

PO-CH/NL/723

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SECRET

(Circulate under cover and
notify REGISTRY of movement)

Begins: 26/9/83.
Ends: 14/3/84.

PO/CH/NL/723

Chancellor's (Lawson) Papers:
European Parliament Elections, June 1984.

Re (a) won't file in ~~(a)~~
spdd what



continue -
but no
up to
under

✓ re (b) I have't yet
One note on your speech; one
on PM's.

~~set X.~~
MOM

29/9

MS



EXCHEQUER
27 SEP 1983 ✓
EST. PST. EST. MST.
MR MIDDLETON.
MR BAILEY
MR BATTISHELL
MR RIDLEY.

Foreign and Commonwealth Office
London SW1A 2AH

26 September 1983

Dear Nigel

I have received a letter from Henry Plumb proposing that Ministers should try, where appropriate, to work into their Conference speeches a reference to the forthcoming European elections. I think this would be useful, where it can be done without too much contrivance.

My own speech in the debate on the European Community will, of course, include a passage on this subject. But there are four other debates where such reference might helpfully be made - economic policy, free enterprise and industry, food and farming, and employment.

I am copying this letter to Cecil Parkinson, Michael Jopling, Peter Morrison, and Michael Alison at No 10.

GEOFFREY HOWE

The Rt Hon Nigel Lawson MP

Conservative and Unionist Party, GB
Dät konservative folkeparti, DK
Ulster Unionist Party, N. Ireland



EUROPEAN DEMOCRATIC GROUP
EUROPEAN PARLIAMENT

Chairman

Sir Henry Plumb, DL, ~~MP~~

LONDON

2 Queen Anne's Gate
London, SW1H 9AA
Tel. (01) 222 1720
(01) 222 1725
Telex 917550 EDGLDN

Pa mw.

10 SEP 1983

16th September, 1983

The Rt. Hon. Sir Geoffrey Howe, QC, MP,
Secretary of State for Foreign &
Commonwealth Affairs,
Foreign & Commonwealth Office,
Downing Street,
London SW1A 2AL

1. ✓ C C Houston
2. Secretary of State

② ECD (1) for diff reply for S/S
by 27/9.
PS/ Mr Riffkin.
Mr Harvey
20/9

Dear Geoffrey,

I was glad of the opportunity to speak with you earlier this month about the committee to consider next year's European Elections. I understand from Peter Cropper that our first meeting will be on 6th October; we can then discuss in more detail the Committee's tasks and methods of procedure. In the meantime, however, I thought it worth writing to you with a suggestion concerning the preparations for the Party Conference - a suggestion probably best implemented as soon as possible.

In our recent discussions within the EDG of the European Elections, we have always been conscious of the important role which local party workers will play. This year's Party Conference will be the last before the elections and, while the European debate will obviously focus attention on June 1984, it would be helpful if as many Ministers as possible could work into their speeches references to the importance of the European Elections for the Party and the country. Would you be prepared to make such a recommendation to your senior colleagues? For our own publicity material, we will be asking the Prime Minister to provide us before the Conference with a message on the elections of 1984; you may be interested in the attached draft of that message, which I have sent to Michael Alison.

.../...

In general, I think the more we can do, even at this comparatively early stage, to get Party workers looking towards the 1984 elections, the better. No doubt this is a theme to which we shall constantly return in the Committee.

Kindest regards,

Yours ever,

Henry.

HENRY PLUMB

Draft message from the Prime Minister to the
European Democratic Group

This year's Party Conference in Blackpool will be the last before the European Elections of June 1984.

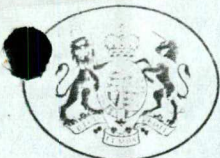
Already we are beginning to think about our plans and themes for these important elections.

Certain people will see these elections as an opinion poll of the Conservative Government; others will seek to turn them into a referendum on Europe. But the continuance of the Conservative Government and our continued membership of the European Community were settled by the election of June 1983. The European Elections are rather an important part of our undisputed and continuing role within the Community.

I see no reason why we should not increase the Conservative representation in the European Parliament and this increased representation will, I am sure, continue to work for Conservative ideals in a free and united Europe, the peoples of which have realised that their interests lie together. The Government has always favoured the realistic and equitable progress of the European Community and the British Conservatives in the European Parliament have always played an important part in presenting and defining British interests within the Community.

My best wishes go to you all and our loyal supporters in the constituencies as we begin together the task of ensuring a decisive Conservative victory in the European elections.

(PWP)

HOWE
→
CAB.
COUNCIL
6 OCT

John Denham M.P.

EXCHEQUER	
-7 OCT 1983	
ACTION	Mr FITZGEBW.
COPIES TO	FST. EST. MST.
	Mr. Lord.
	Dr. Rowse.
	Mr. Ridley.

6/10/83.

FCS/83/195ALL CABINET COLLEAGUESPolicies for the Elections to the European Parliament 14 June 1984.

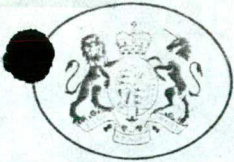
1. As I mentioned briefly in Cabinet, the Prime Minister has appointed a group to co-ordinate the preparation of the Manifesto and associated publications for the European Elections. The Government and the European Democratic Group are working together in this group, which meets under my chairmanship. This is a special arrangement, designed to avoid conflict and ensure a coherent approach.

2. The main lines of policy are already clear, for example, from the Government publication "The Positive Approach", the submission to the Council of Ministers on "Future Development of the European Community" and the pre-election Report of the Thomas Study Group. I would be grateful if you could let me have, in compact form, suggestions concerning policy proposals arising within your area of responsibility to which we should give prominence.

3. It has long been my feeling that we tend to approach the Community on too short-term a basis. Moreover our energies are being applied to too many issues over too wide a front. I would like this Manifesto to gain public attention for the issues to which priority should be given during the rest of this Parliament and you should view your contribution in this light.

4. One unusual feature of this election will be that the party in Government is not going to be dislodged by the result. The propositions we put forward in the campaign will therefore commit the Government for the rest of its life and may need to be cleared through OD(E) or in some other way.

/5. This



5. This implies the receipt of contributions from colleagues by a reasonably early date: I have selected my 57th birthday, 20 December 1983! I would be grateful if colleagues could observe this deadline strictly.

6. Obviously it is desirable for this exercise to take place on a confidential basis. I enclose a guidance note on how we intend to deal with enquiries should the existence of the group become public knowledge.

7. I am copying this minute to the Chief Whip, the Secretary to the Cabinet, John Selwyn Gummer and Peter Cropper.

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

(GEOFFREY HOWE)

Foreign and Commonwealth Office

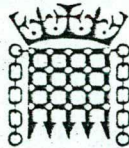
6 October 1983



Guidance Note for Enquiries Concerning 'Howe Group'

No announcement is envisaged. If enquiries are made, we intend to say only:

- (a) that the Prime Minister has appointed a group to co-ordinate manifesto preparations for the European elections, under the chairmanship of Sir Geoffrey Howe;
- (b) the government and the EDG are working together in this group.



HOUSE OF COMMONS
LONDON SW1A 0AA

19 December 1983

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign &
Commonwealth Affairs
Downing Street
London S W 1

Here is the material on European policy you asked for in your minute of October 6 to all Cabinet colleagues. The issues which concern me most departmentally are familiar ones and, at this stage at any rate, I cannot put forward any proposals which are either novel or likely to have a dramatic electoral impact. Most of the ground has already been covered thoroughly in various ways: at Williamsburg, Stuttgart and Athens; and in the various proposals you put forward at the July, August and September Special Councils, which are very well summarised in the October Economic Progress Report article "Future financing and development of the European Community: British Government ideas". As I indicate in the attachment to this letter, there are a number of topics on which we could do no better than quote from what that paper has to say.

In preparing my contribution, I have had to decide how to deal with a number of areas of policy in which the Treasury shares an interest with other Departments. What I have therefore done is to offer you a selective collection of points which I should like to see reflected in any draft; and to add a few observations on proposals of which we should be very wary. These notes are, inevitably, incomplete. In some policy areas I cannot know quite what Treasury concerns will need bringing out until I know more precisely what colleagues or the EDG are proposing. Athens issues and Enlargement are also impossible to tackle seriously at this point, and I assume you will not want to deal with them for some months yet. Finally, there are one or two awkward fiscal issues which we shall perhaps need to consider, and about which I will speak or write to you in the New Year, some of which you will recall from your period here.

It is always difficult to draft hypothetical Manifesto material until one has an idea of the overall picture. This problem is particularly acute when one is dealing with the Treasury's interests. While I have only offered you notes, it may be worth recalling Chapter 5 of the 1979 European Election Manifesto. Much of what is said there reads remarkably (indeed disturbingly) well today, mutatis mutandis. So if your group goes for a Manifesto on the same lines as in '79, that Chapter could be a useful model.

NIGEL LAWSON

AGRICULTURE

We should underline the key principles a reformed CAP must reflect:

- We stand by the decisions at Stuttgart, which were endorsed by the whole Community.
- A basic aim must be to eliminate costly surpluses, and get an effective grip on spending both through sensible régimes for individual products and tight controls on total agricultural spending.
- This will require that EC prices are aligned much more closely with world prices; and that we must be prepared to reduce prices not only in real terms but, in some cases, in nominal terms.
- We will not be satisfied with a phoney reform; that is why we oppose such proposals as a tax on imported fats and oils, which would simply provide more finance for the CAP at the expense of the consumer.
- A reformed CAP must permit the EC to play a positive part in the fight against protectionism.

COMMERCE, INDUSTRY AND ENERGY

There is little that needs to be added at this stage to material under the headings "European Industry, Energy and the Common Market" in our "Future Financing etc" paper. But we should perhaps stress:

- We believe there are many areas for fruitful development if we can get out of our present impasse.
- The biggest opportunities and potential benefits will come from encouraging and permitting private businesses to trade, compete and collaborate more. Bringing that about should be a much higher priority.
- Where there is a case for collective EC policy (sectoral programmes or whatever), this should be a substitute for costly and less effective national policies - as was rightly urged by Gaston Thorn's May paper for the Commission.
- As regards Insurance, we might refer to the interminable delay in adopting the "non-Life" directive.

TRADE

- In view of recent discussions, perhaps we should underline the need for speeding up progress under the GATT working programme.
- Stress the importance of liberalising public purchasing, e.g. as we will be doing with BT. This could have implications for the conditions for EIB loans.
- Warn of the dangers of "fortress Europe" policies, as opposed to a strong, united Europe.
- Give ourselves a pat on the back for the dozen or so valuable directives on common standards, while stressing we need many more.

INSTITUTIONS

- There could be value in recording that we shall have to consider very carefully the Commission's proposals for adapting the Community's institutions after enlargement.
- We will want to say how important it is to reduce EC bureaucracy, make policies more cost-effective, and strengthen Audit procedures.

ECONOMIC AND MONETARY POLICY

- Endorse the familiar general objectives of convergence and improving economic performance, with progressively lower inflation and attainment by all of the low price growth of the best as the fundamental pre-condition for exchange rate stability.
- Record the fact that there have latterly been signs of such convergence, with other members increasingly sharing and supporting our commitment to restraint of public spending and borrowing, monetary discipline, and concern with improving the supply side.
- Restate our known position on the EMS exchange rate mechanism. We accept that eventual membership would be a step forward. But it must be successful (both for us and our partners); and lasting, which is difficult while the pressures on sterling differ so much from those on our partners' currencies. We have no immediate plans to enter, but we continue to keep the matter under review.

- Express approval for the growing role of the ECU, and commend the fact that ECU transactions in the UK are as free as in any partner country.
- Underline the scope and need for more liberalisation in financial services, building inter alia on the progress in banking reflected in our recent Banking Act.

TAXATION AND EC BUDGET

(To be drafted nearer the time).

- - - - -

POINTS TO AVOID

We must be very wary of new commitments or even vacuous statements of apparent virtue in relation to various aspects of social and employment policy. I am sure that we should steer clear of proposals for more equality between the sexes (e.g. in pensions or other matters); for EC initiatives to promote job-splitting, a shorter working week and early retirement; and, obviously the adoption of the Vredeling scheme for employee participation.

We will also want to steer clear of

- any crude commitments to increase spending on the Regional or Social Funds, particularly those based on premises of additionality and/or the supposed net benefits to us;
- fancy proposals for "concerted reflation", a new Bretton Woods, or grandiose schemes for solving the international debt problem.

MP bitter over EEC beer duty rules

BRITAIN'S 30 million beer drinkers are in for "clobbering" from "repugnant" Common Market rules, an MP predicted yesterday.

Tom Torney, chairman of Labour's food and agriculture committee, is to ask the Chancellor, Nigel Lawson, to act over the "unfair" European Court of Justice ruling that the British rate of taxation illegally discriminates against wine and should be reduced.

Mr. Torney, MP for Bradford South, said: "All the signs are that in his spring budget the Chancellor will reduce duty on wine which could cut the price of a bottle by 20p.

"And to match this loss of revenue he will clobber the poor British beer drinker yet again to the tune, possibly, of as much as 7p more on the price of a pint."

He added: "It is time that we began to fight our corner instead of bowing all the time to the tactics of the Common Market."

THE OBSERVER, SUNDAY 18 DECEMBER 1983

Tax boost for wine drinkers,

BRITAIN'S wine drinkers are in for some good news, but 30 million beer drinkers are likely to wake up with a nasty shock in the new year, writes Adam Raphael.

The Chancellor, Mr Nigel Lawson, is planning to increase beer taxes in his March Budget and to reduce taxes on wine because of a European Court of Justice ruling that British rates of taxation discriminating against wine are illegal.

No final decisions have been taken by the Treasury, but the Brewers' Society fears that beer could go up by as much as 7p a pint if the Chancellor decides to raise the tax to match the loss of revenue on wine. The price of wine may be cut by up to 20p a bottle.

The present ratio of tax on wine to that on beer is more than four to one, and the European Court ruled last summer that this violates a clause in the Treaty of Rome which forbids member countries to over-tax imported goods to protect those produced domestically.

Both the beer and spirits trade are apprehensive about the outcome and have been deluging the Chancellor with pleas to phase in any changes very slowly.

The Brewers' Society claims that Britain's beer drinkers are among the highest taxed in the world. The cost of an average pint includes 23p in VAT and duty.

14 X, or M.

FROM: ADAM RIDLEY
20 December 1983

D.14

CHANCELLOR

M. Attail
2/11

cc MST
Mr Lord

CUSTOMS & EXCISE ISSUES AND THE EUROPEAN ELECTIONS

As you may recall, you said in your letter to Geoffrey Howe of yesterday about the European elections that there may be "one or two awkward fiscal issues which we shall perhaps need to consider", and which you promised to brief him on in the New Year. The attached note sketches out very briefly and not very systematically the flavour of what concerned me in suggesting that you should write in such terms.

2. The practical point is simple. We now face a variety of small to medium issues many of which could have an awkward populist flavour during the run-up to the Euro elections or the campaign itself, issues which, if not well handled, could embarrass not only the Government in general, but Treasury Ministers in particular. There may be little or nothing we can do about any of them. But whatever judgement we reach and whatever plan of campaign we may choose to follow, it is clearly important to think the issues through in crude political terms, pursue any actions that we need whether with Mr Tugendhat and the Commission, or forewarning colleagues - not least the PM. And it would be sensible to have begun this process well before the full Budget proceedings begin, and time for full consideration and consultation on these matters becomes very scarce.

3. I would therefore strongly recommend that Customs & Excise should be commissioned to produce a short note isolating those issues in their area of responsibility which might raise potential embarrassments, vis-à-vis the Community, describe briefly the kind of timetable which could be involved in legal proceedings, consultations and the rest, and indicate the extent to which it is possible to keep matters confidential. Armed with that, it would then be possible for us here (in practice I suspect the Minister of State, Mr Lord and myself) to consider the best way ahead. When speaking to Customs and Excise Private Office about this, Mr Lester more or less volunteered the idea that the preparation of a short note would be of some help. This suggests that it should not be too difficult to get such a note done by the middle of January, which will provide adequate time for the

PERSONAL AND CONFIDENTIAL

subsequent thinking and internal consideration which may be needed.

AR

A N RIDLEY

POSSIBLE AREAS OF EC DIFFICULTY IN CUSTOMS & EXCISE MATTERS

Vat

There appears to be quite a long list of areas in which it is thought our VAT régime is illegal in the eyes of Community law. The complications with these could develop as follows:

- (i) Zero Rates. There is a long history of exchanges on this subject, of course. As I understand it, we have been involved in an empty dialogue, which will be ended by the line we take in the Budget. That will effectively demonstrate whether or not we are interested in doing what the Community is seeking. On present form we are unlikely to match their expectations, which could lead to their initiating infraction proceedings very shortly afterwards. A particular complication here is that, even if they do not initiate such proceedings immediately, we have an obligation to consult the construction industry about the zero rates régime which they currently enjoy, which would make it very difficult to keep matters secure.
- (ii) Other VAT issues. There is quite a long list of topics such as the VAT registration threshold, tax on private medical care, spectacles and so on. It is, again, likely that after a Budget which does not particularly please the Commission, there could be at the very least "reasoned opinions" on a number of these topics, well before the Euro elections. Even though the reasoned opinion process is, as I understand it, confidential in principle, there is the very strong likelihood of leakage at the Brussels end (perhaps to put pressure on us), and in any case the possible need for consultation with domestic interests.

Beer and Wine

The position on this is well known, and does not need much amplification at this stage. However, there are at least two points of some substance which seem worth noting:

- (i) Any measures introduced in the Budget could raise delicate problems of Parliamentary procedure. In particular given the convention that they will be taken at a very early stage in the debates on the

PERSONAL AND CONFIDENTIAL

Finance Bill, the timing of such discussions is likely to be just before the Euro elections. There would be obvious possibilities of strenuous argument about whether such measures were to be taken in Committee, or on the floor of the House. If the latter, we would be embarrassed.

- (ii) If it were decided to pursue a "phasing" option, then there would be grave doubts about the legality of the Government's move. It would therefore be open for individuals to take the Government to court immediately to require the Government to move all the way, which could obviously cause trouble.

Made Wine

I believe that there is a decision likely in the European court in February. While this does not affect a very major part of the drinks industry - in practice mainly things like British Sherry - it could be a significant factor as part of a whole bloc of irritants containing more important components such as VAT or the Beer and Wine issue.

Perfume Spirits: rebated duty.

Officials are studying this urgently at the moment, and I gather that events are likely to come to something of a head in the New Year. While it could be that our interests can be protected by effective lobbying elsewhere in the Community (where there are specific duties on perfume spirits), we could be faced with Commission pressure if they are fed up with this more generally, and seeking to cause trouble.

Judith
Were we asking
him of old
Minister?
M



From M E Corcoran

Date 22 December 1983

PRINCIPAL PRIVATE SECRETARY

cc Mr Ridley
Mr Lord

CUSTOMS & EXCISE ISSUES AND THE EUROPEAN ELECTIONS

The Minister of State has read Mr Ridley's minute of 20 December to the Chancellor. He endorses Mr Ridley's advice and would be happy to consider with Mr Ridley and Mr Lord the best way ahead once Customs & Excise have produced the short note Mr Ridley suggests.

M E C

M E CORCORAN



FROM: MISS J C SIMPSON

DATE: 3 January 1984

MR RIDLEY

cc PS/Minister of State
Mr Lord

PS/Customs and Excise
Mr Knox - Customs and Excise

plm

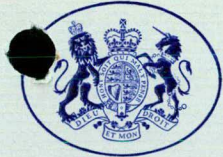
CUSTOMS AND EXCISE ISSUES AND THE EUROPEAN ELECTIONS

The Chancellor looked over the holiday at your minute of 20 December and the attached papers.

2. He is content that Customs and Excise should produce a note as you suggest, isolating those issues in their area of responsibility which might raise potential embarrassment vis a vis the Community, describe briefly the kind of timetable that could be involved in legal proceedings etc and indicate the extent to which it is possible to keep matters confidential. I understand that you have already been in informal contact with the Customs and Excise Private Office about this. I should be grateful if they could take this note as a commission from the Chancellor's Office to produce such a note.

B.

MISS J C SIMPSON



FCS/84/6

CHANCELLOR OF THE EXCHEQUER

Guide for the European Elections

(pwp)

CH/EXCHEQUER	
REC.	9 JAN 1984
ACTION	N Ridley
COPIES TO	CST, FST, MST, EST N Fitcher, Mr Lord N Pottillo

1. As part of the preparations for the European elections, the Research Department and the EDG Secretariat have produced a draft election guide. This has now been discussed by the joint committee which I chair, and it is clear that it would be very desirable for colleagues to let me have their views on the relevant chapters. Peter Cropper will shortly be sending these to your office and I would be extremely grateful if you could arrange for them to be dealt with urgently by a Special Adviser or, where appropriate and if possible, by a departmental Minister. The object is to correct errors, to update, and to fill in omissions. In some cases, I fear, this may well involve a fairly sizeable input. Because of the time pressures for printing and publication, specific drafting proposals would be desirable. In some cases it could be particularly useful - and perhaps involve less trouble at your end - if you could let me have some background briefing documents that already exist.

2. We aim to get final texts to the printers before the end of January, so it would be helpful if comments or other material could be made available within one working week of its receipt. I am sorry to trouble you with this request. I should not do so if I did not regard the need as important.

3. I am sending this minute to all Cabinet colleagues who need to receive chapters of the guide, and copying it to the Chief Whip, the Lord President of the Council, John Selwyn Gummer, Michael Spicer, Henry Plumb and Peter Cropper.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
9 January 1984

PERSONAL

A N D

CONFIDENTIAL

pm



SECRETARY OF STATE
FOR
NORTHERN IRELAND

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign
and Commonwealth Affairs
Downing Street
LONDON
SW1

CH/EXCHEQUER	
REC.	11 JAN 1984 ✓ 12h
ACTION	MR RIDLEY
COPIES TO	FST, MST, EST,
	MR WATSON, MR FITCHEN
	MR LORD, MR PORTILLO

NORTHERN IRELAND OFFICE
WHITEHALL
LONDON SW1A 2AZ

11 January 1984

Handwritten signature

Further to your memorandum of 6 October requesting departmental comments on policies for the European manifesto there are three areas of Community policy where there is a substantial Northern Ireland interest: regional affairs; agriculture; and the role of the European Parliament.

On regional policy I would hope we could strike a positive note while calling for continued improvements in the operation of the ERDF. These improvements should include: greater selectivity in designating those areas of highest, and structural, unemployment as priorities; and more awareness of the importance of tackling the problems of urban blight. In addition the point should be made that while the ERDF is essential in increasing the Community's economic cohesion and, in particular, in aiding peripheral areas, the Community should also show a greater awareness of the impact of the operation of some of its other policies - such as the CAP - on disadvantaged regions.

I don't imagine that I would diverge from Michael Jopling's comments on the reform of the CAP. However, a central point to emphasise, I believe, is the importance of restoring a more equitable balance in the rate of return between arable and livestock farming. A redressing of the balance away from arable farming in favour of livestock producers is long overdue. It is also important from the point of view of Northern Ireland farmers that access to cereal substitutes should remain as free as possible.

As a matter of general principle our proposals on CAP reform should be based on dealing with over production primarily through the price mechanism. However if we eventually have to accept a quota system for milk these should be implemented at farm level, without pooling, and exemptions for special cases should be firmly resisted (although

A N D

CONFIDENTIAL

you/...

you will be aware of my position should the Republic of Ireland gain an exemption)! Northern Ireland farmers also feel very strongly that the variable beef premium must be defended and sustained.

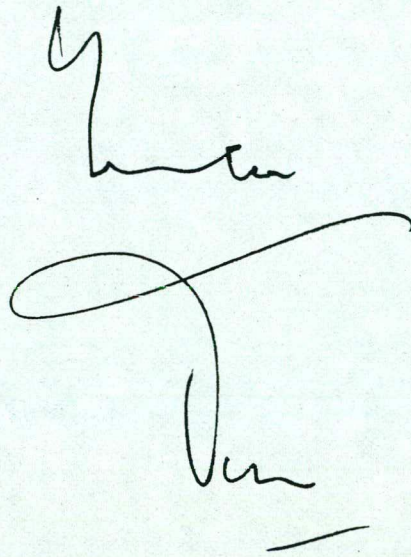
One of the more contentious actions of the European Parliament has, of course, been its decision to commission a Report on Northern Ireland. I think we must see how the Haagerup Report progresses before deciding on how to approach this question in the campaign. As long as the resolution itself continues to emphasise the social and economic role of the Community in Northern Ireland I anticipate few problems. While the Parliament can have no business interfering in the Constitutional or political affairs of a member state - and their attentions have not been welcome - in the event, the Haagerup Report may work to our advantage in clarifying the situation in Northern Ireland for many continental minds. While a stern note might be appropriately struck - in general terms - in the manifesto about the importance of the Parliament restricting itself to its legitimate areas of activity I would not wish to make a great issue out of their Northern Ireland intervention, nor to appear too churlish. The European Parliament does, after all, deserve credit for helping to promote the cause of Community aid for Belfast's urban problems and this deserves recognition.

On the wider question of campaign themes might I make some brief observations beyond my departmental remit? I feel there are three themes which we should be pressing hard, summed-up in the words: experience; achievement and commitment. As the Party that took Britain into the Community and which has provided three quarters of our representation in the directly elected Parliament, experience must be one of our greatest advantages over both Labour and the Alliance. Although much still remains to be resolved in the aftermath of Athens our record of achievement as a Party in Government and in the European Parliament can also be portrayed as formidable - especially when contrasted with the weak performance of the Wilson and Callaghan Administration. Commitment to the success of the Community, and to a vigorous defence of British interests within it is, perhaps, the most important theme. However, both strands have to be emphasised. I don't believe that there is any doubt in the public mind about the Government's determination to improve Britain's position within the Community or about the strength of our resolve. Thus, to over-emphasise this point without balancing it by references to our commitment to the success of the whole community ideals begins to cast our relationship with the Nine in a purely adversarial light. Thus we do need to re-emphasise the broader objectives and community of interest which underpin the Treaties, otherwise we put ourselves into a rather defensive posture viz a viz what increasingly would be perceived as an organisation inimical to our interests. In such a situation the public might well ask 'if the common market is only about fighting for each country's interest why bother to have it at all?' I am also quite certain that the Labour Party's fudge on the question of membership is as fragile as their position in the General Election over disarmament - and should be exposed as such.

I hope that it will also prove possible for the Prime Minister to make some sort of joint statement or appearance with leading members of our associated parties in Europe - such as Paul Schluter and Helmut Kohl. The Socialists and Liberals will otherwise make great play of isolation - real or imagined - as a political grouping in Europe, compared with the changes of collaboration open to them

within the Parliament. Given the current predominance in Northern Europe of governments of the centre-right this is a ploy with which they should not be allowed to get away.

I am copying this letter to the Prime Minister, other members of the Cabinet, John Selwyn Gummer, Peter Cropper and Sir Robert Armstrong.

A handwritten signature in black ink, consisting of a large, stylized initial 'G' followed by a surname that appears to be 'Gummer'. The signature is written in a cursive, fluid style.

Conservative Research Department

32 Smith Square Westminster SW1P 3HH Telephone 01-222 9511

CH/EXCHEQUER	
REC.	13 JAN 1984
ACTION	Mr Ridley.
COPIES TO	EST. PST. MST. EST
	MR FITCHAM.
	P/CSE.
	MR LORD, MR PORTILLO
Director: PETER CROPPER	

Personal and Confidential

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London S.W.1.

13th January 1984

Dear Nigel

Mr Ridley -

*1/ take in
Adam has this
was in hand.
The relevant points in X
for change with
TST 2386.
M.*

I enclose the draft chapters of the European Handbook relating to the Treasury.

Geoffrey Howe wrote to you on 9th January asking you to arrange for these chapters to be dealt with urgently "by Special Adviser or, where appropriate, and if possible, by a departmental Minister".

Geoffrey's letter asked for specific drafting proposals within one week of your receipt of the draft chapter. I should be most grateful if you would send these back to me by Friday 20th January.

X | The Foreign Secretary has pointed to the need for some or more material on zero-rating of VAT, on beer and wine duty/the ECJ decision and consequences, on the 1983 refunds, on the 1982 risk-sharing refund and on any possible increase in own resources.

I would be particularly grateful if you could assist us in these areas.

Peter

Peter Cropper

TMS
13.1.84

11. ECONOMIC AND MONETARY POLICY

THE COMMUNITY

(i) Economic Policy

The commitment to align national economic policy-making is set out clearly in the Treaty of Rome. Article 3 provides for the establishment of procedures to coordinate the economic policies of Member States and to remedy balance-of-payments difficulties. Articles 103-109 require the Member States to consider their economic policies as 'a matter of common concern', and to consult each other and the Commission on joint or national action. Similarly, Member States are required to cooperate with regard to their exchange rates. There are safeguard measures which can be adopted by Member States in the event of balance-of-payments crisis.

To further this aim, the Commission began issuing annual economic policy recommendations to Member States in the 1960s. As from July 1969, a Member State contemplating important short-term economic policy measures likely to have a substantial impact on the economies of other member countries has been required, under a decision of the Council of Ministers, to hold prior consultations.

Since 1971, the Council has carried out a twice-yearly examination of the economic situation in the Community, based on communications from the Commission, and has drawn up short-term economic policy guidelines. Each year, the Commission presents a report on the economic situation in the Community, which

is then adopted by the Council and is intended as a guide for Member States' economic and budgetary decisions. From 1964 onwards, the Community has also formulated medium-long-term economic objectives in the form of Economic Policy Programmes, modelled on the French system of indicative planning.

These initiatives have not so far had very much impact on national economic decision-making. The economic crisis of the 1970s, precipitated by the five fold increase of oil prices in 1973-4, undermined attempts at coordination. Governments have resorted to national remedies with renewed vigour, and the consequent divergence in policy has been marked. The United Kingdom and France, for example, have pursued diametrically opposed economic policies twice in the course of the last decade, with fiscal laxity in the United Kingdom matched by restraint in France during 1974-6, and the reverse mix of policies prevailing in the years 1981-2. In so far as European governments have exercised fiscal restraint in the early 1980's, this owes less to Community institutions than to the moderating effect of the recession. However, regular meetings of the Council of Finance Ministers have contributed to mutual understanding of problems and prescriptions. Although the annual economic report of the Commission tends to reflect rather than determine prevailing opinion, it can give useful psychological support to policy priorities in individual Member States, as it is doing at present to monetary and fiscal restraint throughout the Community.

(ii) Monetary Policy

Background. The Treaty of Rome does not explicitly mention Economic and Monetary Union as an objective, nor does it define what is meant by the term. The concept of an economic and monetary union (EMU) was formally launched by the Six, after the completion of their customs union, at the European Summit held in The Hague in December 1969. After reports from a Committee under Mr. Pierre Werner (then Luxembourg Prime Minister and Minister of Finance) and from the Commission in the name of its then Vice-President, Mr. Raymond Barre, the Council of Ministers formally decided on a three-stage plan for complete economic and monetary union by 31st December 1980.

The plan called first for a narrowing of the margins of fluctuation of exchange rates within the Community, and the establishment of a European Monetary Cooperation Fund (EMCF), movement towards coordination of national economic and budgetary policies, with concurrent progress towards harmonisation in the fields of VAT, excise duties and company taxation, all leading to fixed exchange rates within the Community, a central banking system, free capital movement and the removal of tax frontiers in 1980. The only element of the plan to come into operation was the so-called 'Snake', an attempt to limit the fluctuation of exchange rates. This linked the value of certain European currencies, allowing them to fluctuate only within narrow margins. Very short-term Community credit was made available to help countries remain within these limits. Inaugurated in April 1972, the Snake's original members comprised the six founding members of the Community, joined very soon after by the applicant countries - the United Kingdom, Ireland, Denmark and Norway. However, Sterling was withdrawn in June 1972 and the Italian Lira in February 1973. The French Franc left in January 1974, rejoined in July 1975 and left again in March 1976. By 1979, the Snake contained only five currencies, those of West Germany, Denmark, The Netherlands, Belgium and Luxembourg.

In response to the disintegration of the Snake, the failure of the plan for economic and monetary union, the fluctuation in exchange rates and the widening divergence of economic policies and rates of inflation after the oil shock of 1973-4, the then Commission President, Mr. Roy Jenkins, launched the idea of a new European Monetary System in a speech in Florence in October 1977. Spurred on by French President Valery Giscard d'Estaing and the West German Chancellor Helmut Schmidt, subsequent negotiations gave concrete form to this proposition. The present EMS began operating in March 1979.

The EMS, the objective of which is to create a 'zone of monetary stability in Europe', has the following components:

(1) The ECU. The European Currency Unit (ECU), the principal building-block of the EMS, is a monetary unit created from a basket of currencies. (The basket is composed according to the relative size of national economies, and the weight of each currency varies with the exchange rate.) The ECU is provisionally backed by deposits, recycled every three months, from the participating central banks which transfer 20 per cent of their gold and dollar reserves to the European Monetary Cooperation Fund. The ECU was, at 31st December 1983, worth approximately £0.6.

The EMCF's resources operate as a credit reserve for the central banks. Currently, the use of the ECU for settling debts is restricted to paying off short-term loans agreed between banks for exchange rate management purposes. The ECU is also used in the exchange rate, intervention, and credit mechanisms described below. It is used as a unit of account by the Community institutions and increasingly by the private sector for borrowing and lending. Privately-held ECU denominated deposits and loans are growing rapidly each year (the former were tentatively estimated at 3 billion ECU or £1.75 billion at the end of 1982). Although holding only 4 per cent of the market, the ECU now occupies third place in the Eurocurrency and Eurobond markets.

(2) The Exchange Rate Mechanism. A central ECU exchange rate is fixed for each currency in the system. These central rates are then used to establish a 'grid' of bilateral exchange rates, expressed and published in national currencies. With the exception of Sterling and the Greek Drachma, the grid determines the central rate for each Community currency vis-a-vis all other Community currencies. The grid also establishes intervention limits known as 'floors' and 'ceilings', with the margin of fluctuation above and below the central rates limited to 2.25 per cent (6 per cent for the Italian Lira). Central banks are obliged to keep their currencies within these limits. A so-called 'divergence indicator' measures the degree of divergence of each currency from its ECU central rate. When a 'threshold of divergence' is reached, the Member State concerned is expected to take corrective measures, which might include either changes in domestic economic and monetary policy or a proposal to realign the central rate. The central rates can be revised by mutual agreement between all countries in the EMS together with the Commission.

(3) The Credit Mechanism. Three credit mechanisms, carried forward from the Snake, have been expanded and liberalised in the EMS. First, a very short-term financing facility (VSTF) exists by which central banks participating in the exchange rate mechanism allow each other unlimited credit in their own currencies for up to 75 days, extendable for up to three months under certain conditions. Second, there is a short-term monetary support system (STMS) of mutual credit for all the central banks of the Community, with the aim of providing balance of payments financing under certain circumstances. Funds total 14 billion ECU; support has a (renewable) duration of three months, and the facility is funded by quota subscriptions. Finally, medium-term mutual financial assistance can be granted by Member States for between two and five years. The credit available now stands at 11 billion ECU and it is available on a conditional basis with funding by way of country commitments up to agreed ceilings.

As originally envisaged, the European Monetary System was to be established in two phases, the first already in effect, and a second 'institutional' phase, having implications for a wider move towards economic and monetary union. In the event, however, the first phase has been prolonged, and there has been no new institutional development since the inception of the system. With the exception of Greece, all the Community countries were, and are, members of the EMS. However, the United Kingdom is not a full member. Although it deposits 20 per cent of gold and dollar reserves with the European Monetary Cooperation Fund, and participates fully in EMS negotiations, the United Kingdom has so far chosen not to participate in the Exchange Rate Mechanism.

There are considerable technical differences in identifying and assessing the impact of the EMS at a time of economic instability. From the frequency of the parity changes which have already taken place, it is clear that the EMS cannot guarantee the kind of fixed exchange rates which existed under the old Bretton Woods system and which would be needed if a gradual convergence of economic performance were to be ensured. However, there is some evidence that the EMS has acted as a constraint against irresponsible policies on the part of some Member States. For example, the public humiliation of devaluing three times in the EMS system almost certainly forced an earlier end to the Mitterand economic experiment of 1981-83 in France than would otherwise been the case. To this degree the EMS may well have encouraged financial discipline among participating states, and the regular meetings of finance ministers which determine adjustments in the parity rates probably encourage better understanding of common problems.

THE CONSERVATIVE APPROACH

Conservatives have recognised the political importance of the EMS and the potential economic benefits to be obtained from membership of the Exchange Rate Mechanism. However, the Government has had three practical reservations about joining the ERM: (1) the System has not been wholly successful in achieving convergence between the economic policies of Member States; (2) sterling as a petro-currency tends to be subject to forces, different from the IG which affect those currencies of countries which are primarily oil consumers; and (3) the pound, as one of the major international currencies, is sensitive to a variety of external factors not experienced by most of the EMS currencies. The Government is keeping the possibility of membership of the ERM under regular review, since it accepts that our full participation in the EMS would be a major step forward. However, the Government is concerned to ensure that such participation would be of lasting benefit both to the United Kingdom and to the EMS itself. The Government also accepts that, outside the EMS, a measure of economic coordination is essential between countries whose economies are as interdependent as those of the Member States and which face so many common problems.

Com. Files
13.1.84

7. THE COMMUNITY BUDGET

Background. The Treaty of Paris 1951 provided the ECSC with its own budget, financed by a levy on coal and steel production (determined by the High Authority - now the Commission) and by borrowing. Subsequently, Euratom also had its own budget, financed by national contributions. The EEC Budget originally consisted of an operational budget, followed by a Social Fund and then an Agricultural Fund, reflecting the terms of the EEC Treaty. In 1967, the three budgets were brought together in a single general Budget, but excluding expenditure covered by the ECSC levy and the European Development Fund. It is this general, or Community, Budget with which this chapter is concerned.

The distribution of budgetary powers between the Parliament, Council and Commission is laid down in Article 203 of the Treaty. This has been changed twice in recent years, in 1970, and in 1975, when Parliament and Council acting together became the 'Budgetary Authority', with the Commission responsible for executing the Budget. To help resolve any disputes, two inter-institutional agreements between the Parliament, Council and Commission have been signed, in March 1975 and June 1982.

The Community Budget is not a budget in the traditional British sense, but is more akin to the public expenditure estimates. The Community Budget is small when measured against a number of yardsticks. If all ten national budgets are added up, the Community Budget is equivalent to about 2.5 per cent of their total. That part of United Kingdom public expenditure accounted for by the net contribution to the Community comes to about 0.3 per cent.

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The EDF is financed by national scales laid down in the Conventions. Borrowing and lending operations (now growing rapidly with the introduction of the New Community Instrument) are also excluded. The European Parliament and Commission want to see all these operations included in the Budget, but so far the Council has only agreed in principle.

Nevertheless, the Community Budget has resulted in transfers of resources between the Member States which follow no justifiable pattern. In particular, the United Kingdom, which is one of the less prosperous Member States, finds itself making excessive and unfair transfers to the others, including several of its more prosperous partners.

Drawing up the Budget. The Community Budget is denominated in ECU; revenue and expenditure must balance i.e. no deficit financing; and there is a Budget for each calendar year (with the possibility of supplementary budgets, which are subject to the same procedures as the annual Budget). In an increasing number of budgetary items, a distinction is drawn between payment appropriations (amounts which can be paid out in the year) and commitment appropriations (amounts which can be legally committed for payment over a number of years ahead).

For each budgetary year, the five Institutions draw up their estimates in the form of a preliminary draft Budget which the Council and Parliament each consider in two readings. The first reading takes place in the Council, when it establishes the draft Budget (usually in July), and the final reading takes place in the Parliament in December. These readings concentrate on the Commission budget because it contains over 98 per cent of the Budget, and also because of the gentlemen's agreement between the Parliament and Council not to amend each other's administrative estimates. In the Council, the meetings are chaired by the Member State holding the Presidency. In the Parliament, the draft Budget is steered through its stages by the Budget Committee's Rapporteur. Mr Robert Jackson MP MEP was the Rapporteur for the 1983 Budget. The only two occasions on which the annual Budget has been adopted by Parliament without dispute has been under Conservative Rapporteurs in 1983 and in 1978 (Sir Michael Shaw MP and MEP).

The respective powers of the Parliament and the Council over a particular budget

line depends on whether the expenditure is classified as compulsory or non-compulsory. In the words of Article 203, compulsory expenditure is 'expenditure necessarily resulting from the Treaty or from acts adopted in accordance therewith'. To try and stop the frequent disputes which were resulting from different interpretations of this Article, the Parliament, Council and Commission agreed on a classification in a Joint Declaration of 30th June 1982 (OJ No.C 194 of 28th July 1982). The main examples of compulsory expenditure are CAP expenditure, and some of the refunds to the United Kingdom.

The Treaty lays down the majorities which are needed for the Council to establish the draft Budget, for the Parliament to make changes at its first reading, for the Council to overturn these changes at its second reading, and for the Parliament to have the last word on non-compulsory expenditure at the final reading. Where any Institution proposes to go beyond the predetermined 'maximum rate' of increase in non-compulsory expenditure, the new rate needs to be agreed between the Parliament and the Council. Alternatively, the Parliament may reject the draft budget as a whole, if there are important reasons, and call for a new draft. Otherwise when all the stages have been completed, the President of the Parliament declares the Budget adopted.

Revenue - Own Resources. National contributions according to a variety of scales were gradually replaced from 1971 by the 'own resources' system under which Member States hand over to the Community:

- customs duties on imports subject to the Common External Tariff
- agricultural levies on imports
- sugar levies on the production and storage of sugar
- VAT as required up to a rate of 1 per cent on a standardised basis of assessment (not a percentage of VAT actually collected).

The United Kingdom, Ireland and Denmark gradually moved on to the own resources system between 1973 and 1979. The transitional period for Greece runs from 1981 to 1985.

The VAT rate was brought up to 0.9980 per cent in October 1983 by a supplementary budget, containing extra agricultural appropriations and additional rebates for the United Kingdom and Germany. For 1984 a VAT rate of 0.99 ... is required, just £000m short of the ceiling. If and when claims on the Community Budget cannot be met, the Commission may have to choose between competing claims. In particular a situation could be created where national governments might feel the need to meet obligations to farmers and others out of their own exchequers. Any change to the basic own resources system, including the 1 per cent VAT ceiling, would require Treaty amendment and hence ratification in each Member State (i.e., approval by the House of Commons in the case of the United Kingdom).

Expenditure. Agricultural spending has always dominated the Budget. The increases in the Social Fund, and the introduction of the Regional Fund in 1975, have not been nearly large enough to redress the balance, while spending on energy, industry, research, transport, and development aid has remained low.

Each Member State collects the Community's own resources, and pays them into a bank account kept by the Commission in each country. The Commission uses this money to make payments to farmers, agricultural traders, nationalised industries, local authorities and other recipients of Community spending in that country. In eight Member States, Community expenditure exceeds the resources collected, and the accounts have to be topped up by transfers from the other two, West Germany and the United Kingdom. The combination of a high gross contribution with a low level of receipts from a Budget dominated by agricultural support is at the heart of the

British budget problem, which has also been a problem for West Germany and hence for the Community as a whole.

THE BUDGET PROBLEM

During negotiations for the United Kingdom's accession it was agreed that 'should an unacceptable situation arise within the present Community or an enlarged Community, the very survival of the Community would demand that the Institutions find equitable solutions' (The United Kingdom and the European Community, Cmnd 4715, July 1971).

Before the 1975 Referendum the Labour Government argued that the British net contribution was too high and as part of its 'renegotiations' an agreement was reached on a Financial Mechanism. The renegotiation was a demonstration of the incompetence and myopia of the Labour Government. No money has been paid out, since the mechanism would have come into operation only in the event of an overall deficit in the UK's balance of payments, an increasingly unlikely occurrence given the balance of payments benefits of North Sea oil, major discoveries of which had already been made.

Immediately on taking office, the Prime Minister, Mrs Thatcher, raised the issue of the British budget problem at her first European Council in June 1979 in Strasbourg. As requested by the meeting, the Commission then made calculations of net contributions which showed that in 1980 Britain's net contribution would be more than £1,000 million, far more than that of any other Member State. West Germany would be the other main contributor, while France's account would be broadly in balance; the other six would be net beneficiaries.

When the European Council next discussed the British contribution in November 1979, the Prime Minister rejected an offer to revise the 1975 Financial Mechanism which would have reduced the net contribution by a third. In the same month, the European Parliament adopted a Resolution which showed a greater awareness of the problem than either the Council or the Commission then appeared to show.

The resolution, put forward by the Chairman of the Budgets Committee, Mr Erwin Lange, stated that: 'the financial imbalances which characterise the present situation and the burdens which they place on certain Member States are a serious problem which calls for an immediate solution'. It went on to propose a 'new and lasting system of financial equalisation based on the concept of per capita gross domestic product' (OJ C 309 of 10th December 1979).

In December 1979 the Parliament rejected the 1980 draft Budget, by 288 votes to 64, principally because the Council had rejected out of hand the Parliament's attempts both to begin controlling agricultural expenditure through the budget, and to shift spending to non-agricultural activities. British Conservatives voted for rejection. This vote added weight to the British Government's case about the budget problem.

The next year, after another round of tough bargaining in the European Council in April, the Council of Ministers agreed on 30th May 1980 to ceilings on the United Kingdom's net contribution in 1980 and 1981 involving refunds of at least £710m and £860m respectively. In the event of the net contribution being higher than estimated, the United Kingdom would get an additional refund. (No provision was made for a lower refund in the event of a lower actual net contribution, which was part of the reason for difficulties in the payment of an extra refund relating to 1982, which was finally paid in October 1983).

The second element of the 30th May 1980 Agreement was to give the Commission a 'Mandate' to produce proposals on the restructuring of the Community's expenditure policies. The Mandate expressly excluded any questioning of the own resources system or the principles of the CAP, and had the objective of preventing the recurrence of an 'unacceptable situation' for any Member State.

When the deadline for agreement on a longer term solution was not met, a refund for 1982 had to be settled, on the lines of 1980 and 1981. A new element was the West German Government's refusal to pay more than 50 per cent of its share of this refund. In October 1982 it was agreed to pay an initial rebate of £490m to the United Kingdom and a smaller rebate to West Germany, but payable in 1982 itself, rather than in the subsequent year (as had been the case for 1980 and 1981).

Hence a late supplementary budget was required. The draft supplementary Budget was rejected by the European Parliament in December 1982. The vote to reject was 258 to 79; Conservatives and the other British members all voted against. The decision to reject was taken principally because the Council had 'not shown any clear political will to find a definitive solution to the problem of the financial imbalances in the Community Budget' (OJ C67 of 17th January 1983). Another reason was that the Council had rejected the Parliament's attempts to spend more on non-agricultural common policies. Conservatives voted for a complementary resolution which called for new proposals to put an end to the 'unacceptable situation'. Although Sir Geoffrey Howe warned that alternative steps might have to be taken if the refund was not fully paid by 31st March, he added that the vote 'might actually turn out to provide an improvement in the way forward' (The Times, 18th December 1982), since the UK too, had long been insisting on the importance of a long-term solution, rather than annual ad hoc arrangements.

A new supplementary Budget was passed in February 1983, with some of the expenditure in the United Kingdom being charged to 'Specific Community Measures relating to energy strategy'.

During the debate, Mr Neil Balfour, speaking on behalf of the European Democratic Group declared:

'Let this Parliament not forget that though our own resources are raised from European taxpayers and not from Member States, taxpayers will invariably ask for equity, and fiscal equity can mean the opposite of 'juste retour'. Thus if we are ever to increase or diversify our own resources we must show an absolute readiness to be fair in how our monies are raised and how they are spent, both in the long term and in the short' (European Parliament Debates, 10th February 1983).

Partly in response to the vote to reject, the Commission produced a 'Green Paper' entitled The Future Financing of the Community, which included a proposal to increase the VAT ceiling to 1 per cent, with provision for any subsequent increases to be decided by the budgetary authorities, Parliament and the Council. In introducing this range of proposals, the Commission made it clear that they did not believe that any increase in the Community's resources should automatically involve an additional burden on the European taxpayer.

In June 1983, the European Council in Stuttgart agreed that it was essential to consider the long-term future of the European Community and to tackle the fundamental problems of agricultural surpluses, effective control of Community spending, and a fairer distribution of the burden of financing the Community. It was also agreed that this package had to be taken as a whole and that decisions on each item depended on agreement on the rest. The Stuttgart meeting went on to agree a net refund to the United Kingdom of about £437m for 1983 which was entered in the 1984 draft budget.

Athens European Council. In the event, this meeting, on 4th-6th December 1983, arrived at no decisions. In regretting the absence of the necessary progress for the next stage of the Community's development, Mrs Thatcher said:

'I had made it clear that I could not consider an increase in own resources unless there was agreement on a fair sharing of the budgetary burden and an

effective control of agriculture and other expenditure. There was no such agreement and therefore for the United Kingdom the question of an increase of the Community's own resources did not arise.

'With regard to the unfair budgetary burden, there was some recognition that a lasting solution must be found which would put limits on the net contributions to the Member States - limits which are related to ability to pay. This would be implemented by correcting the VAT contribution of the Member State concerned in the following year.

'The majority of countries wished to establish a lasting system on the above lines which would be part and parcel of any decision on new resources. Unfortunately, although preparatory negotiations on this matter had made considerable progress, not all Member States agreed to this approach and, accordingly, no decision could be taken' (Hansard, 7th December 1983, Col.000).

The following week, the UK and West German refunds relating to 1983 were frozen by the Parliament. This was intended as a means of putting pressure on the Council to take decisions on reforming the CAP and the Budget which it had failed to take at Athens. In protest against the Parliament choosing a course of action which discriminated against the United Kingdom, the EDG put to the vote a motion to reject the Budget as a whole. This was defeated by 111 to 241 votes with one abstention.

After the Parliament's vote the Prime Minister told the House of Commons that if the refund was not paid by the end of March 1984, 'we would have to take steps to safeguard our position' (Hansard, 7th December 1983, Col.330). At the Foreign Affairs Council of 19th/20th December 1983 no further progress was made and

accordingly the President of the European Parliament declared the Budget adopted on 20th December 1983.

BUDGETARY CONTROL

Actions in the Parliament. From 1973, Conservatives in the European Parliament have sought full accountability in the expenditure of Community funds. In the Parliament, a full Control Committee was set up in 1979, which has built on the work of the previous sub-Committee of the Budgets Committee. Conservatives were instrumental in pressing for the establishment of these Committees, and for the Court of Auditors.

Court of Auditors. The Court of Auditors was established, in Luxembourg, by the amendment to the Treaties of 1975, which provides for an Auditor to be appointed from each Member State. Under the Treaty, Parliament is consulted before appointments are made to the Court. This has involved the candidates proposed by the Council appearing before the Control Committee. The Court of Auditors has been effective in scrutinizing Community expenditure and identifying waste.

The results of the audits carried out by the Court of Auditors are published in the form of an annual report, and in special reports. The annual report is published in the Official Journal, as are most of the special reports.

Parliamentary Discharge. In the 1975 Treaty Amendment, the Parliament was given the exclusive right of discharge. The grant of discharge means that the Commission has had its management of Community funds during the relevant financial year approved by the Parliament to be sound and regular. Discharge is granted after the Parliament has examined the accounts, has deliberated on the report of the Court of Auditors and has considered the recommendation of the Council. The importance of the decision

has been highlighted by Mr Tugendhat, speaking on behalf of the Commission on 7th July 1977:

'Logically, it is a general sanction which the Treaties confer upon Parliament; that is, a political sanction which would be the normal consequence of a refusal to give discharge. Such refusal would hence be extremely serious; the Commission thus censured would, I think, have to be replaced' (European Parliament Debates, July 1977).

So far, discharge has always been granted, but sometimes after a delay pending satisfactory replies from the Commission.

Over the past few years the Control Committee has covered a great deal of ground. Matters which have been dealt with include the export ban on the sale of agricultural products to the USSR and state-trading countries, the management of food-aid, 'Euro-quangos', the operation of the research centre at Ispra (Italy), agricultural sectors such as olive oil, and the cost of the Parliament working in three different places. The Committee has had discussions with national departments responsible for collecting own resources (for example, H M Customs and Excise), and with bodies responsible for control in the Member States such as the British Public Accounts Committee, and the Court of Auditors in France and Germany.

Conservatives attach the greatest priority to the work of the Court of Auditors and of the Control Committee. For the latter, Conservatives would like to see the Parliament introducing into its Rules of Procedure an explicit provision concerning confidentiality of information given to the Committee. In this way the important

work of discussion with, and questioning of, Commissioners and other officials would be developed further.

CONSERVATIVE APPROACH

Conservatives recognise that the Community Budget, originally designed to promote the success of the CAP and other policies within the Six, now no longer works to the advantage of either the United Kingdom (and West Germany) or the Community as a whole, and that the situation will deteriorate with enlargement. Conservatives regret that the unfairness of the present budgetary arrangements leads to debilitating arguments both between governments in the Council, and between the Council and the Parliament. The result is that the Community is concentrating its energies on unnecessary disputes, instead of developing new policies and following through existing ones.

In June 1981, the Chancellor of the Exchequer, then Sir Geoffrey Howe, outlined the British Government's philosophical approach:

'Contributions are made to the Budget under the own resources system. In itself that need raise no problem. Expenditure takes place from the Budget in accordance with Community policies. In itself, again, that need raise no problems. The problems arise because the Community's arrangements made no provision for the relationship between the contributions and receipts of individual Member States, ... the conclusion which seems to me to emerge is that the Community will need to take conscious decisions on how the Budget should affect individual Member States'.

In emphasising that he was not advocating 'juste retour' Sir Geoffrey went on to show how Member States:

'Would be able to concentrate, instead, on the inherent value of individual policies to the Community as a whole - and on the distribution of resources between policies, rather than between Member States' (The Hague, 3rd June 1981).

In the run-up to the Athens European Council of December 1983, the British Government advocated a three-pronged approach. First, strict budgetary limits should control CAP and other expenditure. Second, a 'safety net' would be introduced whereby any Member State which would otherwise bear a net budgetary burden of more than its agreed limit would have its VAT payments modulated and reduced accordingly by the amount of the excess in the following year. Third, new policies should be developed on the principal criterion of whether action on a Community basis rather than nationally would be more economical. (See Chapter 000 on the Negotiations).

TAXATION

The Community lacks the kind of extensive taxation policies which characterise Member States. First, although the Community is financed by 'own resources' (made up essentially of customs duties, agricultural levies and a portion, at present not more than 1 per cent, of VAT assessed on a uniform basis), the Community Budget is still very modest when compared with the Member States' budgets taken together (2.5 per cent in 1983). This means that taxation at Community level can play only a very limited role as an instrument of policy. Second, economic policies remain primarily a matter for decision by Member States, and even the measures to be taken to achieve Community objectives (including those in the tax field) are generally left to the discretion of individual governments. Third, tax policy, in so far as it is important, is used specifically to help secure the free flow of persons, goods, services and capital within a 'common market' in order to promote the benefits of undistorted competition and the progressive alignment of the economic performance of the Member States. Tax policies do not relate, as a result, to more general social objectives such as the redistribution of income or wealth, or the encouragement or discouragement of consumption of certain products. Instead, the sensible and limited objective of Community tax policy is no more than to promote the harmonisation of tax regimes in the Member States in order to facilitate cross-national competition and economic convergence.

This is not an easy task. Tax sovereignty is one of the basic components of national sovereignty, and domestic parliaments are accordingly anxious to preserve the right to vote taxes. Differences in tax systems take their origin from historical and social factors and particular systems have their own client groups of beneficiaries who fight hard to defend existing privileges. When added to the general and well-founded fear of higher taxation, Community initiatives on the tax front are frequently regarded with suspicion.

So far, the Community has limited its activities to indirect taxes where the obstacles to freer trade are generally evident. Article 99 of the Treaty of Rome refers explicitly to the harmonisation of indirect taxes, including turnover taxes and excise duties. Harmonisation of direct taxes is not mentioned in the Treaty, but the authority for action in this field can be found in Article 100, which gives a general mandate to the Commission to propose Directives to the Council of Ministers for the 'approximation of such provisions laid down by law, regulation or administrative action in Member States as directly affect the establishment or functioning of the common market'. In practice, the Community has taken no action in the direct taxation sphere.

In the field of indirect taxation, progress towards harmonisation can be assessed under two headings: Value Added Tax (VAT) and excise duties. In both virtually all measures so far adopted or proposed are confined to structures and bases of assessment. As long as they are at liberty to determine tax rates, Member States can avoid jeopardising the balance that has been struck between different taxes, while at the same time remaining free to use the taxes to be harmonised for their own budgetary or macro-economic purposes. As a result, it has been easier to avoid conflict between tax harmonisation and Member States' domestic policy priorities.

Value Added Tax. The Six agreed in 1967 to change some of their sales taxes to a system of VAT, based on a partial scheme already operational in France. The tax was chosen because it could be non-discriminatory as between various kinds of economic activity, and because it enables goods to be exported free of tax and then to be taxed at the applicable rate in the importing country. The original decision involved a basic system which was to be introduced in the Member States of the original Community by 1 January 1970. France, Germany, the Netherlands and Luxembourg met this deadline; Belgium introduced VAT on January 1 1971; Italy on 1 January 1973.

Of the new Member States, Denmark had introduced VAT in 1968, and Ireland in 1972. In the United Kingdom Mr. Anthony (now Lord) Barber announced in his 1971 Budget Statement the decision to replace both Selective Employment Tax and Purchase Tax by VAT, because of the merits of VAT, and before it was known whether there would be a successful outcome to the accession negotiations. VAT was introduced on schedule in April 1973.

The harmonisation of most elements of the VAT system is effected by the Sixth VAT Directive, approved by the Council in May 1977 (OJ L145, 13 June 1977), for introduction in January 1978. This harmonisation does not involve actual VAT rates, but uniformity is sought in matters such as coverage, exemptions, thresholds and definitions. The harmonisation is also designed to establish a common basis for the levy of the Community's 'own resources' from VAT.

Since then, a series of VAT Directives have been introduced to help standardise various points left in abeyance by the Sixth Directive. The Seventh Directive, for example, deals with the tax treatment of second-hand and used goods such as works of art, antiques, collectors' items, motor cars, etc. The Eighth Directive harmonises the treatment of VAT refunds to traders operating across frontiers. The recent controversial Twelfth Directive attempts to standardise and limit the deductibility of VAT by firms in relation to travel, entertainment and company cars.

Excise Duties. The Commission brought forward as long ago as 1972 a framework to confine excise duties throughout the Community to those on beer, wine, spirits, tobacco, and mineral oils. It has yet to be adopted by the Council of Ministers.

The Commission launched a specific attempt to harmonise tobacco taxation and limited progress towards this objective has been achieved. Since 1978, the Commission has stipulated that 'specific tax' (a fixed sum per cigarette, irrespective of price) should not constitute more than 55 per cent of the total tax taken on cigarettes, the remainder being tax on a cigarette's retail price. This second stage of harmonisation was due to expire at the end of 1980, and then be superseded by a further reduction of 'specific taxes' to a band of between 10 and 35 per cent of total cigarette taxation. In fact this third stage has never been adopted, as a result of objections in the Council of Ministers and the European Parliament. A number of countries, including the United Kingdom, levy very low taxes on value and high specific taxes. Others including France and Italy, do the opposite. Critics of the Commission's proposals argue that high value-based tax rates have a 'multiplier' effect in exaggerating price increases and so progressively discouraging purchase of high-quality cigarettes. The multi-national tobacco firms echo this view, claiming also that the high value-based rates imposed by France and Italy discriminate in favour of these countries' own cheaper brands, so constituting an important barrier to entry to their domestic markets.

Nor have Commission proposals to harmonise taxation on alcoholic beverages have been no more successful. States have persisted in using their tax systems to discriminate against foreign beverages, including, it is alleged, the United Kingdom, which levies higher excise duties on wine in comparison with beer, although the difference has been reduced in recent years. All countries discriminate against spirits per unit of alcoholic content, but the variation in this discrimination is great. Commission proposals to help standardise tax in this sector met with strong opposition from national and trade interests: they were rejected in the European Parliament and have had little positive response from the Council of Ministers.

Exemptions and Other Taxes. With a view to the free movement of both goods and individuals, the Community embarked some time ago on a policy of introducing tax exemptions for goods (including luggage and other small items) being carried by persons travelling within the Community. The Council has adopted a whole series of Directives in this field. Recent Commission proposals have sought to formalise the position of tax-free shops at points of departure in the Community, and to increase personal tax-paid exports (without attracting further duty on importation).

In order to promote tax neutrality in the location of investments, the Commission has sought to harmonise corporation tax and introduce a common system of withholding tax on dividends. The Commission has also brought forward a proposal to help harmonise indirect taxes on transactions in securities (like 'stamp duties'), with a view to their progressive abolition in the longer run. Neither proposal has yet resulted in significant action.

Structure and Burden on Taxation. Despite Community efforts to harmonise taxation - first of structures, with a view subsequently to the alignment of rates - the divergences of both tax structures and tax burdens within the Community remain great. Taking either the whole Community or the four larger economies (with Sweden, United States and Japan as international comparisons), the figures are as follows:

Table 1

Contribution of Broad Categories of Taxation
and Social Security Contributions to Total Taxation
in 1981

	Taxes on Personal Income	Employers' Social Security	Employers' SSC and Payroll	Taxes on Corporate Income	Taxes on Property	Taxes on Goods and Services
Community Four:						
United Kingdom	29.4	6.7	12.9	9.2	12.9	28.4
France	13.3	10.9	31.2	5.0	3.7	29.7
West Germany	29.1	15.9	19.1	5.0	2.6	27.1
Italy	26.4	5.5	21.9	9.0	4.1	24.7
Also:						
Sweden	39.9	0	31.3	2.9	0.9	23.9
United States	37.6	10.3	15.5	8.6	9.6	17.6
Japan	24.7	10.7	15.4	15.9	8.6	15.9

(Source: OECD Revenue Statistics 1965-82)

Table 2

Income Tax
(married couple, without children)

	Income Tax Threshold	Starting Income Tax Rates	Top Income Tax Rates	Percentage of Income taken in Income Tax at £9000
Community Four:	£	%	%	%
United Kingdom	2,795	30	60	21
France	4,290	29	70	7
West Germany	3,340	18	56	12
Italy	2,570	18	65	16
Also:				
Sweden	1,235	32	83	-
United States	3,480	11	56	-
Japan	3,340	14	88	-

(Source: Inland Revenue 1983)



FROM: MISS F P BOGAN

DATE: 16 January 1984

MR RIDLEY

cc PS/Chancellor
PS/Chief Secretary
PS/Minister of State
PS/Economic Secretary
Mr Fitchew
Mr Lord
Mr Portillo
PS/C&E

THE EUROPEAN HANDBOOK

The Financial Secretary has seen the draft chapters of the European Handbook attached to Mr Cropper's letter of 13 January to the Chancellor. On EMS he has queried the statement 'since it accepts that our full participation in the EMS would be a major step forward' on lines 10-11 of page 7 (which is headed 'The Conservative Approach'.) He has asked whether we have gone as far as this publicly?

MISS F P BOGAN

CONFIDENTIAL



FROM: A M ELLIS
DATE: 18 January 1984

MR RIDLEY

cc PS/Chancellor
PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State
Mr Fitchew
Mr Lord
Mr Portillo

EUROPEAN HANDBOOK

The Economic Secretary has read the draft chapters of the European Handbook covered by Mr Cropper's letter to the Chancellor of 13 January.

He has commented that the draft is in his view quite satisfactory but ^{that he} has one or two comments on points of detail.

... These are attached.

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

A M ELLIS

Introduction to Chapter 7

1. Line 1 change "importance" to "significance" and end sentence after "EMS".
2. Line 4 delete "not been wholly successful"; insert "had limited success".
3. Line 5 insert after "member states" a new point "(2) The development of a pattern of relatively frequent realignments has somewhat undermined the original concept".
4. Line 5 delete "the IG" insert "those".
5. Line 7 delete "those" insert "the".
6. Line 9-10: delete "is keeping" insert "keeps"; delete regular; delete "since it accepts" insert "recognising".
7. Line 11 delete "forward".
8. Line 12: delete " is concerned to ensure" insert "would need to be satisfied".
9. Line 15: insert a comma after "States".

Chapter 7

10. Page 1: what is the basis of the figure quoted in the last sentence of paragraph 3?
11. Page 2: is it correct that the annual budget was adopted by the Parliament without dispute in 1983?
12. Page 8: line 10: is the statement that the proposal was to increase the VAT ceiling to 1 per cent correct?
13. Page 12: line 6: delete "will" insert "would"; insert at end of sentence "unless changes are made".
14. Page 18: paragraph 2: lines 1-2: delete "have been no" insert "been any".
15. Page 20: should be heading of table 1 column 2 be employers' social security or employee social security?

Brussels, 19 January 1984

TFC/108/81 rev. 3

European Community Grants (commitments) and Loans in favour
of East Anglia.

Over the period 1973 to November 1983 East Anglia has received grants (commitments) from the European Community through the following financial instruments :

1. European Agricultural Guarantee and Guidance Fund - Guidance (direct measures) - EAGGF
2. European Coal and Steel Community Grants - ECSC
3. Specific Energy Measures
4. European Investment Bank - EIB

Grants totalling £ 8 249 000 have been committed for investment in East Anglia between 1973 and November 1983. In addition the region has shared in a multiregional loan of £ 25 900 000 and a multiregional grant of £ 92 599.

Participation of the financial instruments

A. GRANTS

EAGGF Guidance - Direct measures

A total of £ 6 511 000 was granted for investment in 57 projects in East Anglia under the EAGGF-Guidance measures between 1973 and November 1983. 60% of this total was allocated under Regulation 17/64, under which projects

aiming to improve the conditions of agricultural production and the marketing of agricultural products could be financed. This regulation was applied in East Anglia over the period 1973 to 1979, and 36 projects were aided (see Annex 1 for a full list).

Twenty-one of these projects representing 39% of the total grants under this regulation were concerned with drainage schemes in the region.

Of particular importance was a grant of £ 824 151 in 1977 for land drainage and improvement works near March in Cambridgeshire. Other important grants included £ 444 300 for the modernization and expansion of a pig processing factory at Bury St. Edmunds, Suffolk, and £ 717 661 which were granted between 1973 and 1979 for help finance the construction of five fishing boats to be based at Lowestoft. In 1975 the modernization of the landing facilities at Lowestoft fish docks was also financed under Regulation 17/64.

Between 1978 and November 1983 20 projects in East Anglia have received grants totalling £ 2 625 650 under Regulation 355/77 (improvement of the processing and marketing of agricultural products). Among the grants awarded were £ 100 088 for the construction of a potato and onion store at Chatteris, Cambridgeshire and £ 103 333 in 1980 for the improvement of potato processing facilities at Chatteris and Littleport, Cambridgeshire (see Annex 1 for full list of projects financed). In 1981 £ 214 470 were granted for the construction of a milk processing plant at Great Yarmouth, Norfolk. A grant of £ 271 139 was made in 1982 for the improvement of another milk processing plant in Peterborough.

In addition, East Anglia shared with the South East region a multiregional grant of £ 92 599 made in 1978 for the improvement of poultry processing factories in Norfolk and Essex.

COMMUNITY GRANTS (COMMITMENTS) AND LOANS IN FAVOUR OF EAST ANGLIA

	£ 000										
	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983*
EAGGF - TOTAL (Dir. meas.)	276	418	79	533	2008	276	767	103	526	672	853
Reg. n° 17/64 (1)	276	418	79	533	2008	-	570	-	-	-	-
Reg. n° 355/77 (2)						276	197	103	526	672	851
Reg. n° 31/83 (3)						-	-	-	-	-	2
ECSC Grants - TOTAL				295	3	265	-	-	35	20	-
Research				295	3	265			35	20	
Special Energy measures											
TOTAL (4)						223	-	850	47	-	-
Hydrocarbons						223		-	47		
Energy-saving						-		850	-		
TOTAL GRANTS	276	418	79	828	2011	764	767	953	608	692	853

* : to 30th November

European Social Fund - ESF

Most of the United Kingdom Social Fund allocation goes towards financing national schemes. In particular, many of the grants are allocated to programmes run by the Manpower Services Commission, such as the Youth Opportunities Programme and the Youth Training Scheme. For the most part, allocations from the Social Fund for these programmes are made on a global basis and comprehensive data for individual British regions are not available.

Between 1973 and 1982 commitments from the Social Fund to England, Scotland and Wales have been of the order of £ 816 million, most of which has gone to the assisted areas. Examples of ESF aid that can be identified as having gone specifically to East Anglia include four grants totalling £ 101 630 made to Norfolk County Council and Norwich City College in 1982 and 1983 for training 56 women as engineering technicians and building maintenance workers.

B. LOANS

EIB

Together with the South West region East Anglia benefitted in 1976 from an EIB loan of £ 25 900 000 to the British Gas Corporation. This loan helped finance the extension of the gasline network transporting natural gas from fields in the North Sea to East Anglia and South West England.

- (1) Regulation 17/64 - Improvement of conditions for agricultural production and marketing of agricultural products.
- (2) Regulation 355/77 - Improvement of processing and marketing of agricultural products
- (3) Regulation 31/83 - Interim measure for the restructuring of the inshore fishing industry and aquaculture.
- (4) Before 1981 - contracts signed. 1981 and after - decisions. (As there is a delay between the adoption of the decision and the signature of the contract, there may be some double counting.)

Exchange rates

Except where data were given in pounds sterling, the average yearly rate for ECU/U.A. to £ was used for exchange purposes.

Data were given in pounds for the following instruments :

- EIB 1973 - 1983 (except global loan allocations)
- EAGGF : 1980 to 1983

ANNEX I

EAGGF FINANCED PROJECTS IN EAST ANGLIA

Regulation 17/64

1973	- Reorganisation of drainage of Upwell Fen Cambridgeshire	£ 18 333
	- Construction of a new pumping station on the Ten Mile River, Cambridgeshire	£ 22 421
	- Implementation of Middleton Stop and Pierrepoint drain scheme on East Bank of River Great Ouse, Norfolk	£ 43 678
	- Construction of a central grain drying, cleaning and storage centre at Wimblington, Cambridgeshire	£ 63 400
	- Modernization and extension of a pig processing factory at Elmswell, Suffolk	£ 59 884
	- Reorganization of Fenton Lode drainage scheme in the counties of Cambridgeshire and Huntingdonshire	£ 68 552
1974	- Construction of a pumping station for drainage on the River Great Ouse in Norfolk	£ 26 922
	- Construction of two fishing boats (stern trawlers) to be based at Lowestoft, Suffolk	£ 259 625
	- Construction of a stern fishing trawler to be based at Lowestoft, Suffolk	£ 131 250
1975	- Modernization of works and landing facilities at fish docks at Lowestoft, Suffolk	£ 49 858
	- Construction of a pumping station and other drainage improvements near March, Cambridgeshire	£ 29 235

1976	- Improvement of hygiene standards at a poultry processing plant at Eye, Suffolk	£ 217 622
	- Construction of a pumping station and enlargement of drainage channels near Wisbech, Cambridgeshire.	£ 22 554
	- Modernization and expansion of an abattoir at Peterborough, Cambridgeshire	£ 269 212
	- Improvement of a poultry processing plant at Bury St. Edmunds, Suffolk	£ 24 170
1977	- Construction of a pumping station and other drainage works near Caister, Norfolk	£ 32 053
	- Construction of a pumping station and other drainage works near Acle, Norfolk	£ 48 232
	- Construction of a packhouse for carrots at Chatteris, Cambridgeshire	£ 73 684
	- Construction of pumping stations and improvement of drainage channels near Wisbech, Cambridgeshire	£ 52 792
	- Land drainage improvement works near March, Cambridgeshire	£ 824 151
	- Construction of a pumping station and other drainage works near March, Cambridgeshire	£ 27 777
	- Construction of a poultry processing factory at Bury St. Edmunds, Suffolk	£ 214 010
	- Construction of two pumping stations near Ely, Cambridgeshire	£ 33 072
	- Construction of pumping station and improvement of drainage channels near Stoke Ferry, Norfolk	£ 28 148
	- Improvement and expansion of a slaughter house at Watton, Norfolk	£ 106 702
	- Improvement of a poultry processing factory at Banham, Norfolk	£ 49 258
	- Modernization and expansion of a pig processing factory at Bury St. Edmunds, Suffolk	£ 444 330
	- Construction of a slaughter house for pigs at Linton, Cambridgeshire	£ 72 725

1979	- Improvement of drainage in the river Wissey area, Norfolk	£ 15 626
	- Construction of a pumping station and improvement of drainage near Chatteris, Cambridgeshire	£ 23 851
	- Construction of a pumping station and improvement of drainage near Doddington, Cambridgeshire	£ 21 212
	- Construction of two fishing vessels to be based at Lowestoft, Suffolk	£ 326 786
	- Construction of a pumping station and drainage improvement works near King's Lynn, Norfolk	£ 62 614
	- Construction of a pumping station near Wisbech, Cambridgeshire	£ 48 889
	- Improvement of drainage near Whittlesey, Cambridgeshire	£ 33 961
	- Improvement of drainage near Somersham, Cambridgeshire	£ 37 457

Regulation 355/77

1978	- Installation of freezing equipment in a fruit and vegetable processing factory at King's Lynn, Norfolk	£ 62 723
	- Extension and improvement of a vegetable grading and prepacking plant at March, Cambridgeshire	£ 35 565
	- Expansion of a grain store at Wimblington Cambridgeshire	£ 20 771
	- Modernisation and expansion of a slaughtering and meat processing plant at Haverhill, Suffolk	£ 156 560
	- Improvement of two poultry processing factories at Witham, Essex and Harleston, Norfolk (multiregional project)	£ 92 599

1979	- Improvement of a grain store at Wimblington, Cambridgeshire	£ 46 417
	- Expansion of a pig meat processing plant at Linton, Cambridgeshire	£ 50 990
	- Construction of a potato and onion store at Chatteris, Cambridgeshire	£ 100 088
1980	- Improvement of potato processing facilities at Chatteris and Littleport, Cambridgeshire	£ 103 333
1981	- Improvement of a pig meat processing plant at Linton, Cambridgeshire	£ 165 102
	- Construction of a milk processing plant at Great Yarmouth, Norfolk	£ 214 470
	- Construction of a potato store at March, Cambridgeshire	£ 146 219
1982	- Expansion of a grain store at Diss, Norfolk	£ 80 129
	- Construction of a grain store at Aylsham, Norfolk	£ 173 548
	- Construction of a potato store at Marsham, Norfolk	£ 54 591
	- Construction of a grain store at Eye, Norfolk	£ 92 732
	- Improvement of a milk processing plant in Peterborough	£ 271 139
1983	- Construction of a potato store at Chaltheris, Cambridgeshire	£ 52 479
	- Provision of onion storage and grading facilities at Southery, Norfolk	£ 140 547
	- Provision of grain export facilities at Ipswich, Suffolk	£ 362 500
	- Improvement of a pig meat processing plant at Haverhill, Suffolk	£ 295 747

EAST ANGLIA REGION

'East Anglia has the smallest population of all the regions except Northern Ireland; but the growth in population between 1961 and 1979, at 25%, was the fastest of all the regions. Between mid-1978 and mid-1979, there was a net civilian migration into the region of 18,300, the second highest inflow of any region.

Gross domestic product (GDP) per head in East Anglia grew above average between 1975 and 1979, in contrast to the below average growth in the early seventies. The growth component indicates that this improvement occurred particularly in manufacturing and in other services, including public services. In the earlier period 1971 to 1975, growth in these services had been particularly low in East Anglia. Because the population of the region grew so fast in the seventies, growth in GDP in absolute terms was higher than when expressed on a per head basis. Between 1975 and 1979 there was a higher percentage growth in GDP in East Anglia than in most other regions; the overall rise was over 3% above the national average.

The unemployment rate in East Anglia increased by less than the national average between August 1979 and August 1980 to 6.3%. This was the lowest rate in the United Kingdom except for the South East.'

(Regional Trends, 1981)

GDP per head (1979) : 94.0 (U.K. = 100.0)

The changes in this region that have produced the high growth of population and prosperity have also been such as to enable it to obtain dynamic economic benefits from membership of the Community. A new industrial structure, with high-technology industries well represented, and easy access through the rapidly expanding ports of Felixstowe, Harwich and Ipswich (plus the emergence of Great Yarmouth as a North Sea oil operating centre) have been a good foundation for expansion of Community trade and industrial links.

Grants and Loans: 1973 - June 18, 1981

Regional Fund:	-
Social Fund:	-
Agricultural Fund:	£4,528,922
European Investment Bank Loans:	-
ECSC Loans:	-
ECSC Readaptation Grants:	-
Supplementary Measures:	-

AGRICULTURE - EAST ANGLIA

Employment in agriculture etc. (1980): 45,000
= 11.8% of Gt. Britain total
= 6.6% of total employment in region

1. This region is a predominantly cereal producing area. In recent years cereal producers in contrast to other sectors, managed to maintain or improve their profitability and income; consequently they are among the strongest supporters of the CAP. Cereal farmers are, moreover, satisfied with the operation of the EEC cereals regime and would not wish to see changes to it.
2. Over the last decade the tendency has been for pig and poultry production to move towards the greatest source of food and hence to the cereal producing areas. Thus intensive livestock production is being concentrated in the Eastern Counties of England - East Anglia, the East Midlands and Yorkshire. Pig producers have in fact not fared particularly well since our entry into the EEC, although the weakness appears to exist in the UK processing and marketing sectors rather than on the production side. There are therefore some pig producers who feel that they are ill-served by being inside a common market, but this is not a general view. There is however, a clear danger posed by National Aids in this sector. The characteristic of both pig and poultry production is the ease with which production can be increased in the short-term and the fact that, since there is only a weak system of price support, market prices fall sharply in response to over-supply. There is a risk of strong producer reaction if other governments are seen to be giving special aids to their intensive livestock producers.

St. Edmunds Bacon Ltd., at Bury St. Edmunds, Suffolk

This is a very old factory, built in 1911, which is gradually being replaced, and will then be used for storage. The extension was started in 1976 and is to be completed in 1981. The products include sausages, cooked meats, gammon joints, pork chops, etc.

EEC aid has been given from the Farm Fund: £59,884

Poultry Processing Plant at Eye, Suffolk

A large investment in new equipment for the improvement in hygiene at this plant.

EEC Farm Fund aid: £217,000

Grain Centre at Wimblington, Cambridgeshire

The construction of a cereal grain drying, cleaning and storage centre comprising several buildings and replacing old ones.

EEC Farm Fund aid: £63,400

FISHERIES

Employment in Fisheries (1976): 900
 = 10.7% of Gt. Britain total
 = *% of total employment in region

1. The exclusion of Soviet and other East European vessels from the waters of Britain and other EEC countries has provided new fishing opportunities in stocks like mackerel. It would have been difficult for the United Kingdom to extend its own limits to the median line or 200 miles without Community support.
2. The revised common fisheries policy is still under negotiation. When agreed, it will provide an effective conservation system which will ensure the future well-being of the British fishing industry. Conservation has to be done on a Community basis, not for legalistic reasons, but because fish travels. It is of little use introducing tough restrictions on herring fishing in UK waters if no such restrictions apply in Danish or Dutch waters, for it is there that fish mature before returning to British waters. The same is true of several species of fish, including cod.

TRANSPORT

Activity at ports such as Harwich, Felixstowe and Ipswich has increased by 33% over the last few years, especially in container traffic, and the ports are now looking for the capital to permit another 30% expansion. This increase has been directly caused by their position as ports exporting to the European market. They would also qualify for loans from the EIB to improve intra-Community communications.

OTHER ASPECTS

Research at University of East Anglia, Norwich

This was a study into the mobility of white collar workers as opposed to workers on the factory floor if a factory is forced to move its location.

EEC Social Fund aid: £76,000.

* * * * *

EAST ANGLIA

Supplement

January 1, 1979 - June 10, 1981

AGRICULTURAL

Improvement of potato processing facilities at Chatteris and Littleport, Cambridgeshire	£103,333
Improvement of a grain store at Wimblington, Cambridgeshire	£46,417
Expansion of a pigmeat processing plant at Linton, Cambridgeshire	£50,990
Construction of a potato and onion store at Chatteris, Cambridgeshire	£100,088
Improvement of drainage in the river Wissey area, Norfolk	£15,626
Construction of a pumping station and improvement of drainage near Chatteris, Cambridgeshire	£23,851
Construction of a pumping station and improvement of drainage near Doddington, Cambridgeshire	£21,212
Construction of two fishing vessels to be based at Lowestoft, Suffolk	£326,786
Construction of a pumping station and drainage improvement works near King's Lynn, Norfolk	£62,614
Construction of a pumping station near Wisbech, Cambridgeshire	£48,889
Improvement of drainage near Whittlesey, Cambridgeshire	£33,961
Improvement of drainage near Somersham, Cambridgeshire	£37,457

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Grants and Loans to the United Kingdom:-

EAST ANGLIA

(July 1982 to December 1982)

15

EAST ANGLIA

Social Fund

Training of unemployed women over 25 in building maintenance
Norfolk County Council £25,919

Training of unemployed women over 25 as engineering technicians
Norfolk County Council £25,429

EAST ANGLIA

FEOGA

Construction of a potato store at Marsham, Norfolk	£54,591
Construction of a grain store at Eye, Suffolk	£92,732
Improvement of a milk processing plant at Peterborough, Cambs.	£271,139
Expansion of a grain store at Diss, Norfolk	£80,129

EAST ANLIA

18th June 1951 -

GRANTS AND LOANS TO EAST ANGLIA FROM JULY 1ST, 1952.

F.E.O.G.A

Construction of a milk processing plant at Great Yarmouth, Norfolk	£ 214, 470
Construction of a potato store at March, Cambridgeshire	£ 146, 219
Improvement of a pigmeat processing plant at Linton, Cambridgeshire	£ 165, 102
Construction of a grain store at Alysham, Norfolk	£ 173, 548

X



H.M. CUSTOMS AND EXCISE
KING'S BEAM HOUSE, MARK LANE
LONDON, EC3R 7HE
01-626 1515

(PL)

From: P G WILMOTT

Date: 20 January 1984

PS/MINISTER OF STATE

cc PS/Chancellor/
PS/CST
PS/FST
PS/EST
Mr Fitchew
Mr Ridley
Mr Lord
Mr Portillo

THE EUROPEAN HANDBOOK

We have seen a copy of Mr Cropper's letter to the Chancellor of 13 January enclosing draft chapters of the European Handbook, and note that the Foreign Secretary pointed to the need for some more material for the paragraphs on VAT and the excise duties.

... I attach some suggestions which could replace pages 17 (except the first paragraph) and 18 of the Handbook's section on taxation.

P G WILMOTT

Internal circulation: Mr Knox, Ms Chapman

The harmonisation of many elements of the VAT system is effected by the Sixth VAT Directive, adopted by the Council in May 1977 (OJ L145, 13 June 1977), and implemented by the United Kingdom, Belgium and Denmark in 1978. (France, Ireland, Italy and the Netherlands implemented it in 1979 and Luxembourg and Germany in 1980.) This harmonisation does not involve actual VAT rates, but uniformity is sought in matters such as coverage, exemptions, thresholds and definitions. The harmonisation is also designed to establish a common basis for the levy of the Community's 'own resources' from VAT. The Directive contains a number of transitional measures, including one permitting the continuation of extensive zero-rating by the United Kingdom and Ireland. The Commission reviewed these derogations in 1983, as they were required to by the Directive, but without the unanimous agreement of Member States no action can be taken to end them. The Commission has, however, challenged some of the UK's zero rates on the grounds that they do not conform with the Directive's requirements.

The Commission has put forward a number of proposals for Directives to help standardise various points left in abeyance by the Sixth Directive. However, only one, the Eighth, has so far been adopted and implemented. This deals with the arrangement for the refund of VAT in one Member State to taxable persons established in another. The others are still under discussion. The main ones are the Seventh which deals with the harmonisation of the treatment of second-hand goods such as cars, works of art, antiques and collectors' items; the Tenth which deals with the treatment of hired goods; and the Twelfth, which seeks to

standardise and limit the deduction by firms of VAT on travel, entertainment and company cars.

Excise Duties. The Commission brought forward as long ago as 1972 proposals for a framework to confine excise duties throughout the Community to those on beer, wine, spirits, tobacco and mineral oils and for structural harmonisation of those duties. Only Directives on tobacco have so far been adopted by the Council of Ministers.

The structure of excise duties on cigarettes has been governed by Community law since 1972. Since 1978 it has stipulated that the specific duty (a fixed sum per cigarette irrespective of price) must not be less than 5% or more than 55% of the total tax burden on cigarettes, the remainder being an ad valorem tax based on the retail price, and VAT. This second stage of harmonisation was originally due to expire at the end of 1980, when the limits for the specific element were to be narrowed to a band of 10 to 35%. However in the continued absence of agreement the Commission recently proposed a further extension of the second stage for two more years. Most countries have tax structures that tend towards one extreme or the other of the specific duty band. The United Kingdom, Ireland and Denmark all have high specific elements, whilst France, Belgium, Luxembourg and Italy have mainly ad valorem duties (indeed, Italy's specific element is currently below the 5% minimum). The Commission argues that a move towards a higher ad valorem element in the total tax burden would increase retail price differentials and encourage stronger competition and greater consumer choice. Critics of its proposals argue that high

value-based tax rates have a 'multiplier' effect in exaggerating price increases and so progressively discouraging purchase of high-quality cigarettes. The multi-national tobacco firms echo this view, claiming also that the high value-based rates imposed by France and Italy discriminate in favour of these countries' own cheaper brands, so constituting an important barrier to entry to their domestic markets.

Nor have the Commission's proposals to harmonise the structures of the excise duties on alcoholic drinks been any more successful. The aim was to remove barriers to trade erected by the different taxes. But the political and technical problems were felt to be too great to permit the necessary compromises to be made, and negotiations ground to a halt in 1981. The Commission considers that many Member States use their tax systems to discriminate against imports, and has therefore taken a number of cases to the European Court of Justice. The Commission hopes, too, that continued prosecution of offending States will persuade them to return to the negotiating table. The Court judged last year that the United Kingdom's taxation of wine afforded indirect protection to beer, and other cases, including the alleged protection of British 'made-wine', are pending.

The proposal to harmonise the excise duties on mineral oils has made no progress since its introduction in 1973, and there are no immediate signs of movement.

D.14

FROM: ADAM RIDLEY
20 January 1984

CHANCELLOR

(MST)
cc MST
EST

DRAFT EUROPEAN HANDBOOK

Peter Cropper sent you some draft chapters relating to Treasury matters under cover of his letter of January 13, and you commented - not unreasonably - that you took it that I have the necessary work well in hand! In the event I have been absent due to illness and unable to do any work on this; and cannot be at all sure that I will be back anything like full-time for some days yet. So I would like to suggest that the MST and EST pick up the requests for extra material mentioned in the penultimate paragraph of Peter Cropper's letter. In particular, could the MST's office provide some compact material on the tax issues such as the zero rating of VAT, beer and wine duty; and the EST's office pick up any points about the 1983 refunds, the 1982 risk-sharing refund and any possible increase in own resources? All that is needed at this stage is the briefest possible factual material; but it is needed very quickly indeed, preferably by the evening of Tuesday the 24th. I must apologise for this extremely short notice, which is due entirely to my being out of action for so long.

AR

A N RIDLEY



✓ M

CH/EXCHEQUER	
REC.	25 JAN 1984 / 2711
ACTION	MC RIDLEY steb
COPIES TO	FST, MJT, EST,
	Miss Kelley, Mr. Fitchew.
	Mr. Hard,
	Mr. Portillo

HOME OFFICE
QUEEN ANNE'S GATE
LONDON SW1H 9AT

23 January 1984

Mur

Dear Murdo,

We understand that there is some suggestion being put about that the Government is about to announce that this year's European Parliament elections will be fought on the existing boundaries. As no such announcement is in fact being considered the Home Secretary thought his colleagues might find it useful to know what the present progress of the three Boundary Commissions is.

All three Commissions say that they still hope to report by the end of March. As Mr Mellor said in reply to Mr Michael Colvin's Question about the election (OR Vol 47, Col 224), this should leave sufficient time to complete the remaining procedures so that those elections can be fought on new boundaries.

In Scotland there are eight European Parliament constituencies. The Scottish Commission has decided to adhere to its provisional recommendations for five of them. It published revised recommendations for the remaining three constituencies on 15 December.

Wales has four constituencies. The Welsh Commission has received and considered the Assistant Commissioner's report on the local inquiry into its provisional recommendations and has not so far decided to issue any revised recommendations.

England has 66 constituencies. The English Commission intends to publish revised recommendations for 16 of these constituencies on 26 January.

I am copying this letter to the Private Secretary to the Prime Minister and the Private Secretaries to other members of the Cabinet.

Yours ever
Miles

M. J. GILLESPIE

CHIEF SECRETARY
24 JAN 1984
cu/ta to deal

Murdo Maclean, Esq.

Conservative and Unionist Party, GB
Det konservative folkeparti, DK
Ulster Unionist Party, N. Ireland



30 JAN 1984

PS/EST
we spoke

EUROPEAN DEMOCRATIC GROUP
EUROPEAN PARLIAMENT

Chairman: Sir Henry Plumb, DL, MEP

LONDON

2 Queen Anne's Gate
London, SW1H 9AA
Tel. (01)222 1720
(01)222 1729
Telex 917650 EDGLDN

24th January, 1984

Dear Nigel,

As you perhaps know, there will be in early March a Conference for Conservative candidates in the next European Elections. It will take place from 7th to 9th March in the Tara Hotel, Kensington.

Chancellor
Too near to Budget
for you + poss' all
other ministers

DM
Ask EST if
he can
take this
m.
M.

... As you will see from the attached draft programme, we intend to hold a session on the European budget on Thursday, 8th March in the morning. The purpose of this letter is to ask whether you or one of your colleagues could find time to come and speak to us during that session. I fully appreciate that you will have in March many other calls on your time. I am sure, however, that an address from a Treasury Minister (ideally yourself if possible) would do much to encourage our candidates, particularly those who are not yet sitting MEPs.

If you or one of your colleagues can come, could your office please let mine know at the above address? I should be grateful for as early a reply as is convenient to you, and I hope very much to see you at the Conference in March.

Yours ever,

HENRY PLUMB

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

CH/EXCHEQUER	
REC.	26 JAN 1984
ACTION	Mr Makeham
NO COPIES TO	PS/CST
	PS/EST
	PS/EST
	PS/MST

would you advise a.s.ap whether your minister would be able to accept.

Mr Bathshill
Ms Goodman
Mr Lord
Mr Portillo

PROPOSED

GROUP MEETING/CANDIDATES CONFERENCE

6th-9th March 1984

1. The Candidates' Conference has the following aims:

- a) To introduce candidates to the Group and make them feel part of a winning team..
- b) To brief candidates on the principal political issues that they will have to face during the Campaign and explain the Group's view/track record.
- c) To explain the administrative structure of the Campaign and deal with candidates' questions/worries/requests for support and assistance.
- d) To encourage candidates and Group Members to think constructively about the problems the Group will confront immediately after the election:
 - Relations with other Groups
 - Presidential Election
 - Committee Chairmanships etc.

N.B. There will be further opportunities for "workshop" type revision when candidates visit Strasbourg in March and the main Campaign "hype" will come during the April Group Meeting/Study Days.

2. Timetable

Tuesday 6th

15.00-18.00 hrs Group Meeting

Wednesday 7th

9.30-12.30 hrs Group Meeting

Candidates' Conference

15.00-15.45 hrs

Welcome from Chairman

Introduction

Description of Programme

Outline of situation in run up to Brussels Summit

15.30-18.00 hrs Agriculture
18.30-20.00 hrs Reception for candidates (and wives).
 Chairman of the Party to be invited
 and to make short key-note speech

Thursday 8th

09.00-10.00 hrs The Manifesto and Campaign Strategy
10.00-12.30 hrs The Budget: history, procedure, the
 British problem
13.00 hrs Lunch
15.00-18.30 hrs The European Parliament after the
 Elections
20.00 hrs Group dinner for candidates. Key-
 note speaker from Government, short
 speech from senior Dane

Friday 9th

09.00-12.30 hrs Election tactics and organisation,
 and organised by Conservative Central
14.30-16.00 hrs. Office with Edward Kellett-Bowman.

3. Note on Sessions

Sessions are intended to be as participative as possible with candidates asking questions and making comments on the same basis as Members. The session on election tactics will be organised by Sir Anthony Garner and CCO staff. Edward Kellett-Bowman will cover the Information Campaign and the Group's point of view.



Board Room
 H M Customs and Excise
 King's Beam House
 Mark Lane London EC3R 7HE

From: B H KNOX

24 January 1984

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
 Financial Secretary
 Economic Secretary
 Minister of State
 Sir P Middleton
 Mr Battishill
 Mr Monger
 Mr Ridley
 Mr Lord
 Mr Portillo

CUSTOMS AND EXCISE ISSUES AND THE EUROPEAN ELECTIONS

1. Miss Simpson's note of 3 January to Mr Ridley asked for a note on any EC issues that might prove potentially embarrassing in the run-up to the European elections.
- ... 2. The attached note describes the issues over which we are currently in dispute with the Commission. Part I of the note deals with those where, in our judgment, there is a risk of publicity before the European elections and of some consequent embarrassment. Part II lists those items which are either unlikely to come into the public domain by the elections or too technical to excite public interest.
3. The potential embarrassment of some of the more sensitive items may be heightened by action taken (or not) in the Budget. The following paragraphs indicate where the Budget may have a bearing on the issues.
4. VAT Of the three main issues - zero rates, spectacles

SECRET

and the registration threshold - the first is potentially the most awkward. The VAT package currently under consideration would remove only one item from the Commission's list of alleged infractions - newspaper advertising and news services. But by taxing other currently zero-rated items it would show that our reliefs were not immutable and the Commission might thereby be encouraged to redouble its efforts. A decision to raise the registration threshold in the face of the Commission's claim that it should be frozen could also lead to early infraction proceedings.

5. Another candidate for embarrassment in the field of VAT is the possible abolition of the PAS. Although there are no legal obstacles to its removal, the Commission would view such a move as a serious blow to the Narjes initiative and, to its harmonisation plans and would be quick to say so. They have already expressed concern privately at the newspaper reports.

6. Excise duties Much attention will be focussed on the Budget to see how it deals with the wine/beer judgment. Whatever the duty levels set in the Budget, criticism can be expected of measures that - at the EC's behest - reduce the price of imported wine at the expense of home-produced beer.

This now seems unlikely BK. 7. The Commission may decide to proceed with infraction proceedings on made-wine before the Budget. Although action in the Budget could remove the grounds for the complaint against our rates of made-wine duty, it is possible that the Commission might pursue cider, regarding it as undertaxed in comparison with wine.

Bryce Knox

B H KNOX

B.14 Tax

SECRET

FROM: ADAM RIDLEY
27 January 1984

CHANCELLOR

ec CST
FST
EST
MST
Mr Lord
Mr Knox C&E

*I suggest leave
X United we know
No Commission's reaction
to Budget. But
have no objection
M. Knox's
minute to be
now to work
(I don't think there
is any sense in
revising it)
Please send
MST & let
me have
draft letter
M.*

CUSTOMS & EXCISE ISSUES AND THE EUROPEAN ELECTIONS

Mr Knox's minute of January 24 is extremely helpful. All that is needed to complete the picture is a little more precise information about the likely or possible timing of Reasoned Opinions or Infraction proceedings, which is outlined in the attachment to this minute. May I suggest that:

- X | (1) Customs & Excise be invited to offer the best answers they can to these questions about dates;
- (2) in the light of that I should consult the Minister of State before submitting to you a draft letter to send to Sir G Howe, to which one would attach something on the lines of the material in the present attachment to Mr Knox's minute.

2. There remains the question of the extent to which the risk of embarrassment in the European Election Campaign should be considered in your Budget preparations. My initial response is that the only undoubted danger to note is the timing of the Committee stage of the Finance Bill to which Mr Knox refers in his discussion of wine/beer duty on page 4. It is clear that a contentious series of debates on that aspect of the Finance Bill just before the campaign began could be an embarrassment. However even if that judgement is correct, it is not easy to suggest a way of minimising it.

3. If other risks emerge - for example in the light of more precise details about dates - it should be possible to draw attention to them in good time.

A N RIDLEY

CUSTOMS & EXCISE ISSUES AND THE EUROPEAN ELECTIONS: QUESTIONS ABOUT
POSSIBLE COMMISSION ACTIONS

VAT Zero Rates

When might there be a reasoned opinion, and infraction proceeding initiated?

VAT and Spectacles

Roughly when do or might we expect the Commission's reasoned opinions; and how long could we delay in replying?

VAT Registration Threshold

When would one expect a formal warning letter from the Commission if they felt inclined to initiate infraction proceedings after the Budget?

Wine/Made Wine/Cider Duty

If the Commission decided to initiate infraction proceedings after the Budget, how soon might that be?

SECRET



FROM: MISS J C SIMPSON

DATE: 30 January 1984

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Mr Lord
Mr Knox C&E

MR RIDLEY

Handwritten initials 'PWP' enclosed in a circle.

CUSTOMS & EXCISE ISSUES AND THE EUROPEAN ELECTIONS

The Chancellor has seen your minute of 27 January, commenting on Mr Knox's of 24 January.

2. He proposes that asking Customs and Excise to answer the questions you propose about exact dating can wait until we know the Commission's reaction to the Budget. He has, however, no objection to sending the Customs & Excise useful minute to the Foreign Secretary on a personal basis now. He would be grateful if you could consult the Minister of State about this, and let him have a draft covering letter.

B.

MISS J C SIMPSON

● B4 1000.

Confidential



FROM: ADAM RIDLEY
DATE: 30 January, 1984

MR BATTISHILL

cc Mr Kerr
Mr Elliss
Mr Fitchew
Mr Makeham
Mr Portillo

EUROPEAN ELECTIONS: CONSERVATIVE CANDIDATES CONFERENCE
SPEECH BY A TREASURY MINISTER

I gather that the Chancellor has suggested that, as he will not be able to accept Sir Henry Plumb's invitation to speak on March 8 candidates conference, the EST might speak in his place. And Mr Makeham has asked whether I have any views on this proposal. As I am involving myself fairly closely in the preparations to the European Election, I am delighted to *offer some.*

2. There is no doubt that this will be an extremely important occasion in preparing the Conservative candidates for the campaign, and that it would be an exceptionally good opportunity to instruct them in both the key details and the fundamental principles of the line we are taking on the EC Budget. The length of the *discussion* will also permit the candidates to ask a large number of questions, which will be both valuable for them and informative for us. Added reasons for accepting this invitation are that it will give us as good an opportunity as any for putting over the Treasury's line on these issues, not least on very important topics like whether or not we are in favour of more own resources; and also ^{that} it will help establish in the candidates minds the importance of this department in determining the Government's policies on the central EC issues. If the EST is able to accept this invitation, it might be worth considering one or two presentational devices to underline the importance of what he says to them. The most obvious would be either to say that the Chancellor had hoped to come, and

had asked him to present his speech instead (though that would perhaps unreasonably diminish the EST's own important role in this area of policy); or for the speech to include in some way a special 'message from the Chancellor' - something which could be accommodated by a variety of different drafting devices.

3. One other point to bear in mind is that this lengthy session - 10.00 - 12.30 - could well provide us with a useful opportunity to make a few points in passing about matters other than the Budget itself. The only other policy area being treated ^{in the Conference} is agriculture, on the previous afternoon. With a bit of judicious gathering of intelligence, it might be possible even to add a useful gloss or two to anything which will be said then, presumably by Mr Jopling or one of his Junior Ministers.

AR

A N RIDLEY

FROM: P MAKEHAM
DATE: 31 JANUARY 1984

PS/CHANCELLOR

cc PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State
Mr Battishill
Mr Fitchew
Ms Goodman
Mr Ridley
Mr Lord
Mr Portillo

EUROPEAN DEMOCRATIC GROUP: CONFERENCE FOR CONSERVATIVE CANDIDATES

The Economic Secretary has indicated that he would be prepared to address the Conference on 8 March. It would be a good opportunity to put over the Treasury's views on the EC Budget and will come at a crucial time in voting on UK refunds. Our advice is in favour of acceptance and a draft letter to Sir Henry Plumb is attached.

Peter Makeham

P MAKEHAM

A type**DRAFT LETTER**

Write to:

Sir Henry Plumb
 European Democratic Group
 2 Queen Anne's Gate
 LONDON SW1

You asked whether I or one of my colleagues could talk on the EC Budget to the candidates in the European election. Unfortunately the conference is too close to the Budget for me to be able to attend. However, the Economic Secretary, who is responsible in the Treasury for European Community business, would be pleased to come and address the candidates.

Thank you for your letter of 24 January asking whether I or one of my colleagues could attend a session of your Conference for European Conservative candidates in early March, to talk about the European budget.

As you say, that is a particularly busy time of year for me, and I am afraid that it will not be possible for me to attend. However, Ian Stewart, who is responsible here for European Community business, and is in fact the UK member of the Budget Council, will be pleased to come and address the conference has kindly agreed ~~to attend~~ to come in my place. He ~~looks forward to seeing~~ this secretary's number, ~~is 233 3608~~ for making the final arrangements, is 233 3608. Perhaps you could ask your office to make the final arrangements direct with him: His phone number is 233 3608.

N - L -

01 FEB 1984

Covering SECRET

*has sent, will
the staff.
St. 1/2.*

FROM: A N RIDLEY

DATE: 1 February 1984

1. MINISTER OF STATE
2. CHANCELLOR

CUSTOMS AND EXCISE ISSUES AND THE EUROPEAN ELECTIONS

Miss Simpson's minute of ^{Jan} ~~June~~ 30th responding to mine of this topic of January 27th asked me to prepare a draft letter to send to Sir G Howe, covering the attachment to Mr Knox's minute of January 24th. As the Chancellor is seeing Sir G Howe for a pre-Budget chat at 6.30pm next Tuesday February 7th, this letter ought to be sent across before the week ends. And as the Chancellor will be out of London from tomorrow evening till the weekend, the draft ought to get to his office by, say, shortly after lunch tomorrow in comfortable time for it to be retyped for his signature. I spoke to Mr Corcoran earlier today to see if time could be found for us to have a few quick words before I drafted, but we did not succeed. So I am submitting my draft letter to you now in the hope it raises no awkward issues which we ought to discuss and that it can get to the Chancellor's office in good time.

2. My own feeling at this point is that there is nothing we need to imperatively to discuss in depth for inclusion in the letter. There would, however, be a case for one having a quick word in a day or two so that we can brief the Chancellor on any further - and probably political - points which he needs to bear in mind or raise orally when he meets the Foreign Secretary on Tuesday evening.

3. The four areas of concern seem to be action by the Commission in the period April to early June on

- VAT zero rates, if they are not satisfied with the Budget;

*Contains
St.*

Covering SECRET

- VAT exemption of Spectacles, on which we expect a "reasoned opinion" shortly. This would not be an ideal move at a time when NHS issues are so sensitive.
- VAT Registration thresholds. Where we are not likely to please the Commission by a reduction of the kind they seek,
- Wine/made wine/cider, though my hunch is that it would probably need a pretty churlish mind in the Commission to initiate proceedings on this.

✓ 4. I am assuming that this letter is not the vehicle for any discussion of PAS and that the Chancellor's office will have arranged for the transmission of any material to Sir G Howe should that be needed.

AN

A N RIDLEY

A. Lyne

~~DRAFT~~ LETTER FOR THE CHANCELLOR TO SEND TO SIR G HOWE

[The annex of Mr Knox's minute of January 24th to be attached.]

When I sent you my thoughts on the manifesto for the European Elections last December, I promised I would get in touch in the New Year about one or two awkward tax issues. As we are due to meet on Tuesday, I thought you might like to look in advance at a useful note which Customs and Excise have just prepared. There may be points it touches on which you want to discuss on Tuesday.

My own judgement is that there are only four areas of potential interest to a wider public which might become controversial by June if the Commission initiates action on them: VAT zero rates, VAT and Spectacles, the VAT registrations threshold and Excise Duty on Wine/made wine/cider. In no case, I fear, do we have much freedom to alter our plans in order to minimise controversy. But it could be that there are better and worse ways to present our decisions, or even some scope for productive informal contacts with the Commission to minimise the risk of legal proceedings.

I look forward to hearing your ^{Villars}~~version~~ on Tuesday.

NL

Encl.



FROM: A M ELLIS
DATE: 1 February 1984

PRINCIPAL PRIVATE SECRETARY

cc PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State
Mr Battishill
Ms Goodman
Mr Ridley
Mr Lord
Mr Portillo

EUROPEAN ELECTIONS: CONSERVATIVE CANDIDATES CONFERENCE SPEECH

The Economic Secretary has read Sir Henry Plumb's letter to the Chancellor of 24 January and is willing to attend the session on the morning of Thursday, 8 March. He has noted Mr Ridley's suggestions in paragraph 3 of his minute to Mr Battishill of 30 January - that he either present his speech as that of the Chancellor in absentia or include a special "message for the Chancellor". He suggests that the latter option would be preferable.

A M ELLIS

SECRET



FROM: APS/Minister of State

DATE: 2 February 1984

PS/CHANCELLOR OF THE EXCHEQUER

cc Mr Ridley

CUSTOMS AND EXCISE ISSUES AND THE EUROPEAN ELECTIONS

I am forwarding Mr Ridley's minute of 1 February which the Minister of State has seen. He has commented that he is content with the attached draft reply.

Debbie McCambridge

MISS D C McCAMBRIDGE

SECRET



PLW

cc PS/CST
PS/FST
PS/MST
Mr Battishill
Mr Goodman
Mr Ridley
Mr Lord
Mr Portillo
Mr A M Ellis

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

2 February 1984

Sir Henry Plumb
European Democratic Group
2 Queen Anne's Gate
LONDON SW1

Jan Hunt

Thank you for your letter of 24 January asking whether I or one of my colleagues could attend a session of your Conference for European Conservative candidates in early March, to talk about the European budget.

As you say, that is a particularly busy time of year for me, and I am afraid that it will not be possible for me to attend. However, Ian Stewart, who is responsible here for European Community business, and is in fact the UK member of the Budget Council, has kindly agreed to come in my place. Perhaps you could ask your office to make the final arrangements direct with his: their telephone number is 233 3608.

Nigel Lawson

NIGEL LAWSON

1. I certainly don't want
to discuss any of this on
Tuesday



2. Instead of para 2
I wd rather suggest to Sir
GH that he has a quite
good working suggestion to suggest
that the Commission ~~should~~ discuss
the merits of these points (if it has to
discuss them ^{Not seen in} at all)
Under draft after the Euro
elections. Moreover given
ambivalence to the Euro-cause
in UK etc. etc.

C.

Do you really want to
discuss this on Tuesday?
There's more pressing business
to do!

John



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

FOREIGN AND COMMONWEALTH SECRETARY

When I sent you my thoughts on the manifesto for the European Elections last December, I promised I would get in touch in the New Year about one or two awkward tax issues. ~~As we are due to meet on Tuesday, I thought you might like to look in advance at~~ ^{I now attach} a useful note which Customs and Excise have just prepared. ~~There may be points it touches on which you want to discuss on Tuesday.~~

2. My own judgement is that there are only four areas of potential interest to a wider public which might become controversial by June if the Commission initiates action on them: VAT zero rates, VAT and spectacles, the VAT registrations threshold and Excise Duty on wine/made wine/cider. In no case, I fear, do we have much freedom to alter our plans in order to minimise controversy. But it could be that there are better and worse ways to present our decisions, or even some scope for productive informal contacts with the Commission to minimise the risk of legal proceedings.

3. ~~I look forward to hearing your views on Tuesday.~~

N.L.

2 February 1984

*NL - do
(see note
above)*

Covering SECRET



FROM: J O KERR
DATE: 3 February 1984

(Handwritten signature)

Mr Ridley

cc PS/Minister of State

CUSTOMS AND EXCISE ISSUES AND THE EUROPEAN ELECTION

✓.✓. The Chancellor has seen your minute of 1 February, but does not wish to write to the Foreign Secretary in the terms proposed, nor to discuss the Customs memorandum with him next week. He would prefer to forward the memorandum under a revised minute along the attached lines, and would be grateful for the Minister of State's comments on the suggestion in its paragraph 2.

(Handwritten signature)

J O KERR

Covering SECRET



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

phg

FOREIGN AND COMMONWEALTH SECRETARY

... When I wrote to you in December about the European Election Manifesto, I undertook to be in touch again in the New Year about some tax issues. I now attach a useful note on them by Customs and Excise.

2. It occurs to me that it might be useful if you and I were to find opportunities to suggest to Christopher Tugendhat that if the Commission really has to initiate proceedings on any of the issues discussed, it would be unfortunate if they did so before the June Elections. The obvious point, which should be well taken in Brussels, is that for them to start proceedings before June would be a godsend to those who will wish to use the Campaign to argue an anti-European case.

A handwritten signature in black ink, appearing to be 'N.L.' with a flourish.

(N.L.)

4 February 1984

CUSTOMS AND EXCISE ISSUES AND THE EUROPEAN ELECTIONS

PART I: RISK OF PUBLICITY BEFORE EUROPEAN ELECTIONS

1. VAT

A. Zero Rates

The Commission alleges that certain of the UK's zero rates infringe Article 28.2 of the Sixth VAT Directive. The zero rates concerned are those relating to animal feeding stuffs; seeds and live animals; books (other than for schools); some water and sewerage services; newspaper advertising and news services; fuel and power supplied to business; non-domestic construction; residential caravans; and safety boots and helmets. The UK does not accept the Commission's view and discussions have been held with them at both official and political levels.

The zero rates under threat are concerned, in the main, with supplies to business and industry and do not involve private consumers. There has been some limited publicity in the area of non-domestic construction in the technical and financial press but there has been little exposure in the popular press.

The Commission have already sent the UK a formal letter threatening Infraction Proceedings under Article 169 of The Treaty of Rome. They are likely now to wait and see what action is taken in the Budget. If there is none, or it does not go far enough, infraction proceedings must be regarded as inevitable. Their next formal move would be to issue a Reasoned Opinion;

the matter will then become public and other Member States may intervene. If a Reasoned Opinion is issued the UK will have two months in which to reply. If the Commission are still not satisfied they will institute proceedings before the European Court. This sequence of events will take not less than 12-18 months.

B. VAT and Spectacles

The UK exempts from VAT the supply of spectacles by registered opticians. The Commission take the view that our exemption is contrary to Article 13A(1)(c) of the Sixth VAT Directive and they have written formally warning of potential Infraction Proceedings against the UK under Article 169 of The Treaty of Rome. The proposals put forward by the Secretary of State for Social Services to allow non-opticians to sell glasses under prescribed conditions will change the situation since supplies by non-opticians are liable to VAT as our law stands. The UK would have two alternatives; to continue with the present exemption for all supplies by qualified opticians or to remove the exemption for private spectacles from whatever source. On the latter basis only NHS spectacles would be exempted and it is our opinion that the Commission would be unlikely to proceed with Infraction Proceedings.

A Reasoned Opinion on our existing practice is expected shortly. If our reply to this fails to satisfy the Commission, they will institute proceedings before the European Court. This will probably take 12-18 months. Potentially this could prove embarrassing for DHSS, since any attempt to impose VAT on the supply of spectacles by qualified opticians could be seen as a double blow coming on top of the removal of their monopoly.

C. Registration Threshold

The Commission have alleged that the UK's practice of revalorising the VAT registration threshold by applying the percentage rise in the RPI to our 1973 threshold of £5,000 is contrary to the provisions of the Sixth Directive. The Commission claim that the UK was only entitled to take account of increases in the RPI since the date the Directive entered into force, though they have now offered a compromise date of 1 January 1979. We have been asked to freeze our threshold at its present level until inflation catches up. Assuming 5% inflation this might take three years. Moreover, the Commission have this month submitted to the Council a report on the harmonisation of schemes for small traders in which they suggest an even longer freezing of the UK's registration threshold.

A freeze, or the commencement of Infraction Proceedings would evoke an immediate clamour from the vociferous small business lobby, which is in favour of regular revalorisation and an even higher limit. However as the UK has not yet received a formal warning letter from the Commission there is little prospect of Infraction Proceedings commencing before the end of the year.

2. WINE/BEER DUTY

The European Court ruled, on 12 July 1983, that the UK had failed to fulfil its obligations under Article 95 of the Treaty of Rome by taxing imported wine more heavily, in relative terms, than UK-produced beer. The lengthy and complex judgment did not specify, however, the amount by which it considered the excise duty on wine too high, nor did it indicate what action was required to remedy the situation. The line taken so far in answer to enquiries has been that the judgment will be taken into account as the rates of excise duty on wine and beer are reviewed in the context of the Budget. Compliance with the judgment would involve an increase in the beer duty, or a decrease in the duty on table wine, or a combination of both. Such action would be likely to be seen by the same people as an example of an EC ruling penalising a traditional UK drink in favour of imports. The Committee Stage of the Finance Bill might bring wine/beer into prominence in the run up to the elections.

3. WINE/MADE-WINE/CIDER DUTY

The Commission issued a Reasoned Opinion to the UK on 1 August 1983, alleging that the structure of the UK's excise duties contravenes Article 95 of the Treaty of Rome by discriminating against imported wine in favour of UK-produced made-wine and cider. The UK responded to the Reasoned Opinion in November 1983 and the Commission's reaction is now awaited. If the Commission takes the case to the Court, this too is likely to be construed as an attempt to force us to consume more imported wine, to the detriment of UK-produced cider and made-wine. The made-wine, and particularly, the cider industries have vociferous political lobbies. The timing of any such Court action is not clear, and may well depend upon the Budget decisions on wine etc duty rates.

PART II: PUBLICITY UNLIKELY

1. VAT

A. Private Hospitals

The UK exempts from VAT the provision of medical care and, in connection with it, the supply of any goods by NHS hospitals and by other approved bodies eg private hospitals. The Commission however have expressed the view that Article 13A1(b) of the Sixth VAT Directive does not give cover for our present exemption of all licensed private hospitals. We now know that the Commission are reconsidering their position on whether or not all hospitals can be considered to fall under Article 13A1(b).

In any event the UK has not yet received a formal warning letter from the Commission and there is little prospect of Infraction Proceedings commencing in 1984.

B. Secondhand schemes

In October last year the Commission wrote to the UK requesting that we withdraw two schemes introduced since 1 January 1978 for secondhand firearms and secondhand horses. The Commission hold the view that the introduction of these schemes was contrary to Article 32 of the Sixth VAT Directive. This Article provides that Member States applying a special system may retain it until a Community system is adopted; the Commission clearly understand this as being an absolute standstill. The UK however holds the view that while a Member State may not introduce a new system Article 32 does not prevent the extension of an existing system, which is what we have done.

The UK has not as yet received a formal warning letter from the Commission threatening Infraction Proceedings. Any proceedings, if instituted, are unlikely until the latter part of this year. In any event the Commission would appear to be using this threat as a way of obtaining further progress on the draft Seventh VAT Directive which deals with the taxation of secondhand goods. If the UK were forced to withdraw the schemes it would cause embarrassment for the Government and protests would come from the trade associations whose interests were damaged.

C. Trade Fairs and Exhibitions

The UK practice of taxing the supply of exhibition services under Article 9.2(e) of the Sixth VAT Directive and thus relieving supplies to overseas exhibitors is clearly contrary to the Sixth VAT Directive. The Commission have said that such services are taxable under Article 9.2(a) and 9.2(c) and the UK, in principle, agree. We have now asked for a period of grace in which to change our treatment of these services.

Germany currently applies the same incorrect treatment as ourselves and they have received a formal warning letter from the Commission. Unless we comply a similar letter may be expected. Infraction Proceedings are unlikely to commence before the latter part of this year. As this is a very technical point, with no impact on the general public, we do not think that it will prove very embarrassing for the Government.

D. Credit Cards

For VAT purposes the UK treats the supplies between credit and charge card companies and retailers as taxable supplies of business promotion by the card companies. The Commission have written to the UK stating that in their view, these services are exempt. The UK has asked for a six months period of grace in which to reconsider our position but we have, in principle, accepted that the Commission's view is correct. Discussions have been held with trade interests and the outcome reported to Ministers.

The period of grace expires in March and if we do not fall into line with the Commission a formal warning letter will probably follow soon afterwards. Infraction Proceedings would be unlikely to commence until the latter part of this year. In any event we do not think that this will cause any great embarrassment to the Government.

2. PERFUMED SPIRITS

The Commission issued a Reasoned Opinion on 9 November 1983 alleging that the UK's taxation of alcohol used in the manufacture of perfumes and toilet preparations was in breach of Article 95 of the Treaty of Rome. A response to the Reasoned Opinion is being prepared.

The UK exempts such alcohol from excise duty provided that it has been denatured and chemically marked - processes which are designed to prevent the diversion of alcohol to taxable use. The relief is available both to domestic and imported products but the Commission claim that our system is discriminatory since we require specific chemicals to be used and therefore impose production constraints on non-UK manufacturers.

This is a technical subject and is unlikely to excite public interest.

3. BEER DUTY LOSS ALLOWANCE

The Commission are currently querying the justification of the UK's system of allowing a 6 per cent deduction from the gross beer duty charge on account of production losses. Several other Member States have received warning letters on the same subject.

Any reduction in the allowance could be misrepresented as an enforced increase in the duty on beer and would actually bring about a reduction in the competitiveness of British exports, with serious employment consequences.

We believe that, in alleging that the UK's allowance is discriminatory, the Commission have been misled over the true level of production losses in the UK brewing industry. A rebuttal of the Commission's charge is being prepared. If the Commission do not accept our rebuttal, we would not expect formal Infraction proceedings before the end of the year.

4. END-USE CUSTOMS DUTY RELIEF

We are in dispute with the Commission over the interpretation of Community rules for end-use duty relief. Five Tri-Star aircraft were imported by British Airways in 1980/81 under the duty-free end-use provisions for civil aircraft. 2-3 years later these aircraft were sold to MoD and converted to military use in connection with the Falklands operations. We hold that if goods are brought into the Community under duty-free end-use provisions and are then put to the prescribed end-use, all liability to pay duty is discharged in full. The Commission's view is that, notwithstanding initial use for the stipulated purpose, any subsequent diversion of the goods to a non-qualifying use renders the goods liable to duty.

The Commission has pressed us to collect the duty which could amount to some £2m-4m depending on value at the time of diversion, but we have so far refused. We have heard informally from an internal source that a recommendation for infraction proceedings to be initiated against us is moving up the chain of command within the Commission. A formal warning letter from the Commission may not issue, if at all, for some time. Court proceedings would be unlikely before the Elections.

CONFIDENTIAL



FROM: M E Corcoran
DATE: 7 February 1984

MR KERR

cc Mr Ridley

CUSTOMS AND EXCISE ISSUES AND THE EUROPEAN ELECTION

You asked for the Minister of State's comments on the suggestion in paragraph 2 of the draft minute which would cover the memorandum. The Minister of State agrees with it and thinks it seems well worth putting this idea to Mr Tugendhat.

JBG.

M E CORCORAN
Private Secretary

CONFIDENTIAL

No 10
7 LOES
PRES.
10/2

13/2

Duffy

CH/EXCHEQUER	
REC.	13 FEB 1984
ACTION	MR RIDLEY
COPIES TO	FST, EST, MST
	Mr Fitchew
	Mr Lord
	Mr Portillo
	Miss Jony



10 DOWNING STREET

10 February 1984

EUROPEAN ELECTIONS

There will be a discussion of the European Elections before Cabinet on Thursday, 16 February. The Prime Minister would be grateful if all Cabinet Ministers, plus the Chief Whip and the Chairman of the Party, could attend at 0945 in the Cabinet Room. Officials will not be present for this discussion, which will be followed by a meeting of the Cabinet.

I am sending a copy of this letter to the Private Secretaries to all Cabinet Ministers, to Murdo Maclean (Chief Whip's Office) and to Emma Oxford in the Chairman's Office. A copy also goes for information to Richard Hatfield (Cabinet Office).

Stephen Sherbourne

STEPHEN SHERBOURNE

Miss Janet Lewis-Jones,
Lord President's Office.

See Hummer's Cah fold

RIDLEY
BRIGF
14/2:
EUROPEAN
ELECTIONS

B 14

FROM: ADAM RIDLEY
14 February 1984

CHANCELLOR

Before Cabinet of Thursday, there is [redacted] to be a discussion with the Prime Minister and colleagues about the European Elections. Officials will not be present, but the Chairman of the Party and one or two others will.

2. I do not think that you need to take a very active part in this meeting, but it may be helpful if I put on the record one or two background points which may be of interest.

(a) Adequacy of organisation for the campaign.

While the mechanics - organising postal votes, candidates selection etc. - are reasonably well ahead, the serious strategic thinking and arrangements for the campaign have so far been inadequate and very delayed. Any opportunity you may have to put more pressure on Central Office to get on with it would certainly be worthwhile, not only from the Government's point of view generally, but also from a selfish one. It is inevitable that the more disorganised they are, the more likely the campaign organisers will be to call upon you or colleagues here (or Advisers) to fill gaps, deal with alarms and excursions, etc. at the last minute.

(b) One point which may come up explicitly is the preparation of background material to support the Manifesto itself. This comprises in practice early drafts of questions of policy; an assessment of any proposals emerging from the opposition; and briefing on contentious or valuable issues which can be provided to candidates. With the experience of the last election behind us, this Department will certainly be able to play its part effectively. However it is important that colleagues pass to us (and often the FCO) interesting material from the opposition parties as they formulate their policies more precisely. We can then analyse its feasibility, cost it and prepare advice to candidates without getting into the contentious area of doing such

c. I think this is in fact to be an "off-agenda" item at Cabinet on Thursday, without secretariat input, and no MPs. A political drum-beating session, in fact. J.R.

- and unless they can!

CONFIDENTIAL

work during the campaign itself - which in any case tends to be too late, sketchy, and difficult to communicate to people in the field.

- (c) When last heard of, Central Office still seemed not to have made up their mind what were the critical areas or seats. This is clearly something which you and your colleagues need to be informed about soon. It affects not only your speech and other election engagements such as they may be, but also, if only to a lesser extent initially, the kind of themes which we may wish to give attention to during the campaign.

3. One other thought relates to the state of negotiations with our Community partners in late May and early June. Assuming, as seems likely, that the Community is still in crisis and crucial negotiations are still in the offing, we and the FCO have a very special interest in making sure that colleagues in the Cabinet, Members of Parliament on the stump or candidates themselves, are sticking carefully to the right line on matters to do with negotiations. This is something you might wish to underline; and to reinforce by recalling that Ian Stewart will have been keeping a very close interest on such matters at all times, and should be approached for clearance of difficult issues at such periods during your campaign (fairly numerous) as you may be absent. [Were it not to be the Finance Bill season, I would have also suggested that a Treasury Minister should be one of the members of the standard "Questions of Policy" Committee, which will be meeting regularly during the campaign. You may still think this a possibility worth raising at some point!]

AR

A N RIDLEY

27/2/84

FCS/84/57ALL CABINET COLLEAGUESEuropean Elections

CHIEF EXCHEQUER	
DATE	28 FEB 1984 ✓ 28/2
ACTION	MR RIDLEY
COPIES TO	FST. MST. EST
	MR LORD.
	MR PORTILLO
	MR FITHEW

1. At our meeting on 23 February we agreed that Ministers should look at Departmental work with a view to identifying policy initiatives which could be timed for announcement during the European elections campaign, or incorporated in the manifesto. I would be grateful if all colleagues could follow this up and let me have by 19 March a list of such initiatives, whether domestic or European, indicating timing and including an assessment of the impact of the announcement.

2. In the period between now and the European elections, issues of policy will arise in the European Parliament which could offer scope to the opposition to exaggerate differences between the EDG and the Government. It will, therefore, be important to take steps to be aware in advance of any potential problems, and to engage in closer and deeper consultation with the relevant EDG Spokesmen than would be necessary at other times. I would be grateful if colleagues would alert Ministers, Special Advisers and, where appropriate, officials, to the need to follow this up. The Party Chairman and I have already stressed to EDG leaders the importance of their Spokesmen taking the initiative to contact Departments, but we should not rely on this alone. Quite often, I fear, an initiative may well be necessary from the Government side.

/3.

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3. I am sending copies of this letter to all Cabinet colleagues, the Party Chairman, the Chief Whip, and to Peter Cropper.

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

(GEOFFREY HOWE)

Foreign and Commonwealth Office
27 February 1984

PERSONAL AND CONFIDENTIAL

From: The Rt. Hon. Sir Geoffrey Howe, QC MP

(pup)



9 March 1984

HOUSE OF COMMONS
LONDON SW1A 0AA

PERSONAL AND CONFIDENTIAL

cc Economic Secretary
Mr Rodley
2. Chancellors ✓
JPH.

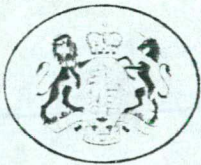
Dear Nigel

Drafting of the Manifesto for the European elections has now reached the stage where it seems desirable to have the initial reactions of Ministers whose departmental responsibilities are most closely concerned. I have asked Malcolm Rifkind to get in touch with Ian Stewart in the first instance to show him the draft and discuss any problems arising, subject to your agreement. We will need a response during the course of next week, so I would be grateful if you could ensure that arrangements are established to ensure rapid action.

GEOFFREY HOWE

The Rt Hon Nigel Lawson MP

*FST wanted in the
handwritten way
please*



Foreign and Commonwealth Office

London SW1A 2AH

From The Minister of State

13 March 1984

Ian Stewart Esq MP
Economic Secretary
HM Treasury
Parliament Street
LONDON SW1

ECONOMIC SECRETARY	
REC'D	14 MAR 1984
ACTION	MR. RIDLEY
COPIES TO	CHANCELLOR
	CST
	FST
	MST

*Who has this in hand.
JFS*

*Frd. 12
What happened?
JFS*

Dear Ian

Geoffrey Howe wrote to Nigel Lawson on 9 March informing him that I would be contacting you shortly about the Manifesto for the European elections. Drafting has reached the stage where it seems useful to have preliminary reactions from Ministers in a few of the key Departments.

I attach the first draft of the Manifesto. As you can see, significant redrafting and polishing are required. I would be grateful if you could let me have your comments, in particular on the sections affecting your departmental responsibilities, by 6.00 p.m. on Thursday 15 March. If any major problems arise, we may need to meet quickly and discuss them.

I am writing in similar terms to John MacGregor, Paul Channon, Norman Lamont, Lynda Chalker and John Selwyn Gummer.

*Yours ever,
Malcolm Rifkind*

Malcolm Rifkind

I. INTRODUCTION

The Conservative Commitment

These elections are about who can best represent your interests in the European Community.

Five years ago, in the first European elections, we called for an end to the confused and half-hearted approach to the Community which was the best a deeply-divided Labour Party could offer.

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This approach was doing immense damage to British interests. Not only had it failed to secure any of the reforms we wanted to see, it had hardened our Community partners' attitudes to such an extent that any prospect of reform had receded still further into the future. More seriously still, the attitude of the Labour Government was weakening the Community's attempts to get to grips with unemployment, energy shortages and the deteriorating world economic situation.

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In both the general election and the European elections of 1979, the Conservatives won a massive victory. We argued then that by being more committed to the Community - and more concerned with what we could contribute, not just with what we could get out of it - we could secure both a better deal for Britain and a Community better equipped to meet the political and economic challenges of the 1980s.

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This was the spirit in which the new Conservative Government, backed by strong Conservative representation in the European Parliament, got down to work: first, to mend our relations with the other Member States; second, to assert the major role which we felt that Britain should be playing in the Community; third, to win agreement on a number of key reforms; and fourth, to shape the policies of the Community in ways which would help it to fulfil the original Treaty objectives of maintaining peace and prosperity in Europe, at a time when both were seriously threatened.

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Our double victory in 1979 was greeted with widespread relief in the rest of the Community. Had Labour won, they would certainly have attempted to put into effect their ruinous policy of leaving the Community, thus doing still further damage to employment, to our international reputation, and to the climate of political and economic stability which British industry, in particular, so desperately needed.

35

By contrast, the Conservatives were soon able to dispel any doubts about our determination to remain in the Community. Once again, British Ministers were listened to with respect by our Community partners, and in a series of speeches by the Prime Minister, the Foreign Secretary and others, our 'positive approach' was set out across every field of Community activity.

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The greater degree of commitment was matched by greater consistency. In 1979, we said 'Conservatives here at home, 45
in Government and Parliament, and in Europe will be part
of the same team'. Conservative Ministers in the Council
have gained authority not only from the strong Conservative
majority in the House of Commons - a majority still further
increased in June 1983 - but from the very strong 50
Conservative representation amongst British Members of the
European Parliament. Conservative Members have spoken up on
behalf of the reforms and new policies the Community needs,
whereas the Labour Members have been representative of
nothing but the narrowly sectarian interests still at odds 55
within the Labour Party itself.

Now, in the second round of European elections on 14th June 1984,
Conservatives are seeking a fresh endorsement of their policies
on behalf of Britain's interests in the Community, and fresh 60
backing for the British Government in the form of a strong
Conservative team in the European Parliament.

PART II: A COMMUNITY WITH A WORLD ROLE

1. A Force for Democracy and Stability

The European Community has a key role to play in maintaining world peace, promoting the principles of democracy and liberty, and advancing the economic and trading interests of its members. Conservatives believe that Community membership increases the influence of the United Kingdom and strengthens our capacity to direct our own destiny in the world at large.

5

The need for an independent and concerted European voice has been repeatedly demonstrated during recent years. Individual European states are today less able to influence the policies of the other major powers on matters of foreign policy, economic policy or trade than the Ten can do working together.

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We recognize the importance of preserving and strengthening our friendship with our major ally, the United States, which has contributed so much to secure liberty and prosperity in Europe in the aftermath of World War II. We share the objectives of maintaining peace and protecting our freedoms. But we also recognize that specific US and European interests are not always identical. We believe that

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a stronger and more united Europe is in the interests of the Western Alliance as a whole. 25

The Community is the world's largest trading block. It has numerous trading agreements with developed and developing countries. Its potential influence in the world is therefore very great. 30

2. Improving Political Co-operation

The Conservative Government and Conservatives in the European Parliament have played a leading role in strengthening co-operation among the Ten on foreign policy matters. The London Report, 35 which improved the machinery, widened the scope and strengthened the commitment of our member states to Political Co-operation, was agreed under the British Presidency in October 1981. And the Ten recently agreed on a set of 40 British proposals for strengthened co-operation among Community Embassies around the world.

There is still much to be done if the Ten are to exert the influence which should be theirs. We will work to build on the 45 foundations laid by the London Report, especially as regards the commitment to consult before taking national decisions of importance to the Ten as a whole. We will seek to ensure

that the economy, flexibility and lack of 50
bureaucracy which characterize the
activities of Political Co-operation are
maintained.

We take the view that NATO is the right
forum for co-ordination on matters concerning 55
Western defence. But we would also like to
see even greater co-operation among Europeans
on matters of defence and security. We
welcomed those passages of the London Report
and the Solemn Declaration on European Union 60
which extended the scope of Political
Co-operation to include discussion of political
and economic aspects of security. Closer
co-operation in arms procurement policy is
also in Britain's interest and in Europe's, 65
and can provide a stimulus to European industrial
development.

3. Enlargement

Enlargement of the Community to include Spain
and Portugal will strengthen democracy and 70
security in Western Europe by bringing these
new democracies into the mainstream of
European political and economic affairs. We wish
to see the negotiations brought to a conclusion
as soon as possible, so that the desire of both 75

countries to accede on 1 January 1986 can be met.

4. A Trading Community

The trading strength of the Ten combined is unrivalled, with a share of world trade half 80 as large again as that of the United States and nearly one-quarter of the gross world product. The Community therefore has both great influence and great responsibility in trade.

We believe it should use its strength to 85 maintain and extend the open world trading system, which has produced the largest increase in trade and wealth in history. We reject the protectionist policies of the Labour Party as bad for our successful industries, bad for 90 consumers and bad for Britain as a nation which depends on trade. We will work to ensure that the Community resists the temptation to solve its internal problems by adopting protectionist measures. The Community should speak with a 95 collective voice, both in defence of its interests where necessary and in tackling the problems of protectionism and indebtedness.

Conservatives therefore support:

- * The implementation of the work programme 100
agreed at the GATT (General Agreement on
Trade and Tariffs) ministerial meeting, in
particular the opening up of markets of
newly industrialized countries to other
developing as well as developed countries, 105
and liberalization of trade in services.
- * A full and constructive Community role
in the GATT Committees on Trade and
Agriculture, so that Community policies
on agricultural trade do not add to 110
trading tensions.
- * Action to ensure that Japan opens up more
rapidly to imports and investment and
moves away from the persistent
accumulation of large current account 115
surpluses.
- * Measures to deal effectively with unfair
practices by other countries and to
provide breathing space for Community
industries in transition. Conservatives 120
in the European Parliament have taken a
leading role in strengthening the anti-
dumping unit of the Commission through
more speedy procedures and improved resources.

- * Action to resolve trading tensions with the United States, notably on steel, agriculture and trade with the Soviet bloc, in a manner which defends our legitimate interests and is fair to both sides. 125
- * A Community approach to the protectionist shipping policies of state trading countries and some developing countries. 130
- * Action to promote greater exchange rate stability and economic co-ordination as agreed at Williamsburg. We recognize that heavy fluctuations in major currencies increase protectionist pressures, and need to be reduced. 135

5. Helping the Third World to Help Itself 140

Trade and aid with less developed countries should be designed to meet humanitarian needs, to stimulate self-reliance and to further our trading and political interests.

The European Community and its Member States provide more than a third of all aid given by developed countries to the developing world and almost half of the total aid to the least developed countries. The Lome Convention, now 145


being renegotiated, provides 63 African, Caribbean and Pacific states (34 of them Commonwealth members) with the most comprehensive trade and aid arrangements between the developed and developing worlds. 150

In addition, the Community programme of financial and technical aid for Non-Associated States (including the Indian sub-continent) has been growing steadily. 155

Developing countries also benefit from the Community's Generalized Preferences Scheme. Resources have to be limited, but 160

we will work to maintain an open trading environment, to eliminate waste and to promote private investment in developing countries. We believe that we can use our long experience in overseas development to help bring about a real increase in effectiveness in the use of aid. 165

We also want to see our own industry and commerce increasingly able to take advantage of the opportunities offered by the Community's aid programme. We will build on the progress we have already achieved in improving the quality of Community aid so that it contributes to self-reliance in food production. In particular we believe that food aid, though it 175



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can still play an important role, should not
be used as an outlet for the disposal of
Community surpluses.

Redoubling our efforts to relaunch and revive Europe has now become essential. Our countries are far more closely linked and dependent on one another than they have ever been. So we each have a vital interest in our collective success. 5

Conservatives alone have the policies, the authority and the commitment to the Community which the task of securing recovery calls for.

* We are firmly committed to setting industry free in a real Common Market with much greater freedom of trade in goods and services. 10

* Our policies for the control of state spending and borrowing, lower taxes and reviving enterprise have reduced inflation, restored confidence and are enabling us to lead the Community out of recession. 15

Regardless of party or ideology, our partners are following similar policies with positive results. 20

* We recognise the urgent need to sustain and encourage employment by making our industry more competitive.

* We stand by the Community's policies to help relieve the economic costs and social pains of change. 25

PERSONAL AND CONFIDENTIAL

- * Conservatives have put forward specific and practical proposals.
- * We look at Community policies on their merits. We support Community action when it is clear that it will be more effective than national action alone. 30

Our policies for recovery in Europe are different from those of our opponents who

- * seek to repeat on a European scale the same policies which have failed at national level; 35

- * would destroy jobs across Europe through massive state intervention, wasteful subsidies, planning and controls: 40

- * make empty promises rather than put forward specific proposals.

Internal Market

The most important step which the Community can take towards growth and recovery involves no budgetary cost at all. It is to make a reality of what is still a far from Common Market. Though trade barriers have gone, too many other obstacles remain, as the lorry drivers protest in France has vividly illustrated. Their

removal will boost competitiveness, reduce the costs on industry, and provide better prospects for employment. 50

We attach the highest priority to achieving a Community-wide market where those with goods and services to sell can do so with a minimum of restrictions and burdens imposed on them by national protectionist measures. 55

In particular we shall seek to:

* eliminate delays and bureaucracy at frontiers within the Community which are alone estimated to add [£7] billion a year to costs and thus to prices; 60

* make public purchasing more open and competitive. It is estimated that present restrictions could cost the European consumer and taxpayer as much as £30 billion a year - nearly twice what we spend on the NHS; 65

* create a common market for financial and other services. At present the Community only accounts for 3% of the business of the London insurance market, while taking over 40% of our exports in goods. We shall seek to ensure that our insurance, banking and housing finance services have a better opportunity 75

PERSONAL AND CONFIDENTIAL

to exploit a Community-wide market;

- * build on existing progress towards mutual recognition of professional qualifications;

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- * agree a definite and detailed programme for removal of non-tariff barriers to trade, including a timetable for their removal.

- * support the harmonization of VAT and excise duties where the divergences between countries are a significant barrier to British producers and consumers as much as to any.

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These changes will help businesses. But they will also help the individual as consumer, as traveller, as an earner, or as someone searching for work.

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Freeing the internal market requires much hard, detailed work because of the complexities of national legislation. We shall resist harmonization for its own sake, but we recognize that simplifying laws has a role a play in reducing barriers to trade. Conservatives in the European Parliament have played a leading role in creating a climate of opinion where the urgency of progress in this field is recognized, and in

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seeking to establish real priorities for action. They have also supported the Government's campaign to have the Community Trade Mark Office sited in London. 105

Uncertainty about interest rates and exchange rates can constitute another important obstacle to simpler, more secure ways of financing investment in, or trade with, our partners' economies, particularly for small businesses. We share with our partners the objectives of more stable exchange rates which requires above all a common commitment to mastering inflation and the implementation of the policies that demands. 110 115

The question of sterling participation in the exchange rate mechanism of the EMS remains under regular review. We should only take that step when the conditions are right, both for us and for our partners. We support the increasing commercial use of the ECU in Community trade and finance. We have already removed all serious obstacles to its use in this country, and will urge our partners to do the same. 120

Jobs

Securing recovery and making a reality of the internal market can make a massive contribution to the relief of unemployment. They are the 125

foundation of a policy for jobs; but alone they are not enough. In the EC as in the UK, Conservatives will support policies which favour competitiveness and expand the flexibility of our economic and social system. 130

Experience shows that it is small businesses which can generate the bulk of new job opportunities. [Section on policy for small businesses] 135

We have strongly supported the Community's efforts to promote health and safety at work. Recent progress on common standards will provide better protection for employees while ensuring no unfair distortion of competition within the EC. 140

The Community's role should, however, be questioned when it seeks to impose detailed and binding rules in areas which are primarily the proper concern of employers and employees; which pay little regard to the differences between member states' practices; or which are likely to achieve the reverse of their declared purpose. 145

We do not support the Commission's recent initiatives on part-time and temporary working, and the shorter working week, nor do we favour comprehensive schemes for early retirement. 150

These schemes would both damage competitiveness, undermine jobs and intrude into matters which should be dealt with at industry, plant or firm level within each member country. 155

Good employers need no urging to consult their employees and inform them properly. We shall continue to press that the practices of the best firms become the norm. But the emphasis must be on voluntary national arrangements. We shall therefore resist attempts to impose rigid systems on industrial relations and the management in Britain, such as the Commission's proposed "Vredeling and Fifth Directives". These would increase costs, disturb existing good practices, damage job prospects and investment both at home and from outside firms, and contribute nothing to a more effective common market. [We are, rather, considering the more prudent approach of establishing a Code of Good Practice with statutory backing in order to create the flexible pressure for change which is really needed. 160 165 170

Transport

We shall continue to attach a high priority to liberalizing transport by continuing pressure for action for the benefit of producers and consumers alike, such as: 175

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- * reform of the restrictive road haulage quotas;
[section on lorry weights to be added] 180
- * eliminating protection in world shipping, and unfair and deliberately disruptive competition from eastern bloc countries;
- * cutting out the restrictions, inefficiency and relative high prices in passenger air transport between member countries 185

Regional and Social Funds, European Investment Bank

Consistent with our commitment to increase the share of non-agricultural spending in the Community's budget, we shall continue to support the Community's Regional and Social Funds. Assistance can be more effectively targetted by these Funds than through the CAP. The UK has enjoyed substantial and growing assistance from them, in excess of £1 billion from each since their foundation. This has both eased our public spending burden and supported numerous projects of value to particular regions, communities, firms and industries and groups such as the young and handicapped. We shall continue to ensure their resources are used effectively and where they are most needed. The review of the Funds' "priority areas", which will follow the accession of Spain and

Portugal, must not deprive our problem regions or most deserving groups of their fair share of Community support.

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[EIB, NCI]

Industry and Energy

Conservatives recognize that in some areas carefully targetted assistance at the national or the Community level has a role to play.

This is true both in older declining industries and in the new technologies. Within the framework of a realistic and properly controlled Community Budget, Conservatives will

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* give continued support to the Community's efforts to rationalize the steel industry; [shipbuilding/textiles?]

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* press our partners to examine critically the obstacles to joint European ventures and investment, and encourage industrial coopeation, especially in the new technologies.

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* promote common efforts on research and innovation where the costs are too great for individual countries or companies;

PERSONAL AND CONFIDENTIAL

* encourage training programmes for the new technology industries, possibly under the Social Fund; 225

* seek to ensure that national aids are transparent and fair;

* [Airbus, space, telecoms] 230

On energy, the Community needs to identify and act on concrete priorities. These should include measures to

* continue to reduce dependence on imports, encourage realistic energy prices and conservation, and develop energy resources within the Community; 235

* assure sensible contingency measures for managing the oil market in another oil crisis; 240

* encourage a viable solid fuels policy

* [nuclear - ?refer to recent successful agreement on joint fast-breeder co-operative research] 245

* [any scope for EDG ideas on Euro-grids in electricity and gas, or less dependent on eastern bloc imports?].

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Environment and Conservation

Policies for improving the environment and reducing pollution often impose major costs on firms as well as increasing the quality of life. Striking the right balance is as important and as difficult within a Community as it is within a single country. Much pollution crosses frontiers, in water or by air. And differences in national policies and standards can create non-tariff barriers by distorting competition. So policies for the environment are a proper concern for the Community if they are to be effective and if European industry is to compete on a fair and equal basis.

The UK has long been a pioneer in fighting pollution. Our present priorities for action within the Community are:

- * the elimination of lead in petrol [by 1990 in the UK]
- * Community action to control cross-frontier movements of hazardous wastes;
- * finding answers to the problem of acid rain;

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- * proper assessment of the environmental effects of major industrial development projects before approval;
- * Community assistance in cleaning up the Mersey and other polluted rivers.

Equally we are determined to build on our success in persuading our partners to follow the philosophy of "environmental quality objectives", which has long been established here at the proper basis for regulating industry. This principle strikes a fair balance between the needs of industry and the protection of the environment. Its implementation should lead to progressive elimination of pollutants and substances in cities throughout the Community.

[Endangered Species, Wildlife, Countryside?]

[Consumers?]

IV TRUE TO BRITAIN, TRUE TO EUROPE

[This chapter will deal with Budget Burdens

Financial Control

Agriculture

Fisheries.]

All sections except Fisheries depend heavily on the outcome of Brussels. Drafting has been done but it would serve little purpose at this stage to discuss it. The Fisheries section is attached.]

Fisheries

The Conservative Government has succeeded in negotiating a Common Fisheries Policy, concluded in January 1983, which provides British fishermen with the greatest advantages in our waters in the industry's history. This policy provides the stability the industry needs for long-term investment and, with effective conservation measures, should secure expanding rather than declining stocks of fish.

Our achievements contrast with the abject failure of the last Labour Government to make any progress in defending the interests of British fishermen or in negotiating a satisfactory policy. The lost opportunities under Labour made our negotiating task more difficult and prolonged than it need otherwise have been.

We will continue to ensure that our fishermen get a fair share of the resources available to the Community, and that the policy is enforced even-handedly and managed efficiently. We will continue helping our industry adapt to the new circumstances that face it with the loss of deep water fishing opportunities.

CHAPTER VTHE EUROPEAN PARLIAMENT AND COMMUNITY DECISION-MAKING

Since 1979, the directly-elected European Parliament has established for itself a position of real influence at the centre of the Community's decision-making. It has used this position to scrutinise and, where necessary, to amend proposals for new legislation from the Commission; to control expenditure; to check bureaucracy; and to act as the forum within which the problems facing the Community can be debated and solutions worked out.

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It is now unthinkable that any major decision can be taken affecting the Community's future without the citizens of Europe being involved through their representatives in the European Parliament.

10

Conservatives have taken full advantage of the Parliament's enhanced authority. They have used the Parliament not only to criticize Commission action and bring into line with Conservative thinking, but to draw attention to the major reforms the Community needs if it is to survive and to press for the economic and social policies essential to longer-term prosperity. Conservative Members have also developed, through questions and reports, the Parliament's right to investigate the activities of the other Community institutions.

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In their constituencies, the Conservative Members have acted as the vital link between Community action, in whatever field, and its impact upon the citizens of this country.

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They have been involved in a wide range of cases in order to safeguard the rights of individuals and firms threatened by bureaucracy or administrative action, and, in conjunction with Conservative MPs at Westminster, have lobbied in Brussels and in Strasbourg on behalf of many local and national interest groups.

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All this has been achieved without any increase in the Parliament's formal powers. We believe that although the Parliament's powers must keep pace with the growing authority and influence of the Community's institutions within Europe and of the Community in world affairs, there is no case - because there is no need - for the Parliament's powers to be increased at the expense of other Institutions.

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The main task before the Parliament over the next five years is to consolidate its influence and to use it to the benefit of the citizens of the Community. This can only be done if a direct link is maintained between the Members and their constituents, and this is why in the discussions on a uniform electoral procedure Conservatives will continue to attach great importance to the retention of single-Member constituencies in Great Britain.

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The newly-elected Parliament must also give high priority to developing a more consistent and responsible stance on the key issues, notably those relating to the Community budget.

Over the years, the Parliament's say in how Community funds are spent has increased, but it has little direct responsibility for how the money is raised. This has placed the Parliament at the mercy of those with a vested interest in the maintenance of the present emphasis on agricultural expenditure, especially price support. 45

So far, the Parliament has shown itself unwilling to make cuts in some areas of Community expenditure so that other areas might benefit, within the limits of available resources. Until it shows itself capable of making political choices of this kind, the Parliament's overall stance on the Community budget will lack the degree of responsibility essential to real authority. 50 55

Conservatives will continue to support the European Parliament's involvement in human rights questions. Whatever its formal powers under the Treaty, outside the Community the Parliament is regarded as 'the voice of Europe' on a whole range of political issues. This involves a responsibility which the Parliament cannot easily shirk and which Conservative Members have sought to discharge in an orderly, coherent, and pragmatic fashion, in the belief that the European Parliament has a contribution to make to the maintenance and expression of the democratic ideals upon which the Community itself is founded. 60 65

These three criteria - effectiveness, consistency, responsibility - allied to a concern to keep the Parliament closely in touch with the electorate are fundamental to the Conservative approach to the Parliament. This approach has helped us to work very closely on specific issues with Members from many other like-minded parties across the Community. The success of this co-operation can be seen in the way these parties have held the initiative on all important issues since 1979, from the Falklands crisis and cruise missiles to unemployment.

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The next few years are likely to be critical ones for the European Parliament. It must dispel not only the misgivings about the effectiveness of international co-operation, but also the doubts about whether the workings of the Community can be made more democratic. With a strong and determined Conservative representation there is every prospect that it can do both.

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REFORM OF THE COMMUNITY INSTITUTIONS

The problems facing the Community cannot be resolved by institutional means. However, the search for solutions is made more difficult by the fact that in the Community decisions can be taken without adequate scrutiny or consultation, or blocked as a result of the failure to reconcile different interests. 5

The basic need is for institutions and procedures which provide not only effective democratic control over Community decisions, legislative or otherwise, but also the proper balance between Community and national interests. 10

Conservatives have consistently argued in favour of the need to safeguard national interests and for greater efficiency in the collaboration between the different institutions, including national governments and national parliaments. At the same time, we have been willing to support concerted action at Community level whenever it can be shown that this is more likely to yield results - or represents better value for money - than Member States acting individually. 15

Conservatives have insisted that Member States should be able to protect their vital national interests in the Council of Ministers by invoking the right of veto. However, we recognize that if the Council is to be an effective decision-making body, this right should be used only as a last resort. 20

It is not in our interest that other Member States should
[be able] without proper justification, [to] veto agreement on
measures which would benefit the United Kingdom.

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Conservatives will continue to press for practical reforms
in the workings of the Community institutions. In particular,
they will play a constructive and realistic part, over the
next five years, in implementing the undertaking given by
Member States' Governments in Stuttgart in June 1983 to
'deepen and broaden' the scope of their European activities.

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However, we will remain critical of any attempt to force the
pace of institutional reform, especially in ways which might
jeopardise the defence of genuinely vital national interests or
which would not command the necessary degree of common
agreement and public support.

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DRAFT I/REV II

CONCLUSION

Conservatives have a practical view of the future of the European Community. We understand and share the ideals which underpin it - securing peace, stability and democracy in Europe, recognizing our common European destiny, and pooling our resources to secure the prosperity of our citizens. We have made, and will continue to make, a positive and constructive contribution to turn those ideals into reality. This requires practical proposals and a resolute approach to negotiations rather than empty rhetoric.

Conservatives have been in the vanguard of those seeking modernization and change in the Community. In Europe as in Britain we are the party looking to the future. Our policies in Britain and our policies in the European Community are complementary and mutually reinforcing. Strict control of finance and elimination of waste; growth and employment created through enterprise and

PERSONAL AND CONFIDENTIAL

initiative; a commitment to the Western Alliance and to working with our friends abroad to safeguard our interests. These are our policies in Europe as in the United Kingdom.

We have restored the standing of Britain in the world. Our resolution in defence of democratic principles and of British interests is unquestioned. Our willingness to take the difficult decisions in order to restore the long-term economic health of Britain has won widespread respect. Where we led, others are now following. Together with the Federal Republic we are leading Europe out of recession.

This is not the time to call for Bennite policies across Europe, as Labour propose, and to put our recovery at risk. Or to plunge into a federal Europe as the Liberals propose. A protectionist Europe is no more likely to secure our interests than a protectionist Britain. A non-aligned Europe is no more

likely to safeguard our liberties than unilateral disarmament in Britain. Withdrawal from the Community, whether plainly advocated or disguised, as a call for a new Messina, is still damaging to the pursuit of British interests in Europe.

A strong Conservative Government, supported by a strong Conservative team in the European Parliament, is the best protection of British interests in the Community. The electorate knows our policies and understands our consistent approach. We do not change our policies every time there is an election. That is why people trust us. And it is why we are confident of support on June 14.



INSTITUTE OF DIRECTORS

Spare.

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
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Director General
Walter Goldsmith

14 March 1984

Dear Chancellor,

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I have great pleasure in enclosing the Business Leaders' Manifesto for the European elections. It will be released tomorrow.

We very much hope that it will be a helpful contribution to this year's discussions: first in the context of next week's Summit by taking a firm line on the Community Budget and secondly, in the context of the election campaign, by dismissing interventionist regulation and, our top priority, by taking a thoroughly positive stand on the internal market and external free trade. We hope also that our observations on the Community's Institutions will be welcome.

I might perhaps usefully mention that, while in our third Taylor Nelson Survey of our members, only 24% of those surveyed said that Britain's membership of the European Communities had resulted in any tangible benefits for their company, 84% thought the Government should support proposals to extend competition and to remove non-tariff barriers in the Community's internal market. This supports the view put forward by the Institute to the effect that British business is willing to take full advantage of the opportunities presented by membership of the Community, but its ability to do so is still inhibited by a wide range of obstacles to trade within the Community.

We are most grateful to the Foreign Secretary for his positive response to the Manifesto, and very much hope that you will also consider it to be a helpful contribution.

*Yours sincerely,
Dirk Hazell.*

DIRK HAZELL
Secretary, European Advisory Council

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RECD.	21 MAR 1984
ACTION	<i>ES CX regulatory</i> <i>82/2</i>
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	<i>Mr Lord.</i>
	<i>Mr Portillo.</i>
	<i>Mr Monck</i>

Mr Fitcher.

INSTITUTE OF DIRECTORS



THE BUSINESS
LEADERS'
MANIFESTO

EURO-ELECTION 1984




EURO-ELECTION 1984

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MANIFESTO



Published by
The Institute of Directors
116 Pall Mall, London SW1Y 5ED



March 1984
£2.00

“OECD statistics indicate that in the past ten years the USA has provided 14½ million net new jobs. These statistics also show that in the same period the European Community (excluding Greece), which has a larger population and a larger economy than the USA, has created *no* net new jobs. To my mind nothing speaks more clearly for the need to question the performance of the Community than this simple and devastating contrast with the USA.”

Extract from a speech given by Walter Goldsmith, Director General of the Institute of Directors, in the Grand Committee Room, House of Commons, December 1983.

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A. INTRODUCTION AND COMMUNITY INSTITUTIONS

1. On 14th June, the British people will vote for the second time to elect Members of the European Parliament to represent them for the following five years.

These will be important elections, both for Britain and for the rest of the European Community, because the policies adopted by the Community in this period will have an enormous impact on our economic future. The European Parliament, as the democratically elected forum for debate, amendment and, increasingly, promotion of Community policy, and with widening powers over the Community Budget, will play an essential part in determining the direction taken by the Community.

2. Since the European Coal and Steel Community was created by the Treaty of Paris in 1951 by the original six Member States, which then in 1957 formed both the European Economic Community in the Treaty of Rome and Euratom, the Community has come a very long way. It now has 10 Member States (Belgium, Denmark, France, the Federal Republic of Germany, Greece, the Irish Republic, Italy, Luxembourg, the Netherlands and the United Kingdom), with Spain and Portugal both anxious to join as soon as possible.

However, the Community is now at a crossroad, and we hope the voters in the Community will have the opportunity of voting for a Community in which the Member States can work together for sustained economic recovery and soundly based jobs and enterprise. The policies set out in this document have this objective and they are commended both to electors and to election candidates alike as worthy of their support.

3. The Institute of Directors represents 34,000 company directors and business leaders worldwide. Our members in the UK are responsible, through the enterprises with which they are involved, for the livelihood of more than ten million working people.

4. The Institute of Directors is a professional and independent body the aims of which are to provide an effective voice for business leaders, to bring their experience to bear on the conduct of public affairs for the common good, and to help directors to improve their own professional competence.

5. The Institute maintains a strictly independent political stance, the better to be able to pursue its aims.
6. The Institute believes that the competitive free enterprise system is the only sound basis for achieving the greatest progress towards economic prosperity, and for underpinning personal and political freedom.
7. We believe in customer sovereignty, and that the enterprise of individuals is best channelled into providing goods and services which customers will choose to buy of their own free will. Both quality and quantity will be maximised only within an economic system where entrepreneurs can compete for customers' favour, and where individuals will reap rewards commensurate both with the risks they have taken and the degree to which their enterprise and efforts satisfy customers. **In the modern world, entrepreneurs are best able to compete where they enjoy a large domestic market: new technology generally performs most profitably where there is a large domestic market giving rise to greater specialisation and longer production runs. This was in large part why British business supported Britain's accession to the Community. Yet obstacles remain which break up the internal market of the Community so that there are expensive real barriers to trade between the Member States. This puts at risk not only our economic future but also the future of the Community itself.**
8. The proposals which we make in this Manifesto are, therefore, aimed at creating and then sustaining an economic, social, legislative and political climate in which European industry and commerce can flourish, expand and compete effectively in world markets, real job opportunities can be created and the standards of living of all people in the Community can be significantly raised. **The great bulk of our proposals can be quickly implemented without additional public expenditure. Indeed, we believe they will result in lower levels of public spending. We are certain they are urgently needed.**

The Institutions of the Community

9. In many respects, we share the general feeling of disappointment about the performance of institutions of the Community. We do not, however,

necessarily accept that this means that there is an immediate need to revise the Treaties establishing the Community and defining the powers of the institutions. **We believe the institutions of the Community are judged by the results of the policies they produce and that confidence in the institutions will rise when they are clearly seen to be promoting policies which will help to develop a climate of opportunity and economic success based on free enterprise. While it is essential that the institutions become more effective, we believe that to amend the legislative framework within which the institutions operate would delay the most urgent priorities for the Community set out below.**

10. **We cannot envisage supporting proposals to give Community institutions more power if those institutions advocate interventionist policies which undermine economic performance or if those institutions are paralysed by indecision.** We will continue to judge the institutions on their record in the coming years and in the meantime we believe that the Treaty of Rome provides adequate scope for the European Parliament to exercise its democratic function and for the Commission to propose policy and to manage the Community. We believe **the reputation of the European Parliament amongst voters will improve if it consistently supports proposals to raise business confidence and economic opportunity in Europe. We believe the reputation of the Commission will improve if the Commissioners more readily accept that they must abandon Commission proposals which turn out to be misguided: we expect the consultative process to allow for the abandonment of proposed legislation and not merely for cosmetic reworking of inherently damaging proposals.**

11. The Institute of Directors deplores the bureaucracy and indecision that is still the hallmark of the Council of Ministers. **The European Parliament should not hesitate to use its influence to persuade the Council to agree to Community measures which are vital for economic recovery.**

12. We note that the Commission has over the years put forward a wide range of interventionist proposals, and that its executive powers are very wide. We note also that officials at the Commission come from countries with a variety of legal and historical approaches to administration. **We would welcome objective discussion by the European Parliament as to how human rights could effectively be protected without amending the founding Treaties.**

Enlargement

13. The Institute of Directors welcomes the proposed accession of Spain and Portugal to the Community. We welcome the enlargement of the Community market that this will represent, we welcome the special knowledge of overseas markets these countries will bring and of course we hope that membership of the Community will underwrite democracy in these countries. **We urge the newly elected European Parliament to call for the rapid accession of Spain and Portugal but, as an essential pre-condition, this accession should not take place before the Council of Ministers has formally undertaken to consolidate the internal market of the Community and to restructure the Community Budget.**

B. THE INTERNAL MARKET

1. **The development of the internal market of the Community is the top priority facing the Community.** The cost of the present fragmentation and limited scope of the internal market is overwhelming and is directly reflected in lower levels of employment and standards of living throughout the Community than we could otherwise enjoy. **The Institute of Directors seeks complete internal free trade in the Community.**

We call on the newly elected European Parliament to give a clear political lead, and to raise the level of awareness about the crucial role of a large internal market. The European Parliament should cooperate with the new Commission taking office in January 1985 to persuade the Council to give top priority to the consolidation of the internal market. Should the Commission itself fail to give effect to this priority, the European Parliament should be prepared to consider using its power to dismiss the Commission. As part of this process, the European Parliament should seek to establish what steps the Commissioners will take to reorganise the structure of the Commission to enable it to give priority to the internal market. It should also insist that the Commissioners withdraw irrelevant and counter-productive proposals (such as the draft Directive on commercial agents), which absorb manpower resources in the Community institutions and in national administrations of the Member States but which do not promote, and indeed frequently inhibit, the development of the internal market and, therefore, the creation of soundly-based new jobs.

State aids and public procurement

2. State aids to industry, direct or otherwise, can often be protectionist measures which break up the internal market. State aids have also been used to disguise the damaging effects of inefficient industries rather than to assist necessary restructuring. State aids to prop up inefficient industries, or state aids to industries capable of managing without support from public funds, are as protectionist and ill conceived as any other measures which fragment and distort the internal market of the Community. The Institute has welcomed the growing awareness of the Commission of the problems caused by these state aids, and has noted with approval the strict

interpretation of the Treaty of Rome applied by the Court of the European Communities regarding the circumstances in which state aids are permissible.

3. This is not to say, however, that there is no role in this area for the European Parliament. Indeed, **we call upon the European Parliament to give the political support that is needed to underpin firm control by the Commission of state aids, first by drawing attention to specific cases and secondly by demanding that Member States do in fact notify the Commission in advance of proposed aids so that the Commission can decide as to their acceptability and publish its decisions.**

It is particularly vital that the relationship between state-owned industries and their governments can be monitored, especially in the international Community where the direct competitor of a private company in one Member State may be an inefficient but highly subsidised industry in another Member State. **We therefore call on the European Parliament to insist that the scope of the Directive on the transparency of financial relations between Member States and their public undertakings is extended to cover all sectors of the economy.**

4. Public procurement contracts account for about 15% of GNP throughout the Community. Unfortunately, there is still no genuinely effective common policy opening up these contracts to competitive tender on a Community basis. As a result, the efficiency of the European productive base is reduced. A report commissioned by the European Parliament recently estimated that the annual cost of this uncompetitive practice is about 10% of the £300 billion annual value of public procurement contracts in the Community. These costs of about £30 billion a year, added to the cost of unnecessary delays and bureaucracy at internal Community frontiers (see below), amount to twice the cost of the whole Community Budget or to taking away from every household in the Community one week's income every year.

We therefore call on the European Parliament to demand that the Commission ensures that public procurement contracts are in practice put up for tender and then accepted on a genuinely competitive Community basis. More generally, the European Parliament should ensure that the Community pursues the spirit and letter of the GATT initiative which seeks a greater element of competition in public procurement policies.

We believe that practice in the USA provides a model to follow. The break up programme, which divides large tenders into a number of smaller tenders, improves the capacity of Small and Medium Enterprises to bid for public contracts on an equal basis with larger corporations. In addition, we believe the Community's computer capacity should be improved so that registered suppliers are automatically contacted whenever relevant public procurement contracts are on offer.

5. The telecommunications industry provides one example of the change in attitude which we call upon the European Parliament to promote. In 1981 the Commission put forward proposals which would open the purchase of 10% of telecommunications equipment to full competition within the Community and which would promote convergence of standards in telecommunications equipment throughout the Community. While in the USA, business has been able to anticipate a vast expansion of telecommunications in its home market in this decade, in the Community there has not yet been agreement on the Commission's proposal even though over the Community as a whole investment in telecommunications in the next decade may amount to more than £100 billion. The Institute deplores the failure of the Community to achieve the unity of the internal market that is so vital for sustained economic recovery.

Although we believe the figure is far too low, we welcome the Commission's proposal to expose 10% of the purchase of telecommunications equipment to competition. We regret that, the UK having already chosen a US cellular radio system, there was a subsequent Franco-German bilateral agreement (envisaged as a prelude to further bilateral cooperation in telecommunications) on an incompatible cellular radio system. **Fragmentation of the European telecommunications industry is merely one example of the way in which European producers are unable to realise the benefits of being as competitive as possible. We call on the European Parliament to use their potential as a public forum to promote awareness of the new jobs and higher standards of living that can be achieved if the internal market is developed.**

Standards

6. If producers are to be able to benefit all those who live in the Community by taking advantage of the opportunities presented by a large home market, then in principle goods manufactured in one part of the Community must be permitted to be sold in the rest of the Community. The Institute is anxious that customers throughout the Community should be able to purchase goods in the knowledge that they satisfy acceptable standards of safety and reliability and that, in normal conditions of use, goods and services should present no unreasonable risk to customers. However, there are cases in which Member States refuse to permit the sale in their territory of goods manufactured in another Member State because the importing State's product standards are not satisfied. Often, for example, what purport to be health regulations are merely in fact a protectionist device. The Community's Court has, in the Cassis de Dijon and other cases, sought to promote the integration of the internal market, but the Institute has come to the conclusion that only a major new initiative in this area will achieve the necessary results. **We therefore call on the European Parliament to give its full support to the urgent creation of a European Standards Institute so that the convergence of technical standards can be rapidly implemented in the Community. Wherever possible, these standards should conform to standards that are acceptable in the rest of the world so that goods manufactured for the Community market can also be exported. Top priority should go to harmonising those requirements which are most readily used as protectionist devices.**

In view of the lead taken by the British Government in promoting the cohesion of the internal market and in view of the fact that there is no major Community institution based in the UK, the Institute of Directors believe that a European Standards Institute, as well as the proposed European Trade Marks Office, should be based in the UK. The establishment of such institutions in the UK would help to develop British awareness of membership of the Community.

We also broadly welcome the Community Patent Convention which would give business the opportunity of applying for a single European Patent to cover the whole of the Community. This is a good example of the type of Community initiative that can reduce the bureaucratic burden on business of intra-Community trade.

Administrative Obstacles

7. **The Institute of Directors calls upon the European Parliament to demand that unnecessary bureaucratic obstacles — frequently a tool of protectionism — to trade within the Community are removed as a matter of urgency.** For example the Commission have estimated that the annual cost associated with the delay and bureaucracy of crossing national frontiers within the Community is about £7 billion. **We call on the European Parliament to demand immediate further simplification and standardisation of formalities associated with intra-Community trade — for example, the Community's adoption of the Single Administrative Document, and computerisation of customs clearance would be helpful. We welcome a recent Directive coordinating opening hours at frontier posts, but this Directive is only a long overdue and incomplete start to the process of reducing bureaucracy and delay at internal frontiers and of simplifying and reducing requirements for documentation.**

Competition policy

8. The administration of Community competition policy is generally a matter for the Commission and the Court of the Community. We believe that, in some respects, the application of Community competition policy has been more satisfactory than the application of national merger policy in the UK, and we welcome the way in which the Commission and Court have developed competition policy to open up the internal market. We regret however the support given by the outgoing European Parliament for the Commission's proposals on merger control, since we believe these incorporate some of the worst aspects of British policy. **We call on the newly elected European Parliament to insist that the articles in the Treaty of Rome setting out the principles of competition policy are fully applied to all sectors of economic activity.**

Competition policy should also be used to take a tough line against improper pricing policies by nationalised industries.

Transport policy

9. Transport provides some of the most obvious gaps in the application of competition policy. Regarding air transport, we recognise the progress that has been made on the liberalisation of inter-regional air services, and the key role played by the European Parliament, as a result of British efforts, in achieving this progress. **The newly elected European Parliament, returning to the approach it adopted on inter-regional air services (and bearing in mind that in the USA deregulated aviation provides cheap mass transport) should demand the full application of the Community's competition rules to civil aviation. Bilateral agreements between Member States which carve up the air transport and road haulage markets in the Community, and lead to absurd and expensive distortion of the market, are completely contrary to the general principles of the Treaty of Rome, and the European Parliament should use its influence to obtain their abolition forthwith.**

10. Transport is obviously a vital sector of the economy. In the Community it provides six million jobs and produces 6.5% of GDP. Business in all the Member States needs flexible and ready access at competitive prices to the rest of the Community market. **We believe that one of the European Parliament's most effective means of helping to achieve the Community's aim of complete internal free movement of people, goods and services is to insist that there is a Community transport policy offering genuine competition at a Community level between the various forms of transport and insisting that any discrimination that does occur, for example in state aids to railways and to state-owned airlines, should become the exception rather than, as has been the case, the rule. In any event there should be transparency of financial relations between Member States and the transport undertakings they own.**

Services

11. One of the most unsatisfactory elements of the present state of development of the internal market is that there is still not a genuine internal market in the service sector. **We call on the European Parliament to insist that the Commission and Council of Ministers immediately**

implement a programme to achieve a genuine single Community market in services.

12. We believe that the Council of Ministers should be capable of agreement before the European elections on the freedom to provide non-life insurance services throughout the Community. We will expect the European Parliament to give its full support to subsequent proposals which extend the freedom to provide banking, insurance and other services throughout the Community. We deplore the exchange restrictions which have recently been introduced in some Member States and which curtail the freedom of movement of capital in the Community. We call on the European Parliament to encourage the freedom of movement of capital and to demand that the Commission in the meantime publishes full details of all Exchange Control measures adopted by Member States.

13. The economy of the Community will achieve its full potential only when there is close integration of the financial markets, including venture capital markets in the Community. A Community-scale financial market will help market forces to direct European capital and savings towards profitable and productive activities. The development of a Community venture capital market will help promising small and medium sized enterprises throughout the Community.

We recognise the importance to the Community's economy of the British financial sector and we support market led progress towards a common financial policy.

14. We welcome the growing use of the ECU since this arises in part from the operation of market forces. We have no objection to the market developing the ECU as a means of payment as well as, at present, a store of value. We have welcomed also the creation of the European Monetary System, and the partial participation of the UK in it, since we believe that EMS has helped to create an area of greater financial stability in the Community. We believe that the UK's caution in committing Sterling to participation in the Exchange Rate Mechanism of EMS has been justified by the facts. The variables that have influenced the movement of Sterling, such as conditions on the oil markets and fluctuations of the US dollar, have not influenced other Member States' currencies in the same way. In these circumstances, any British Government that had the best interests of the UK and the Community at heart would have found it difficult to

undermine such stability as there has been by committing Sterling to the Exchange Rate Mechanism.

We believe that the British Government has been right to adopt a policy of allowing Sterling to find its market value. Indeed, we believe the lifting of exchange controls is one of the most significant policies of recent years. However, we recognise also the merits of stable relationships between European currencies. **We believe that consolidation of the internal market and market-led use of the ECU will in the longer run underwrite currency stability more effectively than formal attachment to the Exchange Rate Mechanism.**

Professional Qualifications

15. **We call upon the European Parliament to use its influence to speed up the pace of agreement on mutual recognition of professional qualifications throughout the Community.** Progress has been limited and slow in this area and, for the professions, freedom of establishment in another Member State still affects only a marginal number of people.

Research and Development

16. **We call on the European Parliament to improve public knowledge of the need to increase cooperation, especially at the pre-competitive stage, in research and development on a Community scale.** We welcome agreement that has been reached before the Election on the implementation of the ESPRIT programme, which encourages cooperation in research into the practical application of information technology. We hope it will be followed by similar programmes, including cooperation in R & D in the area of bio-technology. One characteristic of such programmes must be that small and medium sized enterprises with a capacity for rapid and substantial expansion should have access on favourable terms to the results of such cooperation.

We believe the Community has a great deal to learn from MITI in Japan, so far as the planning of future investment is concerned. We call on the European Parliament also to demand closer cooperation at a Community level between the academic and business sectors.

Taxation

17. We do not believe that different rates of taxation in the Member States constitute a major restriction on the development of the Community at this stage. There are some aspects of taxation though, such as excise taxes, which discriminate in favour of goods produced in a particular Member State and therefore distort the market. These are primarily the concern of the Commission and the Court of the Community. However, given that there have been instances of Member States defying the rulings of the Court over a sustained period, we believe **the European Parliament should not hesitate to condemn Member States which deliberately and illegally use taxation as a means of distorting the internal market.**

18. **Our approach to Commission proposals to harmonise taxation in the Community is that they should reduce business costs and distortions in the market but that at the same time they should not be unnecessarily interventionist.** We therefore oppose, for example, the proposed 12th VAT Directive since this would result in a direct additional cost being imposed on business for legitimate and reasonable business expenses. On the other hand we welcome the intention to promote free trade which lies behind the proposed 14th VAT Directive. This would extend use of the British Postponed Accounting System (whereby importers pay VAT on imports not at the point of entry into the country but in their normal VAT returns) to other Member States, resulting in a reduction of annual purchasing costs of up to 3%. However, it would not be reasonable to expect the UK to continue to use this system if other Member States do not rapidly adopt it, and in these circumstances the British Government would be fully justified in reviewing the position as to its own practice. **We urge the European Parliament, when it considers proposals from the Commission relating to taxation, to adopt a practical approach, in the interest of all those the European Parliament represents.**

Comment

19. We hope that public concern at the costs associated with the failure so far to improve the cohesion of the internal market will now prove sufficient for unnecessary obstacles to job and wealth creation rapidly to be removed. Proposals to improve the internal market, which we believe the European

Parliament must support, would soon result in lower public expenditure as new jobs were created. The cost of the failure to act is equally tangible and has been illustrated by declining levels of investment in the Community and of intra-Community trade, contributing to failure to create net new jobs. We believe that the USA provides a number of examples for the Community to follow. Since, unlike the USA, the Community has the large internal barrier of different languages, it is likely that the Community will need even more consolidation of the internal market than the USA already enjoys. We are sure that the European Parliament and the other Community Institutions must make the improvement of the function of the internal market the top priority, and to achieve this **we will need to see tangible deeds quickly implemented rather than the bureaucratic wrangling of recent years. To this end, we believe that the Member States should as a general principle not invoke essential national interest in order to veto particular proposals to develop the internal market, but should instead have regard to their own and the Community's wider interest.**

C. THE COMMUNITY AND THE REST OF THE WORLD

1. The Community is the largest single economy in the world and produces $\frac{1}{4}$ of the world's GDP. It is also easily the largest trading bloc in the world. It is vital both to the Community and to the rest of the world that the Community uses its influence actively to promote free trade.

The Institute of Directors calls on the newly elected European Parliament to support fully the maintenance and strengthening of the open world trading system.

2. **The European Parliament should insist that the Community's common commercial policy is used as a tool of free trade.** More than one eighth of Britain's GDP still depends on foreign trade **outside** the Community (a higher proportion of GDP than **all** of Japan's external trade) and it is vital that we continue to have access to these world markets.

3. The European Parliament should insist that **within GATT the Community should press for future initiatives towards free trade and should fully implement all GATT initiatives to open up markets. The European Parliament should demand the immediate liberalisation of international trade in services, the accelerated implementation of the mutual tariff reductions agreed in the Tokyo Round and further mutual tariff reductions.**

4. EFTA (Austria, Finland, Iceland, Norway, Sweden, Switzerland and Portugal) is the Community's major industrial trading partner and there are no customs duties on industrial goods traded between the Community and EFTA. **The European Parliament, in its delegations to EFTA, the Member states of EFTA, and the Nordic Council, should support proposals further to liberalise trade and strengthen cooperation between the Community and EFTA, and insist that the Commission and Council of Ministers continue to do the same.**

5. **The Institute of Directors attaches the greatest importance to the maintenance and development of the closest trade and business links with the USA** and believes that the Community has much to learn from the state of integration of the US economy. We believe also that the Community and the USA should cooperate in formulating a policy of increasing free trade with the rest of the world.

However, the recession has given rise in the USA as elsewhere to some protectionist sentiment, including even the possible raising of the spectre of controls on capital movements, and these dangerous tendencies need to be closely observed and opposed. **We call on the European Parliament in its delegation to the US Congress to contribute to the preservation of a climate of mutual trust and confidence where the Community and USA jointly support free trade in the world. The European Parliament should ensure also that the Commission and Council of Ministers use the position of the Community as the principal trading partner of the USA to this end.**

6. **International trade must not only be free, it must also be fair.** In principle, where countries enjoy access to the Community market for their exports, they must also expect that the Community's exports should have access to their home markets. Various aspects of Community policy — for example the Community rules governing the dumping of foreign products on the Community market — are primarily the responsibility of the Commission, but the European Parliament should nonetheless always satisfy itself that the Commission is discharging its duties.

The Institute notes the success of Japan in penetrating the Community market. It calls on the European Parliament in its delegation to Japan to urge that Japan takes further steps to open her domestic market to imports by, for example, allowing more quality testing in Europe of European exports to Japan. It further calls on the European Parliament to condemn the agreements negotiated by the Commission whereby Japan voluntarily restricts exports to the Community of about a dozen 'sensitive' products (about 30% of Japan's total exports to the Community) since such protectionist agreements encourage inefficiency and lower productivity in Europe, and can too easily become long-term arrangements which intensify the problem of poor competitiveness in Europe which gave rise to the agreements in the first place. In any event, where there are restrictive agreements, there should be clear cut-off dates.

7. **Indeed, as a general principle, the European Parliament should demand that the Commission does not use the muscle of the Community to deny other countries access to the Community's market, but rather uses its influence to ensure that foreign markets are opened to European producers.**

8. The Community has negotiated a Generalised System of Tariff Preferences which was designed to help poor and undeveloped countries to

establish their own productive base. **The Institute of Directors calls on the newly elected European Parliament to urge the Commission to revise the Generalised System of Tariff Preferences so that those countries which are no longer poor (including some oil-exporting countries) should continue to have tariff free access to the Community market only on a reciprocal basis and with the acceptance of the obligations imposed by the GATT.**

9. The Institute of Directors welcomes the process of European political cooperation. The Community, partly because of its common commercial policy, is increasingly perceived in the rest of the world as a unit and, if it is to proceed smoothly, **the process of economic integration in the Community must entail a degree of convergence in foreign policy. We call on the European Parliament, when it does consider international issues, to use its influence in the most practical way by strengthening the foundations upon which international trade is based.**

D THE LEGAL BUSINESS ENVIRONMENT IN THE COMMUNITY

1. We have unambiguously indicated above that we believe the Community has a key part to play in giving momentum to sustained economic recovery by consolidating the internal market and by cutting the costs of production which business has to face. We have also put forward a radical and positive set of proposals by way of illustration for the constructive development of the Community.

2. **It is a source of grave concern to the Institute, however, that the Commission and other Community institutions have put so much time and effort into a number of proposals which would raise the costs faced by business and which would undermine the vital need of business to respond with necessary speed to changing economic and social conditions. It is all the more astonishing to us that these proposals should have been pursued at a time of great economic difficulty when, above all, business needs to have the lowest possible costs and the greatest possible capacity to respond flexibly if it is to survive at all in the fiercely competitive world markets which are also vital to its existence. It is vital that the newly elected European Parliament opposes rather than encourages such proposals.**

3. The Institute of Directors firmly believes that voluntary systems of involvement by employees in developing and sharing the fortunes of the enterprises that employ them should be encouraged and we continue actively to promote progress in this area. Equally, we are in no doubt that such schemes must be voluntary. The proposed Vredeling Directive would impose a straight-jacket, designed to fit only some, upon all companies over a certain size and the Directive would seriously undermine the competitive position of British business. We oppose compulsion and harmonisation of laws on employee participation, in part because we know that such schemes are contrary to the best interests of employees. Similarly we oppose the Fifth Company Law Directive since this would seriously undermine the ability of those responsible for the performance of business to take necessary decisions with necessary speed, and this would greatly impair the capacity of companies to adjust their operations at a time when the maximum flexibility in response to changing conditions is an essential prerequisite of economic recovery.

Similar considerations apply to other proposals advanced by the Commission. The proposals on work-sharing would add to business costs

by raising unit costs and would undermine the prospects of economic recovery. Proposals of this nature are certainly a matter for free discussion between employees and employers on the basis of their practical experience. It is not for bureaucrats to impose their will from their well protected ivory towers. Similarly the proposed Part-Time Work and Temporary Work Directives would add to the costs of business and at the same time damage the interests of the very people the proposals are supposedly designed to protect. Where the UK already has appropriate mechanisms, we do not want to see inappropriate forms of protection becoming enacted.

4. **We call on the European Parliament as part of the priority we believe it should attach to the internal market, to have more regard in future for the economic costs of interventionist Commission proposals of this type and the Commission, when putting forward such proposals, should be obliged to declare its bona fide estimate of their estimated financial burden on business. The European Parliament should insist that the Commission improves its resource allocation so that its policy output is more relevant to the promotion of sustained economic recovery.**

5. **In effect, we call upon the European Parliament to demand that the Commission complies with the Treaty of Rome. While so many of the key provisions of the Treaty have yet to be given full effect, it is difficult to justify a situation where so much of the Community institutions' time is devoted to activities which at best stretch the meaning of the Treaty and in some cases, in our view, go beyond its provisions.**

6. Some aspects of the Community's programme of harmonisation of company law do have objectives which we can support and which, if sensibly implemented, would be of service to business and to employees. When a formal proposal for a Ninth Company Law Directive is proposed, it may be that it could helpfully facilitate the organisation and administration of groups of companies, a topic which has been neglected by most Member States. It could offer a helpful link between the management structure and the corporate structure of companies. Similarly, the European Economic Interest Grouping could offer business a simple and effective means of administering joint ventures across internal frontiers within the Community. However, we call on the European Parliament to condemn the undermining of these potentially useful measures to liberalise company law, which is a body of laws designed to enable companies to exist, by

continuing irrelevant but damaging attempts to use this liberalisation as an opportunity to impose compulsory schemes of social engineering.

7. In any event, the support of the Institute for such proposals to harmonise company law would have to be qualified. Over the past 25 years no new transnational group has been successfully set up in the Community. The Ariane and Airbus projects provide the exceptions and indicate not only that cooperation is possible between European undertaking on specific projects but also that it is not impossible for European companies in states outside the Community to participate in such ventures. However, the fact that the big three transnational groups in Europe were set up before the Treaty of Rome came into being suggests to us that the real obstacle to the success of such undertakings is not inadequate harmonisation of company law, but inadequate consolidation of the internal market. It is instructive in this context to look at the example of the United States of America where there is undoubtedly a common market but where the structural aspects of company law, with which the proposed Fifth Company Law Directive for example is concerned, are not generally the subject of Federal legislation.

We would therefore urge the European Parliament to consider proposals of this type on the basis of the criteria we have set out, but at the same time to make it clear that the first priority must always go to proposals to integrate the internal market.

In summary, business needs to operate in a liberalised climate of opportunity, and it is the failure to develop the internal market rather than questions of company law which currently provides the main constraint on the ability of business to generate employment and profit.

E. THE COMMUNITY BUDGET AND THE COMMON AGRICULTURAL POLICY

1. The regressive nature of some Member States' net contributions to the Community Budget and the large percentage of the Budget's expenditure taken up by the CAP are a source of continuing concern to the Institute of Directors. We are concerned about the injustice to the UK caused by current arrangements and about the amounts of money in issue, although these are much smaller sums than those at stake because of the unsatisfactory state of the internal market. (For example, the cost referred to above of uncompetitive practice in public procurement policies and of bureaucracy at internal frontiers in the Community has in recent years been more than one hundred times greater than the net annual British contribution to the Community Budget. We also believe that British GDP is increased by membership of the Community by a much greater sum than the net contribution to the Budget.)

2. We are deeply concerned that the failure to secure a satisfactorily sound and enduring restructuring of the Budget has been an obstacle in the way of consolidating the internal market. We oppose any increase in the 1% revenue base from VAT until there is a commitment steadily to reduce expenditure on the guarantee section of CAP and until contributions to Budget revenue are put on a rational and equitable footing. The Community's income must determine its expenditure, and its expenditure must not determine its income. In any event any possible future increase in Community taxation must at least be matched by a reduction of national taxation and result in an overall reduction of public expenditure. **We call on the newly elected European Parliament, as part of the priority it should attach to the internal market, to use the full weight of its influence to secure immediate satisfactory resolution of outstanding structural disputes over the Budget many of which we hope will have been resolved before the Election.**

3. **We call on the newly elected European Parliament to recognise that, as a general principle, the Budget is too small to support large scale welfare payments, which must remain the responsibility of the Member States, and that in general Community expenditure should primarily assist vocational training or retraining and the restructuring of infrastructure in the light of the needs of the Community or the consequences of the Community's operation.**

4. **We further call on the European Parliament to recognise that any reduction of CAP expenditure achieved must not simply be transferred to other Community funds. We do not want to see one wasteful subsidy substituted for another. We believe that Community expenditure should not perpetuate existing inefficiencies but should instead help to improve the mobility of labour and the economic infrastructure so that enterprise in Europe is better able to stand on its own feet and satisfy customers in a competitive and profitable free market climate.**

5. **We hope the newly elected Parliament will accept that in the longer run nothing could be worse for agriculture, or indeed any other productive activity, than to become dependent on increasing levels of subsidy for its very existence.**

6. **We believe the time is overdue for adjusting the CAP so that it more closely corresponds to the reality of the market, with effective use of the price mechanism. Indeed, this is an essential part of the free market and free trade strategy for the Community we have outlined.**

The CAP regularly takes more than two thirds of the Community's Budget. The great bulk of expenditure on the CAP (95% in 1983) goes to maintaining high support prices for agricultural commodities rather than to financing agricultural investment. Of CAP expenditure on price guarantees, about half is spent on export refunds. **We therefore call on the European Parliament consistently to support the progressive reduction of guarantee prices (so that European agricultural prices, particularly of commodities in surplus, are reduced to levels nearer to world market prices), to welcome guarantee thresholds and to put its full support behind proposals to negotiate with the USA mutual reductions of export subsidies on agricultural products.** This will, we believe, go a long way to improving the international trading climate throughout the world. It would help the economies of developing countries as well as avoid misunderstanding with the USA.

7. **We further call on the European Parliament to support the removal of the system of green exchange rates and Monetary Compensatory Amounts (which create artificial exchange rates in agricultural trade) as a major step towards achieving a genuine common market in agriculture. It should also insist that the Commission publishes lists of all aids from public funds to support agriculture.**

8. Support of agricultural prices in many cases amounts to a welfare payment. We believe that the market will be less disrupted, and certainly that the consumer would benefit, if help is given to the producer to enable him to stand up in the market, competitively producing goods customers want to buy rather than if his products are supported at artificially high prices. This would also, we believe, not penalise efficient producers as do some other proposals currently being considered. **We therefore call on the European Parliament to insist that expenditure associated with the CAP is not only reduced, but that expenditure is transferred from supporting agricultural prices (and the associated expensive disposal of the surpluses) to investment to improve the structure of farming.**

9. We call on the European Parliament to monitor more closely the expenditure and resource allocation of Community institutions, and to use its influence to help to ensure that appropriate action is taken following reports by the Court of Auditors.

F. CONCLUSION

1. Five years ago, the Institute's Business Leaders' Manifesto for the first Euro-elections concentrated on the need for the directly elected European Parliament to establish for itself a stronger position relative to other Community institutions.

We believe this process is under way, although it is a source of considerable surprise to us that, in a period of five years, only limited progress has been made towards rationalising the geographical location of the European Parliament's various activities. It is also a matter of some concern that, despite the generous resources at its disposal, the European Parliament has not been able to achieve greater public interest in its activities.

2. We hope that British MEPs who are elected will work in close cooperation with, and have the same approach to policy as, the present British Government, in order effectively to achieve the ends we seek.

3. This year, we have outlined a strategy to create a second generation Community based on the Treaties and on a genuine single home market. **We believe the internal market should be fully extended to all present Member States, excepting in some instances Greece, within the lifetime of the newly elected European Parliament.**

4. We have deliberately refrained from comment on the political aspects of the Community. We believe that the strategy we have outlined is not political but a factual analysis of the opportunities within reach, and of how they can be reached. We therefore have no hesitation in recommending our proposals to all candidates in the European elections as a programme they should seek to implement if elected. **In our judgment, the Community will win the hearts and minds of the people of its Member States only if it is perceived not as a source of intervention, but as a source of opportunity and material well being.** The European Parliament is now strong enough to decide which of these directions the Community should follow.

APPENDIX

1. THE MAJOR COMMUNITY INSTITUTIONS

a. Commission

This is the Community's executive Civil Service, based in Brussels. It puts forward proposals for new Community laws and administers existing Community policies. It is headed by 14 Commissioners coming from all Member States and two of whom are British. Commissioners swear on taking office to act in the interest of the Community as a whole.

b. The Parliament

The Parliament performs democratic supervision over the Community's activities. Its influence has increased and it now puts questions to the Commission (which is accountable to the Parliament) and the Council of Ministers. It also investigates the Commission's activities in Committee. The Parliament has made a number of proposals for action on its own initiative and the Commission has acted on most of these. In addition, the Parliament has taken the Council of Ministers before the Court of Justice for its failure to implement a common transport policy as required by the Treaty of Rome. The Parliament has the power to dismiss the Commission and to throw out the Community Budget. There are 434 MEPs, of whom 81 are British. The Parliament sits in Plenary Session in Strasbourg, its Committees generally sit in Brussels, its Secretariat is in Luxembourg and its political groups meet in a variety of locations.

c. The Council of Ministers

The Council of Ministers, based in Brussels, is made up of Ministers from each Member State. The subject under discussion determines which Ministers sit — for example, if agriculture is under discussion then the Member States' agricultural ministers will form the Council. The Ministers take final decisions on new Community laws, and non-contentious decisions are delegated to their officials. Member States take the Presidency of the Council on a rota with a transfer every six months.

d. The Court of Justice

Based in Luxembourg, and with judges from all Member States, it interprets Community law. It is an extremely important institution and exists to ensure that Community law is applied on a consistent basis throughout the Community.

e. The Court of Auditors

Based in Luxembourg, this checks the management of the Community's finances.

B. The Community Budget (1982)

Expenditure.

CAP (price support):	61%
CAP (investment)	3%
Regional policy:	15%
Social policy:	5%
Repayments to Member States:	5%
Administration:	5%
Overseas aid:	4%
Research & energy, etc.	2%
(Fisheries)	0%

Percentages rounded to nearest unit.

Revenue.

VAT:	57%
Customs duties on goods imported from outside the Community:	32%
Agricultural levies (on agricultural imports to the Community, and some surplus production):	11%

Note: Member States' payments of VAT to the Community are calculated on an agreed uniform range of goods and services. At the time of writing, the Community has virtually reached the present maximum permitted assessment rate of VAT of 1%. This figure of 1% does not refer to the percentage of VAT collected in a Member State: in 1982, the equivalent of 11.2% of VAT collected in the UK was paid to the Community to meet the British contribution under this heading.