delors, has already made it clear publicly that the difficulty of the subject has generally been underestimated and that there is a great deal of thinking to be done.

It is no secret that the UK Government believes we should be focusing on the practical steps we can take in the near future in the direction of economic and monetary union rather than on some visionary ideal which may or may not be at the end of the road. This is why we are pressing those Member States who have not yet done so to meet their commitments under the capital liberalisation Directive and why we are advocating the development of the role of the private ecu. Indeed, we are showing the way - by our own abolition of exchange controls as far back as 1979, by the fact that we ourselves hold ecu in our official reserves and most recently by the launch of our own Ecu Treasury Bill programme. I am encouraged that the study group set up at Hanover largely consists of practitioners - central bank governors - who will see the importance of concentrating on what we can achieve in practical terms.



12. Is monetary union essential to secure the benefits of the internal market in general, and the European financial area in particular?

No. Monetary union ~~is irrevocably fixed exchange rates and the centralisation of decision-making on monetary policy - is not~~ required for the completion of the internal market, *and no-one has suggested that it is.*

There is certainly no suggestion, for example, in Lord Cockfield's 1985 internal white paper - setting out the Commission's philosophy and programme on the internal market - that monetary union needs to be introduced before the benefits of the internal market can be achieved. (Though it does argue that "monetary stability" - ie reasonably stable exchange rates and low inflation - is required for the proper operation and development of the internal market.)

Nor is there any suggestion in the Cecchini Report, which examines the economic benefits likely to result from the internal market, that the benefits depend on monetary union.

However, with the completion of the European financial area - including the complete liberalisation of capital movements, and freer competition between banks and other financial institutions - capital will move more easily, and probably on a greater scale, from currency to currency. Member States may wish to engage in even closer monetary co-operation as a result and may in due course decide to modify the exchange rate mechanism of the EMS as they did in the Basle/Nyborg agreement last year. But this would fall well short of ~~introducing~~ monetary union.



FROM: Assistant Parliamentary Clerk  
DATE: 14 October 1988

01-270 5007

PS/CHANCELLOR

*Tony D per minute*  
*[Signature]*

cc PS/Chief Secretary  
PS/Financial Secretary  
PS/Paymaster General  
PS/Economic Secretary  
Mrs Brown  
Mr O' Donnell  
Miss O' Mara  
Mr Pickford  
Mr Williams  
Mr Dyer

**FORTHCOMING TREASURY BUSINESS IN THE HOUSE OF LORDS**

You may wish to be aware that the current forthcoming Treasury business in the Lords is as follows:

**ORAL QUESTIONS**

Monday 17 October Lord Molloy-To ask Her Majesty's Government whether they are aware of the increased financial burden placed on home buyers when interests rates rise and whether they can indicate when a reduction will take place.

Government Spokesman: Lord Young. MG 1 in the lead.

Monday 24 October Viscount Hanworth -To ask Her Majesty's Government to what extent they think that the extra money available to consumers from recent tax cuts has been spent on buying British manufactured goods as opposed to foreign imports.

Government spokesman: Lord Brabazon. EA 2 in the lead.

BUSINESS OF INTEREST TO HM TREASURY

ORAL QUESTIONS

Wednesday 19 October Lord Ezra -To ask Her Majesty's Government how they propose to accommodate the costs of nuclear power within their plans for privatising the Electricity Industry.

Government Spokesman: Lord Dundee. Dept. of Energy in the lead.

Monday 24 October Lord Belhaven and Stenton -To ask Her Majesty's Government why they ordered Kuwait to substantially reduce its shareholding in BP within a set time limit of one year, and what effect they expect their decision will have on British people who invested in BP when it was privatised last year and on British relations with friendly Arab countries in the Middle East.

Government Spokesman: Lord Young. D.T.I. in the lead.

UNSTARRED QUESTION

Tuesday 8 November Lord Ezra -To ask Her Majesty's Government whether it is their intention to introduce a measure of competition in the water industry on privatisation.

Government Spokesman: Lord Arran. D.O.E. in the lead.

*Mari Rogerson*

Mari Rogerson



FROM: A A DIGHT

DATE: 17 October 1988

MISS M ROGERSON

FORTHCOMING TREASURY BUSINESS IN THE HOUSE OF LORDS

The Chancellor has seen and was grateful for your minute of 14 October.

A handwritten signature in cursive script that reads "A A Dight".

A A DIGHT



FROM: A C S ALLAN  
DATE: 17 October 1988

PS/ECONOMIC SECRETARY

cc Sir G Littler  
Mr Lankester  
Mr Scholar  
Mrs Lomax  
Mr Ilett  
Mr Mortimer  
Miss Noble *Miss O'Mara*  
Miss J C Simpson  
Mr M L Williams  
  
Miss Wheldon - Tsy Sol.  
Mr O'Connor - IR  
Mr Bostock (UKREP)

EUROPEAN FINANCIAL AREA: APPEARANCE BEFORE LORDS SELECT COMMITTEE

The Chancellor had the following comments on the revised draft replies attached to Miss O'Mara's minute of 13 October.

- (i) delete the final sentence of the first paragraph of the answer to Question 1: "It would therefore be wrong to exaggerate the Directive's impact";
- (ii) in the answer to Question 2, make the point that capital controls vis a vis third countries will be completely ineffective when there is free movement of capital within Europe and when the UK, Germany etc. have no third country controls;
- (iii) amend the last sentence of the first paragraph of the answer to Question 3 to read "So in practice I doubt whether they will seek to invoke the clause at all frequently" (instead of "very frequently". And amend the first sentence of the third paragraph to read "Second, the decision cannot be taken by the individual Member State alone" (instead of "is not to be taken");



- (iv) in the answer to Question 4, add the point that the (harmonised) standard should be a world standard: we cannot look at Europe in isolation;
- (v) in the answer to Question 5, do not volunteer that present indications are that the Commission is likely to propose some sort of minimum withholding tax etc. (so omit all but the first sentence of the first paragraph; the whole of the second paragraph; and the whole of the final paragraph - ie all of page 7). But the Economic Secretary will need to make sure he is briefed on some of the dangers, particularly the problem of driving investment outside the EC, and the banking secrecy/tax confidentiality point;
- (vi) in the answer to Question 6, delete the fourth sentence of the first paragraph (which says that the removal of exchange controls elsewhere in the Community is more likely to lead to net inflows into the UK). The second paragraph, on the current account, needs to be updated to take account of the Chancellor's Berlin speech and the point he made in the Waldon interview about currency flows occurring whether there is a deficit or not;
- (vii) in the answer to Question 7, delete the whole of the first paragraph, about economic and monetary union. It is much better to refer to monetary co-operation, as the question does, rather than to EMU. The Economic Secretary might also want to make the Poehl point (if he is pressed on this subject) that a common currency and all that is not required for the completion of the single market; and that:
- (a) it is being studied by the Delors' Committee;



- (b) it is by no means clear that all other countries want it, either; and
- (c) it is a very long way off, if we can ever get there at all;
- (viii) in the answer to Question 8, the main point to be made here is that contained in the first paragraph of the answer to Question 1: viz that most EC countries have already abolished all or most of their exchange controls. He also thought that the last sentence of the first paragraph should read "[The ERM] has remained stable more recently" - rather than "... has remained surprisingly stable";
- (ix) in the answer to Question 9, amend the first sentence to read "There has been no such pressure";
- (x) in the answer to Question 12, amend the first paragraph to read "No. Monetary union is clearly not required for the completion of the internal market, and no one has suggested that it is". And amend the final sentence of the answer to read "But this would fall well short of monetary union" (ie omit "introducing").
3. The Chancellor has not seen Mr Mortimer's note on the nature of our commitment to EMU, but he commented that we should not commit ourselves to any precise definition of EMU - not even the Werner definition.

A handwritten signature in black ink that reads "A C S Allan".

A C S ALLAN

*my*

FROM: MISS M O'MARA  
DATE: 17 October 1988

ECONOMIC SECRETARY

cc: PS/Chancellor  
Sir G Littler  
Mr Lankester  
Mr Grice  
Mr Ilett  
Mr Mortimer  
Miss Noble  
Mr C B Evans  
Mr Kroll  
Miss Simpson  
Mr N P Williams  
Mr O'Connor - IR  
Miss Wheldon - TSD  
Mr Bostock - UKREP  
Mr Lindley - BoE

**EUROPEAN FINANCIAL AREA: APPEARANCE BEFORE LORDS SELECT COMMITTEE**

I attach a set of answers revised in the light of the Chancellor's comments.

2. Taxation of savings

On tax, the Chancellor suggested you should be armed with briefing on a number of defensive points. If the Committee raises the possibility of:

- a. imposing a withholding tax on investment income and/or
- b. extending arrangements for fiscal authorities to obtain information about deposits by their residents in other Member States

you might say that if any proposals are made on these lines, we should need to pay particular attention to:

- i. whether they would increase the cost of borrowing in the EC and drive investment to other countries where interest is paid gross to non-residents
- ii. whether they would therefore adversely affect London as a financial centre



iii. whether they would impose severe burdens on banks and the tax authorities to administer and how they would affect bank secrecy and tax confidentiality in the various Member States.

3. You asked us a number of further points at your briefing meeting on Friday. Mr Kroll is covering the points which arose on the Second Banking Co-ordination Directive separately.

4. Removal of sterling from ecu basket

You referred to M Beregovoy's remark that the UK had a choice between participating in the ERM or removing sterling from the ecu basket. You asked whether we could in fact remove ourselves unilaterally, as opposed to being forced by other Member States to withdraw.

5. The short answer is, of course, that we have no intention of withdrawing - and no one else is pressing us to do so either. Sterling has a weight of over 13 per cent in the current basket (see updated note on composition below) and it is in no one's interest to propose a change which would have far-reaching market implications. In fact, Article 2 of the Council Regulation of 18 December 1978 on changing the value of the unit of account used by the EMCF states:

"The Council, acting unanimously on a proposal from the Commission after consulting the Monetary Committee and the Board of Governors of the Fund, shall determine the conditions under which the composition of the ECU may be changed". (My underlining).

This Regulation has never been superseded.

6. The treatment of sterling's central rate vis a vis the ecu on a realignment

In recent realignments, sterling's notional central rate against the ecu has been set at the current market rate.

7. Definitions of the ecu market

You enquired about the different definitions of the ecu market given in paragraph 2 of our paper on the role of the private ecu. The ecu ranks fifth in the foreign currency sector of the international banking market (ie foreign currency lending to residents and non-residents but excluding cross-border domestic currency lending to non-residents) and sixth in foreign currency lending to residents and non-residents plus cross-border domestic currency lending.

8. Links between the official and private ecu

Mr Grice is sending you a separate note on this today.

9. The status of the EMCF

You asked whether any obligations could be imposed on us as members of the EMCF, other than by mutual agreement. Article 2 of the Fund's statutes states:

"The Board of Governors shall, in order to achieve the aims of the Fund, act in accordance with the general economic policy guidelines drawn up under the Treaty by the Council and in accordance with such directives as the Council may adopt acting unanimously on a proposal from the Commission."

So any fresh obligations would be subject to Ministerial direction and would require unanimity.

10. Moreover, any decisions taken by the EMCF Board itself must also be unanimous (Article 2 of the Board's rules of procedure).

11. Abolition of Italian controls

You asked whether the latest changes were ones of presentation rather than substance. On 1 October the Italians introduced a new foreign exchange law permitting residents to engage in all operations which were not specifically forbidden rather than excluding them from all operations other than those which were specifically authorised. Although this may appear to be a change of form, it was associated with other changes which eg remove the

need for Italian residents to seek authorisation for the purchase of certain securities (although they still need to notify them) and which permit investment abroad in a wider range of short-term foreign currency instruments. These latest developments are simply a further stage in a gradual process of liberalisation which has been taking place over many months.

12. German and Dutch experience on capital liberalisation

You enquired whether we could substantiate our claim that the German and Dutch experience suggested that removal of the "mousetrap" effect could be significant.

13. The Germans abolished outward exchange controls in 1956 and all their remaining inward controls in 1981. The Dutch had removed all theirs by October 1986. It is impossible to produce figures to demonstrate the effect of "mousetrap" removal in Germany and the Netherlands, as indeed we cannot for the UK. But the Germans and Dutch certainly believe, as we do, that removal of exchange controls was far from harmful - even positively beneficial - and have supported us when we have advanced this argument.

14. Do capital controls simply postpone the evil day?

You suggested that capital controls merely postponed the problem of adjustment, leading to large and more awkward realignments in the end. This may be true in some cases but their advocates would argue that they can smooth adjustments too, gaining a breathing space for the countries which impose them. The final adjustment could be sharper but some might actually welcome that, since it could give them greater control over timing. Everything centres on whether the problem is a temporary one or more deep-rooted, so you will want to deploy this argument with care, if you use it at all.

15. Prime Minister on capital liberalisation undermining the ERM

We drew your attention to the Prime Minister's comments to the

House on 30 June. There is a hint of the same argument in the passage below, taken from her interview on Spanish TV on 15 September and a press conference in Madrid on 23 September although these need to be read in conjunction with the earlier remarks.

16. Academic literature

I attach the book on international monetary relations by Yeager to which you referred. On the optimum size of single currency areas, you may like to glance at the attached paper by Padoa-Schioppa, drawn from a newly published book on the EMS. The main point to remember here is that much depends on the nature of the markets and how integrated they are. This is why some argue that the greater integration to be achieved in the EC by 1992 paves the way for a single European currency area but, as you know, we ourselves reject any explicit link.

17. "Erga omnes"

Lewis and Short confirm my translation of "erga" as "towards"!

MISS M O'MARA

1. Should the Commission have made more of an attempt to quantify the effect of the liberalisation of capital movements?

No. First, we must not forget that the Community already enjoys a substantial degree of freedom in capital flows. The UK, Germany, the Netherlands - and now Denmark - have already abolished all exchange controls. Although France relied on an extensive system of controls until 1986, the most significant controls in terms of volumes of financial transactions have been removed in the past two years and there are no restrictions at all on portfolio inflows and outflows. Italy has also gradually been removing its exchange controls over the past couple of years and at the beginning of this month, virtually all remaining Italian controls were abolished. Indeed, only Spain, Portugal, Greece and Ireland still have extensive exchange controls in place.

It would in any case have been difficult for the Commission to predict what the net effect of full-scale liberalisation would be. The abolition of controls could lead to large flows out of those currencies which had earlier enjoyed their protection. But equally, complete deregulation may also generate gross capital inflows as overseas investors no longer fear that once they have placed funds in a country, they could remain trapped there by exchange controls. Our own experience, together with that of the Germans and Dutch, suggests that the removal of this "mousetrap" effect could be significant.

Lastly, the Directive, quite deliberately, sets no single date on which all Member States must lift their remaining controls; it merely lays down an end date by which liberalisation has to be accomplished. Thus, although full liberalisation is not required under the Directive until 1 July 1990, or later in some cases, the Danes, for example, abolished all their remaining controls on 1 October this year. This staggered timetable would further complicate any attempt at quantification.

2. Are you concerned that demands for reciprocity and banking services are inconsistent with the agreement to liberalise the capital movements "erga omnes"?

The Commission's reciprocity proposals in the draft Second Banking Co-ordination Directive appear to impose a collective EC-wide procedure, applicable to each and every application from a third country institution and carry the risk that, as barriers within the Community are removed, new ones are built up around it. The UK has made it clear that it considers the Commission's proposal undesirable in principle and unworkable in practice and that it will continue to argue against them in Brussels.

By contrast, we wholly endorsed the "erga omnes" provision in Article 7 of the capital liberalisation Directive which states that as far as movements of capital to or from third countries are concerned, Member States "shall endeavour to attain the same degree of liberalisation" as that which applies to their operations with other EC residents. Indeed, this is a principle we have upheld fully in the UK ever since we abolished our own exchange controls in 1979. In practice, once there is free movement of capital within the EC, any remaining capital controls which some Member States may maintain with third countries will prove wholly ineffective: their residents will be able to move funds to those Community countries like the UK and Germany which have no third country controls and thence out of the Community entirely.

3. Are you satisfied that the safeguard clause allowing temporary measures against short-term capital movements on the Member States' own initiative will not be used so frequently that it will jeopardise the "European Financial Area"?

Full freedom of capital movements marks a major step forward for some Member States and it is not surprising that they have pressed for some form of protection, in case they encounter major difficulties. But our experience with the abolition of controls in the UK was quite the opposite; the financial markets regarded it as a sign of our economy's strength, not weakness, and money flowed in, not out, of Britain. I suspect that will be true for other Member States too and that they will find their fears are exaggerated. So in practice I doubt whether they will seek to invoke the clause at all frequently.

However, should they do so, you will see that Article 3 of the Directive has been drafted carefully to avoid any risk that it might undermine the main liberalisation objective. First, protective measures can only be introduced where there is thought to be a major and quite specific problem. The Article speaks of short-term capital movements of "exceptional magnitude" imposing "severe strains" on foreign exchange markets leading to "serious disturbances" in the conduct of a country's monetary and exchange rate policies, reflected, in particular, in substantial variations in domestic liquidity.

Second, the decision cannot be taken by the individual Member State alone. It is subject to authorisation by the Commission, after consultation with the Monetary Committee and the Committee of Central Bank Governors. In urgent cases, the Member State can take the initiative. But it has to inform the Commission and other Member States at the latest by the date of the measures' entry into force and the Commission then has to decide, again after consultation with the Monetary Committee and the Committee of Central Bank Governors, whether the measures may continue or whether they should be amended or abolished. On top of this, the decisions taken by the Commission can be revoked or amended by the Council, acting by a qualified majority.

Third, protective measures cannot be introduced for more than six months.

Last of all, there is provision for the Council to examine before the end of 1992, whether the Article remains appropriate in both principle and detail, on the basis of a report from the Commission, following an opinion by the Monetary Committee and the Committee of Central Bank Governors. At the same time, Article 8 of the Directive stipulates that at least once a year, the Monetary Committee is to examine the situation on the free movement of capital resulting from the Directive and report to the Commission on the outcome.

I think all this indicates how seriously the commitment to full liberalisation is taken and how concerned the Community is that the safeguard clause should not undermine it.

[NB If raised: Articles 73, 108 and 109 of the Treaty of Rome already provide for Member States to take protective measures in the capital movements field in certain circumstances, so this is nothing new.]



4. Will some harmonisation of supervisory and prudential rules to protect investors and savers be required?

Some minimum harmonisation of supervisory standards throughout the Community is necessary to underpin the liberalisation of European financial markets. Work is already taking place in Brussels on proposals which will provide for this. A wide range of initiatives in the financial services area have already been adopted or are under discussion. For example, the Second Banking Co-ordination Directive, now under discussion, will establish common minimum standards for the authorisation of banks and building societies by regulators. The proposed Investment Services Directive would allow an investment firm authorised in one state to provide services in any other Member State on the basis of its home country authorisation. Other measures which have been adopted include the UCITS Directive, which will allow firms dealing in unit trusts to operate throughout the Community, and the Non-Life Insurance Services Directive which allows insurers to cover most non-life risks through the provision of cross-frontier services. The key principle is that these financial services are all provided on the basis of home country authorisation.

However, it is important that harmonisation should not prevent Member States from imposing additional standards to protect depositors and ensure the soundness of authorised institutions. The UK will seek to maintain its flexible approach, whilst supporting the creation of minimum harmonised standards.

Nor should we look at Europe in isolation. Financial services is a global activity, and it is important that harmonisation in Europe should achieve consistency with international supervisory standards; for example, in the field of banking, the Government attaches priority to ensuring that proposals are in line with international convergence of capital adequacy requirements drawn up under the auspices of the Bank for International Settlements in July.

5. Can you suggest the most likely content of the Commission's future proposals to eliminate or reduce the risk of tax distortion, evasion and fraud? What areas are likely to be covered (eg company taxation, taxation on capital income, collaboration between tax administrations)?

We shall study carefully any proposals which the Commission make but, until they do, it is difficult to offer a view. Article 6 of the capital liberalisation Directive does not, in itself, commit Member States to action. It provides simply for the Commission to submit proposals by 31 December of this year and for the Council to "take a position" on them by 30 June 1989. Moreover, any tax provisions must be adopted unanimously. But whatever happens on this issue, other countries are fully committed to complete liberalisation of capital movements within the Community.

6. The liberalisation of capital movements will produce not only great opportunities for the United Kingdom financial services industry, but a wider range of competitors. How much of a risk is liberalisation at a time when the balance of payments is dependent on the City?

The UK has lived without exchange controls for nine years now and during that period London has consolidated its role as the financial capital of Europe. We have nothing to lose from full liberalisation. Since the abolition of exchange controls in 1979, there have been no restrictions on capital outflows from the UK. One possible indirect effect is that the prospect of liberalisation will prompt Member States who currently impose restrictions to become more competitive. But UK firms have a long head start in coping with the rigours of open exchanges, and are well placed to respond to competitive pressures. Both the DTI and the Bank have taken steps to ensure that our financial services industry is well aware of the opportunities waiting to be seized. To the extent that, over time, the removal of any inward restrictions make it easier for UK investors to participate in investment opportunities elsewhere in the Community, this is wholly desirable.

Incidentally, a great deal of nonsense is currently being talked about the size of our current account deficit. In so far as the deficit reflects higher imports, stemming from an unsustainable growth in domestic demand, we have already taken action to slow that growth by raising interest rates, although the effect of this will inevitably take some time to come through. As the Chancellor has made clear, the deficit is entirely the result of private individuals and businesses making choices about their own financial affairs. At the moment, private sector investment exceeds private sector saving and as a result the current account is in deficit. But with the worldwide move to deregulation of capital markets over recent years and the massive growth of free and mobile capital, there is now no reason why domestic investment should be limited to what can be financed from domestic savings.

Capital markets are now better able to bring together investment opportunities and savers in different countries and this means that for a time some countries (currently the UK) are going to run a current account deficit. In the time it takes for the gap between our private sector's saving and our private sector's investment to close once more, our dependence on the world's capital markets acts, in the Chancellor's own words, as 'an excellent discipline' in ensuring the pursuit of sound anti-inflationary policies. This Government's firm fiscal and monetary policies meet this requirement and will thereby maintain confidence in the economy, ensuring that any deficit can be readily financed.

7. Might not the apparent reluctance of the United Kingdom to develop European monetary co-operation raise the spectre of a "two-tier" Europe, and persuade third country investors to concentrate in other Member States?

Actions speak louder than words in this area, as in so many others. Unlike the majority of Member States, we have already freed all capital movements and we have taken positive steps towards the development of the role of the ecu by holding ecu in our official reserves and, most recently, by launching our own Ecu Treasury Bill programme. If a "two-tier" financial Europe were to evolve - and we should very much deplore that - then it is hard to see how the City of London could possibly be in the lower "tier". Investors from third countries - as well as elsewhere in the Community - will continue to wish to place their funds in Europe's largest financial market, as they do now.

[If pressed: The completion of the single market by 1992 does not require the introduction of a single or parallel currency, the creation of a European Central Bank etc. These are issues which are currently being studied by the Delors Committee but it is by no means clear that all other Member States favour such developments. They are a very long way off, if we ever adopt them at all.]

8. It has been suggested that the EMS depends on some exchange controls to maintain stable exchange rates. The removal of this stabilising influence might force change in the EMS; either towards a weaker "crawling peg" system or towards closed co-operation (either monetary union, or automatic transfers between central banks on a scale large enough to smother the effect of speculation). Is this likely, and what would be the consequences for United Kingdom policy towards the EMS in such circumstances?

Most EC countries have already abolished all or most of their exchange controls and the scale and mobility of capital transactions within the Community has grown enormously over recent years. The ERM has coped with both developments. Monetary co-operation in such areas as the setting of interest rates and even, on occasion, the adjustment of fiscal policy has eased exchange rate tensions in the past and I am sure that will continue in future.

But to the extent that growing integration has revealed shortcomings in the mechanism itself, the participants have shown themselves ready to strengthen it, as in the Basle/Nyborg agreement last year. There is no reason to think that they would not be prepared to modify the mechanism further, if necessary without changing its nature fundamentally. It is worth recalling that the mechanism did, despite the views of sceptics, survive the early 1980s when there were wide differences in Member States' inflation rates and that it has remained stable more recently, despite wide dollar/deutschemark fluctuations.

Meanwhile, the UK's policy remains as it has always been - we shall join the mechanism when we consider the time is right.

9. Has there been pressure for currencies of Member States outside the ERM of the EMS to be removed from participation in the ECU?

There has been no such pressure. If anything, the reverse is true, for it seems quite possible that the Spanish and Portuguese currencies will be included in the ecu before they join the ERM.

The European Council Resolution of 5 December 1978 on the establishment of the EMS sets out the procedures for revision of the ecu basket in Article 2.3:

"The weights of currencies in the ECU will be re-examined and if necessary revised within six months of the entry into force of the system and thereafter every five years or, on request, if the weight of any currency has changed by 25 per cent.

Revisions have to be mutually accepted; they will, by themselves, not modify the external value of the ECU. They will be made in line with underlying economic criteria."

The ecu's weights were revised in September 1984 and therefore come up for review again in September 1989 but, as yet, there have been no discussions within the Community on any changes which might, or might not, be made then.

10. Do you expect the denomination of Treasury Bills in ECU to have a major impact on the development of the ECU? Do you expect other Member States to follow suit?

One of our objectives in announcing our own Treasury Bill programme was a concern to see the market in short-term ecu paper developed. Ecu bonds have been with us for some years but the short-term markets in ECU securities are still in their early stages. Until our own programme got under way, the only short-term ecu assets available to euromarket investors were a limited volume of bank deposits, certificates of deposits and some ecu-denominated euro-commercial paper notes issued under multi-currency facilities.

Our issue of Ecu Treasury Bills will broaden the range of short-term assets in ecu. Investors will in future have a wide choice of liquid ecu assets, while this first step towards the creation of an ecu money market will also increase flexibility for borrowers.

We very much hope that other Member States will follow our example. (The Italians have already issued their own ecu Treasury Bills but their one year maturity and the fact that they are subject to a withholding tax has made them unattractive to foreigners.) We believe that there is now considerable investor interest in high quality short-term ecu paper. The fact that a wide range of Community countries is represented in the group of international banks and securities houses which has undertaken to act as market-makers in our own Bills, should also encourage other members of the Community to make similar issues, thereby enhancing market liquidity still further.



11. What do you expect the group set up at the Hanover Summit to consider monetary union to conclude?

It is far too early to tell. The Group have only just held their second meeting. But the chairman of the Group, M Delors, has already made it clear publicly that the difficulty of the subject has generally been underestimated and that there is a great deal of thinking to be done.

It is no secret that the UK Government believes we should be focusing on the practical steps we can take in the near future in the direction of economic and monetary union rather than on some visionary ideal which may or may not be at the end of the road. This is why we are pressing those Member States who have not yet done so to meet their commitments under the capital liberalisation Directive and why we are advocating the development of the role of the private ecu. Indeed, we are showing the way - by our own abolition of exchange controls as far back as 1979, by the fact that we ourselves hold ecu in our official reserves and most recently by the launch of our own Ecu Treasury Bill programme. I am encouraged that the study group set up at Hanover largely consists of practitioners - central bank governors - who will see the importance of concentrating on what we can achieve in practical terms.

12. Is monetary union essential to secure the benefits of the internal market in general, and the European financial area in particular?

No. Monetary union is clearly not required for the completion of the internal market and no one has suggested that it is.

There is certainly no suggestion, for example, in Lord Cockfield's 1985 internal white paper - setting out the Commission's philosophy and programme on the internal market - that monetary union needs to be introduced before the benefits of the internal market can be achieved. (Though it does argue that "monetary stability" - ie reasonably stable exchange rates and low inflation - is required for the proper operation and development of the internal market.)

Nor is there any suggestion in the Cecchini Report, which examines the economic benefits likely to result from the internal market, that the benefits depend on monetary union.

However, with the completion of the European financial area - including the complete liberalisation of capital movements, and freer competition between banks and other financial institutions - capital will move more easily, and probably on a greater scale, from currency to currency. Member States may wish to engage in even closer monetary co-operation as a result and may in due course decide to modify the exchange rate mechanism of the EMS as they did in the Basle/Nyborg agreement last year. But this would fall well short of monetary union.

Currencies in the ECU basket

	<u>Amount of each currency in basket</u>	<u>Market value of ECU in terms of national currency*</u>	<u>Current weight % of currency in ECU basket*</u>
Deutschemark	0.719	2.07403	34.7
Sterling	0.0878	0.653698	13.4
French franc	1.31	7.07877	18.5
Italian lira	140.0	1545.27	9.1
Dutch guilder	0.256	2.33801	10.9
Belgian franc	3.71	43.4946	8.5
Luxembourg franc	0.14	43.4946	0.3
Danish krone	0.219	8.00539	2.7
Irish punt	0.00871	0.775877	1.1
Greek drachma	1.15	169.9825	0.7

\* Based on market value at 17 October 1988

PRIME MINISTER (CONT):

Secondly, we are of course both a Reserve currency and we are both a petro-currency. Now the third point which I would like to make is this. We and Germany and Holland and Luxembourg have absolute freedom of capital movements, not only among European countries but between Europe and the outside world and we also have freedom from exchange control.

The rest of the members of the European Exchange Rate Mechanism have not yet got that but most of them are going to try to get it by 1990. Now that I think is the very next practical and important step to take. So that does not depend upon any theory. It is a practical step to take and when we have attained that and when it has been sustained, because it is not easy you know, if you have not got foreign exchange control it is not easy to keep your currency in precise balance with a number of other currencies, and it has not yet been done in the European Exchange Rate Mechanism. So let us see what happens when we take the next step of getting freedom of capital movements which involves freedom from exchange rate control. We already have it.

QUESTION (Spanish):

PRIME MINISTER:

There is no such thing as a government ferry, if private enterprise wishes to do one I wish private enterprise well.

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MINISTER (CONT)

So we have to take far more fluctuations, the possibility of far more fluctuations and we are a kind of petro-currency than anyone else.

When it comes to the future of European currency, the first step is very clear, it is the step which other people have agreed to try to take, that there shall be no constraints on movement of capital among the countries in Europe, in our case no constraints at all, neither in Europe nor outside, that there shall be no foreign exchange control whatsoever.

Let's take that step first. We have already taken it. Germany has already taken it. Holland, which is so much tied to the Deutschmark, has already taken it, but not the other countries. Then let's see how the European Monetary System works when they have done that.

At the moment it works I think partly because there is foreign exchange control in some countries. So let's get that done before we talk about other things and I do sometimes say to people when they really rather complain that we are perhaps not European or not European currency, well look at what we have done, it is far more than most other people who complain about us have done.

We also deal, have dealings in the ecu through London and we also in our Bank Reserves have a variety of currencies. The Bundesbank does not so we are ahead in that, so just take the next steps.

## 12 The European Monetary System: A Long-term View

TOMMASO PADOA-SCHIOPPA

### 1 Introduction

I have been invited to contribute to this conference with a consideration of the long-term prospects of the European Monetary System (EMS). My approach will differ from that of the other studies in this volume: it will take the system as a variable, while they take it as given; it will be non-technical, while they develop their arguments with the help of sophisticated techniques. The reasons why a contribution of this kind was felt necessary are that the system is now sufficiently well established to justify expectations of its having a long life, that the tests it has still to pass may be so demanding as to change its shape, and that the view of a policymaker may be a useful input to an academic debate.

Let me start by explaining the meaning I shall give to three concepts that are central to my argument: 'long term', 'performance', and 'evolution' of the system.

What do we mean by 'long term'? Rinaldo Ossola used to say that the time horizon of a central banker is about three months. Between this extreme and Keynes's definition in terms of a lifetime, a measure of several years can be taken as a fair compromise. However, a definition based exclusively on the time dimension is too restrictive. It is more helpful to base it on the well-known distinction that the German language makes between *Prozesspolitik* and *Ordnungspolitik*: the former operates *within* existing institutions, instruments and markets; the latter acts *on* the existing framework. The 'long term' is the time horizon of *Ordnungspolitik*, which is the amount of calendar time actually lapsing before a change in the existing order becomes necessary and is enacted. I shall argue that the problem of the long-term evolution of the EMS may well require our attention earlier than it is generally believed.

The 'performance' expected from the monetary organisation of a group of economically interdependent and institutionally linked countries, such as the member states of the Community, is to foster trade integration and promote domestic price stability. An arrangement that is optimal for one purpose may not be the best for another. Thus, by stabilising nominal exchange rates, a fixed-rate system would be optimal for the promotion of macroeconomic discipline, but might distort price competitiveness, possibly leading to trade disruptions and imbalances. On the other hand, a crawling peg would ensure the stabilisation of real exchange rates (and thereby preserve the relative competitive position of member countries), but might undermine macroeconomic discipline by producing full accommodation of inflation differentials.

A satisfactory balance between the above two objectives must form the basis of an appropriate monetary system. In this study, a 'satisfactory trade and macroeconomic discipline' will be taken as the desired performance of the EMS for today and tomorrow.<sup>1</sup> This implies that exchange rates are managed in such a way as to avoid over-accommodation of price differentials or unwarranted changes in real exchange rates. Since 1979 the system has been quite successful in promoting such balance compared with what has occurred outside the area.

Finally, the 'evolution' of the EMS I have in mind is one whereby the system will succeed in maintaining or improving its performance as circumstances change. Adaptation of the system should build on what has already been achieved, without giving ground on either the price stability or on other fronts.

I will argue that the programme set for the development of the Community in the areas of trade, financial services and capital mobility is such that it requires the EMS to evolve to a *de jure* or *de facto* monetary union. I am not advocating the creation of a monetary union as an objective *per se*, possibly as a way to strengthen European integration or to fulfil a political commitment that dates back to 1974. Rather, I will base my arguments on the less ambitious aim of maintaining a system that will be able to provide the performance defined above and support the programme of completing the internal market.

The long-term evolution of the EMS can be seen as comprising three phases: the first phase, of consolidation, can be considered concluded; we are now living through the second, in which the 'inconsistent quartet' emerges; and we start to foresee the third, that of monetary union. I will now discuss the main features of these three phases.

The reasoning here pays only limited attention to external factors and relations with the rest of the world. In part this is done for the sake of simplicity, but more it is due to the conviction that the determinants of

the life, development, or failure, of the EMS lie within the system itself and the Community, not outside.

## 2 Phase One: consolidation

The first phase has been one of consolidation, with the objective of protecting the acquired degree of Community trade integration from disruptive fluctuations in real exchange rates and promoting convergence on a low rate of inflation in member countries.

The performance of the system has been quite satisfactory, notwithstanding the second oil shock – an event that would have perhaps discouraged the entire enterprise if it had occurred on the eve instead of the morrow of the Jenkins–Giscard–Schmidt initiative. Average inflation in the EMS countries has fallen from 11 per cent in 1980 to 2 per cent in 1986; the difference between the highest and the lowest inflation rates has narrowed from sixteen to six percentage points. Despite high and rising unemployment (from 6 per cent in 1980 to 10.5 per cent in 1986), trade relationships within the Community have not been infected by the protectionist pressures that have emerged worldwide.

The period of consolidation has also been fruitful in establishing important practices and interpretations, thereby filling in and completing the system's 'written constitution'. Three such features, which we now consider an integral part of the EMS, were not taken for granted from the start and should be mentioned.

The first is the successful blend of rules and discretion by means of which the system functions. The rules apply to the management of exchange rates, which have to be maintained within compulsory margins between realignments. They enhance cooperation in intervention, market confidence and the credibility of the system itself. Discretion governs the timing and the magnitude of realignments. It is necessary both because the events that lead to a realignment are themselves difficult to forecast and because predictable parity changes would generate such speculative pressures that the system would break down.

The second feature is that central rates are the result of a truly collective decision. In this respect, the management of exchange rates has been effectively taken away from national hands and is conducted at the Community level. This is a crucial advance (and one the Bretton Woods system had failed to make), as changes in parities were normally decided unilaterally by the country concerned and simply communicated, for a 'multilateral blessing', to the IMF.

A third important feature is the positive interaction between exchange-rate and other policies (both monetary and real) fostered by the system in

the nine years since 1979. In a way, this has disposed of the debate that flourished between 'economists' and 'monetarists' at the time of the Werner plan.

Acceptance of the principles and objectives of the system has reinforced policy cooperation both *among* member countries and *within* countries, between such policy-making bodies as central banks, fiscal authorities, trade unions and employers' organisations. Italy (July–September 1980), Belgium (February 1982), and France (March 1983) are the most significant examples of the behaviour of one or more macroeconomic agents having conformed to the stability-oriented option embodied in participation in the system.

Undeniably, the system's successful performance in the phase of consolidation owed something to the help of special factors and circumstances. First, the strong dollar attenuated intra-EMS pressures by diverting financial flows away from DM-denominated assets. Further, the gain in competitiveness of European producers *vis-à-vis* important non-EMS competitors partly offset the contractionary effects of disinflationary policies in EMS countries. Overall, the external environment was propitious in the phase of consolidation, notwithstanding the inflationary effects of the rising dollar and their different impact on member countries' economies.

Second, capital controls reduced the exchange-rate pressures associated with the higher inflation rates of France and Italy, whose participation in the system is the main difference between the snake and the EMS.

Finally, recognition of the need to give priority to the reduction of inflation also resulted in relatively easy acceptance of the policy leadership of the Federal Republic of Germany, the member country that is both economically strongest and most attached to monetary stability. The sensitive issues of coordination, leadership, and symmetry were thus not a major problem for several years.

### 3 Phase Two: the inconsistent quartet

The end of Phase One coincides with the disappearance of the favourable factors mentioned above. The reversal in the trend of the dollar was largely exogenous to the EMS and the Community. Improved inflation convergence and the relaxation of exchange controls stemmed, by contrast, from the very success of the system, although they are now posing new problems for its existence. Consolidation has led to lower inflation, and hence has made consensus more difficult to achieve on monetary objectives since national priorities may tilt in favour of growth in some countries and away from it in others. It has also inevitably

restored the implementation of Articles 67–73 of the Treaty of Rome, concerning the full freedom of capital movements, as a credible item of the Community agenda.

The second phase of the EMS is marked by the emergence of a fundamental challenge to the system as capital controls are lifted and all the remaining non-tariff barriers in the trade of goods and services are removed as a consequence of fulfilling the programme set by the Single European Act. Unless new items are added to the agenda, the Community will be seeking to achieve the impossible task of reconciling (1) free trade, (2) full capital mobility, (3) fixed (or at any rate managed) exchange rates and (4) national autonomy in the conduct of monetary policy. These four elements form what I call an 'inconsistent quartet': economic theory and historical experience have repeatedly shown that these four elements cannot coexist, and that at least one has to give way.<sup>2</sup>

In Phase Two, which can be seen as having started in 1986, the full effects of the inconsistency have not yet been felt, because capital mobility is still incomplete. Short-term capital is not yet wholly transferable and the national markets for financial services are not open. However, the main allocative decisions of business and households regarding production, consumption and investment can already range freely across frontiers and no serious obstacles hinder the execution of payments. The difference between Phase Two and Phase Three is the extent to which this inconsistency manifests itself.

The question is whether the EMS mechanisms are adequate to allow the system to survive and to 'perform', as defined above, as effectively as it did in Phase One. Perhaps the challenge in this new phase does not originate so much from the objective of maintaining price stability (since inflation has been substantially lowered), as from the active dismantling of barriers to the exchange of goods and services and the liberalisation of sectors so far heavily protected.

The importance of this question about the adequacy of the EMS mechanisms is enhanced by the recent stipulation (in Basle and Nyborg), of an accord that modifies and improves some of the EMS mechanisms, making it less likely that there will be another round of revision during the present phase. The system may thus have to rely solely on what is already available.

In my opinion, the existing arrangements and mechanisms of the EMS are sufficient to preserve its performance, provided a significant change in attitude takes place in the way the system is managed, and provided participants are constantly aware of the dangers of the system's fragility.

Of course, there will continue to be instances in which pressures on exchange rates are wholly justified by cost and price divergences. As in



the past, a realignment paralleled by other policy measures will be the appropriate response. In contrast with Phase One, however, there will be many other instances in which tensions will be fuelled by capital mobility, with minor 'real' divergences being nothing more than a pretext. The required change in attitude consists in *not* considering pressures in the exchange markets as a sufficient condition for a realignment. The only effective instrument to counter financial disturbances is a defence of the exchange rate through enhanced cooperation among monetary authorities and the willingness to subordinate domestic goals to exchange-rate stability when circumstances so required.

Interventions will be the first line of defence, and they may have to be on an unprecedented scale. Coordinated movements in interest rates, as agreed in Nyborg and tested last November, would provide the second line of defence. The problem is that these two instruments may be insufficient, even if used jointly and aggressively. Firstly, the financial assets that economic agents may ask their central bank to convert into a foreign currency are a large multiple of official reserves, and secondly, the size of the interest-rate changes needed to offset the expected return from a realignment may far exceed the central bank's room for manoeuvre.

In these circumstances, the two lines of defence mentioned above would need to be supplemented by a third. This would consist in a 'recycling mechanism' through which the 'system' would be ready to counteract destabilising capital movements by providing temporary accommodation of the demand for currency diversification, for the time and in the amount necessary to change market expectations. If a substantial proportion of economic agents in the area want to convert financial assets (not necessarily *monetary* assets) from currency *A* to currency *B*, the system should accommodate the change in preferences by withdrawing *A*-assets and issuing *B*-assets. If central banks are successful, this operation will end with a profit for the authorities and a loss for private agents, because *A*-assets are likely to carry a higher nominal yield than *B*-assets.<sup>3</sup>

There is an analogy here with the textbook case of a central bank response to a run on banks: the demand to convert deposits into banknotes should be fully accommodated, without worrying about the monetary statistics, to restore full confidence in the 'parity' between banknotes and deposits. The EMS case differs in that runs and the lender-of-last-resort function take a transnational and intercurrency form.

The technicalities of this mechanism are not too hard to work out in detail. The difficulties are of another kind, and there are several. Firstly,

it may be difficult both to decide what is the cause of the market pressures and to agree that their nature makes defence of the existing parities appropriate. Some lack of convergence in price and cost developments will always exist and increase the attractiveness of the 'easier' option of a realignment, with exchange rates taking the full burden of adjustment. In the circumstances described above, a realignment would not serve the interests of the Community as a whole, nor serve those of individual countries. It could severely damage the export industry of the appreciating country and the pursuit of price stability of the depreciating one.

Secondly, decisions and action have to be taken *jointly*, to a much greater extent than was necessary between realignments during the earlier phase of the system. While joint discretionary action in Phase One was essentially confined to procedures or realignments, it will now be needed during the week rather than at weekends. This will require intense consultation and cooperation among central banks, almost to the point of their acting as the departments of a single monetary authority.

My conclusion with regard to Phase Two is that its objective is the survival of the system, and that it should not last too long.

#### 4 Phase Three: monetary union

Phase Three will be characterised by the full implementation of items 1 and 2 of the inconsistent quartet – i.e., free trade and capital mobility – to the point of eliminating all nationality distinctions within the Community between economic agents, services and products. Note that 'trade' is to be taken as comprising services, and 'capital' as including financial assets of all possible maturities, including cash. The time horizon for reaching this stage and completing the internal market is 1992, the date set by the Single European Act, which has been approved and ratified by member states as an amendment to the Treaty of Rome.

In the monetary and financial area, the implementation of the programme implies the elimination of all the remaining restrictions on the full mobility of capital and the complete freedom for households, firms and financial intermediaries in different member states to demand and supply financial services. The money and credit available to economic agents in the Community will be the overall money and credit supply of the Community as a whole, limited only by their ability to gather information and cover transaction costs.

If nothing is done about items 3 and 4 of the inconsistent quartet, the inconsistency will emerge in full and the process of restoring consistency could develop in an uncontrolled and destructive way. It could take several alternative routes, possibly leading to a breakdown of the

common market as a result of failure to complete the internal market by 1992, a reintroduction of comprehensive capital and exchange controls, or a transition from fixed to floating exchange rates. These would be only the first step towards a '*remise en question*' of the whole '*acquis communautaire*'. The existing degree of trade integration and the painful problem of unemployment in most European countries would, sooner or later, make the unravelling of the existing Community arrangements unavoidable. Breaches of Community law, failures to adopt the national legislation necessary to implement Community directives, congestion in the presentation and examination of cases before the Court of Justice, a weakening of the policing action of the Commission for infringements of the law, growing recourse to safeguard clauses and retaliatory measures against foreign producers, would all be part of this unravelling scenario. The latter would not necessarily be visibly dramatic; it could advance in a creeping way and take the form of an historical decline.

In the long term, the only solution to the inconsistency is to complement the internal market with a monetary union. It would be unrealistic to expect the Community to be able to square a circle that has never been squared – i.e., to let national monetary policies follow their own course and yet expect macroeconomic and trade discipline to survive for the area as a whole.

The monetary union issue has an institutional and a functional aspect. The former concerns the legal provisions, the procedures of approval, etc.; the latter concerns the definition of the monetary regime. The debate on this subject, particularly in official circles, gives the impression that the functional aspects are sufficiently well identified – as regards both the definition and the solution of the problems – while the institutional aspects are the difficult ones. Since in most countries central banks occupy a rather delicate and special position, it is understandable that they should be particularly sensitive to the institutional problem. Moreover, it is in the institutional and legal field that the crucial questions of sovereignty and responsibility emerge in full. It is possible, however, that the alleged difficulties of the legal and institutional aspects of the problem actually conceal problems of political will or a natural reluctance to consider fundamental changes in the seemingly solid ground on which the existing institutions rest. If a satisfactory solution were found to the functional aspects of the problem, the solution of the institutional aspects might not be so difficult, apart from the problem of political will.

My aim here is obviously not to present a comprehensive analysis of the problems of creating a monetary union, nor even to identify all the aspects that would have to be considered. I will confine myself to some

thoughts touching, in turn, on the functional and the institutional aspects.

## 5 Functional aspects of a monetary union

If the monetary union were set up, with one currency being declared *the* currency of the area and one central bank being created to issue and control it, the solution of the functional problems would be straightforward and the process would repeat the historical experience of many nation-states. The difficulty in a top-down approach of this kind would be mainly political, the replacement of national currencies and national central banks being such a momentous move that most of the parties involved would not be willing to consider it except as part of a plan for full political union.

It is questionable, however, whether this move is really necessary. My own opinion is that it takes less than is usually thought to get the substance of a monetary union. In reality, it could be built on what already exists with little need for change in what is presently visible to economic agents. Let me briefly list some of the things that are dispensable.

It would not be necessary for the existing visible symbols of national monetary systems to disappear: currency denominations, banknotes and central banks could well continue to exist in a monetary union. This would not require much more 'tolerance' than was required to let Banco di Napoli and Banco di Sicilia continue to issue their banknotes for more than sixty years after the unification of Italy, or to let the Bank of Scotland issue pounds sterling today.

Fiscal policy does not have to be formally unified either. Let me explain why. In every political system, the overall budgetary function is shared by central and local governments; this is also true for the Community. The allocative considerations that guide the attribution of different tax and expenditure functions to different levels of government do not necessarily coincide with those presiding over the choice of an optimal currency area. Indeed, full coincidence of the geographical jurisdiction of the bulk of budgetary and monetary powers offers an opportunity, but also entails a danger. The opportunity is to conduct fiscal and monetary policy in a coordinated way. The danger is to use the printing press to finance the deficit. In a political union, the budget would almost by definition reach a size consistent with the scope of playing a macroeconomic role since essential public goods such as defence, internal security and justice would be provided at the level of the union. The opportunity would be created, but also the danger.

The crucial question about fiscal policy, however, is whether there will be a serious risk of the monetary union being undermined by independent and possibly uncoordinated budgetary policies conducted by member countries. In other words: should item 4 of the inconsistent quartet include monetary policy only, or should it include fiscal policy as well?

In a monetary union with a fully integrated internal market but decentralised fiscal authorities, national governments would be subject to disciplinary factors that are now lacking in the Community. The first would be provided by the need to make recourse for their financing requirement to a large (and for them uncontrollable) capital market encompassing the whole area. In borrowing on that market, member countries would be seen solely with 'market-minded' eyes, not as the source of regulation and protection. They would be treated according to their creditworthiness, although the debt problem experienced in recent years shows how difficult the assessment is for sovereign borrowers. The second disciplinary factor would be the impossibility of monetising the debt, since the printing press would be at the level of the union.

Historically, the combination of these two factors has been considered, and proved, to be sufficient to promote fiscal discipline and coordination. With the exception of Australia, there is no constitutional system – not even among countries with a high degree of decentralisation and federalism – in which local government budgets are subject to the authority and control of the union.

In Europe, it can be argued that the size of member states relative to the size of the union – both in general economic terms and in terms of their respective budgets – makes it questionable whether a more binding process of fiscal policy coordination would be necessary to make the monetary union work. Of course, national fiscal policies will have to be consistent with participation in the union. They will have to react to real disturbances that cause a change in equilibrium exchange rates and avoid determining such changes. The elements of discipline outlined above should, in general, put sufficient pressure on member countries to bring about such consistency, although the presence of these elements does not rule out fiscal irresponsibility on the part of one member country with regard to the burden of taxation and the use of fiscal deficits for stabilisation purposes. Nor should it be forgotten how technically and politically difficult it would be to limit fiscal sovereignty for the purpose of stabilisation, since budgetary power is tied to the exercise of an allocative function and firmly placed in the hands of elected national parliaments. Formal coordination would certainly be desirable, but I do not think it should be regarded as a prerequisite for establishing the union.

Finally, turning to exchange rates, I wonder if their definitive and irrevocable fixity should be considered an indispensable aspect of the monetary union from the start. I would suggest that it should not, although I am aware that this runs counter to well-established convictions. Provided they remained under the firm control of the federal monetary authority and were decided only in special circumstances, parity changes could be the best policy instrument for coping with unusual developments in one country (the mind turns naturally to exceptional developments in the labour market or in the social field).

The notion of a currency area is economic, not geographical. The same portion of territory may (and usually does) simultaneously belong to more than one monetary area, depending on the different markets to which the various goods and residing agents belong. A vast territory such as the Community might well include sub-markets where local currencies could continue to be efficiently used.

What *is* then needed for a monetary union to exist? The simple answer is: *one* monetary policy and hence one monetary authority, entrusted with the necessary decisionmaking powers and operational instruments. This means that the supply of money for the whole Community – the one that will be available to every single economic agent in each country when capital markets are fully integrated – should be based upon the same monetary base – i.e., one base money aggregate should be the ultimate source of total money and credit in the whole Community. Again, this may not require the replacement of the national highpowered monies in the two layers of the system of money creation that exist in our countries and are described in textbooks. It may require adding a third layer, a Community monetary base that would play *vis-à-vis* national base monies the role that the latter play *vis-à-vis* bank deposits. This role is made up of customary and regulatory elements, such as the legal tender and lender-of-last-resort functions, wide acceptance of that money as a means of settlement, and the requirement that reserves proportional to the outstanding national base money be held in that instrument. The creation of such a third layer would not be a novelty. Indeed, it used to be occupied by gold; after which it was occupied by the dollar until the terms of the 'Triffin dilemma' came into full effect; contrary to the initial plan, the SDR has failed to occupy it.

It is natural to envisage the ECU as the base money of the Community. Each central bank would be allowed to expand its monetary base proportionally to the highpowered ECUs in its balance sheet, in much the same way as commercial banks can expand deposits only up to a maximum multiple to their holdings of highpowered money. ECU deposits with the European central bank would be the instrument for

final payments among central banks, and perhaps among commercial banks as well.

In the meantime, the ECU we know, the so-called 'private ECU', would continue to function as a parallel currency, with all economic agents in the Community free to use it as they liked. Only a small share of the payments system in the Community economy would be occupied by the official ECU but that share would be a sufficient lever to organise a monetary union.

Of course, the main problem in this respect is that of defining the 'rule' and the techniques governing the creation of total highpowered ECUs. The latter should be central bank operations whereby base money is created against assets acquired by the European central bank. As to the former, rather than a mechanical rule, operational discretion should be allowed under the statutory mandate of promoting exchange-rate and price stability in the Community.

## 6 Institutional aspects of a monetary union

If the foregoing functional problems could be dealt with in a satisfactory way, what are now regarded as the most difficult aspects – namely the institutional ones – would probably prove less intractable than they seem today. I will discuss two: the relationships between political and monetary union, and the legal basis of the monetary union.

Without political union, it is argued, there can be no monetary union. While it would be paradoxical to think of a political union without a monetary union, economic analysis and historical experience support the view that the converse is possible. Neither the gold standard nor the Bretton Woods system, which in a way performed as a monetary union for some decades, were based on a political union. From an economic point of view, the relevant meaning of the term 'political union' is that the 'rule of law' should apply to the whole area, and that certain public goods should be provided at the highest level of government. As to the first proposition, the Treaty of Rome and the body of Community legislation that already exists (or is planned to exist by 1992) provides a unified rule of law for the whole Community in the field of economic activity. As to the second, I have argued above that a wider budgetary policy for the union is desirable but not actually indispensable, and also that it involves some danger for the independence of the monetary authority at the Community level.

I am not suggesting, of course, that the creation of a monetary union is simply a technical decision. It is a political decision of the greatest importance, since it touches fundamental questions of sovereignty and

modifies the economic constitution of member countries. This is why technical institutions and authorities, such as central banks, have neither the right to impose it nor the right to impede it. The contribution they can (and should) be asked to make to the sound development of the monetary order of the Community is to explain and clarify what can (and cannot) be achieved with a given type of technical authority, to help design an appropriate new regime when the decision to implement one has been taken, and to operate the existing regime as well as possible. However, recognising these links between the technical and the political dimension of a monetary union does not mean that the latter is impossible without political union. It means that the new order needs to be created by an act of political will and provide for an appropriate relationship between the technical and political levels of responsibility. This would be very difficult to achieve by a loose group of countries without institutional links. It is possible for a structured constitutional system such as the Community.

The second aspect is the legal basis of monetary union. Without a new treaty, it is said, there can be no monetary union. This proposition is widely accepted and was at the origin of the insertion in the Single European Act of Article 102A which mentions in para. 2 that 'if the further development in the field of economic and monetary policy requires institutional modifications, the dispositions included in article 236 of the Treaty apply'. Again, neither the historian nor the economist would necessarily agree. The former would once again recall that the gold standard was never formally legislated, and could go back to the old eighteenth-century debate about the advantages and disadvantages of having a written constitution. The latter cannot ignore the very strong customary element embedded in every monetary system. Money was not invented by legislators, nor was it the consequence of creating a central bank. It was created by the needs of commerce, and only subsequently was it regulated by law and managed by central banks.

One can imagine a fully customary or a fully formal route to monetary union. The customary route would pass through growing *de facto* acceptance of the ECU as a convenient instrument gradually performing all the functions of money. In this process the ECU would develop an 'independent' exchange and interest rate as an increasing amount of goods and services were priced in it. There is room for ECU pricing both in the wholesale area of large contracts for primary goods and commodities and in the retail area for goods and consumers spread throughout the Community. As the need arose, essential stabilisation functions would be performed by member central banks, either individually or collectively. The EMCF and the BIS already provide a potential framework

to be exploited to this end. They are the place where central bank governors meet at the same interval as the FOMC meetings at the Fed. The BIS is the institution that hosts the ECU clearing system and acts, with full operational capacity, as an agent for central banks. The monetary base function is now performed for the ECU system by member currencies and member central banks, but it could be exerted collectively and be based on the ECU if open-market operations in ECUs were developed further and official ECUs made available for such operations. An operational connection between the clearing and the official ECU would be the natural way to promote such a development.

I have argued elsewhere<sup>4</sup> that *if* the wind of habit blew with sufficient strength, developments along the customary route could go very far indeed without meeting unsurmountable legal or logical obstacles, perhaps to the point of eventually imposing the formalisation of a monetary union. The system would be one of monetary federalism, the ECU would be a widely and increasingly accepted parallel common currency for that layer of Community markets that spreads over the whole area. Consistency with the other currencies and monetary policies would be imposed together by irreversible full mobility of capital and growing cooperation among central banks.

A similar (but not identical) customary route seems to be envisaged by the Bundesbank when it outlines a situation in which many Community currencies would, after achieving the same degree of stability and 'openness', be fully interchangeable and provide equally attractive alternatives to the dollar.

The formal route, in turn, would involve a new treaty creating a European monetary authority and defining its status and functions, with a procedure similar to that establishing the Federal Reserve System and the International Monetary Fund. The new institution would replace or federate the existing central banks, and a common currency would replace or parallel the existing currencies. Decentralised solutions of monetary federalism, such as those outlined above, could be adopted as an alternative to the more traditional centralised ones, the functional and the institutional choices being to a large extent independent.

The two routes correspond to two extremes, both of which are possible but unlikely. I regard it to be both more realistic and more desirable to envisage a sequence of events in which the customary and the legal elements are dynamically intertwined. Of the two components of any modern monetary system, one, the currency, will be pushed primarily by the customary factor, while the second, the central bank, will require more legal and institutional initiatives to provide the necessary independence and operational capacity. Market forces and the political will

would thus interact with each performing in its own field. Monetary authorities would remain as a technical entity placed in between, operating on markets for policy purposes.

## 7 Conclusions

The European Monetary System that we have known since 1979 is based on two obligations subscribed to by each participant: to maintain the market exchange rate within given margins around central rates, and to change the latter only in accord with the other participants. For nine years the two obligations have been fulfilled and the system has made a substantial contribution to lowering the average inflation rate in the Community and narrowing the earlier large inflation differentials, as well as preserving open trade in a period of rapidly rising unemployment in Europe and growing protectionism in the world at large.

Partly as a result of this success, the Community has set itself new and ambitious objectives to be achieved by the year 1992. These include the complete dismantlement of all physical and regulatory barriers to the free circulation of goods and services, and the complete liberalisation of capital movements, including short-term capital and monetary instruments. In implementing this programme, the problem will emerge of the contradiction between full trade integration, complete mobility of capital, fixity of exchange rates, and as yet unchallenged national autonomy in the conduct of monetary policy. This contradiction is demonstrated by economic analysis and confirmed by historical experience.

I have argued that the only solution to this contradiction that does not entail the undoing of the common market is to move towards a monetary union. Basically, this means adding a third obligation to the two mentioned above: the obligation to link the process of money and credit expansion in each country to that of a single monetary base for the whole Community. A monetary union requires a single policy, but not necessarily a single currency and ever less a unique name. In turn, the oneness of policy requires operational instruments and regulatory powers, entrusted to an institution with full authority and operational independence.

The historical and political importance of creating a monetary union in Europe can hardly be underestimated. It would be a decisive step towards full political union, as the creation of a Community of defence in the early 1950s would have been. As such, it will have to reckon with traditions and attitudes that are deeply rooted in the habits, ideas and sometimes prejudices of economic agents, institutions, analysts and

politicians. That such difficulties and obstacles can be surmounted is far from obvious, and perhaps is not even likely.

The considerations I have developed above are thus by no means meant to minimise the difficulty of moving to a monetary union; they are reflections developed on economic and technical grounds, not the programme of a politician. At this technical and economic level, it can be argued that a monetary union is a necessary complement of a fully integrated market, that there are no insurmountable technical difficulties in setting it up in a way that builds on existing realities, and that an institutionalised budgetary union is not a prerequisite. This in no way lessens the political difficulty, but it may help to have it called by its true name.

#### NOTES

- 1 For a broader definition of the concept of 'performance', see Padoa-Schioppa *et al.* (1987), Chapter 2.
- 2 See also Padoa-Schioppa (1985).
- 3 Attempts to defend the parity with funds raised in the market are likely to fail (except perhaps in the case of a small country) because they would leave unchanged the excess supply of the currency under attack in the Community market as a whole. What is needed is a means of offsetting the pressure of market participants by monetary authorities taking an equal and opposite exchange rate position. With unchanged parities, this will not inflate the aggregate money supply of the EMS, nor will it stimulate demand in the country whose currency is more demanded. The overshooting of monetary targets set for that country is offset by a fall in velocity.
- 4 See Padoa-Schioppa (1988).

#### REFERENCES

- Padoa-Schioppa, T. (1985). 'Squaring the Circle, or the Conundrum of International Monetary Reform'. *Catalyst, a Journal of Policy Debate*, Vol. 1, No. 1 (Spring).
- Padoa-Schioppa, T. (1988). 'The ECO's Coming of Age', in M. Nighoff (ed.), *The Quest for National and Global Economic Stability*, Dordrecht: Kluwer Academic Publishers.
- Padoa-Schioppa, T. *et al.* (1987). *Efficiency, Stability and Equity*, Oxford: Oxford University Press.

mp (weeded)

RBS  
17/10~~MP~~

FROM: D RAYNER

DATE: 17 OCTOBER 1988

1. MR SAUNDERS
2. CHIEF SECRETARY

Has cost  
written

cc Chancellor  
 Sir P Middleton  
 Mr Anson  
 Mr Phillips  
 Miss Peirson  
 Mr Turnbull  
 Mr Revolta  
 Mr Call

### CHILDREN AND FAMILY SERVICES BILL: PUBLIC CHILD LAW PROVISIONS

Mr Mellor's letter of 11 October to the Lord President outlines his proposals on a number of outstanding issues affecting the public child law provisions of this Bill. These relate mainly to emergency protection, child care court proceedings and local authority responsibilities in the child care field. Mr Mellor asks for agreement to his proposals by 19 October. This submission recommends that you write to the Lord President confirming that you have no objection to Mr Mellor's proposals, but reiterating the need for the costs arising from the Bill to be met by savings within the DH programme.

#### Public law provisions

2. Mr Mellor's proposals are outlined briefly in Annex A below. They are designed to achieve a balance between ensuring that there is effective protection for children at risk, while maintaining parents' rights to challenge court orders and to participate in subsequent developments. They have for the most part already been discussed and agreed with interested departments, and we see nothing in particular in them to which you need object. On costs, Mr Mellor says that no final estimate has yet been arrived at, but that he stands by Mr Newton's earlier estimate of around £7-8 million a year (covering local authority expenditure, legal aid and court costs, but not changes to court jurisdiction - eg the proposed establishment of a Family Court), plus one-off start up costs for LA staff training of some £4½ million. In your letter of 5 July to John Moore you said that savings should be found from the centrally financed health programme to meet these costs, and it would be worth making clear in your letter that you will want to return to this in the 1989 Survey.

3. Mr Mellor's letter also seeks agreement to reintroduce in the Bill a number of provisions which John Moore reluctantly withdrew earlier in the year in order to allow the Bill to be accommodated within the legislative programme. These relate to children's homes, regulation of facilities for under-5s, and adoption (see Annex B). Mr Mellor says that these provisions should be neutral in cost terms. On that basis (and provided their reintroduction does not disrupt the legislative programme) there seems no need for you to object.

Private law reform

4. The Lord Chancellor will be writing separately on the provisions in the Bill on private law reform, based on the Law Commission's report of July 1988 on child law, guardianship and custody. Officials are considering the effects of the various proposals in the Bill on court costs and legal aid. HE will be advising separately on this.

Conclusion

5. A draft letter for you to send to the Lord President is attached. HE agree.

  
D RAYNER



### Emergency protection

Proposed introduction of a new medical assessment order as a lesser alternative to Emergency Protection Orders (EPO) rejected; instead, duty imposed on holder of an EPO not to remove a child if, on being seen, this proves unnecessary. Parents allowed to apply for discharge of EPO applied for ex parte after 72 hours, rather than 8 days proposed in Child Care White Paper (January 1987).

### Parental access to children

Presumption of reasonable access for parents (or those acting on child's behalf) to be introduced, which can be overridden only where it would be contrary to child's interests.

### Medical assessment

Courts to be given power to make directions on access and medical examinations while EPO is in operation.

### New power of entry

Local authorities to be made responsible for satisfying themselves of welfare of children living in homes and other institutions for long periods; responsibilities extended to include long-term stay children in private hospitals and nursing homes. Obstruction of authorised entry by LAs to become an offence.

### Care orders made in criminal proceedings

Juvenile courts' powers to make care orders in criminal proceedings to be abolished and replaced by a requirement that offender lives away from home for a specified period.

### Reports to Parliament

Annual statistical report to Parliament to be retained (providing breakdown of data on children in care, placements by type of accommodation, maintenance costs etc). Triennial report on local authority services and voluntary provision for children and quinquennial report on adoption and custodianship to be discontinued.

Children's homes

Provisions on voluntary homes to be brought into line with those for private children's homes, thereby allowing Child Care Act 1980 to be repealed.

Regulation of facilities for under-5s and school age children

Registration arrangements to be made easier for local authorities to operate, and fairer for providers of childminding services. Nurseries and Childminders (Regulation) Act 1948 to be limited to under-5s. Definition in the Act of 'childminding' to be limited, eg to exclude parents, nannies etc.

Adoption

Children Act 1975 to be clarified and amended to enable the Registrar General to assist adopted people seeking information about their origins. New regulation to be introduced governing payment of adoption allowances by local authorities, replacing provision requiring the Secretary of State's approval for each authority.

DRAFT LETTER FROM: CHIEF SECRETARY

TO: LORD PRESIDENT

**CHILDREN AND FAMILY SERVICES BILL: PUBLIC CHILD LAW PROVISIONS**

I have seen a copy of David Mellor's letter to you of 11 October.

2. I note that David's estimate of the costs of the Bill as a whole (excluding changes to court jurisdiction which fall to James Mackay) remains as in Tony Newton's letter of 24 June. I also note his assurances that the measures he proposes to reinstate in the Bill are neutral in cost terms. On that basis, I have no objections to the proposals in his letter, provided of course that the reintroduction of the measures previously surrendered does not adversely affect the legislative timetable.

3. As noted in my letter of 5 July to John Moore, I shall be looking in due course for savings to be found from the health programme to offset the costs of the Bill. I shall wish to return to this in the 1989 Survey.

4. I am copying this letter to David Mellor and to the recipients of his letter to you.

[JM]

RESTRICTED

*AGT*

CHANCELLOR

FROM: A G TYRIE  
DATE: 19 October 1988  
cc: Mr Pickford  
Mr A C S Allan  
Mr Hudson  
Mrs Chaplin  
Mr Call

MEMBERS' BRIEF

I attach a draft Members' Brief which benefits from suggestions from Judith Chaplin, Alex and Andrew.

2. This is the right length for the front page.
3. I think the Economist quotation (attached), which Ian Stewart remembered is good. As you can see, I have slightly doctored it and removed the reference to Keynes! I take it you are content.
4. I would be grateful if Mr Pickford would check it for factual error.

*AGT*

A G TYRIE

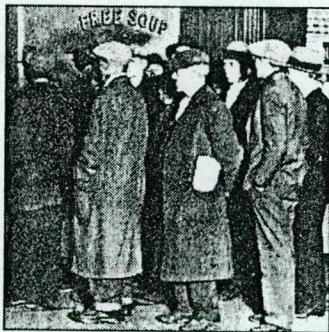
# How to prevent a slump

THE crash of 1987 could lead to the slump of 1988. That much is clear, after a week when markets have tried in vain to recover. Yet it is also clear that an economic slump can be avoided, provided those in charge of the main policy levers do some wise things at the right time. So far they have shown wisdom; now they are beginning to show the first signs of delay. Since their every word, their every silence, can make the difference between safety and disaster, timing is all.

The immediate task is a Keynesian one: to support demand at a time when the stockmarket crash threatens to shrink it. When people feel poorer, they tend to spend less—especially on expensive things they can buy at some other time, such as holidays, cars and houses. Thrift is further encouraged by depleted collateral, making it harder to borrow. What goes for people also goes for firms and their investment plans. For the time being, rising bond prices will soften the blow—even before the crash America's outstanding bonds were worth one-third more than all the shares listed on Wall Street. But the rise in bond prices may prove short-lived, so the threat from these "wealth effects" is of a collapse in business and consumer confidence.

To dispel it, the leading central banks have to assure the financial markets that they will keep them liquid. In current circumstances, that is equivalent to cutting short-term interest rates. The Federal Reserve has done a good job of this. The Bundesbank has not. To underline their joint commitment, they and the Bank of Japan should all announce half-point cuts in their discount rates. They should couple that with a statement that their goal is to keep money GDP growing by around 6% a year, and that any hint of slower growth would be met by looser monetary and/or fiscal policies. A few months from now, when faster monetary growth may be raising fears of faster inflation, that same goal would justify some tightening of policy. Fine tuning is back, but nobody should imagine it will be easy.

The second task of finance ministers and central bankers is to convince the markets that the composition of world demand—as opposed to its level—will change. Otherwise, America's current-account deficit will shrink too slowly and the underlying cause of the recent troubles will reassert itself. President Reagan and Congress can avoid that by agreeing quickly on a plan to reduce America's budget deficit by \$25 billion-50 billion a year over the next three years. In return, Japan and West Germany should promise to loosen their fiscal policies. Arguably, no immediate action is needed in Japan; it eased its policies earlier this year and its economy is



now speeding up while imports obligingly boom. In West Germany Mr Helmut Kohl has no such excuse. His best course is to announce that more of his planned tax cuts will be brought forward to the first half of 1988. Before the crash, the case for this was strong; after the crash, it is overwhelming.

Third, the leading governments will have to modify the Louvre accord on currencies. America may need to use its monetary policy as a weapon against recession, so it can no longer prop up the dollar by raising interest

rates. Faster growth in Japan and West Germany and a smaller American budget deficit should help to stop the dollar going into a free fall, but it is futile to pretend that the currency can be pegged at its pre-crash parities. When, in maintaining that pretence, the big three start squabbling, their accord becomes positively damaging. For credibility's sake, the three governments should announce that they are ready to see the dollar fall, say, another 10%. Better still—hard though this would be for Mr James Baker—refrain from comment and simply let this week's slide continue.

Fourth, Congress must abandon the protectionist trade bill it is pondering. Of all the current dangers, this raises the clearest echo of the Great Depression of the 1930s. The Smoot-Hawley tariffs led to an escalating round of trade-bashing restrictions. Export markets vanished, and once-solid economic growth turned into a fall of 47% in America's money GDP in four years. At a time of great uncertainty, nothing could be avoidably worse than the prospect of a trade war next year.

## Reagan's wraith

If governments do all four of these things, 1988 will be a year of modest growth and low inflation. If they fail, they will provoke either an uncontrolled slide in the dollar or a slump in America that spreads to the rest of the world—for these are the methods of last resort by which the markets will eventually force trade balances back to financeable levels. Worryingly, the policy package would have been tricky to wrap at the best of times. The next few months will be far from best. Governments will have to struggle against the funk that follows a stockmarket panic. And just when American leadership will be essential in achieving the needed policy changes, the authority of the American president is at its most frail.

Even before share prices tumbled, the Democrats had regained control of the Senate, virtually putting an end to Mr Reagan's legislative ambitions, and the Iran-contra affair had brought his standing to a new low. Judge Robert Bork, the

DRAFT MEMBERS' BRIEF

The last twelve months have seen further progress in the revitalisation of the British economy.

2. Britain is now into the eighth successive year of ~~steady~~<sup>sustained</sup> growth. <sup>Over the last year</sup> Unemployment <sup>fell</sup> has ~~fallen~~ by over five hundred thousand. <sup>And in 1987 this year</sup> Net new business starts <sup>last year</sup> ~~have increased by~~<sup>amounted to</sup> nearly <sup>900</sup> 1,000 a week - a record. The Budget in March ended an era of high taxation: it fulfilled the pledge the Conservatives made in 1979 to reduce the basic rate of income tax to 25 pence in the pound and it abolished all top rates above 40%.

3. Exactly a year ago, in the aftermath of the worst stock market crash since 1979, things looked very different. As the Economist warned at the time:

'The crash of 1987 could lead to the slump of 1988 ... the immediate task is ... to support demand at a time when the stock market crash threatens to shrink it' (31 October 1987).

Joint action by the leading industrial nations averted a recession and kept the world economy on course. Indeed, everybody underestimated business confidence and the underlying resilience of the world economy. This was particularly true in the UK, and as the Chancellor said in his Party Conference speech:

'The fears of recession in the aftermath of Black Monday have turned to fears of the economy roaring ahead too fast, with inflation edging up again and a substantial current account deficit'.

Confidence has brought about a massive and welcome investment boom, drawing in investment from abroad [and creating a surplus on the capital account.] It has also made consumers more confident about their future, but as a result they are borrowing more and saving less.

4. So the Government has acted to prevent the economy running ahead of itself. Interest rates have been raised to encourage saving and discourage borrowing. They will be kept at the level necessary to beat inflation and put it firmly back on a downward path [again]. Nonetheless, because, almost uniquely among major industrial nations, Britain includes mortgage costs in its <sup>main</sup> measure of inflation, the short term effect of the rise in interest rates is to push inflation upwards.

5. The Government will stick to the policies which have brought down inflation and restored the health of the British economy. As the Chancellor said in Brighton:

'The battle against inflation is paramount and this Government will always take whatever action is necessary to beat inflation. Let there be no doubt about that whatever'.

### The strength of the economy

6. Britain's economy remains sound and strong. <sup>In the 1980's</sup> We have grown faster than all the other major EC countries.

7. The DTI's June Investment Intentions Survey projects <sup>ed</sup> a 16% rise in manufacturing investment in 1988 and a further increase in 1989. This will safeguard the ability of British industry to compete both at home and abroad.

*Spain*  
*that?*  
8. Exports have been rising steadily. Since 1981 the UK volume share of world trade in manufacturers has <sup>broadly</sup> stabilised, bringing to an end decades of decline. The CBI expects that in 1989 UK export growth will be 7.5%, faster than either the growth of imports or of overall world trade.

9. The Government's finances are also sounder than for a generation. Last year the Government repaid <sup>nearly £4</sup> ~~over £3~~ billion of public sector debt, and a larger amount will be repaid this year, a situation unimaginable ten years ago. Debt repayment will lift the burden from the shoulders of generations to come. And the Government's reserves of foreign currency are standing at record levels.

### The supply side revolution

10. The most important single reason for the transformation in Britain's economic performance in the 1980s has been the improvement in the supply side of the economy. Enterprise and hard work are now properly rewarded. Unnecessary



controls on enterprise have been dismantled. The Government has privatised nearly 40% of the State owned commercial sector inherited in 1979, submitting those industries to the disciplines of the market.

11. The Government has concentrated on providing a sound fiscal, monetary and exchange rate framework. Low inflation and a more stable economic environment in which to plan have enabled the private sector to get on with the job of creating wealth. The results have been spectacular.

12. The most striking measure of this transformation is the UK's productivity record. Since 1980 UK manufacturing productivity has risen faster than in any major nation, including Japan. The average employee in manufacturing now produces almost half as much again as he did in 1979.

13. Another key measure is company profitability. Here the transformation is equally striking. The net real rate of return for non-North Sea industrial and commercial companies is estimated to have risen to over 10% in 1987, the highest level since 1969. The profitability of manufacturing has enjoyed a similar improvement with profitability rising every year since 1981.

14. In sum, there has been a sea change in the wealth creating capacity of the UK economy, a fact acknowledged by the Organisation for Economic Co-operation and Development:

'It is already now clear that the 1980s will stand out as a decade of impressive improvement in economic performance, reversing a long term trend of decline relative to other Member countries" (UK Economic Survey, August 1988).



FROM: B O DYER  
DATE: 19 October 1988

01-270 4520

**CHANCELLOR**

cc Chief Secretary  
Financial Secretary  
Paymaster General  
Economic Secretary  
Mr J Gieve  
Mr P Cropper  
Mrs J Thorpe

**CABINET : THURSDAY 20 OCTOBER 1988**  
**PARLIAMENTARY AFFAIRS**

Following is the business, currently, proposed for the Commons next week:

Monday 24 October

- 2.30pm: Transport Questions
- 3.30pm: **European Communities Finance Bill: Committee Stage - PMG**  
(Subject to progress, the remaining stages may also be taken)

Tuesday 25 October

- 2.30pm: Employment Questions
- 3.15pm: PMs Questions
- 3.30pm: Ten Minute Rule Bill (National Cervical Cancer Foundation - Mr F Cook)
- 3.40pm: **Opposition Day - Labour: probably the Economy**

Wednesday 26 October

- 2.30pm: Trade and Industry Questions
- 3.30pm: Ten Minute Rule Bill (Legal Profession Abolition of Restrictive Practices - Mr Q Davies)
- 3.40pm: **Housing (Scotland) Bill: Consideration of Lords Amendments.**

Thursday 27 October

- 2.30pm: **Treasury Question - C/Ex, CST, FST, PMG**
- 3.15pm: PMs Questions
- 3.30pm: Business Statement
- 3.50pm: [Opposition Day - SLD: subject to be announced]  
*Possibly 'Child Benefit' or 'Barlow Clowes'*

CONFIDENTIAL



Friday 28 October

9.30am: [Debate on a motion for the Adjournment - subject to be decided]

A handwritten signature in black ink, appearing to read "B. O. Dyer".

B O DYER

Parliamentary Clerk

COVERING  
STAFF-IN-CONFERENCE

Prayed a Friday  
(21/10)

FROM: C J A CHIVERS  
DATE: 19 OCTOBER 1988

PS/CHANCELLOR

cc PS/Chief Secretary  
PS/Financial Secretary  
PS/Paymaster General  
Parliamentary Clerk  
Sir Peter Middleton  
Dame Anne Mueller  
Mr Kelly  
Mr A S Jordan  
Mr Cropper  
Mrs Chaplin (o/a)  
Mr Call  
Mr Tyrie

ORAL PQs ON THE CHANCELLOR'S SPECIAL ADVISERS

Mr Calum McDonald has asked the Chancellor, for 27 October,

"how many independent advisers he has who are paid from public funds."

Mr McDonald's question will be reached. Three other MPs have put down the same question.

U 2. The question was apparently triggered by the announcement on 22 July of the appointment of Mrs Chaplin to succeed Mr Cropper (press notice attached). But we have no idea of its motive.

3. The question has been allocated to the Chief Secretary. But if it is to focus on the appointment of Mrs Chaplin the Chancellor may wish to take it himself.

4. I attach the draft reply which I am submitting to the Parliamentary Clerk. Mr Cropper has suggested that Ministers may wish to discuss this question ahead of the others.



KIT CHIVERS

CHIVERS  
→  
PS/CHEX  
19/10

Ch  
On reflection you must  
be right that it <sup>is</sup> about Man-Valtes - inspired.  
That blew up in week ending 22 July  
- Judith's appointment was pure coincidental  
AJF



# H. M. TREASURY

Parliament Street, London SW1P 3AG, Press Office: 01-270 5238

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22 JULY 1988

## CHANCELLOR APPOINTS NEW SPECIAL ADVISER

The Chancellor of the Exchequer, the Rt Hon Nigel Lawson MP, has appointed Mrs Judith Chaplin, currently head of the policy unit of the Institute of Directors, to be his Special Adviser.

Mrs Chaplin, formerly head of the economic section of the Conservative Research Department, is a past chairman of the education committee of the Norfolk County Council. She will take up her new post in October.

Mrs Chaplin will succeed Mr Peter Cropper as Special Adviser to the Chancellor. Mr Cropper was special adviser to Sir Geoffrey Howe at the Treasury from 1979 to 1982. He then served for a period as director of the Conservative Research Department before returning to the Treasury in 1984.

PRESS OFFICE

HM TREASURY

PARLIAMENT STREET

LONDON SW1 3AG

01 270 5238

64/88

THURSDAY 27 OCTOBER 1988

TREASURY

La - Western Isles

\* **MR CALUM McDONALD:** To ask  
Mr Chancellor of the Exchequer, how many independent advisers he  
has who are paid from public funds.

**DRAFT REPLY**

I have one, the Chief Secretary has one and the Financial  
Secretary has one.

ALSO

La - Torfaen

MR PAUL MURPHY

La - East Kilbride

MR ADAM INGRAM

La - Clydesdale

MR JIMMY HOOD

## NOTES FOR SUPPLEMENTARIES

1. What do the Special Advisers do?

Special Advisers assist Ministers with that part of their work which is partly official and partly political. They give us independent advice on policies as they are developing, and on the presentation of Government policy.

2. Do advisers have access to secret, official information?

Special Advisers are Civil Servants and are subject to the Official Secrets Act.

3. Why Mrs Chaplin?

Mrs Chaplin brings to the job a wealth of knowledge and experience. She was formerly head of the economic section of the Conservative Research Department and is a past chairman of the Education Committee of the Norfolk County Council. Recently she was head of the policy unit of the Institute of Directors.

4. How much will she be paid?

Mrs Chaplin is paid at a rate determined in accordance with the normal rules for Special Advisers' pay.

## IF PRESSED:

The rates of pay of individual Special Advisers are confidential because they are individually negotiated in relation to the Special Adviser's previous earnings in outside employment.

The range of salaries then in payment to Special Advisers was set out by my Rt Hon Friend the Prime Minister in answer to a Question from the hon Member for Copeland (Dr John Cunningham) on 29 July (WA Col 628-629).



5. How many Special Advisers are there altogether?

There are currently 29 Special Advisers, nine of whom are attached to the Cabinet Office, which includes the No. 10 Policy Unit. The number has not changed markedly under this Government: there were 25 in February 1979 and 27 two years earlier.

6. The Special Adviser pay spine

Special Advisers are paid on a common pay spine with the exception of two who are unpaid and two others (the two most senior advisers [Professor Griffiths and Sir Percy Cradock at No.10]) who are paid on personal pay points above the spine maximum.

There are 28 points on the pay spine, currently ranging from £13,975 pa to £40,520 pa. I would refer the hon Member to my Rt Hon Friend the Prime Minister's Written Answer 29 July 1988 (Col 628/629) for details. (The spine has since been uprated to take into account the 1988 London Weighting increase).

7. Membership of the Civil Service Pension Scheme

Six Special Advisers are members of the non-contributory PCSPS. They were all given a reserved right to retain membership of the Scheme, having joined before new non-pensionable terms were introduced in July 1987.

8. How many Special Advisers are on secondment?

There are currently four Special Advisers on secondment from the private sector.

IF PRESSED:

They comprise two members of the No.10 Policy Unit and the advisers to the Secretary of State for Trade and Industry and the Minister of State at the Home Office (Mr John Patten).

Questions on them should be addressed to the Ministers concerned.

9. Salaries of Special Advisers on secondment

Their salaries are negotiated with the employer and paid to the firm rather than to the Special Adviser, who continues to receive his or her usual remuneration from the employer.

The salaries are commercially confidential.

10. Possible conflicts of interest?

Special Advisers on secondment are in no different position in this respect from others who are seconded into the Civil Service for a period. They are required to avoid conflicts of interest between their business affairs and their work in a Department. I would refer the hon Member to my rt hon Friend the Prime Minister's Written Answer to the hon Member for Bradford South (Mr Cryer) on 1 March 1988 (OR Col 500).

BACKGROUND NOTE

Mr McDonald's question, which was put down on 27 July, was apparently inspired by the announcement on 22 July of the appointment of Mrs Judith Chaplin to succeed Mr Cropper. Three other Labour Members have asked the Chancellor the same question. The motive is unclear. All four are new MPs who were elected in 1987 and have not tabled a question to a Treasury Minister before.

2. It has been assumed that by 'independent advisers' they mean Special Advisers.

3. There have been six questions for written answer on the subject of Special Advisers in recent months. Three of these were tabled by Mr Bob Cryer, two by Dr John Cunningham and the other by Mr Austin Mitchell. Two of Mr Cryer's questions concerned advisers who are on secondment, and one of these was addressed to the Chancellor of the Exchequer. Dr Cunningham's questions related to the terms and conditions of service and salaries of all Special Advisers. Copies of all these questions and the replies given are attached.

4. New pay arrangements were introduced for Special Advisers last year. Since then, newly-appointed Special Advisers have not been allowed the option of joining the Principal Civil Service Pension Scheme; they make their own pension arrangements and their pay is set at a level which allows for the fact that it is non-pensionable. An exception is made for those who were in the scheme before the change and they receive a lower, pensionable pay rate. The difference between the salaries on the "Gross" and PCSPS pay spines is approximately 16% but we do not disclose that figure because of its sensitivity from the point of view of superannuation policy.

5. It is not our practice to reveal the salaries of individual Advisers as they are individually negotiated in relation to previous outside earnings.

6. Special Advisers receive annual increments (up to the top of the pay spine, £40,520) and are eligible for additional performance-related increments. Under the new scheme introduced last year they may receive up to three additional increments after one year's service and a further two additional increments after four years' unbroken service. All awards are personally controlled by the Paymaster General, and the maximum number of increments is awarded only for exceptional performance.

7. Pensionability apart, Special Advisers generally enjoy the same terms and conditions as other civil servants, except that they have no security of employment and are to some degree exempted from the rules on political activities and the acceptance of outside appointments on leaving the service.

**CONFIDENTIAL : MINISTERS ONLY**

8. ✓ The actual current rates of pay of the Treasury Special Advisers are:

Mrs Chaplin	£40,520
Mr Call	£33,280
Mr Tyrie	£33,280

Mr Cropper's final salary was £42,847. He had retained membership of the Civil Service pension scheme

(Col. 519)

**Mr. Peter Luff**

**Mr. Cryer:** To ask the Chancellor of the Duchy of Lancaster (1) what steps the Secretary of State for Trade and Industry took to satisfy himself before the appointment of Mr. Peter Luff as his special adviser that Mr. Luff had no interests or associations incompatible with his role as a special adviser; and if he will make a statement;

(2) if the Secretary of State for Trade and Industry will dismiss Mr. Peter Luff from his post as special adviser in his Department; and if he will make a statement.

**Mr. Butcher:** The Secretary of State sees no grounds for considering his dismissal. Under the terms of his appointment, he is, amongst other things, required to comply with the general principles of conduct of civil servants, the rules relating to outside activities and the use of official information or experience.

(Col. 500)

**Special Advisers**

**Mr. Cryer:** To ask the Prime Minister what is her policy towards the appointment by a Minister of a special adviser (a) who is employed by a political lobbying firm with interests in that Minister's departmental policies and decisions, (b) whose employers are currently under investigation by that Minister's Department for possible illegal conduct and (c) whose employers are paid advisers to companies whose activities are the subject of investigation by that Minister's Department in relation to possible illegal conduct; and if she will make a statement.

**The Prime Minister:** Special advisers are civil servants, and their terms of appointment are similar to those of other civil servants: apart from certain exceptions which reflect the special nature of their role they are subject to the same rules of conduct (including paragraph 9870 of the Civil Service code which sets out general principles of conduct). They are required to avoid conflicts of interest between their business affairs and their work in a Department. It is for each Minister to ensure that the necessary steps are taken to avoid such conflicts arising.

Written Answers 31 March 1988  
(Col. 601)

**Special Advisers (Payments)**

**Mr. Cryer:** To ask the Chancellor of the Exchequer what rules govern the receipt of payments by special advisers from former employers; and if he will make a statement.

**Mr. Brooke:** All special advisers, including those on secondment from outside employers, are subject to the provisions of the Civil Service Pay and Conditions of Service Code except for the rules governing acceptance of outside appointments after resignation or retirement, and certain aspects of the rules on political activities.

(Col. 870)

Sir Alan Walters

**Mr. Austin Mitchell:** To ask the Prime Minister what discussions she has had with Sir Alan Walters about his possible reappointment as her economic adviser and as to the salary and terms of any such appointment.

**The Prime Minister:** There have been discussions with Sir Alan Walters about his returning as my economic adviser, but the details have not been settled.

Written Answers 27 July 1988

(Col. 253)

**Ministers (Advisers)**

**Dr. Cunningham:** To ask the Prime Minister if she will publish in the *Official Report* the terms and conditions of service attaching to political and special advisers to (a) herself, (b) Secretaries of State and (c) Ministers, with particular reference to political activity outside their paid duties.

**The Prime Minister:** Special advisers are civil servants. They have the same conditions of service, except as regards superannuation and severance, and are subject to the same rules of conduct as other civil servants, with the exception of the rules governing the acceptance of outside appointments after resignation or retirement and certain aspects of the rules on political activities. All the other provisions of the Civil Service pay and conditions of service code therefore apply to them.

There are two areas of political activity where special advisers may be allowed more freedom than other civil servants. With the approval of the Minister they may (a) attend party functions and maintain contact with party members; and (b) take part in policy reviews organised by the party.

In addition, and subject to the approval of the Minister, special advisers are permitted to undertake all forms of local political activity provided they observe the rule of discretion applicable to civil servants. This does not include local activities in support of national politics.

Political advisers are not civil servants and are not paid from public funds. Although the provisions of the Civil Service code are not generally appropriate, political advisers are required to avoid conflict of interest between their work for Ministers and their private and business affairs.

(Col. 628/629)

**Ministers (Advisers)**

**Dr. Cunningham:** To ask the Prime Minister if she will list in the *Official Report* the grades of, and or salaries paid to political and special advisers to (a) herself, (b) Secretaries of State and, (c) Ministers, showing each Department separately.

**The Prime Minister [holding answer 27 July 1988]:** The number of special advisers in each Department is as follows:

	Number
Cabinet Office (including No. 10)	9
Foreign and Commonwealth Office	2
Her Majesty's Treasury	3
Department of Health	2 <sup>1</sup>
Department of Social Security	1
Department of Education and Science	1
Department of Employment	1
Department of Trade and Industry	2
Home Office	2
Ministry of Agriculture, Fisheries and Food	1
Department of Energy	1
Department of Transport	1
Scottish Office	1
Department of the Environment	2
Ministry of Defence	1
Lord President of the Council	1

<sup>1</sup> The allocation of special advisers is still under consideration. None of these posts is graded.

Two special advisers are unpaid and four are on secondment from the private sector. Apart from the three most senior advisers, the remainder are paid on a common pay spine, as follows:

Point No.	Salary	No. of advisers
1	13,715	1
2	14,587	1 <sup>1</sup>
3	15,047	
4	15,591	
5	16,479	11+1
6	17,090	
7	17,686	
8	18,287	
9	18,966	
10	19,859	
11	20,497	
12	21,270	
13	22,117	
14	22,927	1
15	23,736	3
16	24,755	1
17	26,359	1
18	27,702	1
19	29,050	1
20	30,398	1 <sup>1</sup>
21	31,741	3
22	33,021	1
23	34,301	
24	35,952	2
25	37,159	
26	38,366	
27	39,312	1 <sup>1</sup>
28	40,258	1

<sup>1</sup> These four advisers are paid on a pensionable basis, as members of the principal Civil Service pension scheme and their pay is reduced accordingly. The pay of all other special advisers is non-pensionable.

PERSONAL AND CONFIDENTIAL

FROM: A G TYRIE  
DATE: 20 October 1988  
cc: Chief Secretary  
Financial Secretary  
Paymaster General  
Economic Secretary  
Mrs Chaplin  
Mr Call

CHANCELLOR

*Alex  
Waspark.*

ORAL PQ ON SPECIAL ADVISERS

I have just seen Kit Chivers' note of 19 October.

2. I think we are vulnerable on this. We have advisers being paid by companies on whose interests the Government has recently taken tricky decisions:

- George Guise, who works in the Policy Unit is, I think, a fully paid up director of Consolidated Gold Fields.
- Greg Bourne, also at No 10, is paid by BP to work there.

3. There are also the lobbyists. Peter Luff, whose salary at least partly comes from Good Relations, is in the DTI. His job, prior to working for Lord Young, had been, to a substantial extent, to lobby the DTI!

4. It is not enough for these people to be acting with propriety and not receiving papers in areas which concern the hands that feed them. Things have to be seen to be done properly and that's not anything like so easy to show. I think Denis Skinner would have a field day if he knew the facts. As the Commander might have said, it is what comes with trying to pick up advisers on the cheap.

5. A minor point on the Chivers note is that the pay spine outlined in paragraph 6 should be described as exclusive of any pension entitlement.

*Ch*

*AGT.*

A G TYRIE



PRIVY COUNCIL OFFICE  
WHITEHALL, LONDON SW1A 2AT

21 October 1988

CH/EXCHEQUER	
REC.	21 OCT 1988
ACTION	MISS SIMPSON ✓ 21/10
COPIES TO	FST, CST
	MR DYER
	MR PICKFORD

Dear James

QUEEN'S SPEECHES ON THE PROROGATION AND OPENING OF PARLIAMENT

When QL considered the draft Prorogation and Opening Speeches recently they decided that, as is customary, the drafts they had approved should be sent round for any further comments of colleagues before they were formally submitted to the Cabinet. I therefore attach both drafts as approved by QL and would be grateful for any comments that colleagues might have at this late stage, to reach me no later than Tuesday 25 October.

I am sending copies of this letter to the Prime Minister, Cabinet colleagues, Patrick Mayhew, Kenny Cameron, David Waddington, Richard Luce, Bertie Denham and Sir Robin Butler.

JOHN WAKEHAM

The Rt Hon Lord Mackay of Clashfern  
Lord Chancellor



CONFIDENTIAL

OPENING SPEECH

- MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS

1. - I look forward with much pleasure to [receiving the President of the Federal Republic of Nigeria and Mrs Babangida on a State Visit] [and to a visit by Her Majesty Queen Beatrix of the Netherlands as part of the celebrations of the William and Mary Tercentenary].
2. - I also look forward to [visiting Barbados next March to mark the 350th Anniversary of the House of Assembly there and to] being present next autumn on the occasion of the Commonwealth Heads of Government Meeting in Malaysia.
3. - My Government will continue to attach the highest priority to the maintenance of national security and the preservation of peace with freedom and justice. They will maintain strong and effective defences and will stand fully by their obligations to the NATO Alliance.
4. - My Government will strive for balanced and verifiable measures of arms control and for a world-wide ban on chemical weapons. They strongly support the United States' proposals for 50% reductions in American and Soviet strategic nuclear weapons. They will seek balanced reductions in conventional forces.

5. - My Government will continue to strive to break down the barriers between East and West [and to ensure that the Vienna Review Conference on Security and Co-operation in Europe leads to further progress on human rights]. They look forward to building further on the improved relationship with the Soviet Union and to a visit to this country by the Soviet leader, Mr Gorbachev.

6. - My Government look forward to the completion of the Soviet troop withdrawal from Afghanistan and will continue to work for the restoration of that country's independence and non-aligned status. They will continue to play a full part in the work of the United Nations and to work for peaceful solutions to regional conflicts.

7. - My Government will continue to work with our European Community partners to complete the single market, to reinforce budgetary discipline and further to reform the Common Agricultural Policy. They will play a full part in multilateral negotiations designed to liberalise international trade and agriculture.

8. - My Government will maintain a substantial aid programme, designed to alleviate poverty and to promote sustainable economic and social progress in developing countries.

9. - My Government will continue the fight against international terrorism and against trafficking in drugs.

10. - My Government will honour their commitments to the people of the Falkland Islands while continuing to seek more normal relations with Argentina. They will continue to discharge their responsibilities towards Hong Kong and its people and will work closely with the Chinese Government to implement the Sino-British Joint Declaration.

**MEMBERS OF THE HOUSE OF COMMONS**

11. - Estimates for the Public Service will be laid before you.

**MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS**

12. - My Government will continue to pursue firm financial policies designed to bear down on inflation . They will continue to promote enterprise and to foster the conditions necessary for the sustained growth of output and employment.

13. - They will maintain firm control of public expenditure so that, while allowing further improvements in priority services, it continues to fall as a proportion of national income, thus providing scope for further reductions in taxation.

14. - A Bill will be introduced for England and Wales to establish a National Rivers Authority and to provide for the sale of the utility functions of the water authorities.

15. - A Bill will be brought forward to reform the law on local government capital and housing finance and to revise the legislation governing the conduct of local authority business.

16. - Legislation will be introduced to provide for the sale of the electricity supply industry in Great Britain.

17. - A Bill will be introduced to remove unnecessary obstacles to employment, particularly in relation to women and young people, and to alter training arrangements.

18. - My Government will vigorously pursue their policies for reducing crime. A Bill will be introduced to replace the Prevention of Terrorism (Temporary Provisions) Act. Legislation will be brought forward to provide for a national membership scheme to control admission to football matches.

19. A Bill will be introduced to replace section 2 of the Official Secrets Act 1911 with provisions prohibiting only disclosures of information which would be harmful to the public interest.

20. - My Government are committed to strengthening the National Health Service and to ensuring that it is developed and improved in an efficient way that offers choice to patients.

21. - My Government will continue to take action to raise standards throughout education.

22. - A Bill will be introduced to improve and rationalise the law governing the care and protection of children.

23. - For Scotland, legislation will be brought forward to enable parents to choose that their children's schools should be managed outside the control of local authorities. A Bill will be introduced to transfer the Scottish Bus Group to the private sector.

24. - In Northern Ireland, my Government will continue their efforts to eradicate terrorism, to give local representatives more involvement in government and to foster closer co-operation with the Republic of Ireland. A Bill will be laid before you to strengthen the law of Northern Ireland on fair employment. Legislation will be introduced to extend the franchise for local elections and to require from candidates a declaration repudiating terrorist violence.

25. - A Bill will be brought forward to amend the law on social security.

26. Legislation will be introduced to reform company law and the law on mergers.

27. - A Bill will be brought forward to modify the driver licensing system and to provide for new systems for guiding traffic.

28. Other measures will be laid before you.

**MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS**

I pray that the blessing of Almighty God may rest upon your counsels.

CONFIDENTIAL

PROROGATION SPEECH

MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS

1. The Duke of Edinburgh and I were pleased to receive the State Visits of His Majesty King Hassan II of Morocco in July 1987, His Majesty King Olav of Norway in April of this year, His Excellency the President of the Republic of Turkey in July, and the President of the Republic of Senegal and Madame Diouf earlier this month. I was pleased to receive President Reagan of the United States after his visit to Moscow in June.
2. We recall with pleasure our visit to Canada in October last year, where I was also present on the occasion of the Commonwealth Heads of Government Meeting in Vancouver. Earlier this year we visited Australia in her Bicentenary year and the Netherlands to mark the William and Mary Tercentenary. Also to mark the Tercentenary, I received Loyal Addresses from both Houses in July. We remember with much satisfaction our State Visit to Spain in October.
3. My Government have helped to promote better relations between East and West and have played an active part in the Vienna Review Conference on Security and Cooperation in Europe.
4. My Government have continued to enhance Britain's defences and have played a full part in the Atlantic Alliance.
5. My Government have worked vigorously for balanced and verifiable agreements on arms control in respect of nuclear and conventional weapons and for the abolition of chemical weapons. They have supported the Treaty between the United States and the Soviet Union for the elimination of their intermediate and shorter range missiles, as a result of which cruise missiles are being removed from the United Kingdom.

6. My Government have fully supported the United Nations in its recent efforts to negotiate a ceasefire between Iran and Iraq. They have welcomed the start of the Soviet troop withdrawal from Afghanistan and have supported efforts to restore that country's independence and non-aligned status. My Government have encouraged the forces for change in Southern Africa and have urged the countries of that region to settle their problems peacefully.

7. My Government have reached agreement with our European Community partners on the restructuring of the Community's finances and on certain measures of reform of its Common Agricultural Policy. They have continued to play a full and active role in negotiations to achieve the completion of a single market within the European Community by the end of 1992, and have encouraged business to prepare for the opportunities and challenges that this presents.

8. My Government welcomed the agreement reached on their initiative to provide debt relief to some of the poorest countries in Africa. They have continued to provide a substantial aid programme, both directly and through the European Community, including emergency assistance to the victims of natural disasters in Asia, Africa and the Caribbean.

9. My Government have continued their vigorous efforts to combat international terrorism. They have signed agreements with the United States, Canada, Australia and the Bahamas to provide reciprocal assistance in combatting trafficking in drugs.

10. My Government and the Chinese Government have continued to make good progress in implementing the Sino-British Joint Declaration on Hong Kong. My Government have stood by their commitments to the people of the Falkland Islands, while continuing to seek more normal relations with Argentina.



## MEMBERS OF THE HOUSE OF COMMONS

11. I thank you for the provision which you have made for the honour and dignity of the Crown and for the Public Service.

## MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS

12. My Government have continued to pursue sound financial policies designed to keep inflation under control and to sustain economic growth. They have made a public sector debt repayment. The national output has continued to grow, as has the number of people in work. Further steps have been taken to help unemployed people into work through the introduction of the Employment Training programme and the extension of the Youth Training Scheme.

13. As part of my Government's programme to encourage enterprise and improve the performance of the economy, the basic rate of income tax has been further reduced and all but the lowest of the remaining rates have been abolished. Legislation has been enacted to reform and simplify the tax system and to provide for the independent taxation of married couples.

14. In further pursuit of my Government's commitment to encourage greater industrial efficiency and to promote wider share ownership, legislation has been enacted to provide for the sale to the public of shares in British Steel and to enable the water authorities and the electricity supply industry to prepare for privatisation.

15. An Act has been passed for England and Wales to replace domestic rates with the community charge and to introduce uniform non-domestic rates.

16. An Act has been passed to reform the legislation on rented housing and to give local authority tenants new rights to choose their landlord.

17 Legislation has been enacted to promote further competition in the provision of local authority services.

18. An Act has been passed to reform the education system by widening parental choice, by making provision for a national curriculum and by increasing the autonomy of educational institutions.

19. An Act has been passed to provide for greater democracy and accountability within trades unions and to provide further protection against trade union enforcement of closed shops.

20. Legislation has been passed to improve the working of criminal justice; to reform the law of extradition; and to improve the assistance available to victims of crime.

21. An Act has been passed to strengthen the controls over the possession of firearms.

22. Legislation has been enacted to reinforce firm but fair immigration control.

23. An Act has been passed to introduce greater flexibility in licensing hours and to strengthen provisions to curb the misuse of alcohol.

24. Further progress has been made in the consolidation of our statute law. Legislation has been passed to improve the arrangements for legal aid.

25. An Act has been passed to reform the law of copyright and to make improvements in other areas of intellectual property law.

26. A reformed system of social security has been introduced.

27. An Act has been passed further to reform the law on shipping and safety at sea.

28. An Act has been passed to authorise the construction of a railway tunnel under the English Channel to link Britain and France.

29. Legislation has been enacted to authorise a third crossing of the Thames at Dartford.

30. In Northern Ireland, my Government have continued their efforts to combat terrorism. They have developed their constructive relations with the Republic of Ireland through the Anglo-Irish Agreement and have continued to promote the economic revival and political stability of Northern Ireland.

31. For Scotland, measures have been passed to encourage the provision of private rented housing and to create a new housing agency, to improve the management of schools and to reform the law on civil evidence.

32. An Act has been passed to establish a statutory authority for the Norfolk and Suffolk Broads.

33. Legislation has been enacted to encourage the planting of farm woodlands and diversification by farmers.

**MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS**

I pray that the blessing of Almighty God may attend you.



PRIVY COUNCIL OFFICE  
WHITEHALL, LONDON SW1A 2AT

21 October 1988

*Dear James*

**QUEEN'S SPEECHES ON THE PROROGATION AND OPENING OF PARLIAMENT**

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I am sending copies of this letter to the Prime Minister, Cabinet colleagues, Patrick Mayhew, Kenny Cameron, David Waddington, Richard Luce, Bertie Denham and Sir Robin Butler.

A handwritten signature in dark ink, appearing to read 'John Wakeham', with a stylized flourish below it.

**JOHN WAKEHAM**

The Rt Hon Lord Mackay of Clashfern  
Lord Chancellor

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## MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS

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13. As part of my Government's programme to encourage enterprise and improve the performance of the economy, the basic rate of income tax has been further reduced and all but the lowest of the remaining rates have been abolished. Legislation has been enacted to reform and simplify the tax system and to provide for the independent taxation of married couples.

14. In further pursuit of my Government's commitment to encourage greater industrial efficiency and to promote wider share ownership, legislation has been enacted to provide for the sale to the public of shares in British Steel and to enable the water authorities and the electricity supply industry to prepare for privatisation.

15. An Act has been passed for England and Wales to replace domestic rates with the community charge and to introduce uniform non-domestic rates.

16. An Act has been passed to reform the legislation on rented housing and to give local authority tenants new rights to choose their landlord.

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21. An Act has been passed to strengthen the controls over the possession of firearms.
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25. An Act has been passed to reform the law of copyright and to make improvements in other areas of intellectual property law.
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30. In Northern Ireland, my Government have continued their efforts to combat terrorism. They have developed their constructive relations with the Republic of Ireland through the Anglo-Irish Agreement and have continued to promote the economic revival and political stability of Northern Ireland.

31. For Scotland, measures have been passed to encourage the provision of private rented housing and to create a new housing agency, to improve the management of schools and to reform the law on civil evidence.

32. An Act has been passed to establish a statutory authority for the Norfolk and Suffolk Broads.

33. Legislation has been enacted to encourage the planting of farm woodlands and diversification by farmers.

**MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS**

I pray that the blessing of Almighty God may attend you.

CONFIDENTIAL

OPENING SPEECH

- MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS

1. - I look forward with much pleasure to [receiving the President of the Federal Republic of Nigeria and Mrs Babangida on a State Visit] [and to a visit by Her Majesty Queen Beatrix of the Netherlands as part of the celebrations of the William and Mary Tercentenary].
  
2. - I also look forward to [visiting Barbados next March to mark the 350th Anniversary of the House of Assembly there and to] being present next autumn on the occasion of the Commonwealth Heads of Government Meeting in Malaysia.
  
3. - My Government will continue to attach the highest priority to the maintenance of national security and the preservation of peace with freedom and justice. They will maintain strong and effective defences and will stand fully by their obligations to the NATO Alliance.
  
4. - My Government will strive for balanced and verifiable measures of arms control and for a world-wide ban on chemical weapons. They strongly support the United States' proposals for 50% reductions in American and Soviet strategic nuclear weapons. They will seek balanced reductions in conventional forces.

5. - My Government will continue to strive to break down the barriers between East and West [and to ensure that the Vienna Review Conference on Security and Co-operation in Europe leads to further progress on human rights]. They look forward to building further on the improved relationship with the Soviet Union and to a visit to this country by the Soviet leader, Mr Gorbachev.

6. - My Government look forward to the completion of the Soviet troop withdrawal from Afghanistan and will continue to work for the restoration of that country's independence and non-aligned status. They will continue to play a full part in the work of the United Nations and to work for peaceful solutions to regional conflicts.

7. - My Government will continue to work with our European Community partners to complete the single market, to reinforce budgetary discipline and further to reform the Common Agricultural Policy. They will play a full part in multilateral negotiations designed to liberalise international trade and agriculture.

8. - My Government will maintain a substantial aid programme, designed to alleviate poverty and to promote sustainable economic and social progress in developing countries.

9. - My Government will continue the fight against international terrorism and against trafficking in drugs.

10. - My Government will honour their commitments to the people of the Falkland Islands while continuing to seek more normal relations with Argentina. They will continue to discharge their responsibilities towards Hong Kong and its people and will work closely with the Chinese Government to implement the Sino-British Joint Declaration.

**MEMBERS OF THE HOUSE OF COMMONS**

11. - Estimates for the Public Service will be laid before you.

**MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS**

12. - My Government will continue to pursue firm financial policies designed to bear down on inflation . They will continue to promote enterprise and to foster the conditions necessary for the sustained growth of output and employment.

13. - They will maintain firm control of public expenditure so that, while allowing further improvements in priority services, it continues to fall as a proportion of national income, thus providing scope for further reductions in taxation.

14. - A Bill will be introduced for England and Wales to establish a National Rivers Authority and to provide for the sale of the utility functions of the water authorities.

15. - A Bill will be brought forward to reform the law on local government capital and housing finance and to revise the legislation governing the conduct of local authority business.

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17. - A Bill will be introduced to remove unnecessary obstacles to employment, particularly in relation to women and young people, and to alter training arrangements.

18. - My Government will vigorously pursue their policies for reducing crime. A Bill will be introduced to replace the Prevention of Terrorism (Temporary Provisions) Act. Legislation will be brought forward to provide for a national membership scheme to control admission to football matches.

19. A Bill will be introduced to replace section 2 of the Official Secrets Act 1911 with provisions prohibiting only disclosures of information which would be harmful to the public interest.

20. - My Government are committed to strengthening the National Health Service and to ensuring that it is developed and improved in an efficient way that offers choice to patients.

21. - My Government will continue to take action to raise standards throughout education.

22. - A Bill will be introduced to improve and rationalise the law governing the care and protection of children.

23. - For Scotland, legislation will be brought forward to enable parents to choose that their children's schools should be managed outside the control of local authorities. A Bill will be introduced to transfer the Scottish Bus Group to the private sector.

24. - In Northern Ireland, my Government will continue their efforts to eradicate terrorism, to give local representatives more involvement in government and to foster closer co-operation with the Republic of Ireland. A Bill will be laid before you to strengthen the law of Northern Ireland on fair employment. Legislation will be introduced to extend the franchise for local elections and to require from candidates a declaration repudiating terrorist violence.

25. - A Bill will be brought forward to amend the law on social security.

26. Legislation will be introduced to reform company law and the law on mergers.

27. - A Bill will be brought forward to modify the driver licensing system and to provide for new systems for guiding traffic.

28. Other measures will be laid before you.

**MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS**

I pray that the blessing of Almighty God may rest upon your counsels.

5  
BF 24/10



PRIVY COUNCIL OFFICE  
WHITEHALL, LONDON SW1A 2AT

21 October 1988

CH/EXCHEQUER	
REC.	21 OCT 1988
ACTION	MISS SIMPSON
COPIES TO	FST, CST
	MR DYER
	MR PICKFORD

-21/10

Dear Douglas

QUEEN'S SPEECHES ON THE PROROGATION AND OPENING OF PARLIAMENT

I am today sending round the draft Queen's Speech on the Opening of Parliament under cover of the attached letter to James Mackay.

As you will see, QL decided that it would be better not to make any reference to the Representation of the People Bill in the Speech. This is because the Committee shared my view that a final decision on the inclusion of the Bill, which could take up much time on the floor of the House, should be postponed until we have a much better idea of the Opposition's intentions towards it. QL fully appreciate that this Bill honours a manifesto commitment, and that there are strong arguments for proceeding with it in the 1988/89 Session if it can be fitted in. Nevertheless, this is not the last practicable opportunity for the measure and I very much hope that you can agree to handle the matter as we propose. Perhaps you and I could review the situation in the New Year.

I am sending copies of this letter to the Prime Minister, members of QL and to Sir Robin Butler.

JOHN WAKEHAM

Rt Hon Douglas Hurd CBE MP  
Home Secretary

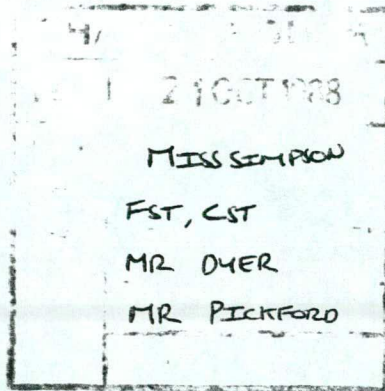


CONFIDENTIAL



PRIVY COUNCIL OFFICE  
WHITEHALL, LONDON SW1A 2AT

21 October 1988



*Dear James*

**QUEEN'S SPEECHES ON THE PROROGATION AND OPENING OF PARLIAMENT**

When QL considered the draft Prorogation and Opening Speeches recently they decided that, as is customary, the drafts they had approved should be sent round for any further comments of colleagues before they were formally submitted to the Cabinet. I therefore attach both drafts as approved by QL and would be grateful for any comments that colleagues might have at this late stage, to reach me no later than Tuesday 25 October.

I am sending copies of this letter to the Prime Minister, Cabinet colleagues, Patrick Mayhew, Kenny Cameron, David Waddington, Richard Luce, Bertie Denham and Sir Robin Butler.

A handwritten signature in blue ink, appearing to read 'John Wakeham'.

**JOHN WAKEHAM**

The Rt Hon Lord Mackay of Clashfern  
Lord Chancellor

CONFIDENTIAL

CONFIDENTIAL

PROROGATION SPEECH

MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS

1. The Duke of Edinburgh and I were pleased to receive the State Visits of His Majesty King Hassan II of Morocco in July 1987, His Majesty King Olav of Norway in April of this year, His Excellency the President of the Republic of Turkey in July, and the President of the Republic of Senegal and Madame Diouf earlier this month. I was pleased to receive President Reagan of the United States after his visit to Moscow in June.
2. We recall with pleasure our visit to Canada in October last year, where I was also present on the occasion of the Commonwealth Heads of Government Meeting in Vancouver. Earlier this year we visited Australia in her Bicentenary year and the Netherlands to mark the William and Mary Tercentenary. Also to mark the Tercentenary, I received Loyal Addresses from both Houses in July. We remember with much satisfaction our State Visit to Spain in October.
3. My Government have helped to promote better relations between East and West and have played an active part in the Vienna Review Conference on Security and Cooperation in Europe.
4. My Government have continued to enhance Britain's defences and have played a full part in the Atlantic Alliance.
5. My Government have worked vigorously for balanced and verifiable agreements on arms control in respect of nuclear and conventional weapons and for the abolition of chemical weapons. They have supported the Treaty between the United States and the Soviet Union for the elimination of their intermediate and shorter range missiles, as a result of which cruise missiles are being removed from the United Kingdom.

6. My Government have fully supported the United Nations in its recent efforts to negotiate a ceasefire between Iran and Iraq. They have welcomed the start of the Soviet troop withdrawal from Afghanistan and have supported efforts to restore that country's independence and non-aligned status. My Government have encouraged the forces for change in Southern Africa and have urged the countries of that region to settle their problems peacefully.

7. My Government have reached agreement with our European Community partners on the restructuring of the Community's finances and on certain measures of reform of its Common Agricultural Policy. They have continued to play a full and active role in negotiations to achieve the completion of a single market within the European Community by the end of 1992, and have encouraged business to prepare for the opportunities and challenges that this presents.

8. My Government welcomed the agreement reached on their initiative to provide debt relief to some of the poorest countries in Africa. They have continued to provide a substantial aid programme, both directly and through the European Community, including emergency assistance to the victims of natural disasters in Asia, Africa and the Caribbean.

9. My Government have continued their vigorous efforts to combat international terrorism. They have signed agreements with the United States, Canada, Australia and the Bahamas to provide reciprocal assistance in combatting trafficking in drugs.

10. My Government and the Chinese Government have continued to make good progress in implementing the Sino-British Joint Declaration on Hong Kong. My Government have stood by their commitments to the people of the Falkland Islands, while continuing to seek more normal relations with Argentina.

## MEMBERS OF THE HOUSE OF COMMONS

11. I thank you for the provision which you have made for the honour and dignity of the Crown and for the Public Service.

## MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS

12. My Government have continued to pursue sound financial policies designed to keep inflation under control and to sustain economic growth. They have made a public sector debt repayment. The national output has continued to grow, as has the number of people in work. Further steps have been taken to help unemployed people into work through the introduction of the Employment Training programme and the extension of the Youth Training Scheme.

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CONFIDENTIAL

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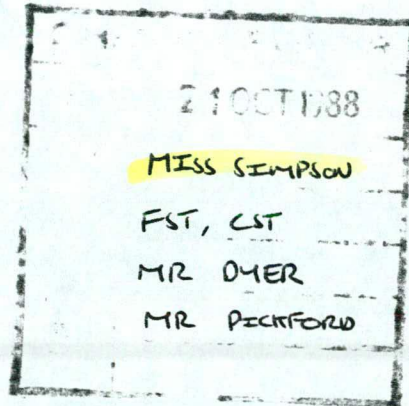
**MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS**

I pray that the blessing of Almighty God may rest upon your counsels.



PRIVY COUNCIL OFFICE  
WHITEHALL, LONDON SW1A 2AT

21 October 1988



*Dear Douglas*

**QUEEN'S SPEECHES ON THE PROROGATION AND OPENING OF PARLIAMENT**

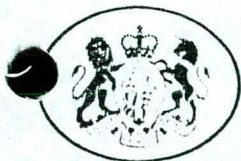
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I am sending copies of this letter to the Prime Minister, members of QL and to Sir Robin Butler.

**JOHN WAKEHAM**

Rt Hon Douglas Hurd CBE MP  
Home Secretary



MINISTRY OF DEFENCE  
MAIN BUILDING WHITEHALL LONDON SW1A 2HB

PWP

PARLIAMENTARY UNDER SECRETARY OF STATE  
FOR DEFENCE PROCUREMENT

26/10

CH/EXCHEQUER	
REC.	26 OCT 1988
ACTION	CST
COPIES TO	

Telephone 01-218 6328 (Direct Dialling)  
01-218 9000 (Switchboard)

USofs(DP) 21/1/13

21 October 1988

*John [unclear]*

My officials have agreed with yours the text of replies to an arranged PQ announcing the invitation of tenders for the Aviation Support Ship (ASS) and to questions from Mr Taylor on the position of Harland & Wolff as regards MOD work, both to be answered on Monday.

We have agreed to your Department's request that, for presentational reasons, we should say that consideration will be given to allowing H&W to enter the competition for the ASS at a later stage, once we know the outcome of your consideration of proposals for the privatisation of the yard.

I am, of course, happy to go along with this request but it does need to be clearly understood by all concerned that prime contractors have only nine months in which to complete their proposals to meet our comprehensive requirements in conjunction with their partners and sub-contractors. H&W will need to enter the competition soon if they are to have sufficient time in which to find the right associates and put together a bid in which my department could have faith. There is absolutely no question of our extending the time allowed for the receipt of bids.

This position should be made clear to H&W and to those companies, such as BAe, who have in the past expressed interest in combining with H&W to bid.

I am copying this to Number 10 Downing Street, and to Colleagues in HM Treasury, the Department of Trade and Industry and the Scottish Office, and to Sir Robin Butler.

(TIM SAINSBURY)

Peter Viggers Esq MP  
Parliamentary Under Secretary of State  
for Northern Ireland  
Northern Ireland Office  
Whitehall  
LONDON  
SW1A 2AZ

PERSONAL AND CONFIDENTIAL

FROM: A G TYRIE

DATE: 21 October 1988

*pyj*

A C S ALLAN

PQ ON SPECIAL ADVISERS

I agree that we don't want to be drawn further than we need on awkward cases. On the other hand, I still think it would be useful to be armed with a line, agreed with No 10, on how these BP and Consolidated Gold Field employees are distanced from government decisions which affect their company's commercial interest.

2. Perhaps I have become too jumpy in my old age.

*AG Tyrie*

A G TYRIE

UNCLASSIFIED



FROM: A P HUDSON

DATE: 21 OCTOBER 1988

CHANCELLOR

ccMr A C S Allan

Mr Gieve

Mr Pickford

Mrs Chaplin

Mr Tyrrie

Mr Call

Mr N Forman MP

OPPOSITION DAY DEBATE, 25 OCTOBER 1988

1. Gordon Brown opens. Based on his utterances this week, and recently, he is likely to make the following points.

- You have now admitted that we face high inflation and a lasting current account deficit.
- This is all down to the higher rate tax cuts in the Budget.
- You should therefore reverse these in the Autumn Statement, and use the money for public investment, and for child benefit and the NHS.
- In any case, for most people, the benefit of the tax cuts has been more than wiped out by the mortgage rate increases.

2. None of these need give us much difficulty. One possible order for your speech would be like this.

- First supply day on the economy for a year. Having heard [Brown], can see why Labour held back.
- Last supply day, Labour motion warned of serious implications of crash for activity, investment, and employment, and urged interest rate cuts and a planned expansion.
- Already cut interest rates. Rejected their call for fiscal response. Instead stuck to strategy.
- Result: [bull points as at Party Conference].
- In particular, investment boom. Labour so obsessed with public spending, can't recognise private investment. And so obsessed with amounts spent, ignore





what's been achieved in public sector (4 roads for the price of 3 etc.).

- Current account.
- Inflation - not taking lectures from them. Their record appalling. And clear they would let inflation rip. Quote (no names, but calling them all "front bench spokesmen") Holland calling for higher borrowing, Gould for a lower pound, and Kinnock for lower interest rates.
- If Brown wants to make things clear let him do so. Will he say whether they think the PSDR is too high or too low? Interest rates too high or too low? Sterling too high or too low?
- Will be slowdown over next couple of years. But relatively slow year for this Government still likely to be better than most Labour years. (CBI Survey.)
- Because economy transformed. Labour doesn't understand that. OECD do - refer to Smith in January, and then quote latest OECD report, and possibly 1978 report, which had some gloomy remarks. Fortunately, British people do, quote Eric Hammond. Refer to trade unions costing jobs (Metcalf).

3. One other thing to bear in mind. Although it is important to win this Parliamentary debate, we do not have to use all our best lines, because we have the Autumn Statement and the Debate on the Address to come within the next 5 weeks.

465-110

*J.C.S.*

FROM : MISS J C SIMPSON  
DATE : 21 OCTOBER 1988

PS/CHANCELLOR  
(Mr Hudson)

*Mr. Hudson*

*cc Miss Simpson*

*A few changes made.*

*P.N. / 24.8*

cc Sir P Middleton  
Sir T Burns  
Mr Odling-Smee  
**Mr Sedgwick**  
Miss O'Mara  
Mr Hibberd  
Mr O'Donnell  
Mr Patterson  
GA/001

*My letter  
to Bearpark  
of 24.10*

PRIME MINISTER'S SPEECH FOR THE DEBATE ON THE ADDRESS

You asked me to provide an initial draft for economic passage of the Prime Minister's speech on the debate on the address.

- 2. The attached draft incorporates contributions from EA and MG.
- 3. We also discussed the best approach to the paragraph of 'good news' statistics. We agreed that we would need to think further much nearer the time about which were the best ones to use in the light of what was published in the interim. The present selection is therefore little more than a marker.

*B*

MISS J C SIMPSON

At the heart of our policy, the foundation on which all our other achievements and plans depend, is the sound and prudent management of the economy. The Gracious Speech makes it clear that we shall continue to pursue those policies which have given us <sup>seven</sup> ~~eight~~ years of sustained growth. These policies will continue to bear down on inflation, keep firm control of public spending and promote enterprise and foster the conditions necessary for sustained growth of output and employment.

Our first priority remains the control of inflation through sound financial policies, because inflation is a threat to savings, investment and jobs. And the control of inflation is the essential foundation for economic growth. The success of this country and the other major industrialised countries in the early 1980s in getting down their inflation has been absolutely essential to the present prolonged period of economic growth.

Last winter, in the aftermath of the stock market collapse, it looked briefly as though we might be facing a world recession ~~if monetary conditions were allowed to become too tight.~~ So we acted to avoid that possibility. We acted together to reduce interest rates - which was the right action at that time. And the recession was averted.

But if anything we underestimated the strength and resilience of the world economy. I make no apology for that. It was right to err on the side of caution. But the truth is that the UK has continued to be one of the fastest growing economies, with very high investment and strong consumer demand.

One consequence of this rapid increase in demand has been a rise in imports. ~~This may have been exacerbated by capacity shortages in some of our industries.~~ Imports of capital goods have been particularly strong and, together with the boom in domestic investment, this should increase future output and exports. But at the moment the rapid growth of domestic demand has resulted in a large current account deficit.

So the present deficit is <sup>we can't</sup> ~~financing~~ high investment spending by the private sector. This is in contrast to the experience in the sixties and seventies when the current account deficit ~~was~~ <sup>was</sup> ~~financing~~ <sup>was</sup> the public sector's profligacy.

<sup>merchandise</sup> And ~~too much of the~~ personal consumption has been financed by borrowing. It is not surprising that people feel such confidence in our management of the economy that they see less need to provide themselves with a cushion against the hardships of inflation.

But higher saving are needed, not least to help to provide the resources for the investment that will sustain our growth in the future.

The Government has kept its spending firmly under control. Last year for only the second time since the beginning of the 1950s we had a surplus. This year we should actually be repaying debt - reducing the burden on future generations.

We want the rest of the economy to follow the same prudent approach - the same good housekeeping in fact. And the Chancellor

Avoid  
to  
word  
"financing"

has taken the necessary steps to encourage them to do so. Higher interest rates will give an incentive to savers and a disincentive to borrowers. They will of course take time to have their full effect but the housing market is already showing signs of slowing. Other areas will be rather slower to respond, such as the current account deficit, but I am confident that they will.

And let me set out some of the successes that we have recorded in recent months. Unemployment is continuing to fall rapidly, and has done so for [twenty-seven] months in succession. Most encouragingly, the fall in the number of long-term unemployed in the year to July was the largest on record. Employment continues to grow - by getting on for 2 million since 1983. Manufacturing output is at its highest ever level. The profitability of industry has risen every year since 1981 and is at its highest level since 1969. Manufacturing productivity has grown at an average rate of 5½ per cent between 1980 and 1987. Every week in 1987 nearly 900 new businesses were set up - and that is a net, not a gross, figure.

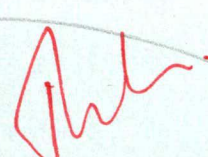


**FROM:** Assistant Parliamentary Clerk  
**DATE:** 21 October 1988

01-270 5007

PS/CHANCELLOR

cc PS/Chief Secretary  
PS/Financial Secretary  
PS/Paymaster General  
PS/Economic Secretary  
PS/C&E  
Mrs Brown - PE2  
Mr O' Donnell - EA2  
Mr Farthing - HE2  
Mr Pickford - EB  
Mr Williams - PE1  
Mr Dyer

*Tony D*  
*pl minute* 

**FORTHCOMING TREASURY BUSINESS IN THE HOUSE OF LORDS**

You may wish to be aware that the current forthcoming Treasury business in the Lords is as follows:

**ORAL QUESTIONS**

Monday 24 October Viscount Hanworth - To ask Her Majesty's Government to what extent they think that the extra money available to consumers from recent tax cuts has been spent on buying British manufactured goods as opposed to foreign imports.

**Government spokesman:** Lord Brabazon. EA 2 in the lead.

Wednesday 2 November Lord Stoddart of Swindon - To ask Her Majesty's Government whether they are satisfied with the response of the oil companies to the tax concession given in favour of unleaded petrol by the Chancellor of the Exchequer in his last Budget.

**Government spokesman:** To be confirmed. Customs & Excise in the lead.

BUSINESS OF INTEREST TO HM TREASURY

ORAL QUESTIONS

Monday 24 October Lord Belhaven and Stenton - To ask Her Majesty's Government why they ordered Kuwait to substantially reduce its shareholding in BP within a set time limit of one year, and what effect they expect their decision will have on British people who invested in BP when it was privatised last year and on British relations with friendly Arab countries in the Middle East.

Government Spokesman: Lord Young. D.T.I. in the lead.

Wednesday 9 November Lord Ezra - To ask Her Majesty's Government whether, in view of the present adverse trend in the balance of payments, they contemplate giving greater support to export promotion.

Government Spokesman: Lord Young. D.T.I. in the lead

Thursday 10 November Lord Nugent of Guildford - To ask Her Majesty's Government whether they will increase their subvention to the Universities Funding Council to compensate for the loss of revenue which universities will suffer as a result of the decision by Customs and Excise to charge VAT on gifts by private companies to universities.

Government Spokesman: To be confirmed. DES in the lead.

UNSTARRED QUESTION

Tuesday 8 November Lord Ezra - To ask Her Majesty's Government whether it is their intention to introduce a measure of competition in the water industry on privatisation.

Government Spokesman: Lord Arran. D.O.E. in the lead.

Mari Rogerson .

Mari Rogerson



FROM : MISS J C SIMPSON  
DATE : 24 OCTOBER 1988

*W/ keep at it,  
or give up?*

*Give up!*

*hymn*

PS/CHANCELLOR OF THE EXCHEQUER

cc PS/CST  
PS/FST  
Mr Odling-Smee  
Mr Dyer

**QUEEN'S SPEECHES ON THE PROROGATION AND OPENING OF PARLIAMENT**

The Lord President's letter of 21 October to the Lord Chancellor attaches the text of these speeches as approved by QL. He is asking for any further comments before the speeches are formally submitted to Cabinet. These should reach him by tomorrow, 25 October.

2. We have commented on several drafts of the speech previously and were content with the text which went to QL except over the passage on repayment of debt in paragraph 12 of the speech on the prorogation. The Financial Secretary was able to make a minor amendment to the wording to ensure that it reflected more accurately what we did achieve last year. He was not, however, able to persuade the Committee to accept a reference to this being only the second time since the beginning of the 1950s that the Government had had a public sector debt repayment. The Committee felt that it would not be appropriate for the Queen's Speech to draw comparisons in this way between the performances of different administrations.

3. The Chancellor will wish to consider whether he wants to pursue this point any further. If he does, I will provide a draft letter which he could send to the Lord President.

*B.*

MISS J C SIMPSON



FROM: A A DIGHT

DATE: 24 October 1988

*PWP*

MISS M ROGERSON

FORTHCOMING TREASURY BUSINESS IN THE HOUSE OF LORDS

The Chancellor has seen and was grateful for your minute of 21 October.

*pp M. Parsons*

A A DIGHT



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

24 October 1988

P A Bearpark Esq  
10 Downing Street  
LONDON SW1

MISS J C SIMPSON

Sir P Middleton  
Sir T Burns  
Mr Odling-Smee  
Mr Sedgwick  
Miss O'Mara  
Mr Hibberd  
Mr O'Donnell  
Mr Patterson

*Dear Andy,*

DEBATE ON THE ADDRESS, 22 NOVEMBER

...

I enclose a contribution from the Treasury to the Prime Minister's Speech for the debate on the Address.

This is very much a first shot. Apart from anything else, we shall have new figures for almost all the economic indicators between now and 22 November and (almost certainly) the Autumn Statement, with the new forecast. Perhaps we can have a word nearer the time, to discuss what more you need, and any further thoughts the Chancellor has on presentation.

*Yours sincerely,*

*Andrew Hudson*

A P HUDSON

**DRAFT PASSAGE FOR PRIME MINISTER'S SPEECH ON THE ADDRESS**

At the heart of our policy, the foundation on which all our other achievements and plans depend, is the sound and prudent management of the economy. The Gracious Speech makes it clear that we shall continue to pursue those policies which have given us eight years of sustained growth. These policies will continue to bear down on inflation, and to keep firm control of public spending and promote enterprise. These are the policies that will enable us to continue the outstanding economic performance of recent years, with sustained growth of output and employment.

Let me first set out some of the successes that we have recorded in recent months. Unemployment is continuing to fall rapidly, and has done so for [twenty-seven] months in succession. Most encouragingly, the fall in the number of long-term unemployed in the year to July was the largest on record. Employment continues to grow - by getting on for 2 million since 1983. Manufacturing output is at its highest ever level. The profitability of industry has risen every year since 1981 and is at its highest level since 1969. Manufacturing productivity has grown at an average rate of 5¼ per cent between 1980 and 1987.

As to the future, our first priority remains the control of inflation through sound financial policies - because inflation is a threat to savings, investment and jobs. And the control of inflation is the essential foundation for economic growth. The success of this country and the other major industrialised countries in the early 1980s in getting down their inflation has been absolutely essential to the present record period of economic growth.

The UK has continued to be one of the fastest growing economies, with very high investment and strong consumer demand.

One consequence of this rapid increase in demand has been a rise in imports. Imports of capital goods have been particularly strong and, together with the boom in domestic investment, this will increase future output and exports. But at the moment the rapid growth of domestic demand has resulted in a large current account deficit. So the present deficit is in large part, financing high investment spending by the private sector.

This is in contrast to the experience in the sixties and seventies when the current account deficit was financing excessive public spending. This Government has kept its spending firmly under control. Last year for only the

second time since the beginning of the 1950s we had a surplus. This year the surplus will be [much greater] and we shall be repaying debt - reducing the burden on future generations.

But alongside the rise in investment we have also seen a rapid rise in personal consumption - too much of it financed by borrowing. It is not surprising that people feel such confidence in our management of the economy that they see less need to provide themselves with a cushion against the hardships of inflation.

But higher saving is needed, not least to help to provide the resources for the investment that will sustain our growth in the future.

So the Chancellor has taken the necessary steps to encourage saving. Higher interest rates will give an incentive to savers and a disincentive to borrowers. They will of course take time to have their full effect, but the housing market is already showing signs of slowing.

And let me make it quite clear. This Government is committed to getting on top of inflation. And at the same time it is committed to making markets more and not less free. That means tax reform and tax reduction. It means getting rid of more unnecessary rules and

regulations. And it means more privatisation. [Could go on from here to Electricity, Water, etc.]



15  
~~1-3-#~~  
 1-12  
 PUP

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

24 October 1988

P A Bearpark Esq  
 10 Downing Street  
 LONDON SW1

MISS J C SIMPSON

Sir P Middleton  
 Sir T Burns  
 Mr Odling-Smee  
 Mr Sedgwick  
 Miss O'Mara  
 Mr Hibberd  
 Mr O'Donnell  
 Mr Patterson

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Yours sincerely,

Andrew Hudson

A P HUDSON

Spoke A. Bearpark 8.11. PM may not focus on this until after the Lord Mayor's Banquet.

APH



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regulations. And it means more privatisation. [Could go on from here to Electricity, Water, etc.]

24/10/88

Andrew Hudson

**dti**

the department for Enterprise

cc Sir T. Burns  
Mr Sedgwick  
Mr Gieve  
Mr Pickford  
Mr Patterson

Attached, as promised, the first draft provided for the Chancellor of the Duchy's winding up speech.

Any comments ASAP, pl.

Linda Joyce

PS/ Chancellor (Check!)  
24/10

Department of Trade and Industry

1-19 Victoria Street  
London SW1H 0ET

Switchboard  
01-215 7877

Telex 8811074/5 DTHQG  
Fax 01-222 2629

C.

Tony Newton has yet to work on this, apparently.  
Apart from p.3, looks OK to me.

AMH

Thanks. I think  
the initial change  
to p.3 is all right  
but I have some  
small ones

DEBATE ON THE ECONOMY; TUESDAY 25 OCTOBER

Draft "Core" Winding Up Speech for the Chancellor of the Duchy

Mr Speaker, several Hon and Rt Hon Members have extended their good wishes to the rt hon Member for Monklands East, who has been a regular and distinguished contributor to these debates. I, too, would like to add my hope that the Rt Hon Member will make a rapid and complete recovery, and will soon resume his place opposite.

My Rt Hon Friend the Chancellor of the Exchequer had no difficulty in exposing the Opposition's threadbare arguments; and in demonstrating the continuing soundness and vigour of the British economy. Nowhere is this more apparent than in the performance of industry. Our competitors are ready to acknowledge the scale of the improvement we have achieved in the 1980s even if the Opposition are not.

The productivity of manufacturing industry in the UK has improved by no less than 50% since 1980, a rate of improvement matched by no other major industrial country.

Manufacturing output is running at all time record levels, and in the three months to August 1988 was 7% higher than in the same period a year earlier.

X By ~~the end of~~ last year, the profitability of non-North Sea companies, after rising steadily over several years, had reached <sup>over 10%</sup> 11.5%, the highest level since 1968. Retained profits are of course the main source of capital for investment, and it is no surprise that investment is also booming.

X The DTI Investment Intentions Survey of last June indicated that manufacturing investment in 1988 is likely to be no less than 16% higher than in 1987, and all the latest signs are that an increase <sup>of</sup> ~~of~~ this order will be achieved. A sharp increase in investment is also expected in the construction and service industries.

Opposition spokesmen have laid great stress on investment in earlier debates, so they will find these figures particularly pleasing.

The Hon Member for Dunfermline, East (Mr Gordon Brown) and the Hon Member for Sedgefield (Mr Tony Blair) have, of course, attempted to make much of the current account deficit. There are few now on the benches opposite with experience of

X  
X  
Government, and fewer still with experience of managing a growing economy. So it is perhaps only to be expected that they should misunderstand the cause of the deficit.

It does not reflect any weakness in British industry, which is performing outstandingly well on all indicators. ~~The cause of~~

*(has been swollen by)*  
the deficit ~~is~~ the surge in imports resulting from the unexpectedly rapid growth in the economy. If there are problems, they are the problems of success, and my Rt Hon Friend has explained the corrective measures he has taken and which are already having an effect.

*the reasons for the deficit, and one number*  
We on this side of the House are naturally following with sympathetic interest the policy review being undertaken by the party opposite. Those undertaking the review will, I am sure, want to examine the reasons for the dramatic improvement in industrial performance. In the 1970s we were an object of sympathy for our friends. Today, that has changed to respect.

X  
The improvement has not been achieved by ever-mounting Budget deficits; nor by ever-closer intervention by Government in the day to day running of commercial companies; nor by ever more oppressive regulation, whether for half-baked social engineering purposes or to satisfy the union bosses. Neither the full blooded socialist industrial strategy of the Rt Hon Member for

Paul, PQs

① JMCat. -

Lifeboat, Rachel

② Manuf. Investment,  
(1970)

Quarterly run on  
new '85 basis.

③ CBI

④ Blair on Today.

£ 3 bn cost of base

relief to HR typs.  
Right?

Latest sheet on

HR story.





Linda Joyce LS  
ring back

Chesterfield, nor the more pallid version of his successor at the Department of Industry, had the slightest effect in halting Britain's industrial decline.

What were needed were the policies that this Government has provided; - low taxes, to restore lost incentives; deregulation to revive the dying art of commercial judgement; an end to unaccountable union power, to restore management's ability and will to manage; withdrawal of Government from involvement in commercial decisions, so that businessmen know they will stand or fall by their own efforts; privatisation, to extend the disciplines of the real marketplace into the bureaucratic half light of the state corporations.

The success of our policies, and the failure of those of the party opposite, is not a matter of opinion or ideology; it is a matter of record.

X  
It is particularly encouraging that our efforts to improve the supply side performance of the economy are producing results throughout the country. The fall in unemployment of <sup>nearly</sup> about one million in the past two years has been shared by all regions. (more on regional performance).

But we acknowledge a special responsibility to ensure that no area, however disadvantaged, is deprived of the opportunity to share in the revival of enterprise in Britain.

(Passage on Inner City initiatives).

We have already achieved much by removing some of the more obvious barriers to enterprise erected by our predecessors. But we do not intend to stop there. More remains to be done to ensure that business can operate in open markets, as it needs to do if it is to respond efficiently to the wants of consumers; and to promote the individual enterprise that is needed in firms of all sizes if they are to take advantage of commercial opportunities as they arise.

Within the UK we have promoted open markets by operating a tough competition policy to counteract the distortions and inefficiencies which cartels and the misuses of market power can bring. The prompt implementation of the report of the Monopolies and Mergers Commission Report on industrial gas prices is but the latest example of our determination to preserve open competitive markets within the UK.

On the wider international scene, we are contributing to the Community's objectives of securing more open markets through the Uruguay Round of Trade negotiations.

Markets are rapidly opening much nearer home, too, in Europe. The response of British business will be vitally important, and there is much the Government can do to help. We must work with our partners to achieve a Single Market that is free of barriers to internal commerce, and open to competition from the rest of the world. To relapse into protected isolation in a corporatist Europe would negate all we have achieved in this country in the past decade. Here at home, we have a two-fold task. We must alert British commerce and industry to the challenges and opportunities that the Single Market will bring; and we must ensure that businessmen have access to all the information they need to decide for themselves how to prepare for 1992.

Open markets, in Britain, in Europe and in the wider world are one main strand in our policy. Individual enterprise, to take advantage of open markets, is the other. The improved business climate of the 1980s has already produced a revival of individual enterprise. The growth of venture capital and the increasing number of management buyouts prove this. We need to make it easier for those who run small businesses to develop their management skills, and this is the main purpose of the consultancy schemes introduced under the enterprise initiative.

More work is needed, also, to entrench enterprise yet more firmly in the nation's culture. In particular, we have to close the damaging gap in understanding that has been allowed to grow

up over the years between the schools and universities on the one hand and business on the other. We are tackling this problem through the business education initiative.

Mr Speaker, the fundamental soundness of the economy is there for all to see in the record of growth, of investment, of productivity, of profitability, of employment. Even more important, it is obvious in the renewed confidence of our businessmen, and in the new respect in which Britain is held overseas. Only the party opposite would be capable of viewing the economy in a glass so distorted that the problems of success loom larger than success itself. I ask the House to reject this view for the manifest nonsense it is.

*mp*

FROM: MISS M P WALLACE

DATE: 25 October 1988



MISS J C SIMPSON

cc PS/Chief Secretary  
PS/Financial Secretary  
Mr Odling-Smee  
Mr Dyer

**QUEEN'S SPEECHES ON THE PROROGATION AND OPENING OF PARLIAMENT**

The Chancellor was grateful for your note of 24 October. On balance, he thinks it is not worth continuing to press for inclusion of a reference to this being only the second time since the '50s that the Government has had a PSDR.

*M P Wallace*

MOIRA WALLACE



SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

*WMP*

**CONFIDENTIAL**

The Rt Hon John Wakeham Esq  
Lord President of the Council  
Privy Council Office  
Whitehall  
LONDON  
SW1A 2AT

<b>CHEXCHEQUER</b>	
REC.	26 OCT 1988
ACTION	MISS SIMPSON
COPIES TO	FST, CST
	MR DYER
	MR PICKFORD

*✓ 26/10*

25 October 1988

*Dear John,*

**QUEEN'S SPEECHES ON THE PROROGATION AND OPENING OF PARLIAMENT**

Thank you for your letter of October 21 enclosing drafts of the Queen's Speeches as approved by QL. You invited comments from Ministerial colleagues.

For my part, I am content with what is proposed, subject only to a few very small changes (mostly for clarification purposes) which are detailed in the attached Annex. My Private Office has spoken to yours about them.

*ours ever,*  
*Malcolm Rifkind*

**MALCOLM RIFKIND**

**QUEEN'S SPEECH ON THE PROROGATION OF PARLIAMENT**

**Para 15** - Place the reference to 'England and Wales' at the end of the paragraph (because the Act does in fact make extensive modifications to the Abolition of Domestic Rates (Scotland) Act 1987).

**Para 23** - Add 'In England and Wales' at the end of the paragraph (since this Act does not apply to Scotland).

**Para 31** - to read: 'For Scotland, measures have been passed to create a new Housing Agency and to encourage the provision of private rented housing, to improve the management of schools and to reform the law on civil evidence'.

**QUEEN'S SPEECH ON THE OPENING OF PARLIAMENT**

**Para 15** - Insert 'in England and Wales' after 'housing finance' (since only the latter part of this paragraph applies to Scotland).





CH/EXCHEQUER	
REC.	26 OCT 1988
ACTION	MISS SIMPSON ✓26/10
COPIES TO	FST, CST,
	MR DYER
	MR PICKFORD

MINISTRY OF DEFENCE  
 MAIN BUILDING WHITEHALL LONDON SW1A 2HB  
 Telephone 01-218 2111/3

MO 21/1/1L

25<sup>th</sup> October 1988

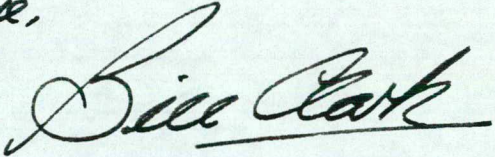
*Dear Alison,*

QUEEN'S SPEECHES ON THE PROROGATION AND OPENING OF PARLIAMENT

My Secretary of State is content with the draft prorogation and Opening Speeches circulated under cover of the Lord President's letter of 21st October, subject to the inclusion of the following revised last sentence of paragraph 4 of the Opening Speech (which has already been agreed by the FCO and Cabinet Office):

"They will work for the elimination of disparities in conventional forces in Europe with the aim of achieving a stable balance at lower levels."

I am sending copies of this letter to the Private Secretaries to members of the Cabinet, Murdo Maclean (Chief Whip's office), Eleanor Goodison (OMCS) and to Trevor Woolley (Cabinet Office).

*Yours ever,*  


(W C CLARK)  
 Private Secretary

Miss Alison Smith  
 PS/Lord Privy Seal

TUESDAY, 25 OCTOBER 1988

*Ref*

**TEXT OF OPPOSITION MOTION ENTITLED : THE STATE OF THE ECONOMY;**

This House condemns the Government's mismanagement of the economy which has produced record balance of payments and trade deficits, damaged our country's trading and industrial interests and brought high interest rates as the Government's only response with resultant higher costs for home buyers and for industries trying to compete in home and foreign markets; is concerned by the failures of supply side policy which mean that British industry is not properly equipped to meet current demand or future challenges; insists that the Government does not make public expenditure on investment, services and welfare, including child benefit, a victim of its own incompetence; and calls upon HMG to adopt an effective strategy for investment in economic efficiency and social justice for Britain.

*Clear text of amdt. with*

*DTI*

*DHSS - if necessary*

*No 10*

*then ring thro. to*

*Sarah Straight, Whips office*

*Xr. 2019*

**GOVERNMENT AMENDMENT**

Leave out from "House" to the end of the Motion and add instead:

"Congratulates Her Majesty's Government on its economic policies which have led to unemployment falling faster than in any other major country, manufacturing output at record levels and investment rising rapidly; welcomes the Government's achievements in restoring the public finances to such strength that the national debt is being repaid, while at the same time income tax rates have been reduced and public spending on priority programmes has been increased; commends the Government's firm stand against inflation and the action it has taken to secure monetary conditions that will exert further downward pressure on inflation; and applauds the Government's supply side policies which have enabled British industry to be more profitable than at any time for nearly 20 years and have led to manufacturing productivity growing faster than in any other major country during the 1980s.

*Not*

*Paul was (after a brief  
discussion) content. Sent off to*

*No 12*

*J*

*24/110*

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Alex.

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No 12.

JF  
24/10

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Ch  
Any comment?

AD

A few small  
changes.  
I have no objection  
to further progress  
by filling No. 10 or  
the business managers,  
but not work better  
the final version  
before it is tabled.

TUESDAY, 25 OCTOBER 1988

TEXT OF OPPOSITION MOTION ENTITLED : THE STATE OF THE ECONOMY;

1 This House condemns the Government's mismanagement of the  
2 economy which has produced record balance of payments and trade  
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6 industries trying to compete in home and foreign markets; is  
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economic efficiency and social justice for Britain.

clean text of amt. note

DTI

DHSS - if necessary

No 10

then ring thro. to

Samuel Straight, Whips office

Xr. 2019

RESTRICTED

FROM: MISS R R WRIGHT  
DATE: 25 OCTOBER 1988

MR EVANS

cc: PS/Chancellor  
PS/Chief Secretary  
PS/Financial Secretary  
PS/Paymaster General  
PS/Economic Secretary  
Mr R I G Allen  
Mr Mercer  
Mr Mortimer  
Mr F K Jones  
Mr Towers  
Ms Symes  
Mr Kroll  
Mr G Dickson  
Mr N P Williams  
Mr A S Jordan  
Mr Ranford  
Mr Brancen  
Mr Savage  
Mr Dyer  
Mrs Thomas

**GUIDANCE ON PARLIAMENTARY SCRUTINY OF EUROPEAN COMMUNITY DOCUMENTS**

Attached is a copy of the revised guidance on Parliamentary scrutiny of European Community documents which should be retained by recipients for reference.

2. The guidance has been revised in the light of twelve months experience of the Single European Act (paragraphs 65 and 68-75). The documents on which the Treasury takes the lead and which are subject to the co-operation procedure are the banking proposals, mortgage credit and public purchasing. The guidance also takes account of changes to the procedures for the arrangement of debates (paragraphs 76-80). When the Scrutiny Committee recommends a document for debate, a letter should be prepared for the Minister to send to L Committee (paragraph 77). The letter replaces the memorandum that was previously provided.

3. The Cabinet Office have asked Departments to make every effort to ensure that scrutiny is completed before the Council agrees or adopts a proposal or, in the case of a proposal subject to the co-operation procedure, agrees or adopts a common position. When this is not possible, it is important that the European Secretariat of the Cabinet Office (270-0048 or 0190) is consulted

RESTRICTED

before the Minister is advised that agreement need not be withheld. The Government's policy is that debates recommended by the Commons Scrutiny Committee should be held as far in advance as practicable of the expected adoption and at the point when the voice of the House can be most influential.

4. I would be grateful if the following could be noted:

(a) If a document is eligible for scrutiny but has not been deposited, could I please be informed (paragraph 4).

(b) Would recipients please let me know when documents, for which they are responsible, are about to be adopted by the Council.

(c) To let me know if a document undergoes substantial revision from a policy point of view and a supplementary explanatory memorandum may be needed (paragraphs 32-33).

(d) The retitling of a sub-heading in explanatory memoranda from "treaty basis" to "legal basis" and the revised coverage of this (paragraph 23c(i)).

5. As you know, the Community Budget documents for which the Treasury is responsible are technically not covered by these instructions, although we try to follow the procedures as closely as possible.

RR Wright  
MISS R R WRIGHT



**RESTRICTED**



**Parliamentary Scrutiny of  
European Community Documents**

**Guidance for Departments**

**October 1988**

**RESTRICTED**

**PARLIAMENTARY SCRUTINY OF COMMUNITY DOCUMENTS  
GUIDANCE FOR DEPARTMENTS**

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**I. INTRODUCTION**

1. It was agreed that, following the accession of the United Kingdom to the European Communities, proposals for Community legislation and for consideration by the European and other Councils would be scrutinised by Parliament to provide an opinion on whether questions of legal or political importance were raised and whether further consideration by Parliament was necessary. The terms of reference of the House of Commons Select Committee and the corresponding Lords Committee charged with this task are at Annexes A and B respectively. The Government has undertaken to assist the work of both Parliamentary Committees and to ensure that agreement is not given in the Council of Ministers to a proposal which has not completed the scrutiny procedures, except in certain restricted circumstances. This document sets out the procedures to be observed by Departments in fulfilling that undertaking.

**II. DEPOSIT OF DOCUMENTS IN PARLIAMENT**

**DEPOSIT OF DOCUMENTS**

2. All Commission proposals for Council legislation and other documents published for submission to the Council of Ministers or the European Council - with the exception of those listed in paragraph 9 below - must be deposited in Parliament for consideration in the House of Commons by the Select Committee on European Legislation, and in the House of Lords by the Select Committee on the European Communities. These are known as the Scrutiny Committees. Proposals for Council legislation (ie regulations, directives, and decisions) are automatically deposited (see paragraph 5) without consultation with Departments, whereas non-legislative documents are only deposited after consultation with Departments. The lead Department must provide the Committees with an explanatory memorandum on each deposited document.



3. Departments receive direct from the Council Secretariat draft proposals for legislation and other documents which have been submitted to the Council of Ministers; documents for the European Council are sent to Departments through the Office of the United Kingdom Permanent Representative to the European Communities (UKREP).

4. Where Departments identify a document which has not been deposited, even though it is apparently eligible for scrutiny, they should let the European Secretariat of the Cabinet Office (270 0190 or 0086) know at once.

#### DEPOSIT OF LEGISLATIVE DOCUMENTS

5. The Foreign and Commonwealth Office (FCO) (European Community Department (Internal)), in conjunction with the European Secretariat of the Cabinet Office, arranges for English texts of proposals for Community legislation to be deposited in Parliament within 2 working days of their receipt in London. The deposit of budget documents is the responsibility of the Treasury. Departments are sent copies of the FCO list reporting the despatch of legislative proposals for photocopying and transmission to Parliament. At the same time the European Secretariat of the Cabinet Office writes to the Department responsible for the proposal requesting it to submit an explanatory memorandum to Parliament.

#### DEPOSIT OF NON-LEGISLATIVE DOCUMENTS

6. In the case of documents other than Commission proposals for Council legislation, the European Secretariat of the Cabinet Office seeks the written views of the lead Department on whether a particular document should be deposited. The terms of reference of the Commons Scrutiny Committee (see Annex A) require it to consider, in addition to proposals for legislation, "other documents published for submission to the Council of Ministers or

to the European Council, whether or not such documents originate from the Commission." The document is only deposited in Parliament when the lead Department has written to the Cabinet Office indicating that it is suitable for deposit. Departments should make every effort to ensure that there are no unnecessary delays in deposit.

7. The Government must not be left open to allegations that it is withholding from Parliament documents which could be held to fall within the terms of reference of the Scrutiny Committees. Since Community practice regarding publication does not follow clear criteria, the definition of "published" must be interpreted widely and could include:

- Commission documents formally transmitted to the European Parliament where directly related to Council deliberations;
- publication in the Official Journal;
- other means of publication, eg Commission press releases.

The normal test, which Departments should observe, is whether the Commission itself regards a document as published. In general, the Commission treats documents in its "COM" series as published unless they are classified "confidential".

8. The terms of reference of the Lords Scrutiny Committee are wider than those of the Commons Committee and do not formally restrict it to consideration of "published" documents, since they refer to "Community proposals, whether in draft or otherwise" (see Annex B). In practice, however, documents should be deposited in both Houses or in neither.

**DOCUMENTS NOT SUITABLE FOR DEPOSIT**

9. The presumption is that documents should be deposited unless they fall into one of the following categories:

a. Confidential documents. These are not always easy to recognise: Community security classifications are not a sure guide, though documents bearing the classification "Confidential" must be considered more sensitive than others. Where a confidential document contains proposals for legislation which are not themselves confidential, it may be possible to deposit a suitably edited version. The arrangements applying to certain documents, such as anti-dumping proposals, which are regarded as confidential until adopted, are set out in paragraph 18.

b. Working documents prepared by the Council Secretariat, national delegations or the Commission for discussion in the Council or its subordinate committees and working groups. These documents are regarded as coming within the confidentiality of Council proceedings and should not be deposited. The same applies to the internal Commission working documents which are occasionally made available to the Council and are normally issued in the 'SEC' series.

c. Documents sent to the Council concerning the exercise of the Commission's own delegated powers. These should not normally be deposited unless there is a Treaty requirement for Council approval before the Commission legislation can be approved (as there is, for example, under Articles 58 and 95 of the ECSC Treaty). Unless they are known to have been published, documents containing proposals for Commission action of an essentially administrative character (eg the granting of financial assistance under Articles 54 to 56 of the ECSC Treaty) need not be deposited even if Council

approval is a Treaty requirement. Documents referred to the Council following disagreement between the Commission and a Management or Regulatory Committee should not be deposited unless they are known to have been published or Council approval is required before the proposed measures can proceed.

d. Negotiating mandates and external agreements with third countries or organisations (see paragraphs 11-15).

e. Documents in the form of draft agreements between the member states (eg decisions or agreements between the representatives of the member states of the ECSC) should not normally be deposited.

f. Documents prepared by the Commission for the consideration of the Standing Employment Committee. These documents are usually sent to the Council Secretariat but they are not submitted for consideration by the Council of Ministers and so fall outside the terms of reference of the Commons Scrutiny Committee unless and until they are forwarded to the Council.

10. Documents emerging from the European and other Councils, such as communiques, are not normally deposited as they fall outside the terms of reference of the Scrutiny Committees, though copies may be placed in the libraries of both Houses and sent to the Scrutiny Committee Chairmen for information. Common positions adopted by the Council are, however, subject to special procedures (see paragraph 70).

## NEGOTIATING MANDATES AND EXTERNAL AGREEMENTS

11. The Community procedure for external agreements with third countries and organisations normally includes the following stages:

- i. The Commission submits a draft negotiating mandate to the Council for approval.
- ii. The Commission negotiates with the third party and initials the resulting agreement with the approval of member states.
- iii. In some circumstances the Commission may submit a proposal to Council for signature of the agreement.
- iv. The Commission submits a proposal to the Council for conclusion (ratification) by the Community.

Ministers have agreed that the Scrutiny Committees should be informed at the same stage as the European Parliament about prospective EC external agreements. The detailed scrutiny procedures are described in paragraphs 12-15.

### **Draft Negotiating Mandates**

12. Documents containing draft mandates relating to negotiations with third countries or organisations require careful consideration. These include draft proposals for Council decisions authorising the Community to undertake or participate in bilateral or multilateral negotiations. Documents containing negotiating positions are normally issued in the Commission's "COM (or SEC) CONFIDENTIAL" series and are not intended for publication. They should not be deposited in Parliament since publication could prejudice the Community's negotiating position. After each

meeting of the Foreign Affairs Council, the Foreign and Commonwealth Office sends to the Chairmen of the Scrutiny Committees a list of negotiating mandates approved by any Council since the previous Foreign Affairs Council. (It is the responsibility of the lead department to ensure that ECD(E), FCO (270 2291) are informed immediately of the adoption of such mandates.) The list should cover mandates for negotiations with third countries and international organisations (eg OECD) and also mandates for negotiations within international organisations. It should indicate the parties to the negotiation, the subject matter and any special factors, eg relating to timing, such as the date of expiry of a previous agreement, without breaching confidentiality. A copy of this list will be placed at the same time in the Libraries of both Houses by the FCO.

13. Proposals which do not contain detailed negotiating mandates, but simply authorise the Commission to undertake or participate in negotiations, and which are issued in the Commission's ordinary "COM" series should normally be deposited in Parliament. However, each document falling into this category should be considered individually on a case by case basis to ensure that confidential information is not included. Explanatory memoranda on such documents should normally refer to the opening of negotiations and should not provide details of individual negotiations. Departments, on receipt of a letter from the Cabinet Office concerning deposit of a document about negotiations, should consult ECD(E), FCO (270 2291) to agree on whether the document should be deposited. The European Secretariat of the Cabinet Office (270 0190) should be kept informed.

### External agreements

14. Once negotiations are complete, the resulting agreement or other text will normally be initialled by the Commission who will then submit a proposal for adoption by the Council relating to signature and/or conclusion (ratification) of the agreement by the Community. Where signature and conclusion are separate acts, Parliamentary scrutiny should normally take place after signature but before conclusion of the agreement. But where signature and conclusion will be simultaneous, the proposal should be submitted for scrutiny after initialling by the Commission and before adoption by Council. When considering the preparation of an explanatory memorandum, Departments should be aware of the need to keep the Scrutiny Committees informed at the same stage as the Commission informs the European Parliament.

15. The procedures described in paragraphs 12-13 set out the general scrutiny position. Commission proposals will vary from case to case. The following sub-paragraphs give further more detailed guidance:

- a. Proposals for a decision of the Council authorising signature subject to a subsequent conclusion on behalf of the Community of the agreement in question are not generally submitted for scrutiny.
- b. Proposals by the Commission for a decision of the Council for a signature which will constitute definitive acceptance by the Community, or for a conclusion after signature by the Community with definitive effect, should be submitted for scrutiny, since they involve a firm commitment by the Community and, in some cases, can constitute directly applicable rights and obligations in relation to individuals.

c. Proposals for decisions relating to provisional application by the Community also involve acceptance of substantial obligations and should be submitted for scrutiny as in paragraph 15(b) above. (Provisional application is a procedure, used for example in commodity agreements, whereby member states accept provisionally the obligation of an agreement pending definitive ratification.) Where the United Kingdom will be a party in addition to the Community, the agreement may need to be specified under Section 1(3) of the European Communities Act 1972 separately from and additionally to the requirement for scrutiny. Guidance on the specification of Community Treaties is given in EQO(Guidance)(84)6. Where Opinions are given by the Commission in connection with forthcoming Treaty negotiations eg as on Spanish or Portuguese Accession, and where they are designed to lead to action by the Council, it may be useful to submit them for scrutiny; but each case should be considered individually in consultation with the European Secretariat (270 0048 or 0190) in the light of the circumstances of the Opinion.

#### **DEPOSIT OF DOCUMENTS OTHER THAN COMMISSION DOCUMENTS**

16. Documents published for submission to the Council of Ministers by bodies or persons other than the Commission are eligible for deposit. Examples are proposals made to the Council by the Presidency or a member state, or reports by the Court of Auditors. However care should be exercised in relation to the following classes of document -

a. Opinions of the European Parliament or the Economic and Social Committee. These are not normally deposited (although they are received by Parliament direct from these two bodies) other than in the case of certain European Parliament documents dealing with the annual Community budget, for which a separate procedure has been devised.



- b. Correspondence from pressure groups to the Council.  
The bulk of such correspondence is ephemeral in character and is not therefore deposited in Parliament.

#### EUROPEAN COUNCIL DOCUMENTS

17. Documents published for submission to the European Council are eligible for deposit in Parliament. Whether or not a particular European Council document is deposited should be judged on the same criteria as for other documents falling within the Scrutiny Committees' terms of reference. The fact that documents usually issue only just before a European Council meeting is not in itself a reason for not depositing them in Parliament; this should be done as soon as possible after an English text has been received. Confidential documents for consideration at the European Council are sometimes published at a later stage. Departments should watch closely for advance copies and consider their status in consultation with the European Secretariat of the Cabinet Office (270 0190 or 0048) and the FCO (270-2319). (See paragraph 10 for guidance on documents emerging from the European and other Councils.)

#### CONFIDENTIAL DOCUMENTS

18. Some documents must by their nature remain confidential until adoption, for instance certain financial proposals or documents relating to anti-dumping measures. In order that such documents should not bypass the scrutiny procedure it has been agreed, at the request of the Scrutiny Committees, that the final agreed text of such documents should be deposited in Parliament along with an accompanying explanatory memorandum.

**III. PROCEDURE FOR PROVISION OF EXPLANATORY MEMORANDA****TIMETABLE**

19. Explanatory memoranda must normally be provided within 10 working days from the date of deposit of the Community document concerned, though the Scrutiny Committees accept that it may take longer in the case of documents which pose particular problems (eg where the lead Department needs to consult other interested Departments). In some cases it may be necessary to work to a shorter deadline where progress through Council is rapid. Departments can start to prepare explanatory memoranda before deposit and should do so when a draft instrument is likely to come before the Council for speedy adoption. The aim should be to submit explanatory memoranda as soon as possible, even if the official text is not available (see paragraphs 26-30), if this would help the Scrutiny Committees to proceed. In all circumstances where Departments expect the production of a memorandum to be delayed beyond the 10 day deadline, the European Secretariat of the Cabinet Office (270-0086 or 0241) should be informed of the reasons as early as possible before the expiry of that deadline. The Cabinet Office will in turn inform the Scrutiny Committees.

20. One reason for delay is the difficulty of deciding which Department has the main policy or financial interest in a particular proposal. Where Departments find themselves in this position, they should make urgent efforts to agree responsibility among themselves. Departments may exceptionally submit an explanatory memorandum signed by more than one Minister, or signed by one Minister on behalf of his own Department and also on behalf of a Minister from another Department. If Departments are unable to reach agreement, they should inform the Cabinet Office in writing within the 10 day deadline, setting out their

views on the allocation of responsibility for the proposal. In the light of the arguments presented, the Cabinet Office will take a decision on lead responsibility for the preparation of the explanatory memorandum. Departments will be requested to adhere to that decision. If, in the light of fuller discussion, it is decided that the eventual responsibility for the proposal, including participation in any scrutiny debate, lies with another Minister, the Cabinet Office will notify the Scrutiny Committees.

21. Normally only one explanatory memorandum should be prepared on each depositable document. However, if the document contains more than one proposal it may exceptionally be appropriate to issue more than one memoranda. In these circumstances the European Secretariat of the Cabinet Office (270 0086 or 0241) should be informed at the earliest opportunity, if possible before deposit. The Cabinet Office will in turn notify the staff of the Scrutiny Committee.

**FORM**

22. All memoranda should be dated and should bear the same Council number as the document to which they refer (to assist cross referencing the COM number of the document should also be shown). The standard form of explanatory memorandum is shown at Annex C. This form should be used for all proposals for legislation, for substantial amendments to legislative proposals, and for other documents published for submission to the Council of Ministers or the European Council. Exceptions to the provision of full, signed memoranda are rare, and are explained in paragraphs 35-38.

**CONTENT**

23. Explanatory memoranda should deal clearly with the matters covered by the standing headings shown in the model at Annex C so as to minimise the need for further enquiries by the Scrutiny Committees. In particular -

a. The description of the subject matter should be sufficient to enable Members of Parliament to understand broadly what is proposed without reference to the Community document itself. Where the proposal relates to particular kinds of goods or materials, examples should be quoted as an illustration. Reference numbers of any other relevant documents which have previously been scrutinised should be quoted and reference should also be made to reports by either Scrutiny Committee or to debates in either House which are directly relevant. References should not be made to any deferment of a document by either Committee.

b. Mention should be made, under the heading of Ministerial responsibility, of the Departmental Minister primarily responsible for a proposal (usually the Minister in charge of the Department even if another of the Department's Ministers signs the explanatory memorandum) and of any other Minister who may be involved.

c. The section on legal and procedural issues should contain four separate sub-divisions as follows:

(i) The Legal basis upon which the proposal relies should be identified (in accordance with the Prime Minister's written Parliamentary answer of 19 July 1979 - Hansard Vol 970 No 43 Col 777). This will normally be the Treaty Article cited in the preamble. In some cases, however, a proposal may be based on secondary Community legislation. In such cases the explanatory memorandum should refer to the subordinate legislation and the Treaty Article on which it was based. Occasionally a proposal may not cite any specific legal basis - for instance it may simply cite "the Treaty". In such cases, where practicable, the explanatory memorandum should identify any Article or Articles on which the proposal could have been based. Where there is a reference under "policy implications" to any questioning of the vires of a draft instrument (see paragraph 23 d.) a cross reference should be included here.

(ii) Mention should be made as to whether the co-operation procedure is applicable (see paragraphs 68-75).

(iii) Details of the voting procedure applicable for the proposal should also be separately identified.

(iv) The impact on United Kingdom law is of fundamental interest to the United Kingdom Parliament. Under this heading the aim should be:

- if there is an impact on United Kingdom law, to give as much detail as possible of the existing provisions or the area of existing law

(including both enacted and common law) likely to be affected, whether or not amending or new legislation will be required. Where the position differs in different parts of the United Kingdom, this should be explained in reasonable detail. If, however, there is no impact on existing United Kingdom law, or if the instrument is unlikely to have any implication in this country (eg a proposal relating to Community staff), it may be sufficient to state just that, with a brief explanation.

- to say what legislative action might be required to implement or supplement the instrument. Mention should also be made of any relevant domestic enabling powers; but there is no need at this stage to suggest whether these powers or the powers of section 2(2) of the European Communities Act 1972 will be regarded as more appropriate. The options can be left open for Ministerial consideration. Section 2(2) is very broad in scope and, because of the delays which could be expected, the possibility of using primary legislation should only be a serious option if other overriding factors point that way. In that event a brief explanation should be given.

d. The section on policy implications should present a clear factual account of what is principally at issue from the United Kingdom viewpoint. It may on occasion be helpful to give some factual background on the situation in the rest of the Community if this bears on the nature of the proposal

or its origin. If there are no policy implications it is better to avoid a bare negative and to explain why this is so, even at the risk of being obvious. Where possible, the Government's established attitude to a proposal should be given. Where appropriate, reference might be made to public or Parliamentary statements already made by Ministers on the subjects concerned. If it is intended to pursue in Council a point on the vires of a draft instrument, Departments should indicate this here (with a cross-reference under "legal basis") and provide, in layman's terms, an adequate explanation of the concerns. In addition, where another member state has publicly questioned the vires or the policy of the proposal, Departments should consider whether these concerns are sufficiently significant to be indicated under this heading. The memorandum should also mention any outside bodies which have been consulted, but should not attempt to summarise their views.

e. Where appropriate, Departments should also include among the policy implications of a proposal, a broad indication of whether implementation would be likely to impose a significant cost on business, whether in terms of direct cost or of management time, and of the likely effects of the proposal on employment. Guidance on the need to take account of the impact on business of proposals for Community legislation is given in EQO (Guidance)(87) 1. A Commission proposal for legislation sent to the Council should be accompanied by a note outlining the expected impact on business costs and jobs and the explanatory memorandum should comment on this note where appropriate.

f. Departments should provide information on financial implications for the Community, and on those for the United Kingdom if this can be done without prejudicing our

negotiating position. Where relevant information has been made available by the Commission (usually in the 'fiche financiere' attached to draft proposals) this should be given. If there is uncertainty about the Commission's figures ( eg when they differ from our own estimates) it should be noted that the estimates may be subject to revision. Where European currency units (ecus) are quoted, estimates should also be shown in sterling.

g. The entry under timetable should, in the case of a draft instrument, be as informative as possible on its likely progress in the Community institutions. Specific dates or phrases such as "before the end of December (year)" should be used in preference to "shortly" or "in the near future" whenever possible. It should in particular say whether or not the opinions of the European Parliament and the Economic and Social Committee have been sought (and give references to such opinions if they have by then been published) and indicate where possible when the instrument can be expected to come before the Council (see also paragraph 41 for urgent cases).

#### **CIRCULATION OF NUMBERED EXPLANATORY MEMORANDA**

24. Departments should distribute copies of all numbered explanatory memoranda, whether signed or unsigned (see paragraph 22), including supplementary memoranda (see paragraphs 32-34), as follows -



Vote Office, Norman Shaw Building (N), Victoria Embankment	150 copies
Printed Paper Office, House of Lords	25 copies
The Library, House of Commons	3 copies
Foreign and Commonwealth Office, ECD(I), (Room E 106)	2 copies
Cabinet Office (Room 344B)	9 copies
UK Permanent Representative, Brussels	1 copy
Clerk to Commons European Legislation Committee, Room 429, St Stephen's House, Victoria Embankment (if via IDS or by hand) or House of Commons, <u>London SW1A 0AA (if by post)*</u>	30 copies
Legal Adviser to Commons European Legislation Committee, Room 429, St Stephen's House, Victoria Embankment, <u>(if via IDS or by hand)</u> or House of Commons, <u>London SW1A 0AA (if by post)*</u>	1 copy
Clerk to Lords Select Committee on the European Communities, House of Lords	1 copy
Legal Adviser to Lords Select Committee on the European Communities, House of Lords	1 copy
Committee Office, European Communities Committee, House of Lords	4 copies
Reference Division, Central Office of Information	1 copy
Scottish Office (Scottish Education Department, Room 2/11, New St Andrew's House, Edinburgh)	1 copy
Welsh Office (EDS3, 1st Floor, New Crown Building, Cathays Park, Cardiff)	1 copy
Central Secretariat, Stormont Castle, Belfast BT4 3ST	1 copy

Addresses and details are subject to change and Departments are advised to use the circulation list included in the request for memoranda sent out by the Cabinet Office. Special arrangements apply to the distribution of unnumbered memoranda (see paragraph 28). Departments should ensure that other Departments who have been involved in the preparation of memoranda receive copies.

25. Departments may make explanatory memoranda available to their own libraries immediately after distribution to the Vote Office. Following agreement by Ministers in 1982, explanatory memoranda are also made available to the public in certain libraries in England by the Cabinet Office and to regional libraries via the Scottish and Welsh Offices and the Department of Education for Northern Ireland.

#### **UNNUMBERED EXPLANATORY MEMORANDA**

26. An unnumbered explanatory memorandum is a memorandum which describes a proposal to be considered by the Council of Ministers for which no depositable (ie no official or numbered) text exists. One should be prepared when -

- a. A document (including a lapsed proposal which is re-presented) is fast moving and is likely to come to the Council of Ministers for decision before a formal text, which can be deposited for Parliamentary scrutiny, is available. In an oral Parliamentary reply of 14 May 1980, the Lord Privy Seal said that where no depositable document was produced before a legislative proposal was considered by the Council, the Government would ensure wherever possible that the Scrutiny Committee was kept fully informed by the use of unnumbered memoranda.

b. The lead Department has a reasonable knowledge of the likely content of an anticipated document, for example because it has a working document or early draft in another Community language or because measures such as annual trade quotas are to be renewed.

In the Government's observations of April 1987 on the Second Special Report (Session 1985-86) from the Commons Scrutiny Committee (Cm 123) the Government gave an undertaking to present an explanatory memorandum as soon as practicable and to make every effort to provide unnumbered explanatory memoranda to explain developments.

27. Unnumbered explanatory memoranda should follow as closely as possible the form and content of numbered memoranda (including a Ministerial signature) except that where a reference number would normally be quoted the words "official text not yet received" should be inserted (see Annex C). When preparing unnumbered memoranda it is sometimes useful to annex an unofficial English version of the text, particularly if no depositable document is likely to be available for some time or if urgent clearance is being sought. In the case of bulky documents it may be more cost effective to send copies to the Clerks of the Scrutiny Committees only for information. The European Secretariat of the Cabinet Office (270 0190 or 0048) should be consulted about the desirability of making the proposals publicly available in the absence of an official text. Where a Council working document is used as the annex, care should be taken to remove all references which would indicate its origin. The memorandum should make it clear that the text is made available on the Government's authority only and that the text is not an authoritative Community document.

**CIRCULATION OF UNNUMBERED EXPLANATORY MEMORANDA**

28. Such memoranda are given a limited distribution as follows:

Vote Office	6
Cabinet Office	4
Scottish Office	0
Welsh Office	0
Central Secretariat, Stormont Castle	0
Other recipients	as for numbered memoranda

If it is certain that a depositable text will never exist the words "official text not available" should be inserted in the top right hand corner and then distributed in the usual way for numbered memoranda, except that 6 copies only should be sent to the Vote Office.

**ADDENDA TO UNNUMBERED EXPLANATORY MEMORANDA**

29. When the official text becomes available the Department should confirm with the European Secretariat of the Cabinet Office (270 0241 or 0086) that this text has been deposited in Parliament, and should prepare an addendum to the unnumbered memorandum which simply states that in their memorandum of [date] the words "official text not yet received" should be replaced by the Council document number. The addendum and copies of the memorandum bearing the Council document number should be circulated as follows:

	Addendum	Full numbered memorandum
Vote Office	1	6
Cabinet Office	4	5
Scottish Office	0	1
Welsh Office	0	1
Central Secretariat, Stormont Castle	0	1
Other recipients	1 copy to each	0

30. If at any stage it becomes known that an official text will not become available the Department should prepare an addendum which simply states that in their memorandum of [date] the words "official text not yet received" should be replaced by "official text not available". The distribution for the addendum and memorandum should follow that in paragraph 29.

**CORRIGENDA TO EXPLANATORY MEMORANDA**

31. Occasionally it may be necessary to amend an explanatory memorandum by issuing a corrigendum. The corrigendum should state clearly the date, reference number and title of the original memorandum and be circulated to all the recipients of that memorandum. Departments should inform the Vote Office (219-4669) before issuing one.

**SUPPLEMENTARY (UPDATING) EXPLANATORY MEMORANDA**

32. Supplementary (also known as updating) memoranda should be prepared if a document undergoes substantial revision from a policy point of view where it is clear that the proposal is to be considered by the Council with a view to adoption but no text is expected incorporating the intended amendment. The supplementary memorandum or letter should be sent in good time before final decisions are taken on the document. Supplementary memoranda may be appropriate in the following cases:

- a. documents for which scrutiny has not yet been completed, to ensure that the Committees are kept up to date with progress;
- b. documents which are awaiting debate (paragraph 85);
- c. documents on which the Scrutiny Committee reports that it is not at this stage recommending a debate but wishes to be kept informed of the progress of discussions with a view to reviewing its recommendation before a final decision is taken on the document;

- d. documents for which scrutiny has been completed, in which case "second stage scrutiny" arises (see paragraphs 62-63);

In the case of c. a letter either to the Chairman of the Committee from a Minister or the Clerks of the Committee from an official reporting developments may sometimes be adequate. However if the developments to be reported are of any real substance a supplementary explanatory memorandum (which goes to members of both Houses) is preferable to a letter (which goes only to the Scrutiny Committees).

33. Supplementary memoranda should in general follow the format for explanatory memoranda as closely as possible. Only the latest document of substance to have been considered by the Scrutiny Committees should be referred to in the top right-hand corner, though in the text of the memorandum appropriate reference should be made to reports by either Scrutiny Committee and to debates in either House. In certain cases, where the original Community text may be out of date, an informal revision can usefully be prepared and annexed to the supplementary explanatory memorandum. As with unnumbered memoranda, the texts are made available on the Government's authority only and the memorandum should make it clear that they are not authoritative Community documents.

34. When considering the choice between the preparation of an unnumbered explanatory memorandum or a supplementary explanatory memorandum, Departments should be aware that since the Single European Act came into force in July 1987, the Commission now submits revised texts more frequently than previously. Where it is expected that a revised text will be issued an unnumbered explanatory memorandum (see paragraphs 26-28) should be prepared

in preference to a supplementary memorandum. When the text is eventually issued an addendum, (see paragraphs 29-30) which is not subject to scrutiny, should be issued by the Department to complete the scrutiny process. When considering the appropriate timing for the preparation of an unnumbered supplementary explanatory memorandum, Departments should bear in mind the need for the scrutiny procedures to be completed before a proposal goes to the Council for adoption.

**SHORT, UNSIGNED EXPLANATORY MEMORANDA AND FOREIGN AND COMMONWEALTH OFFICE COVER NOTES**

35. Exceptions to the provision of full, signed memoranda are infrequent, but are as follows:

- a. Minor amendments to legislative proposals and to non-legislative documents which the Scrutiny Committees originally cleared (ie in the case of the Commons, found to be of no legal or political importance or, in the case of the Lords, have not been referred to a Sub-Committee) and which contain changes of little substance, but nevertheless need some explanation. In these exceptional circumstances a short, unsigned memorandum may be submitted. Where no explanation is considered necessary the FCO will attach a standard cover note to the document (see paragraph 38).
- b. Self explanatory factual reports which raise no policy issues. These may not require an explanatory memorandum, in which case the FCO will attach a standard cover note.
- c. Documents of a technical or administrative nature (in particular routine items of budgetary procedure), which may be submitted under a short unsigned memorandum.

d. Minor documents which, if appropriate, may be submitted under an FCO cover note if they are self-explanatory, or under a short, unsigned memorandum. COR and REV documents may be suitable candidates.

e. Where, under the co-operation procedure (see paragraph 72), the Commission issues a revised document for final adoption which does not differ in any significant respect from the Council's common position which has already completed scrutiny.

36. If Departments consider that a document falls into one of these categories they should consult the European Secretariat of the Cabinet Office (270-0190 or 0086) and should seek the advice of the staff of the Scrutiny Committees.

37. Short, unsigned explanatory memoranda should contain the same main headings at the top of the paper as a full signed memorandum (see Annex C). However the normal side headings (eg "Subject Matter") may be omitted as appropriate. Short, unsigned, memoranda should be distributed using the same circulation list as for full signed memoranda (see paragraph 24).

38. FCO standard cover notes can only be attached at the time of deposit. Examples of the cover note are at Annex D. The Cabinet Office will make the necessary arrangements with FCO once the procedures set out in paragraph 36 have been completed.

#### IV THE NORMAL SCRUTINY PROCESS

##### THE COMMITTEES

39. The Commons Scrutiny Committee is reappointed for the whole of each Parliament, its terms of reference being incorporated in Standing Order No.105 (see Annex A). The Lords Scrutiny



Committee members are appointed each session on a rotation basis: its terms of reference and those of its specialist Sub-Committees are given at Annex B. Each Committee is served by a Clerk, with supporting staff concerned with aspects of Community policy. The Lords Committee also appoints part-time specialist advisers for particular enquiries. In the Commons, the Clerks prepare briefs for the Committees on deposited documents and the Government's explanatory memoranda. In the Lords, the Chairman and Sub-Committees normally depend directly on Commission proposals and explanatory memoranda.

#### LIAISON WITH THE COMMITTEES

40. An FCO Minister of State has special responsibility on behalf of the Government for the proper functioning of the arrangements for assisting the work of the Scrutiny Committees; the FCO should therefore be consulted on any sensitive issues. The Leader of the House of Commons is concerned that the Government's Parliamentary obligations in relation to scrutiny procedure are fully met. The European Secretariat of the Cabinet Office acts as the central link between the Committees and Government Departments generally. The existence of this central link, however, does not detract from the importance of an effective working liaison between Departments and the staff of the Committees. Departments should deal only with the Committee Clerks or legal advisers, not with specialist advisers. Where Departments are in doubt as to the correct procedure they should consult the European Secretariat (270-0086 or 0190).

#### COMMITTEE MEETINGS

41. Before each meeting of the Commons Scrutiny Committee the European Secretariat of the Cabinet Office circulates the draft agenda, on which it invites Departments' comments. Departments should consider whether there is any other proposal on which an

urgent decision is needed from the Scrutiny Committee which ought to be included on the agenda and inform the Cabinet Office accordingly (270-0241 or 0086) (see paragraph 46). Departments should remember that this agenda is formally a confidential Committee working document. Agendas for the Lords Committee and its Sub-Committees are circulated by the Committee Office in the House of Lords. The European Secretariat of the Cabinet Office (270-0241 or 0086) can provide extra copies. If a Department identifies a proposal on which an urgent decision is needed, they should inform the Clerk concerned and the European Secretariat as early as possible (see paragraph 47).

#### GIVING EVIDENCE TO THE COMMITTEES

42. The Commons Scrutiny Committee is empowered to report on whether deposited documents raise questions of legal and/or political importance, to give its reasons for its opinion, and to report on what matters of principle or policy may be affected by a proposal. The Lords Scrutiny Committee is required to consider the merits of documents. Both Committees can take evidence both in writing and orally. Despite the difference in their terms of reference a similar approach should be followed in giving evidence to the two Committees.

#### WRITTEN EVIDENCE

43. Departments should meet specific requests by a Committee for supplementary information on proposals still under scrutiny. Such information is provided for the Committee alone and is not ordinarily laid before Parliament as a whole unless the Committee asks for this to be done. Departments should note that once information has been supplied to one of the Scrutiny Committees, even by means of an informal letter to the Clerk, it normally becomes evidence. It is then a matter for the Committee whether it decides to report and publish it. Departments should clear written evidence in draft with their usual contacts in the FCO, the European Secretariat of the Cabinet Office and any other interested Departments.

**ORAL EVIDENCE**

44. An undertaking has been given that Ministers and officials will be available to appear before the Committees to give evidence about Community proposals as required. The Clerks to the Committees have been asked to give as much notice as they can of the need for oral evidence - at least two weeks if possible where a proposal is not urgent. Arrangements have on occasion been made for Sub-Committees of the two Scrutiny Committees to meet concurrently for the hearing of evidence. Officials invited to give oral evidence should refer to the Memorandum of Guidance for Officials Appearing before Select Committees circulated by the Cabinet Office (OMCS) in March 1988. Copies are available from Machinery of Government Division, OMCS (270 6145). Departments should inform the European Secretariat of the Cabinet Office (270-0048) of any difficulties they experience in giving oral evidence.

**CONFIDENTIAL ORAL EVIDENCE**

45. If Departments consider that it would be helpful to give a Committee confidential information, they should only do so if the Committee agree to treat it accordingly. The Lords Scrutiny Committee have decided that, whenever confidential evidence is given in private, prior agreement should be reached with the witness on what, if any, record should be made. There are three options available: to have no record at all; to have a single private note by the Clerk; or to have a strictly limited number of copies of a transcript made which would be made available by the Clerk only to the Members of the Committee and their advisers. Documents related to that meeting would be treated on the same basis. Established procedures also exist in the Commons. These are set out in the OMCS memorandum (see paragraph 44).

**CONSIDERATION BY COMMITTEES**

a. Commons

46. The Commons Committee lists in its reports on each of its weekly meetings (usually held at 4 pm each Wednesday whilst the House is sitting) those documents which in its opinion raise questions of legal and/or political importance and require further consideration by the House; those that raise questions of legal and/or political importance, but where there is no recommendation that they should be debated; those raising no such questions; and a cumulative list of documents outstanding for debate.

b. Lords

47. In the Lords, documents are sifted by the Chairman (normally each Monday morning whilst the House is sitting), once an explanatory memorandum has been received, into those thought not to require special attention (Category A) and those remitted to the appropriate Sub-Committee for further consideration (Category B). A report on the progress of scrutiny is published by the Lords Committee, usually fortnightly, listing the decisions taken. List A records documents sifted as Category A since the previous report. List B gives all documents currently referred to Sub-Committees. List C records documents which previously appeared in List B but are not to be the subject of reports. Lists D and E record reports made for information and debate respectively over a convenient recent period.

**COMMITTEE REPORTS**

48. After each Scrutiny Committee meeting the European Secretariat of the Cabinet Office informs Departments of the decisions taken. The European Secretariat also circulates to Departments on a weekly basis a full list of outstanding debate recommendations. This list is also sent to the Scrutiny Committees. The Commons Committee's full recommendations are recorded in their weekly Reports to Parliament (copies are

available through HMSO), which normally appear a fortnight in arrears. This information is formally confidential until the report is published or a paragraph is placed in the Vote Office for a debate. Full information about the decisions of the Lords Committee is included in its Report on the Progress of Scrutiny, normally published fortnightly while Parliament is sitting (copies are available through HMSO).

#### SCRUTINY CLEARANCE

49. Once a document has been reported on by the Commons Committee with no recommendation for further consideration by the House, and has appeared in List A, C or D in the Lords Committee's report on the Progress of Scrutiny, the scrutiny procedures have been completed and there is no further obstacle from the Parliamentary point of view to the adoption of the document by the Council of Ministers. (But see paragraphs 53-54 on second stage scrutiny.) However either or both Committees may recommend that a document should be given further consideration by the House, ie debated (see Section VI). In this case the scrutiny procedures are not complete until the debate has been held, or in the case of Standing Committee debates, after referral to the House. Unless otherwise stated, debate recommendations made by the Commons Scrutiny Committee are for the Floor of the House. In the case of the Lords, if urgent clearance is required on a document awaiting debate, the Clerk should be consulted as soon as possible.

50. In certain cases the Commons Scrutiny Committee may decide not to recommend a document for debate but may indicate that it is relevant to a future debate on a specified area. Such a document is regarded as having completed scrutiny as soon as the Committee has reported on it. Departments are notified of such recommendations by the European Secretariat of the Cabinet Office in the weekly outcome letter. A list of such documents is also included in the Cabinet Office's weekly "items recommended for debate" list.

## SECOND STAGE SCRUTINY

51. The scrutiny procedure is normally complete once the Committee has reported on the document and any debate or debates recommended by the Committee have taken place. However, further scrutiny may be required if the proposals subsequently undergo substantial amendment, affecting United Kingdom interests, in the course of Council discussion (see also paragraphs 68-75). Departments should provide Parliament with information on any such changes so that the Scrutiny Committees can have a second look at the proposals and make a further recommendation for debate, if they so desire, before adoption by the Council. Second stage scrutiny is set in motion when the Department concerned deposits a supplementary explanatory memorandum on a proposal which has already been reported on or debated. Wherever possible this should be done at least six weeks before the proposal is due to be adopted by the Council. A chart to assist Departments in identifying candidates for second stage scrutiny is at Annex F.

52. The onus is on Departments to identify cases where such further information should be reported to Parliament. The European Secretariat of the Cabinet Office maintains a list of major proposals which, in the lead Department's view, are likely to warrant further reference to Parliament before adoption, together with Departments' forecasts of when such reference should be made. The European Secretariat trawls Departments periodically to ask them to consider whether they have any items that require second stage scrutiny and circulates a revised list in the light of information received.

**CABINET OFFICE RECORDS**

53. The European Secretariat of the Cabinet Office maintains a record of all documents which have been deposited in Parliament indicating their progress through the scrutiny process.

Departments should supply details of documents that have been adopted by the Council, and their adoption date to the European Secretariat (270-0241 or 0086) in a quarterly return.

**WITHDRAWAL OF RECOMMENDATIONS FOR DEBATE**

54. The Commons Scrutiny Committee has indicated that it is prepared to consider withdrawing a recommendation for a document to be debated in circumstances where the original recommendation is no longer valid. This may arise in the following circumstances -

a. Where the document in question has been withdrawn by the Commission. Arrangements have been made by the FCO to supply the Committee with lists of withdrawn documents following the Commission's periodical reviews of outstanding proposals.

b. When the document in question has been amended in such a way as to remove those features which the Scrutiny Committee identified as giving rise to the need for debate. If a Department believes this to be the case it should consult the European Secretariat of the Cabinet Office (270-0190 or 0048). Then either the Department should submit a supplementary explanatory memorandum to the Committee, or the responsible Minister should write to the Chairman of the Scrutiny Committee (see paragraph 66) explaining the circumstances and suggesting that the Committee might consequently give further consideration to the relevant document.

55. There is no formal procedure for the withdrawal of recommendations by the Lords Scrutiny Committee. It makes fewer recommendations for debate and these recommendations are normally acted on promptly. If however a case arises in which a Department feels that the need for a debate recommended by the Lords Scrutiny Committee may have been overtaken by events, it should consult the European Secretariat of the Cabinet Office (270-0190 or 0048).

#### GOVERNMENT UNDERTAKING

56. The objective should be to complete scrutiny well in advance of agreement on a proposal. Exceptionally, for instance during the Parliamentary Recess or when a proposal needs to make rapid progress through the Council machinery, a proposal may come before the Council of Ministers for decision before the Scrutiny Committees have had an opportunity to consider it, or before the scrutiny procedures have been completed. However, the period of negotiation is usually sufficient for such instances to be avoided. The Government has given Parliament an undertaking that Ministers will not give agreement to any legislative proposal recommended by the Commons Scrutiny Committee for further consideration by the House, before the House has given it that consideration, unless:

- a. the Committee has indicated that agreement need not be withheld, or
- b. the Minister decides that for special reasons agreement should not be withheld, in which case the Minister should explain the reasons for this decision at the first opportunity to the House.



The undertaking is embodied in a Resolution of the House of Commons of 30 October 1980 (see Annex E) but has also been given to, and should be held to apply to, the Lords. It was reinforced in the Government's response to the House of Commons First Special Report from the Select Committee on European Legislation, HC 527 and 126 iv Session 1983-84, which appeared in Hansard on 29 October 1984 Cols 800-802.

57. Even though the letter of the undertaking applies only to legislative proposals which have been considered by the Committees, the spirit of the undertaking should be observed in respect of all documents which involve a policy commitment, whether or not they have yet been considered by the Committees.

#### **EFFECT OF THE UNDERTAKING**

58. The effect of the undertaking is that a Minister should be advised not to give agreement in the Council of Ministers to the adoption of any document until the scrutiny procedures are complete, unless:

a. the relevant Committee has indicated that agreement need not be withheld

or:

b. the Minister decides that for special reasons agreement should not be withheld.

The undertaking does not specify what might constitute "special reasons", nor have the Committees subsequently expressed a view on the point. In giving evidence to the Commons Scrutiny Committee on 16 May 1984 (House of Commons First Special Report from the Select Committee on European Legislation, HC 527 and 126-iv Session 1983-84), the Leader of the House indicated a number of factors which would influence a Minister's decision in such circumstances:

- i. the need to avoid a legal vacuum which might arise if an existing measure were to expire without agreement to an extension or adoption of a successor measure;
- ii. the desirability of permitting a particular measure of benefit to the United Kingdom to come into operation as soon as possible;
- iii. the difficulty, particularly if the negotiations in the Community have themselves been difficult or protracted, of putting a late reserve on a measure which will either have little effect on the United Kingdom or which is likely to be of benefit to the United Kingdom.

59. Special considerations arise on proposals subject to the co-operation procedure under the Single European Act. (see paragraph 62 and 65).

60. The key point in meeting the needs of Parliament is that Departments must take steps to arrange debates and clear scrutiny procedures before Council consideration of a document reaches its final stages; adoption of a proposal or agreement of a common position without the completion of scrutiny procedures should be regarded as highly exceptional.

#### PARLIAMENTARY RESERVES

61. If it is likely that the Council will attempt to adopt a document on which, exceptionally, scrutiny has not been completed (see paragraphs 49-50), the normal practice should be for the Department to place a Parliamentary reserve at the

appropriate meeting of COREPER I, COREPER II or the Special Committee on Agriculture before the Council meets. It is acceptable even so for the Government, if content with the document, to indicate agreement subject to the Parliamentary reserve. Departments are responsible for ensuring that the FCO instruct UKREP to place a Parliamentary reserve on a document which has not completed the scrutiny procedures and for informing UKREP, via the FCO, when the reserve can be lifted. Where a scrutiny reserve is to be placed on a proposal the Minister need not write to the Chairman of the Scrutiny Committee(s) unless it is later decided that the reserve should be lifted before scrutiny clearance.

62. However, to place a scrutiny reserve on a common position would delay the cooperation procedure. This is unlikely to be in the United Kingdom's interests since the Presidency may be tempted to override the reserve. The procedures for dealing with scrutiny in the context of a common position are described in paragraphs 65 and 68-75.

**ACTION WHERE DOCUMENTS HAVE NOT BEEN CONSIDERED BY THE SCRUTINY COMMITTEES (PROPOSALS NOT SUBJECT TO THE CO-OPERATION PROCEDURE)**

63. In the case of a document yet to be considered by the Scrutiny Committees the European Secretariat of the Cabinet Office (270-0048 or 0190) should be consulted before a Minister is advised to agree to the document in Council without a Parliamentary reserve. If it is decided that a document is to be adopted in advance of scrutiny, the Minister responsible should explain in writing at the earliest opportunity why this is

necessary to the Chairman of both Committees where appropriate (see paragraph 66). The letter should indicate that once the Committee has had an opportunity to consider the document in question, the Minister would be prepared to make a statement to the House if the Committee considers that this is necessary. An unnumbered or other explanatory memorandum should also be supplied whenever appropriate. The only exceptions to this procedure are:

- a. documents, such as anti-dumping measures, to which special arrangements apply (see paragraph 18);
- b. routine items such as transfers of appropriations, which are often considered in Brussels before English texts are available in the United Kingdom;
- c. extensions of existing non-controversial arrangements, particularly where legal continuity needs to be preserved.

A Department which is unsure whether or not a proposal comes under one of these headings should seek the advice of the Committee Clerk.

**ACTION WHERE DOCUMENTS AWAIT DEBATE (PROPOSALS NOT SUBJECT TO THE CO-OPERATION PROCEDURE)**

64. In the case of documents awaiting debate the European Secretariat of the Cabinet Office (270 0048 or 0190) should be consulted before a Minister is advised that, for special reasons, agreement need not be withheld. When it has been agreed to take this course, the Minister responsible should be advised to write to the Chairman of the relevant Committee before the decision is taken in Council, explaining why he is satisfied that agreement should not be withheld, why a debate could not have been held before adoption, and indicating that a statement will be made to the House (see paragraph 67). When agreement is given subject to a Parliamentary reserve the Clerk(s) of the Committee(s) should be notified by telephone.

ACTION WHERE SCRUTINY HAS NOT BEEN COMPLETED (PROPOSALS SUBJECT TO THE CO-OPERATION PROCEDURE)

65. Where a proposal on which scrutiny clearance has not been obtained is expected to come before the Council for the adoption of a common position, the European Secretariat of the Cabinet Office (270 0048 or 0190) should be consulted and the following procedures should be observed:

- a. If the United Kingdom intends to vote for the proposal a scrutiny reserve may only be placed on the understanding that it must be lifted not more than seven days after the date of the vote in Council. Departments are responsible for informing UKREP (via FCO) when the reserve can be lifted, and must in all cases inform UKREP at latest by day seven. Where it is unlikely that scrutiny can be completed within this seven day period, or where a scrutiny reserve would otherwise be inappropriate, the procedures described in paragraphs 63-64 and 67 should be observed.
- b. If the United Kingdom intends to abstain or to vote against a proposal, the Minister concerned should explain the situation in writing in advance to the Chairman of the Scrutiny Committee(s) (see paragraph 66). However, in these circumstances a separate scrutiny reserve need not be placed or maintained.
- c. If the United Kingdom intends to abstain or to vote against a proposal as in (b) above but, owing to changes shortly before or at the meeting (eg Council amending the proposal or Commission tabling a revised proposal), finally votes in favour, the Minister concerned should explain the situation in writing to the Chairman of the Scrutiny Committee(s) (see paragraph 66) and, if necessary, provide a further explanatory memorandum as soon as possible after adoption. In these circumstances it is unlikely that a scrutiny reserve would be appropriate, but one may be placed in accordance with paragraph 65a. if scrutiny is expected to be completed not more than seven days after the vote in Council.

**CORRESPONDENCE WITH THE SCRUTINY COMMITTEES**

66. Whenever a Minister writes to the Chairman of the Scrutiny Committee(s), an appropriate sentence should be included in the letter along the lines of the following example:

"I am writing in similar terms to ....., [Chairman of the Lords/Commons Scrutiny Committee] and am copying this letter to the Leader of the House, the FCO Minister of State, [the Chief Whip (Lords)] the Secretary of the Cabinet and the Clerk to your Committee."

Letters to the Chairman of the Commons Scrutiny Committee should whenever possible be signed personally by a Minister. Such letters must be sent to the House of Commons and not to St Stephen's House. Copies to the Clerk of the Commons Scrutiny Committee should be addressed to St Stephen's House if being delivered by hand or by van. To avoid difficulties any such correspondence must refer to the Committee as the "Select Committee on European Legislation" and not "the Scrutiny Committee."

**STATEMENT TO THE HOUSE**

67. Where it has been necessary for a Minister to write to the Chairman of the Scrutiny Committee(s) (see paragraphs 63-66) the question of whether a statement to the appropriate House is required will depend on the outcome of the Committees' consideration. The Chairman will inform the Minister whether the Committee considers that a statement to the House should be made. The Commons Scrutiny Committee have commented that "this is a reasonable arrangement which prevents the House being provided with a mass of material that serves no obvious purpose" (House of Commons Second Special Report from the Select Committee on European Legislation, HC400 Session 1985-86). The opinion of

the Committee on whether an oral or written statement would be preferable should be taken into account. For cases of obvious importance, eg where a debate is outstanding (see paragraph 64), the Department should anticipate a request for an oral statement and advise the Minister that such a statement should be made at the earliest opportunity. The statement should include a reference to the scrutiny position, noting, if appropriate, when the document was recommended for debate and the reason why a debate could not have been held before adoption; explaining the special reasons why the Minister had decided not to withhold agreement; and if possible indicating the likely timing of a debate. An expression of regret at the impracticability of arranging an earlier debate will normally be appropriate.

#### V. THE SINGLE EUROPEAN ACT: CO-OPERATION PROCEDURE

##### INTRODUCTION

68. When a document is subject to the co-operation procedure set out in the Single European Act (SEA), Departments will need to monitor its progress carefully to be ready to keep the Scrutiny Committees informed of any amendments to the proposal. The following description of the co-operation procedure may help Departments to decide on the action required to ensure that the Government's scrutiny obligations to Parliament are fulfilled (see also paragraph 65). A chart to assist Departments in identifying the possible courses that a proposal might follow is at Annex G. If Departments are not clear on the procedure to be followed the European Secretariat of the Cabinet Office (270 0048 or 0190) should be consulted.

##### ARTICLES AFFECTED BY THE CO-OPERATION PROCEDURE

69. The co-operation procedure begins when the Commission puts forward a proposal to the Council under one of the relevant Articles of the Treaty of Rome i.e. Articles 7; 49; 54(2); 56(2) second sentence; 57 with the exception of the second sentence of paragraph 2 thereof; 100A; 100B; 118A; 130E; and 130Q(2) of the EEC Treaty as amended by the SEA.

PROCEDURE FOLLOWING THE ADOPTION OF A COMMON POSITION

70. Departments should inform the Scrutiny Committees and the European Secretariat of the Cabinet Office as soon as the Council adopts a common position. A proforma letter for this purpose is at Annex I. Departments should also forward to the Clerks of the Scrutiny Committees a copy of the text, as adopted, on the common position as soon as it is available.

71. When the Council adopts a common position by qualified majority the Council Secretariat sends the proposal to the European Parliament for its opinion. A decision by the European Parliament must be taken with 3 months. If the European Parliament:

- (i) approves the proposal
- (ii) takes no position

there is no need for any additional scrutiny procedure (see paragraph 75).

72. If the European Parliament rejects the Council's common position the Council may nonetheless adopt the proposal in accordance with its original common position, acting by unanimity. In this event no additional scrutiny is necessary (see paragraph 75). If, in the event of rejection by the European Parliament of the Council's common position, the Commission brings forward a revised proposal, the scrutiny implications set out in paragraph 73 apply.

73. If the European Parliament amends the Council's common position, the situation is more complicated. The Commission must, within one month, review the European Parliament amendments, and may put revised proposals to the Council. The Council, has to act within three months and may:



(i) adopt, by qualified majority, the "re-examined" proposal put to it by the Commission (which may consist of the Commission's original proposal, or a revised proposal including some or all of the Parliament's proposed amendments, or be the common position unamended). The scrutiny position here will vary from case to case. If the re-examined proposal does not differ in any significant respect, so that if the Scrutiny Committee(s) were to reconsider the proposal their original recommendations would be expected to stand, scrutiny may be regarded as having taken place on the common position. However in such a case, if a new document is issued by the Commission, a short, unsigned explanatory memorandum should be prepared. Where there is doubt over the significance of the changes or it is clear that the re-examined proposals do contain significant changes, especially on a point on which the Scrutiny Committee(s) has already expressed concern, the Scrutiny Committee(s) will expect to be consulted about it, and the Department concerned should normally submit a signed explanatory memorandum (see paragraph 34). In doing so, the Department should bear in mind the need for the scrutiny process to be completed before the matter comes to the Council for final decision. This is necessary (a) in order to avoid Ministers being put in the awkward position of having to impose a scrutiny reserve at the second stage on the same proposal and (b) to comply with the deadlines laid down in the co-operation procedure which stipulates that a revised proposal will lapse if the Council has not taken a decision on it within three months of its submission to the Council by the Commission (or a maximum of four months if the European Parliament agree to an extension). Other member states are unlikely to accept that a scrutiny reserve should cause a proposal to lapse.

(ii) amend and adopt, by unanimity, the Commission's revised proposal. Here too, the scrutiny implications would have to be considered case by case. The Council would presumably have considered and rejected the Commission's proposals (i. above) before considering an alternative approach, and if the Commission had revised its proposals these would have been deposited for scrutiny if necessary. Whether or not a further Explanatory Memorandum would need to be submitted would depend on how far the alternative version before the Council differed from earlier versions: if the Council decided to return to its original common position there would clearly be no need for any further scrutiny; if the alternative version before the Council involved important new proposals, scrutiny might be needed. (The situation here is no different from the position that exists when a proposal not covered by the co-operation procedure is altered during the course of negotiation (see paragraphs 51-52).

(iii) let the proposal lapse. After the Council has decided to let a proposal lapse, the Clerks to the Scrutiny Committees should be informed in writing. However if at a future date the Commission re-presents a lapsed proposal the scrutiny procedures will be reactivated. In such a case the Commission would normally reissue the proposal and scrutiny would take place on the new document. If Council consideration is expected and no re-issued text is available the Clerks to the Committees should be kept informed and an unnumbered explanatory memorandum should be prepared on the usual basis (see paragraphs 26-27).

74. The procedures described in paragraph 73 relate to the Commission's "re-examined" proposals as put to the Council. Such proposals may be based on the amendments suggested by the European Parliament, which themselves could be wide ranging and involve significant changes to the Council's agreed common position. The Foreign and Commonwealth Office will arrange for any European Parliament amendment to a proposal subject to the co-operation procedure to be made available informally in both Houses of Parliament and to the responsible Department. Any European Parliament amendments should be monitored very carefully by Departments as soon as they appear. This is particularly important in view of their potential incorporation by the Commission in a re-examined proposal or their possible adoption by the Council (by unanimity) when considering the document again. Early consideration of the European Parliament's amendments will be important. In view of the timing restrictions on Council action it will be essential to submit any memorandum as soon as possible after the Commission has put re-examined proposals to the Council.

75. Where a proposal on which the Council has adopted a common position is returned to the Council for final adoption without amendment (as described in paragraphs 71-72) or where no further explanatory memorandum has been necessary because the proposal is not significantly revised, Departments should inform the Clerks of the Scrutiny Committees in writing (copied to Room 344 B, European Secretariat, Cabinet Office) immediately after final adoption takes place. If in such circumstances a formal depositable document is eventually issued, a short unsigned explanatory memorandum will be required.

VI. ARRANGING DEBATES

## A. DEBATES IN COMMONS

## TIMING

76. Certain commitments have been given to the House of Commons Scrutiny Committee which condition the Government's handling of EC documents. In replying to the conclusions of the First Special Report (1983-84 Session) of the Scrutiny Committee on aspects of scrutiny procedure which had caused concern, the then Leader of the House of Commons said: "It is the Government's practice that debates on European documents should be held as far in advance as practicable of the expected adoption of the proposal concerned. It is desirable that this should be at the point when the voice of the House can be most influential. As a general rule, this will normally be early rather than late in the life of a proposal. The Committee rightly notes that the selection of an optimum time for debate is very much a matter of judgment. The Government fully accept the Committee's view that, when making this judgment, it should be the rule always to err on the side of an early debate." This was reinforced both in the Government's observations of April 1987 to the Second Special Report (Session 1985-86) of the Scrutiny Committee and in a letter dated 26 February 1988 from the Lord President of the Council to Ministerial colleagues. In order to fulfil these commitments it is necessary for Departments to initiate action as soon as possible after the Committee's recommendation has been made; good advance notice is required to arrange a debate within what is usually a congested programme of Parliamentary business. The first stage of this action is collective consideration in Legislation (L) Committee of the need for a debate, its possible timing and the terms of a Resolution. There should be a presumption that an early debate will take place, but there will be cases where it can be argued that no debate should take place before agreement in Brussels or where debate should take place very much later than would be implied by the general guidelines.

## THE ROLE OF LEGISLATION COMMITTEE

77. The handling arrangements for Parliamentary consideration of EC documents are decided by Legislation Committee (L). When the Scrutiny Committee recommends a document for debate, the Department should prepare a letter for their Minister to send to the Chairman of L, copied to the Committee members, members of OD(E), other Ministers with a Departmental interest in the subject, the Secretary of the Cabinet and the Secretaries of L and OD(E). Normally the Department will first wish to await a copy of the Scrutiny Committee's report, but, if the Department considers that a debate is needed within the course of the following couple of months, a letter should be sent as soon as possible. The L Secretariat in the Cabinet Office (270 0135) should be contacted to discuss the handling of particular cases as soon as possible after the Scrutiny Committee has recommended a document for debate. In no case, even when an early debate is not required, should an approach to the Secretariat be left longer than 6 weeks. Normally the Minister responsible should write to the Chairman of L Committee within this six week period. A chart to assist Departments in identifying the procedures to be followed for the arrangement of an EC debate is at annex J.

78. In some cases, the Scrutiny Committee may recommend documents for debate in the knowledge that further documents taking into account later developments are likely to be produced. In such cases, the Scrutiny Committee usually asks Departments to keep them informed of developments in Brussels, and eventually recommends that the later documents only should be debated. Where this outcome seems probable, it may be appropriate for the Minister to delay writing to L until the definitive documents have been produced and have been, or are likely to be, recommended for debate. Departments should review the position of such documents on a regular basis and keep the L Secretariat informed of the latest state of play.

79. L Committee usually meets every week from the beginning of a Parliamentary Session until Easter. Meetings normally take place on a Wednesday, and letters to be considered by the Committee should be circulated by the preceding Wednesday at the latest. The letter, along with any responses that it has prompted from Departments, will be added to the agenda of the meeting, and the handling of the debate will be discussed at the meeting. The aim is for decisions on handling to be taken, if possible, well in advance of the likely date of agreement in Brussels. It is then for the Department concerned to liaise with the Chief Whip's Office on the precise timing of the debate in consultation with the Foreign and Commonwealth Secretary's office. The Committee rarely meets after Easter, and meetings may from time to time be cancelled between the beginning of a Session and Easter because of lack of business; (the Committee would not normally meet solely to consider the handling of scrutiny debates). Where necessary, therefore, handling arrangements will be agreed in correspondence.

80. The letter to the Chairman of L, whether it is for discussion at a meeting or for clearance in correspondence, should be short, and should give only such details of the substance of the document as are necessary to enable the Committee to form a view on its Parliamentary handling. It should cover the following points:

- a. The recommendation made by the Scrutiny Committee, particularly whether or not the proposed debate is suitable for Standing Committee.
- b. The tactical considerations, in particular the state of negotiations in Brussels and its implications for the timing of a debate. To meet the requirements of genuine Parliamentary scrutiny, it will generally be desirable to hold a debate early, rather than immediately prior to final

Council consideration. If there are special factors which require a debate to be delayed until shortly before, or even after, agreement has been reached in the Council, these factors should be brought out at this stage. In those circumstances, the Committee may wish to consider whether the Chairman of the Scrutiny Committee should be informed and whether the use of a Parliamentary reserve would be appropriate (see paragraphs 61-65). Wherever possible the debate should be held before final Council consideration to avoid the need for a Parliamentary reserve.

c. Where and when the debate should take place, eg on the Floor of the House after 10.00 pm or in Standing Committee, and whether it needs to be held before a specified date. If the Minister's recommendation differs from that of the Scrutiny Committee, the letter should explain why.

d. The exact wording of the Motion (see paragraph 85). This should include a reference to all the documents which are to be the subject of the debate, including any unnumbered or supplementary memoranda issued or under preparation for the debate. (Examples of recent motions are given at Annex H.)

e. The proposed line, including the line to be taken on likely amendments to the Government motion.

Points d. and e. need not be covered in detail if a debate is not proposed for the near future. However, at least two weeks before a debate is eventually held, and following consultation with the Chief Whip's office and the Foreign and Commonwealth Secretary's office on the timing of a debate, a further letter covering these points should go to L and OD(E), and any other interested Ministers, with a copy to the Secretary of the Cabinet, and the Secretaries of L and OD(E).

#### CONSULTATION WITH BACKBENCHERS

81. When the subject matter of the Community document is controversial the Minister concerned might wish to consult the chairman of the relevant back-bench subject group and possibly other Government back-benchers. Any such consultation should preferably take place before the relevant meeting of L, so that the Minister is in a position to report the outcome of these discussions.

#### PLACE AND TIMING

82. Debates may be taken either on the Floor of the House or in Standing Committee. As a general rule only the more technical and specialised Community documents are likely to be recommended by the Scrutiny Committee as suitable for debate in Standing Committee. The final decision on where the debate is held will be taken by the business managers. For instance the Chief Whip's Office may wish to explore the possibility of debates being taken in Standing Committee to relieve the pressure on time on the Floor unless the subject is of major importance and needs to be debated on the Floor. The Lord President has undertaken if possible to give additional notice of debates in Standing Committee. Departments should ensure that L Committee clearance is sought as early as possible (see paragraph 91).

#### DURATION

83. Debates on the Floor of the House are usually held after 10.00 pm and last for up to 1½ hours. Exceptionally that time may be extended or prime time may be provided. House of Commons Standing Order No 102(4) provides for up to 2½ hours of debate in Standing Committee.

#### FORM OF GOVERNMENT MOTION AND AMENDMENTS

84. Debates on Community documents are held on an expanded take note motion. This should cite the relevant documents by their



Council numbers and any unnumbered or supplementary explanatory memoranda issued or under preparation for debate; and should indicate Government policy on the document. Departments should also ensure that any relevant documents not recommended for debate (see paragraph 50) are 'tagged' to the motion as being relevant to the debate. Before the Minister writes to the Chairman of L Committee if practicable, or in any event before approaching the Whip's Office, Departments should seek the advice of the Clerk of the Commons Scrutiny Committee on the description of the documents in the motion's wording and his views on whether the motion as a whole falls within Standing Order No 14(1)(b) if a debate after 10 pm is being sought. This is to ensure that all the relevant references to documents are correct before the motion is printed in the Order Paper. For debates on the floor of the House, the Chief Whip's office should receive the agreed terms of the motion from Departments, at the latest by Tuesday evening preceeding Thursday's business statement. Later additions should only be made where they are unavoidable, particularly bearing in mind the timetable for approval described elsewhere. Amendments to motions may be tabled by any Member and are selected by the Speaker, or in the case of a Standing Committee, by the Chairman.

#### SUPPLEMENTARY EXPLANATORY MEMORANDA

85. Departments should consider whether Parliament has been given sufficient information on the latest state of Council discussions on the document. Any supplementary explanatory memorandum should preferably be provided at least 48 hours before debate and should if possible be submitted early enough to allow time for the Scrutiny Committee to consider and report further on the document.

#### SCOPE OF SPEECHES

86. The Minister, or Ministers, responsible for the document opens and winds up the debate on the Floor and in Standing

Committee. The Minister's opening speech should explain the contents of the document and any relevant scrutiny points; when the debate is being held after the adoption of the document the speech should cover the ground dealt with in paragraph 67.

#### **REFERENCE TO NEW COMMUNITY DOCUMENTS**

87. Exceptionally, the Minister might wish to include in the motion a Community document not seen or recommended for debate by the Scrutiny Committee, or to refer to a new Community document which has not been included in the motion; in such cases the European Secretariat of the Cabinet Office (270-0048 or 0190) and the Chief Whip's Office should be consulted in advance. The Speaker has ruled that a Minister is free to quote from a Community document only where it has been available in the Vote Office at least two hours prior to debate (19.6.80 Hansard Vol 986 No 188, Col 301). The text of any such document must be in English.

#### **ACTION WHERE DOCUMENTS ARE NOT COVERED BY STANDING ORDERS**

88. European Community documents are defined in the House of Commons Standing Order No 3 as "draft proposals by the Commission of the European Communities for legislation and other documents published for submission to the Council of Ministers or to the European Council whether or not such documents originate from the Commission". The standing orders of the House expressly provide for documents so defined to be debated after 10.00 pm on the Floor or to be referred to a Standing Committee. However, some documents (mostly budgetary) fall outside this definition and special arrangements need to be made if they are to be referred to Standing Committee or to be debated after 10.00 pm. The Department must advise the Chief Whip's Office in writing of such cases.

#### **ACTION WHERE THE DEBATE IS ON THE FLOOR**

89. The Leader of the House announces the debate, its date and the documents to be taken in the Thursday Business Statement in

the House in the week immediately prior to the debate. All documents and memoranda included in the motion are referred to in the Business Statement (or in its Annex which is printed in Hansard but not read out in the House) and it is the responsibility of the Department to ensure that copies are available in the Vote Office by lunchtime on the day of the statement.

**ACTION WHERE THE DEBATE IS IN STANDING COMMITTEE**

a. Motions to be tabled

90. The Chief Whip's Office will table the necessary motions to refer the documents to Standing Committee. If the Motion is agreed to by the House, the item will normally be included on the agenda of the next meeting of the Committee of Selection, which will select the membership of the Standing Committee. The Selection Committee will normally meet on the Wednesday before the debate in Standing Committee to select members for the items on the agenda over the next two weeks. Departments should take note of this timetable in view of the Lord President's wish to give adequate notice. At the very latest, the Friday before the Standing Committee meets, the responsible Department should contact the Public Bill Office, House of Commons, about the terms of the motion which the Minister intends to move in the Committee. The Public Bill Office will advise on the form of the motion but generally the motion will be that agreed in Legislation Committee prefaced by the words "that the Committee takes note of European Documents ...". This is printed as a notice of motion on a separate (blue) sheet circulated together with the Order Paper, usually the Monday before the Committee meets. On the day of the meeting the motion is recirculated on a white sheet.

b. Attendance

91. Any Member of the House may attend the Committee, speak and propose amendments, but only the members of the Committee may vote on the motion.

c. Report to the House

92. Following their meeting, and usually on the same day, the Standing Committee reports the document to the House, together with any resolution to which it has come. This report appears in the Votes and Proceedings of the House for that day, and is normally published the following morning.

d. Referral to the Floor

93. Subsequently the Chief Whip's Office tables a Government motion on the Floor of the House on the document reported from the Committee. The terms of this motion will normally be identical to that agreed by the Standing Committee. For documents reported on Thursday and Friday, the approving motion will normally be put down for consideration on the following Monday; on other days the motion will normally be put down for the following day.

**B. DEBATES IN THE LORDS**

94. Debates on Community documents in the House of Lords normally take place on the basis of a motion referring to the relevant report of the Scrutiny Committee. When a document has been recommended for debate in the House of Lords, L Committee needs to be consulted only if particular problems are likely to arise. The motion is customarily moved by a member of the Scrutiny Committee (who will usually be the Chairman of the relevant sub-Committee). The arrangements for these debates are therefore not wholly in the hands of the Government (who in any case have no formal control of business in the Lords) but liaison between the Government Whip's Office and the Clerk of the Committee ensures that debates are arranged at a time of mutual convenience. The motions to take note of Reports awaiting debate are included in the section "No Day Named" in the Lords Order Paper. Occasionally reports which have been made for the information of the House (List D) are given a short debate in the context of an unstarred question: such debates are handled according to the usual procedure for unstarred questions.

VII. PROCEDURE TO BE FOLLOWED BETWEEN PARLIAMENTS

**SUMMARY**

95. There can be no hard and fast rules on the procedure to be followed during the interregnum between two Parliaments. The procedures described below are based on the arrangements followed during the 1987 General Election. The Cabinet Office will issue additional guidance on procedure as necessary when a General Election is called.

96. For scrutiny purposes, the "election period" runs from the date of the dissolution of Parliament until the reconstitution of both Committees. When a General Election is announced normal scrutiny procedures continue to apply until the dissolution of Parliament at which point the Scrutiny Committees cease to exist. Interim arrangements then come into effect.

- In the case of the Lords Scrutiny Committee normal procedures will resume once its Chairman, who is automatically reappointed under Standing Orders, has taken the Oath of Allegiance. This usually occurs as soon as Parliament returns after the General Election (ie several days before the State Opening of Parliament). The first Chairman's siff for the Lords Committee is likely to take place on the Monday following the State Opening.
- In the case of the Commons, the Scrutiny Committee is appointed under a Standing Order of the House; the Committee will therefore not require any action on the part of the House to ensure its continuation once Parliament returns although it cannot meet until members have been nominated by the House which may take several weeks. It is formally for the Committee to elect a Chairman from among its members but, in practice, the Chairmanship will be settled by agreement between the Government and Opposition Whips. The Committee usually formally elects a Chairman at its first meeting, although this may not always be the case (eg 1987).

- Normal procedures for the deposit of documents and submission of explanatory memoranda are resumed with the State Opening of Parliament. However arrangements for letters to the Chairman of the Commons Scrutiny Committee are not resumed in full until the Chairman has been appointed (see paragraph 105).
- A chart showing the various stages is at Annex K.

### **DEPOSIT OF DOCUMENTS**

97. During the dissolution the flow of documents from the Commission continues. Although formal deposit cannot take place during the dissolution, the Foreign and Commonwealth Office will continue to supply Community documents to the Clerks of the Scrutiny Committees as soon as they are published. The FCO will also arrange for other recipients of documents (eg the Vote Office) to be sent their normal allocation of documents. This should avoid a backlog on the resumption of Parliament.

98. Formal deposit can only take place following the State Opening of Parliament. Documents which have been distributed by the FCO during the dissolution will then be deposited automatically accompanied by a special cover note.

99. During the dissolution Departments will continue to be notified as normal by the Cabinet Office of all documents supplied to the Scrutiny Committee Clerks with a request for Departments to prepare explanatory memoranda on them.

### **EXPLANATORY MEMORANDA**

100. Until the dissolution of Parliament, explanatory memoranda (EMs) and any Ministerial letters should be submitted as normal and should arrive no later than the last full working day before dissolution.

101. During the dissolution, Departments should continue to prepare explanatory memoranda in all respects except two: the section dealing with "policy implications" should await the incoming Government, as should the Ministerial signature. These informal explanatory memoranda should be prepared in accordance with the normal timetable but should not be submitted to Parliament. However departments should pass a copy of each informal draft memorandum to the Clerks of the Scrutiny Committees and to the European Secretariat, Cabinet Office (Room 338).

102. Explanatory memoranda for all documents falling under the election period procedure should be submitted in their completed form with a policy input and Ministerial signature as soon as possible following the State Opening of Parliament. If necessary, completed signed unnumbered explanatory memoranda can be submitted from the date on which Parliament returns following the election. This date usually precedes by 7 or 8 days the State Opening, the day on which formal deposit of documents recommences. Scrutiny of documents will not start in the Commons until the Scrutiny Committee has been appointed. (In 1987 this was some three weeks after the State Opening: in 1983 the period was nine weeks).

#### **DOCUMENTS ALREADY RECOMMENDED FOR DEBATE AND NOT YET DEBATED**

103. After the final meeting of the Commons Scrutiny Committee before the dissolution, the Cabinet Office will circulate to Departments a list of documents recommended for debate, but on which no debate has taken place. Whilst it will be open to the reconstituted Scrutiny Committee to reconsider these recommendations the presumption is that they stand.

**ADOPTION OF PROPOSALS BY COUNCIL BEFORE COMPLETION OF SCRUTINY**

104. The Government gave an undertaking, embodied in the Resolution of the House of Commons on 30 October 1980, that Ministers will not give agreement in the Council of Ministers to a proposal recommended for further consideration by the House before the House has given it that consideration, except in certain circumstances. Even in a General Election period these occasions should be infrequent. If a Minister decides to give agreement before the scrutiny process has been completed, the procedures described in paragraph 105 below must be observed. The European Secretariat of the Cabinet Office (270 0048 or 270 0190) should be consulted.

105. If, following the dissolution, a Minister needs to give agreement to a measure in advance of scrutiny clearance and before the Scrutiny Committees have been appointed, he should write to the Leader of the House of Commons (or if appropriate to the Leader of the House of Lords) with copies to the Minister of State at the Foreign and Commonwealth Office and the Secretary of the Cabinet explaining why agreement is likely to be, or was, necessary. Blind copies of such letters should be passed to the Clerks of each Committee for information. Where agreement is to be given to the adoption of a document recommended for debate but not yet debated, the letter to the Leader of the House should make clear the Minister's intention to make a statement to the House at the earliest opportunity. Where the document in question has not yet been considered by the Scrutiny Committee, the letter should explain the Minister's intention to write to the Committee Chairman (see paragraph 106) to inform him of developments and to offer to make a statement to the House if this would be considered helpful. The procedures described in this paragraph will cease to apply when the Commons Scrutiny Committee is appointed.



106. The European Secretariat of the Cabinet Office will inform Departments of the date of the Commons Scrutiny Committee's first meeting. It will also inform Departments when a Chairman has been elected by the Committee. At this point normal procedures will resume. Until then, in order for Ministerial letters to be given early consideration by the Committee, Ministers should be advised to address letters to the Chairman on an impersonal basis (ie Dear Chairman) and send them direct to the Clerk (copied as normal - see paragraph 66).

**CHANGE OF GOVERNMENT**

107. The above arrangements will apply where the Government of the day is re-elected. Where a new Government is elected it will be necessary to obtain Ministerial agreement to the procedures to be followed. Responsibility will lie with the Foreign and Commonwealth Office to consult their Ministers who in turn will seek the agreement of their colleagues, in particular consulting the Leaders of the House of Commons and the House of Lords. Once agreement to the new procedures has been obtained the Cabinet Office will notify Departments by letter.

108. Departments should try to ensure that the submission of explanatory memoranda is not unduly delayed. Incoming Ministers will have to be prepared to report, as appropriate, on documents adopted since the dissolution of Parliament, if necessary making statements to the House.

COMMONS SCRUTINY COMMITTEE  
TERMS OF REFERENCE

The Select Committee on European Legislation is appointed under Standing Order No 105, viz:

Select Committee on European Legislation

105. (1) There shall be a Select Committee to consider draft proposals by the Commission of the European Communities for legislation and other documents published for submission to the Council of Ministers or to the European Council whether or not such documents originate from the Commission, and to report its opinion as to whether such proposals or other documents raise questions of legal or political importance, to give its reasons for its opinion, to report what matters of principle or policy may be affected thereby, and to what extent they may affect the law of the United Kingdom, and to make recommendations for the further consideration of such proposals and other documents by the House.
- (2) The Committee shall consist of sixteen members.
- (3) The Committee and any Sub-Committee appointed by it shall have the assistance of the Counsel to Mr Speaker.
- (4) The Committee shall have the power to appoint specialist advisers for the purpose of particular inquiries, either to supply information which is not readily available or to elucidate matters of complexity within the committee's order of reference.

- (5) the Committee shall have power to send for persons, papers and records; to sit notwithstanding any adjournment of the House; to adjourn from place to place; and to report from time to time.
- (6) The quorum of the Committee shall be five.
- (7) The Committee shall have power to appoint Sub-Committees and to refer to such Sub-Committees any of the matters referred to the Committee.
- (8) Every such Sub-Committee shall have power to send for persons, papers and records; to sit notwithstanding any adjournment of the House; to adjourn from place to place; and to report to the Committee from time to time.
- (9) The Committee shall have power to report from time to time the minutes of evidence taken before such Sub-Committees.
- (10) The quorum of every such Sub-Committee shall be two.
- (11) The Committee or any Sub-Committee appointed by it shall have leave to confer and to meet concurrently with any Committee of the Lords on the European Communities or any Sub-Committee of that Committee for the purpose of deliberating and of examining witnesses.
- (12) Unless the House otherwise orders, each Member nominated to the Committee shall continue to be a member of it for the remainder of the Parliament.

LORDS SCRUTINY COMMITTEE  
SELECT COMMITTEE ON EUROPEAN COMMUNITIES:  
TERMS OF REFERENCE AND SUB-COMMITTEES

TERMS OF REFERENCE

That a Select Committee be appointed to consider Community proposals whether in draft or otherwise, to obtain all necessary information about them and to make reports on those which, in the opinion of the Committee, raise important questions of policy or principle, and on other questions to which the Committee consider that the special attention of the House should be drawn;

That the Committee have power to appoint Sub-Committees and to refer to such Sub-Committees any of the matters within the terms of reference of the Committee; that the Committee have power to appoint a Chairman of Sub-Committees, but that such Sub-Committees have power to appoint their own Chairman for the purpose of particular enquiries; that two be the quorum of such Sub-Committees;

That the Committee have power to co-opt any Lord for the purpose of serving on a Sub-Committee;

That the Committee and any Sub-Committees have power to adjourn from place to place;

That the Committee have power to appoint specialist advisers;

That the Committee have leave to report from time to time;

That the Reports of the Select Committee from time to time shall be printed, notwithstanding any adjournment of the House;

That the Minutes of Evidence taken before the Committee or any Sub-Committee from time to time shall, if the Committee think fit, be printed and delivered out; and

That the Committee or any Sub-Committee appointed by them have leave to confer and to meet concurrently with any Committee of the Commons on European Legislation, etc or any Sub-Committee of that Committee for the purpose of deliberating and of examining witnesses; and have leave to agree with the Commons in the appointment of a Chairman for any such meeting.

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#### **SUB-COMMITTEES**

Sub-Committees of the House of Lords Scrutiny Committee are -

- a. Finance, Trade and Industry and External Relations
- b. Energy, Transport and Technology
- c. Social and Consumer Affairs
- d. Agriculture and Food
- e. Law and Institutions
- f. Environment

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#### **TERMS OF REFERENCE OF SUB-COMMITTEE E (LAW AND INSTITUTIONS)**

To consider and report to the Committee on:

- a. any Community proposal which would lead to significant changes in United Kingdom law, or have far-reaching implications for areas of United Kingdom law other than those to which it is immediately directed;
- b. the merits of such proposals as are referred to them by the Select Committee;
- c. whether any important developments have taken place in Community law; and
- d. any matters which they consider should be drawn to the attention of the Committee concerning the vires of any proposal.

STANDARD FORM OF EXPLANATORY MEMORANDUM

[Council number\*]  
[COM number]

EXPLANATORY MEMORANDUM ON EUROPEAN COMMUNITY LEGISLATION\*\*

[Title of document]

Submitted by the [Department]

[day/month/year]

SUBJECT MATTER

MINISTERIAL RESPONSIBILITY

LEGAL AND PROCEDURAL ISSUES

- i. Legal basis
- ii. Co-operation procedure
- iii. Voting procedure
- iv. Impact on United Kingdom Law

POLICY IMPLICATIONS

(including possible impact on business costs and employment)

FINANCIAL IMPLICATIONS

TIMETABLE

OTHER OBSERVATIONS

[Minister's signature]  
[Title]  
[Department]

\* For an unnumbered Explanatory Memorandum substitute "Official text not yet received", or "Official text not available" as appropriate.

\*\* For Explanatory Memoranda on documents not containing proposals for legislation substitute the word 'DOCUMENT' for 'LEGISLATION'.

RESTRICTED



RESTRICTED

STANDARD FORMS OF FCO COVER NOTE

The attached document, dealing with .....  
.....  
is a self-explanatory factual report prepared by the Commission  
on which no explanatory memorandum is considered necessary.

The lead Department is -

or

The attached document, dealing with minor amendments to .....  
.....  
is self-explanatory and no explanatory memorandum is considered  
necessary.

The lead Department is -





HOUSE OF COMMONS RESOLUTION OF 30 OCTOBER 1980

"Resolved,

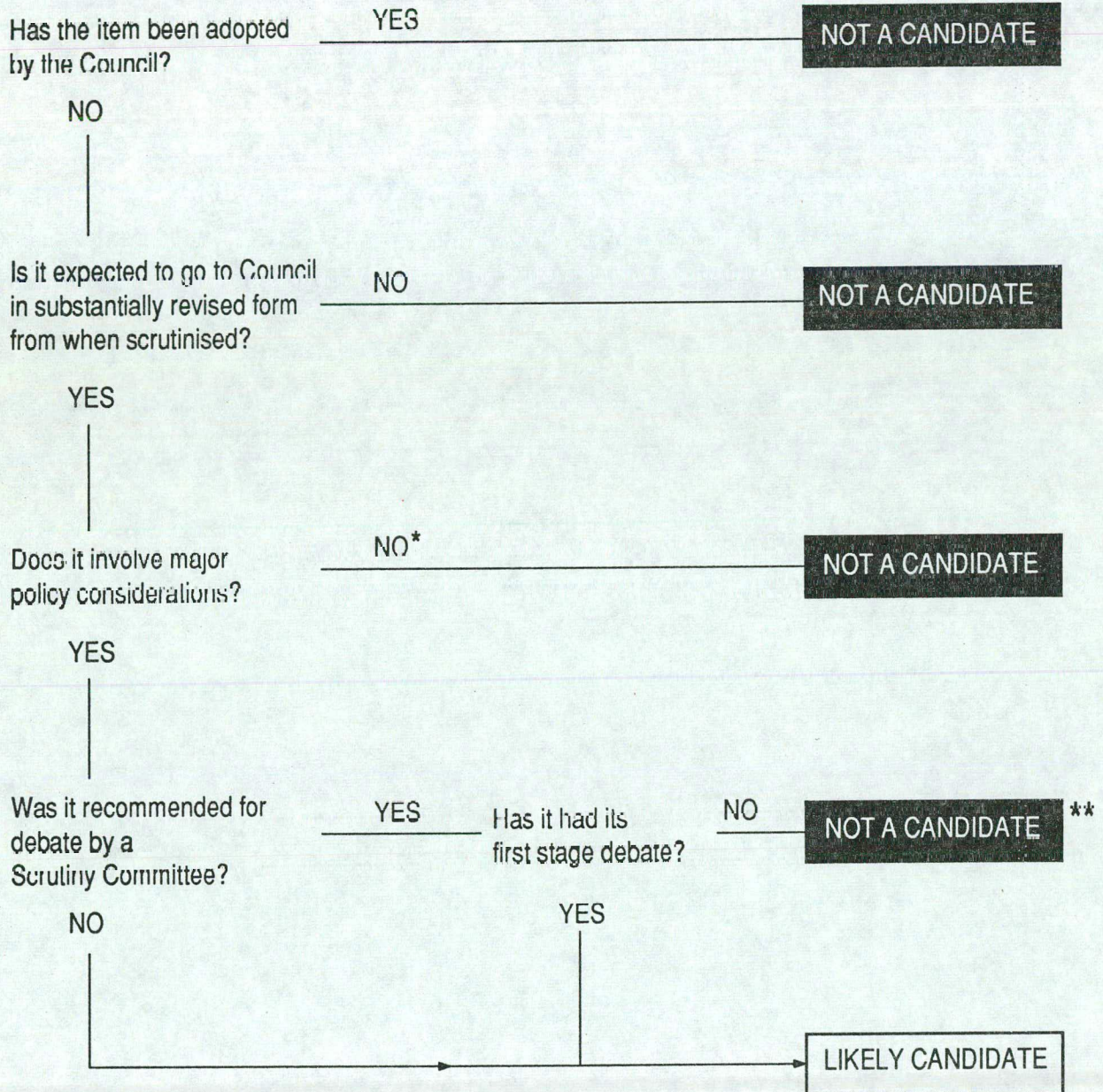
That, in the opinion of this House, no Minister of the Crown should give agreement in the Council of Ministers to any proposal for European Legislation which has been recommended by the Select Committee on European legislation, for consideration by the House before the House has given it that consideration unless -

- a. that Committee has indicated that agreement need not be withheld, or
- b. the Minister concerned decides that for special reasons agreement should not be withheld;

and in the latter case the Minister should, at the first opportunity thereafter, explain the reasons for his decision to the House."



# Criteria to be applied for second stage scrutiny



\* The agreement of the European Secretariat should be sought.

\*\* In these circumstances first stage scrutiny has not been completed.



Options to be applied to second six to six

[Redacted]

1960-1961

1961-1962

[Redacted]

1962-1963

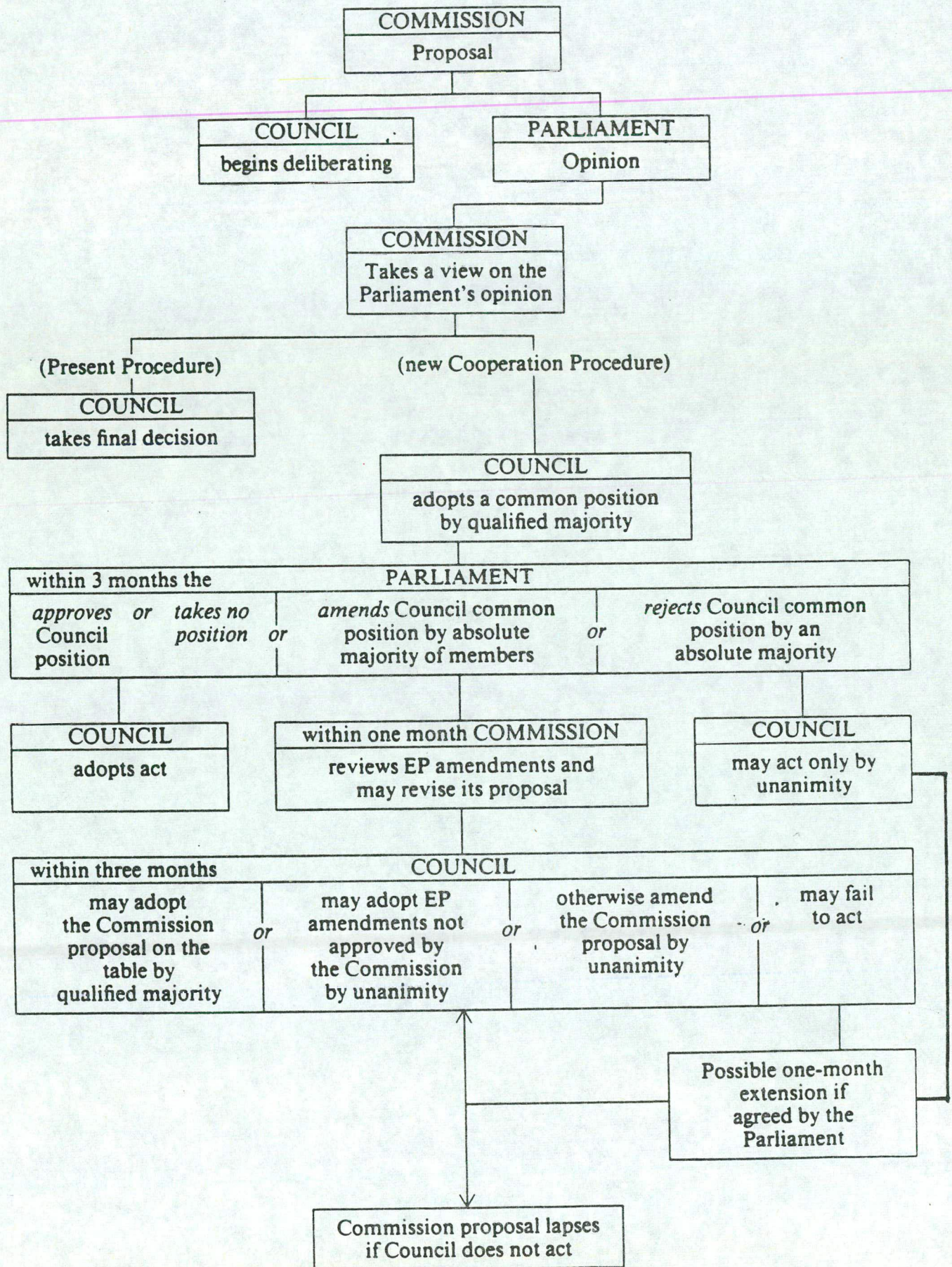
[Redacted]

1963-1964

[Redacted]

1964-1965

# FLOW-CHART ILLUSTRATING LEGISLATIVE PROCESS IN THE COMMUNITY





EXAMPLES OF MOTIONS FOR DEBATES ON COMMUNITY DOCUMENTS

That this House, while stressing the importance of maintaining continued close links between Greenland and the Community, recognises that the proposed change in the status of Greenland has wide support; and takes note of European Community Document No. 5064/84 transmitting legal texts providing for a change of the legal status of Greenland and fishery arrangements with regard to Greenland.

That this House takes note of the unnumbered explanatory memorandum dated 31st January 1987, submitted by the Department of Trade and Industry, describing a draft Decision concerning the Agreement between the European Community and the United States of America for the conclusion of negotiations under General Agreement on Tariffs and Trade (GATT) Article XXIV.6, and European Community Document No. 5062/87 and the Department's unnumbered explanatory memorandum, dated 23rd February 1987, on the implementation of the Agreement; and welcomes the Agreement as the means of averting an exchange of retaliatory and counter-retaliatory trade measures between the United States and the Community which would have very serious consequences for EC-US trade, for the multilateral trading systems and for progress in the new round of multilateral trade negotiations now beginning in GATT.

That this House takes note of European Community Documents Nos. 8250/87 on Common Agricultural Policy reform, 8761/87 and ADD1 to ADD 4, and 9066/87, on implementation of agricultural stabilisers and 6116/87, on agricultural income aids; and endorses the Government's objective of securing effective control of Community agricultural expenditure which is in the interests of the farmers, the taxpayers and the consumer.



That this House takes note of European Community Documents Nos. 8227/84 on the establishment of the common market for broadcasting, and 6739/86 on the co-ordination of certain provisions in member states concerning the pursuit of broadcasting activities; and supports the Government's view that the proposed Council of Europe Convention on broadcasting provides the most appropriate means of ensuring the flow of television programmes across frontiers in Europe.

That this House takes note of European Community Document No. 9272/1/83, the first Annual Report of the Commission on the Community's anti-dumping and anti-subsidy legislation; and supports the Government's intention to ensure that the Commission's action in this field continues to take full account of United Kingdom interests.

PROFORMA LETTER TO THE CLERKS OF THE  
PARLIAMENTARY SCRUTINY COMMITTEES

Clerk to the Commons European  
Legislation Committee  
St Stephen's House  
Victoria Embankment

Clerk to the Select Committee  
on the European Committees  
House of Lords  
London SW1A OPW

(if by IDS or by hand)

House of Commons  
London SW1A OAA

(if by post)

EC DOCUMENTS SUBJECT TO CO-OPERATION PROCEDURE UNDER THE SINGLE  
EUROPEAN ACT

The \_\_\_\_\_ Council on [date] ,  
adopted a common position on the Commission proposal on [subject]  
covered by explanatory memorandum [number]. Under the Treaty the  
Council were required to vote by qualified majority. This  
proposal was [last] considered by your Committee on \_\_\_\_\_  
[and was debated on the Floor of the House/in Standing Committee  
on \_\_\_\_\_ ]

[The Commission's proposal was not significantly amended] or [The  
Commission's proposal was amended as set out in the supplementary  
explanatory memorandum of \_\_\_\_\_ .]

The text of the common position [is attached] [will follow as  
soon as it is available].

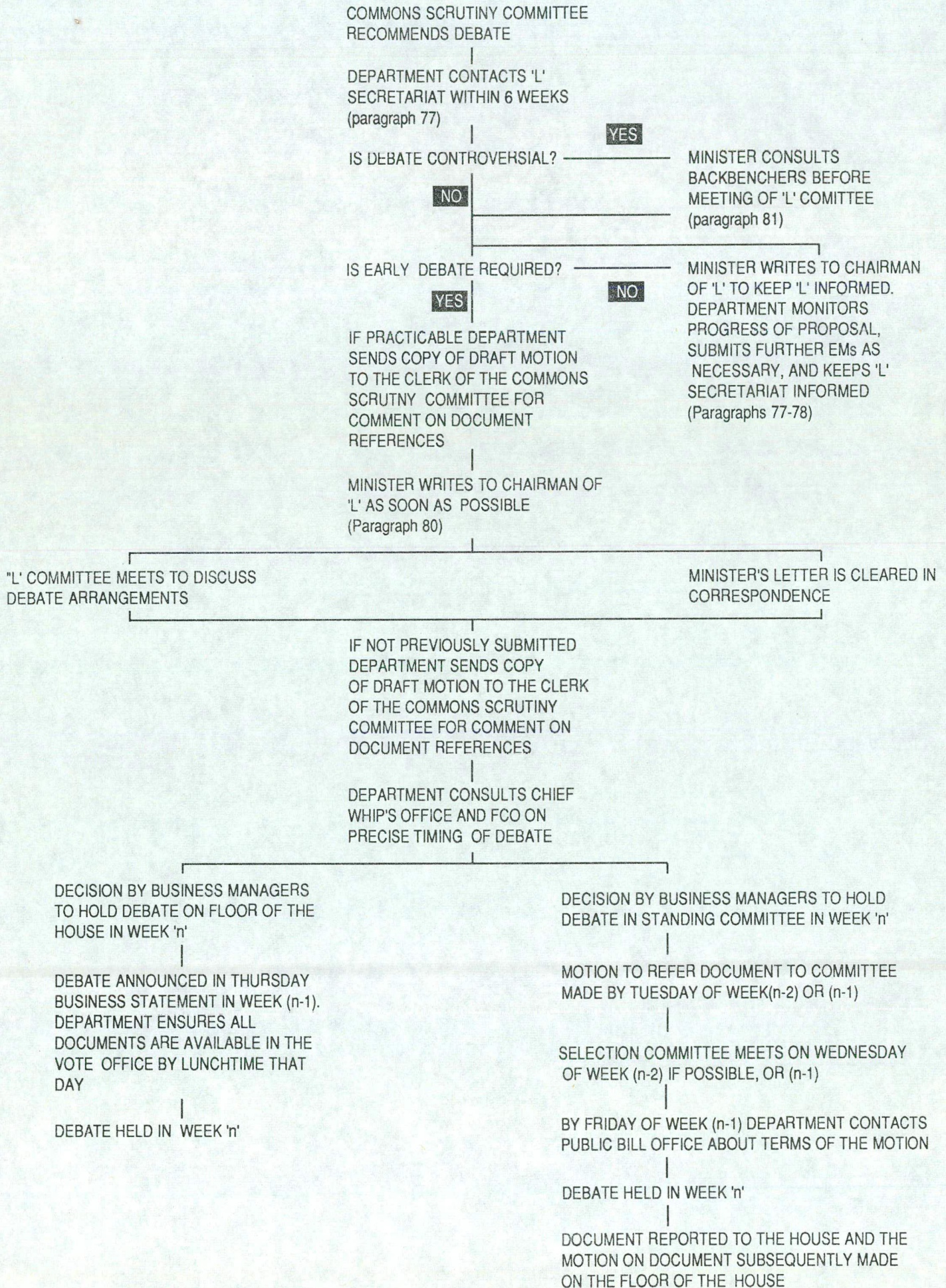
copy to: European Secretariat  
Room 344B  
Cabinet Office  
(letter only NOT the text)

RESTRICTED



RESTRICTED

### Procedures for the arrangement of EC debates





SUMMARY OF PROCEDURES DURING A GENERAL ELECTION

- |      |  |   |
|------|--|---|
| i.   | Announcement of general election                               | Normal scrutiny procedures  |
| ii.  | Final meeting of Commons Scrutiny Committee before dissolution | Cabinet Office to circulate List of all documents still awaiting debate.  |
| iii. | Dissolution of Parliament                                      | <p>a. <u>Formal</u> deposit of documents ceases. Documents still circulated by FCO: Departments to prepare informal EMs (excluding policy statement and Ministerial signature). Copies to be sent to Committee Clerks and to Cabinet Office.</p> <p>b. Ministers to write to Leader(s) of the House if proposal to be agreed in Council before scrutiny clearance is possible. Blind copies of letters to go to Clerks.</p> |
| iv.  | General Election result  | If new Government, FCO to initiate Ministerial clearance of scrutiny procedures*  |
| v.   | Parliament returns   | <p>a. House of Lords Committee Chairman takes Oath of Allegiance. Ministerial letters to House of Lords Committee Chairman may resume.</p> <p>b. Unnumbered completed signed EMs may be submitted.</p>  |

\* NB. Until Ministerial agreement obtained procedures remain as during the dissolution of Parliament.

- State opening of Parliament resumes
- a. Formal deposit of documents.
- b. Completed, signed EMs to be deposited as soon as possible.
- c. Any necessary statements to the Commons to be put in hand as soon as possible.
- vii. First Monday after State Opening Probable first Chairman's sift for House of Lords
- viii. Commons Scrutiny Committee appointed
- a. Cabinet Office to notify Departments of first Committee meeting
- b. Ministerial letters to House of Commons Committee Chairman may resume on an impersonal basis
- ix. First meeting of Commons Scrutiny Committee
- If Chairman elected (as is usual) Cabinet Office to notify Departments and normal scrutiny procedures resume.