

PO/CH/NL/727
Part . D

PO/CH/NL/727
Part . D

ECONOMIC AND MONETARY UNION
(EMU)

Start: 7-08-89
Ends: 4/09/89

b7. 4/9
FROM: J M G TAYLOR

DATE: 7 August 1989

PS/SIR PETER MIDDLETON

cc Sir T Burns
Mr Wicks
Mr H Evans
Mr Scholar
Mr Odling-Smee
Miss O'Mara
Mrs M Brown
Mrs Chaplin1. ~~Dunnean~~
2. ~~Moira~~

3. b7. 4/9

for
(a) John Biers
to see(b) putting on
meeting folder
for 5/9 meeting
with PET etc.**ECONOMIC AND MONETARY UNION**

The Chancellor was most grateful for Sir Peter Middleton's note of 4 August, and the enclosed paper by Mr Odling-Smee. He found this a very interesting dossier.

2. On handling, he thinks it would be wholly wrong for the Prime Minister to open up on this when she sees President Mitterrand on 1 September. She should confine herself to setting out the difficulties we see with Delors (Annex 1 is relevant to this, of course).

3. On the substance, he thinks that we, too, should concentrate on setting out the very real problems we see in moving from stage 1 of Delors to stages 2 and (even more) 3, pointing out that if stage 1 works - and we believe it will - then that will secure the economic gains, without the immense political difficulties inherent in going on (especially to the full Delors package). If it is desired to go further, however, then we would suggest two alternative models of EMU, both of which would avoid the pitfalls of the Delors model. These are:

- (i) competing currencies (official version) - which is very much in the spirit of the single market philosophy;



(ii) A gold (or commodity) standard.

We should not put forward any other options, but at the end of the day could be persuaded to accept the fall back referred to at the end of paragraph 128 (greater monetary co-ordination with some institutional change).

4. The Chancellor thinks, therefore, that further work from now on should be confined to these two main alternative models, plus (to a lesser extent) the fall back.

5. He will hold a meeting on this on his return from leave.

A handwritten signature in black ink, appearing to be "J M G Taylor".

J M G TAYLOR



FROM: J M G TAYLOR
DATE: 7 August 1989

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

MR C MELLISS (IF2)

cc PS/Financial Secretary
PS/Economic Secretary
Sir P Middleton
Sir T Burns
Mr Wicks
Mr Evans
Mr A Allan o/a
Mr R I G Allen
Mr Peretz
Mr Riley
Mr Sedgwick
Mrs Brown (EC1)
Mr S Davis (MP1)
Mr O'Donnell (IDT)
Miss O'Mara (MG1)
Mr Edmonds
Mr Hanks
Mr Tyrie

THE FRENCH ECONOMY: RECENT DEVELOPMENTS AND POLICY

The Chancellor was grateful for your note of 3 August, and Mr Hanks' interesting paper on the macro-economic performance and structural adjustment of France.

2. He has noted that the French themselves see the linkage of the franc to the deutschemark as the key to the credibility of their monetary policy.

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

J M G TAYLOR

inherent in going beyond
a - esp to the
full status package.

If it is desired to go further,
however, then we will suggest
2 alternative ~~models~~ ^{models} forms,
some of which will avoid the
pitfalls of other models.
These are:

- 1) Compactly constructed
(official version) - which
is v. much in the
spirit of the single market
proposal.
- 2) A good (or commodity)
status.

Let's not put forward
any other options, but @
the end of the day, it is
preferred to ~~for~~ accept the
full back reforms to @ 4 in
para 128.

Thus further work from

- 2 -



how on SW to
Comp 5 to 2 alternatives
I have mentioned above,
plus (to a lesser extent) to
full scale.

I will have a copy o.v.

Y.L.

BANK OF ENGLAND
LONDON EC2R 8AH

THE DEPUTY GOVERNOR

| | |
|---------------------|----------------|
| PERM. SEC'S. OFFICE | |
| RECEIVED | |
| 16 AUG 1989 | |
| Author | Sir T Burns |
| Copies | Mr Wicks |
| To | Mr H P Evans |
| | Mr Odling-Smee |

15 August 1989

Sir Peter Middleton GCB
H M Treasury
Parliament Street
London
SW1P 3AG

Dear Peter

*Mr Schöler
Mrs Chaplin
Miss Omana
Mrs Brown.*

DGP
Gov's
LETTER

MODELS OF EMU

The Chancellor's reported reaction to John Odling-Smee's paper on models of EMU is that further work should be confined to competing currencies (official version) and to a gold (or commodity) standard "plus (to a lesser extent) the fall back of greater monetary co-ordination with some institutional change". It is in this latter context that I thought it might be worth offering a variant of the arrangements contemplated in paragraphs 32-38 of the Odling-Smee paper, which you may wish to discuss.

The objective, as we see it, is an outcome which avoids the core EC members launching off on monetary union on their own but which preserves national freedom of fiscal and monetary policy action beyond the constraint implicit in aiming at exchange rate stability within the ERM. We agree with the Treasury paper that Delors Stage 1, which may be the Government's preferred outcome, will not be enough but will need in addition "some institutional change".

Two kinds of institution have so far been discussed -

- (a) the ESCB, whose essential raison d'etre is the formulation and execution of a common monetary policy in support of a common currency, so that it is anathema to HMG;

(b) the European Reserve Fund, which might in the end evolve to the same thing, but where the initial emphasis is on exchange market operations in EC, but more particularly third country, currencies. This too would require oversight of ERM members' policies, because of their effect on the exchange rates for the dollar and yen.

Another institutional approach might be modelled on the Bretton Woods arrangements, with the emphasis on exchange rate stability among EC member countries and on the provision of conditional balance of payments financing to support that aim. Member countries would fix (ECU) parities/margins in agreement with the "Fund" and change them only with its agreement; and the Fund would provide conditional partner-country finance. At a minimum this would amount to no more than giving institutional form to the ERM plus the EMCF as they already exist. But the criteria for parity changes, ie the precise degree of stickiness of exchange rates or the definition of "fundamental disequilibrium", would be for debate and the criteria could be toughened over time. At some stage, there could, for example, be an expectation that countries would use the resources of the "Fund", and accept its conditionality, before having recourse to a parity change. Other functions could be added, eg a direct role in intra-EC intervention or third country financing/exchange rate policy and intervention or Community-wide monetary policy, though there need be no commitment to this from the start.

Of course a proposal for such an institution does nothing to resolve the hard questions about monetary union - either its ultimate form or the pace at which it is attained. That indeed is the possible merit of the approach: it provides a framework within which those questions can be addressed over time in the light of circumstance through a series of modest steps rather than requiring discrete leaps forward.

Even in its initial (minimal) form this approach would impose a certain monetary discipline in the sense that member countries would have an incentive to pursue domestic policies consistent with maintaining the exchange parity; but precisely how they did

so would be for national decision. In this respect the arrangement would have something of a "gold standard" flavour. National sovereignty would be more restricted if a country had recourse to conditional financing, but it would be free to avoid that, for a time, by market borrowing/use of own reserves (especially in the case of the larger countries). On this basis the arrangements could be tolerable to HMG, who might prefer a "Fund" rather than an ESCB approach to representation and accountability.

It is hard to tell whether such an approach would be acceptable to Europe. It would be consistent with Pohl's "soft" approach to MU, though he would no doubt prefer central bank rather than governmental control (which he nevertheless lives with in the IMF). It might just satisfy the French pressure for an institution - perhaps particularly if it were presented as a variant on the European Reserve Fund proposed by de Larosiere; what it would lack for them would be a commitment to evolve to fixed parities but that is not available from HMG in any solution.

In the absence of others Eddie George and I would be glad to come across to talk through this suggestion if you thought that would be worthwhile.

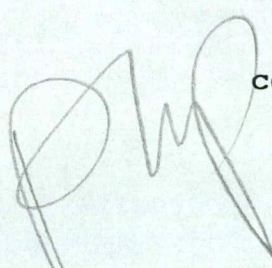
Yours ever

George

CONFIDENTIAL

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

MR TYRIE o.r

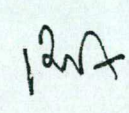
 cc: PS/Chancellor
Mr Wicks o.r
Mrs Brown o.r
Mrs Chaplin
Miss J Wheldon (T Sol)

MADRID AND AFTER

Thank you for your minute of 14 July which we discussed briefly before you went on leave.

2. We agreed that item (ii) on your list - that the Commission's competence in monetary policy be "clarified" - is, I think, very relevant to the discussion we shall be having in the Wicks' group after the summer break on democratic accountability and all that. So we could ask for your question to be examined in that context.

3. On your other two items - (i) that the Treaty be amended to enable the Council to make amendments to Commission legislation; and (iii) that the principle of subsidiarity be written into Treaty law and weigh in Court judgements in Community competence - I would suggest that we move ahead at a slightly slower speed, perhaps addressing the questions later in the autumn when we are clearer about where we are going on an IGC. But, as an initial step, it would be most helpful if, on all three questions, I could have some guidance from Juliet Wheldon on the legal aspects. And I think it would be helpful, at a later stage, to invite John Kerr's views, on a personal basis.


R I G ALLEN

| | |
|--------------|--|
| CH/EXCHEQUER | |
| REC. | 29 AUG 1989 |
| ADDRESSEE | Mrs M. BROWN |
| COPIES TO | PS / FST. MR WICKS MR H.P. EVANS MR ODLING-SMEE MR R.T.G. ALLEN MR PERETZ MR N. WHITE MR MCINTOSH |

AMBASSADE DE FRANCE
LONDRES

26th August, 1989

Dear Chancellor,

I have just received the text of a message addressed to you by Monsieur Pierre BEREGOVY, Ministre d'Etat, Ministre de l'Economie, des Finances et du Budget and Monsieur Roland DUMAS, Ministre d'Etat, Ministre des Affaires Etrangères.

I enclose it herewith. The same message is addressed to the Secretary of State for Foreign and Commonwealth Affairs.

The Presidency intends to hold the first meeting of the group of the personal representatives on Tuesday the 5th of September in Brussels.

The Presidency would be very grateful if you could let her know the names of your personal representatives in advance.

Yours sincerely,

Patrick VILLEMUR

Chargé d'Affaires a.i.

p.o. Ch. Gandy

The Rt. Hon. Nigel LAWSON, M.P.
Chancellor of the Exchequer
Her Majesty's Treasury
Parliament Street,
LONDON SW1P 3AG

VILLEMUR
TO
CX
26 AUG

22618

MONSIEUR LE MINISTRE,

LORS DES REUNIONS DU CONSEIL DES 10 ET 17 JUILLET, LES MINISTRES ONT EVOQUE LES SUITES A DONNER AUX CONCLUSIONS DU CONSEIL EUROPEEN RELATIVES A L'UNION ECONOMIQUE ET MONETAIRE.

NOUS AVONS DEBATTU, LORS DES DERNIERS CONSEILS ECO-FIN ET AFFAIRES GENERALES, DE LA METHODE ET DES CALENDRIERS APPROPRIES POUR PROGRESSER VERS CETTE UNION. LES MINISTRES DES FINANCES SE SONT DONNE UN PROGRAMME DE TRAVAIL POUR L'ENSEMBLE DU SEMESTRE AFIN D'ETUDIER LES PROBLEMES QUI SONT POSES SUR LE PLAN FINANCIER ET MONETAIRE. LE CONSEIL AFFAIRES GENERALES EXERCERA DE SON COTE SA RESPONSABILITE DE SYNTHESE ET VEILLERA, POUR ASSURER UNE BONNE PREPARATION DU CONSEIL EUROPEEN, A CE QUE LES TRAVAUX PREPARATOIRE A LA CONFERENCE INTERGOUVERNEMENTALE DECIDES A MADRID SOIENT MENES DE LA MANIERE LA PLUS EFFICACE. L'UNITE ET LA GLOBALITE DU PROCESSUS SERONT AINSI ASSUREES.

DANS CE CADRE, LA PRESIDENCE A DECIDE DE REUNIR UN GROUPE A HAUT NIVEAU, RESTREINT (PAR EXEMPLE DEUX MEMBRES PAR DELEGATION), COMPOSE DE REPRESENTANTS PERSONNELS DES MINISTRES DES AFFAIRES ETRANGERES ET DES MINISTRES DES FINANCES ET DE LA COMMISSION. CE GROUPE -QUI NE SE SUBSTITUERA PAS AUX COMITES CONSULTATIFS ET AUX INSTANCES NORMALES DU CONSEIL POUR LA PREPARATION DES DECISIONS DANS LE DOMAINE ECONOMIQUE ET MONETAIRE- AURA POUR MISSION PRINCIPALE D'IDENTIFIER, D'ANALYSER ET D'AGENCER LES ELEMENTS QUI POURRAIENT ETRE INCLUS, LE MOMENT VENU, DANS UN TRAITE SUR L'UNION ECONOMIQUE ET MONETAIRE. IL RENDRA COMPTE AU CONSEIL AFFAIRES GENERALES ET AU CONSEIL ECO-FIN.

LA PRESIDENCE DE CE GROUPE SERA EXERCEE PAR MME ELISABETH GUIGOU, CHARGEE DE MISSION AUPRES DU PRESIDENT DE LA REPUBLIQUE.

IL LUI A ETE DEMANDE DE PRENDRE TOUTE DISPOSITION NECESSAIRE POUR QU'UNE PREMIERE REUNION AIT LIEU DES LE DEBUT DU MOIS DE SEPTEMBRE.

LA PRESIDENCE VOUS SERAIT RECONNAISSANTE DE BIEN VOULOIR LUI FAIRE CONNAITRE LES NOMS DE VOS REPRESENTANTS PERSONNELS.

POUR CE QUI LA CONCERNE, LA FRANCE SERA REPRESENTEE PAR M. PIERRE DE BOISSIEU, DIRECTEUR DES AFFAIRES ECONOMIQUES ET FINANCIERES AU MINISTERE DES AFFAIRES ETRANGERES, ET PAR M. JEAN-CLAUDE TRICHET, DIRECTEUR DU TRESOR AU MINISTERE DE L'ECONOMIE, DES FINANCES ET DU BUDGET.

RECEVEZ, MONSIEUR LE MINISTRE, LES ASSURANCES DE NOTRE HAUTE CONSIDERATION. SIGNE :

PIERRE BEREGOVY
MINISTRE D'ETAT,
MINISTRE DE L'ECONOMIE,
DES FINANCES ET DU BUDGET

ROLAND DUMAS
MINISTRE D'ETAT,
MINISTRE DES AFFAIRES ETRAN-
GERES

CH/EXCHEQUER

| | |
|--------------|--|
| REC. | 30 AUG 1989 |
| ACTION | Mrs BROWN |
| COPIES TO | PS/EST Ser P. Middleton Mr WICKS, Mr EVANS Mr ODLING-SMEE Mr R. G. ALLEN Mr PERETZ Mr WHITE Mr MCINTOSH |

PARIS, le 23 AOUT 1989

Mon cher Collègue,

Comme je vous en informais par lettre du 21 juillet, la séance de travail de notre prochaine réunion informelle Ecofin se tiendra le samedi 9 septembre. Je vous propose qu'elle soit consacrée principalement à approfondir la réflexion sur l'Union économique et monétaire que vous avons engagée à S'Agaro, et que les conclusions du Conseil européen de Madrid nous font un devoir de poursuivre et de préciser.

Dans cette perspective, et comme elle s'y était engagée lors de la réunion du Conseil Ecofin du 10 juillet, la Commission des Communautés européennes m'a communiqué ses récents travaux en ce qui concerne la mise en oeuvre de la première étape de l'Union économique et monétaire. Ils prennent, ainsi que l'avait annoncé M. Christophersen, la forme d'un avant-projet de modification des textes de 1974 sur la coordination des politiques économiques ; je vous prie donc de trouver ici le résultat de ces travaux. Je vous enverrai officiellement, dès que le Président Delors me la transmettra, la proposition de modification de la décision du 8 mai 1964 sur la coopération entre les banques centrales des Etats-membres, que le Comité des gouverneurs des banques centrales a faite à la Commission le 28 juillet. Ces documents constituent, à mon sens, la base qui nous permettra, le 9 septembre à Antibes, d'échanger précisément nos vues sur le contenu que nous désirons donner à la première étape de l'Union économique et monétaire. Ce débat se tiendra, notamment, à la lumière des discussions du Comité monétaire ; je souhaite qu'il nous permette d'arriver, entre nous, à un accord de principe sur les divers points qui seront soulevés.

A ces documents sera adjointe une communication du Président de la Commission sur les principaux points soulevés par les deuxième et troisième étapes de la construction de l'Union économique et monétaire, qui nous permettra de faire progresser nos débats en parallèle sur les différentes étapes prévues par le rapport Delors.

.../...

Monsieur Nigel LAWSON
Chancelier de l'Echiquier
Parliament Street
LONDON SW1P 3 AG

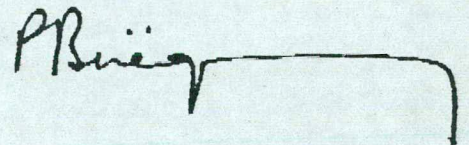
24/18

Par ailleurs, je vous propose que nous échangions nos vues sur les propositions de la Commission en matière fiscale, qu'il s'agisse de la fiscalité indirecte ou de la lutte contre l'évasion que pourrait entraîner la libération des mouvements de capitaux. Ce sont là en effet deux questions qui sont fort importantes pour la mise en place du marché unique des biens et des services, et sur lesquelles il importe maintenant que nous puissions progresser de concert.

Ces différents débats pourraient être à mon sens précédés, comme nous y invite la proximité des réunions de Washington, d'un examen rapide de la situation économique à l'intérieur et à l'extérieur de la Communauté, complétant les commentaires que nous avons échangés le 10 juillet. Je proposerai alors à votre examen le projet, préparé par le Comité monétaire, de l'intervention que je ferai en notre nom devant l'Assemblée annuelle du Fonds Monétaire International et de la Banque Mondiale.

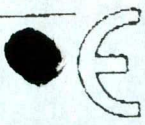
Je vous prie d'agréer, mon cher Collègue, l'expression de mes meilleurs sentiments.

Cordialement vôtre,



Pierre BÉRÉGOVOY

(1)



Directorate-General
for Economic and Financial Affairs

STRENGTHENING OF ECONOMIC POLICY COORDINATION
DURING STAGE ONE OF THE ECONOMIC AND MONETARY UNION
(REVISION OF THE 1974 CONVERGENCE DECISION)

| | Page |
|--|-------|
| PART 1: Promoting economic convergence | 2 |
| A. The rationale for a new Convergence Decision | 2 |
| B. Multilateral surveillance within the Community: | 2 |
| (I) Policy objectives | |
| (II) Subsidiarity and reciprocal commitments | |
| (III) The dynamic process | |
| C. Main features of the proposed surveillance system | 5 |
| PART 2: Draft Outline of new Council Decision on convergence | 8 |
| A. Legal base and justification | 6 |
| B. The objectives of policy coordination | 8 |
| C. Types of policy coordination | 7 |
| (I) general surveillance | |
| (II) country-specific assessment | |
| (III) facing external pressures | |
| D. Monitoring | 8 |

PART 1: PROMOTING ECONOMIC CONVERGENCE

A. THE RATIONALE FOR A NEW CONVERGENCE DECISION

1. The European Council in Madrid decided that the first stage of the process towards Economic and Monetary Union (EMU) should begin on 1 July 1990. It also stated that preparatory work for the organisation of the Intergovernmental Conference (IGC) to lay down the subsequent stages, should begin immediately.

Progress towards the monetary construction of Europe requires a greater convergence of economic performance and, as a means to it, stronger policy coordination. However, a greater degree of common economic policy-making is not only required in view of the future of Europe, with EMU prominent in it. It is also necessary in order to strengthen existing major building blocks of the Community. For example:

- the Internal market which, by linking national economies more closely, will reduce the room for independent policy;
- the EMS which, with free capital movements and fully integrated financial markets, will translate incompatible national policies into exchange rate tensions even more quickly than thus far.

2. The 1974 Council Decision on Economic Convergence (74/120/EEC) and its associated Directive on Stability, Growth and Full Employment (74/121/EEC) have not worked satisfactorily because of:

- an excessive reliance on a single strand of economic thought (cyclical stabilisation via demand management);
- a misplaced overcentralisation in decision-making (disregarding even the most elementary form of subsidiarity);
- an overbureaucratic mechanism of implementation (with unrealistic sequencing of economic consultations).

Furthermore, these two 1974 texts predate the creation of the EMS, the Internal market programme and the Single European Act, and since the Basle/Nyborg agreement the procedures for multilateral surveillance have been strengthened. Recently the exercises have been conducted at a Ministerial level.

3. In view of the above, the Commission proposes to replace the two 1974 acts with a new Council Decision to strengthen economic policy coordination during Stage One of EMU on the basis of a surveillance process. This new Decision will:

- learn from the weaknesses of the 1974 legal texts;
- be consistent with the importance now attached to the supply orientation of policy, and the ongoing structural adjustment of the Community economy;

(II) Subsidiarity and reciprocal commitments

7. The principle that the Community should only seek to act where national governments cannot be expected to do so satisfactorily, is already widely reflected in areas of internal market and micro-economic policies. It should also be applied to the macro-economic area as the Community progresses towards Economic and Monetary Union. This was not the case with the 1974 Convergence Decision: a shortcoming to be redressed.

In full respect of subsidiarity, the present proposal sets up a procedure of reciprocal commitments leading to self-enforced policy coordination from within the Council. This implies a new modus operandi of the Economics and Finance Council, already successfully tested on July 10 and to be strengthened. Thus, in addition to the normal legislative responsibility discharged by the Council (the legislative mode), Ministers will be called for a periodic, in depth, confidential, common assessment of economic prospects - inclusive of the consequences of policy and their consistency within and among countries. In this capacity (the multilateral surveillance mode), the Council will review policy behaviours, examine individual members' policy commitments and agree on Community-wide recommendations aimed at achieving a more effective economic convergence. The Commission will prepare the discussions on the basis on analytical work and the necessary contacts with Member States.

(III) Learning-by-doing, in a dynamic process

8. Stage One aims at a greater convergence of economic performance through the strengthening of policy coordination within the existing institutions. Given the fact that institutions (the Treaty itself) will have to be changed as the monetary union process goes on, the self-policing of economic policy will have to gain in depth, breadth and scope in the course of Stage One.

9. This carries two consequences:

First, the process of surveillance itself cannot be prescribed in any definite form, lest it will be either premature (at first) or obsolete (later on).

Second, and this is the key point, policy coordination will have to be implicit at the start of Stage One. However, as experience with the process accumulates, it will eventually become explicit, resulting in commonly agreed recommendations and commitments, with growing influence on the formation of national policies.

It is on the basis of this adequate apprenticeship in policy coordination and economic convergence, that the subsequent stages of EMU will be launched.

- respond to the growing interdependence of policies as a consequence of the Internal Market and of the EMS discipline;
- foster multilateral surveillance, in the context of the EMS not only in monetary policy, but also in areas of national economic management affecting supply conditions, market regimes, aggregate demand, budgetary policy, prices and costs of production, and the unemployment situation.

4. There is also need for parallel revision of the texts governing the cooperation between central banks (notably Council Decision 64/300/CEE of 8.5.1964 and other texts⁽¹⁾). The Commission, after consultations with the Committee of Governors of Central Banks, will soon present its proposals on these texts.

B. MULTILATERAL SURVEILLANCE WITHIN THE COMMUNITY

5. Three main principles will support the process of policy coordination during the Stage One of EMU:

- (I) consensus on economic policy objectives;
- (II) subsidiarity and reciprocal commitments;
- (III) learning-by-doing, in a dynamic process.

(I) Consensus on economic policy objectives

6. Member States agree on the objective of job-creating and non-inflationary growth with stability; on the framing of policy in the medium-term; and on the need to accompany good macroeconomic management with structural reforms, taking into consideration the economic and social cohesion in the Community. This, in turn, requires a double coherence in policy:

- within Member States. Lax budgetary policy, for example, when combined with stability-oriented monetary policy, eventually undermines stability and/or crowds-out private investment.
- between Member States. For monetary policy, in an integrated financial area, incoherence is immediately felt, and sharply. For budgetary policy interdependence may be slower acting. Yet, experience shows that major budgetary divergences, especially within the EMS, have important negative consequences.

Consensus on economic policy objectives is a necessary - but not a sufficient - condition for the type of enhanced multilateral surveillance required under Stage One of EMU. Other principles are required.

⁽¹⁾ Council decision 64/301/EEC of 8.5.1964, Council Decision 71/142/EEC of 22.3.1971, and rules of Procedure of the Committee of Governors of the Central Banks of the member States.

C. MAIN FEATURES OF THE PROPOSED SURVEILLANCE SYSTEM

10. The new Decision would be based on Art. 103 and 145 of the Treaty. It would refer to Art. 102A, inserting the surveillance process at the very heart of the EMS, the Internal Market and the progress towards EMU.

11. Three main objectives of economic policy coordination are proposed:

- 1. achievement of the Community's objectives;
- 2. improvement of Member States' economic performance and convergence;
- 3. betterment of the Community's ability to influence or withstand world economic developments.

Correspondingly, three main forms of coordination are put forward: multilateral surveillance, country-specific consultations; and concertation in the case of major outside disturbances.

12. The task of economic policy coordination is the primary responsibility of the Council of Economic and Finance Ministers (ECOFIN) together with the Commission and supported by the relevant committees. Due account will be taken of the views of the Committee of Governors of Central Banks.

13. General multilateral surveillance would be based on indicators of economic performance, country reports on national policies and an Annual Report on the economic situation of the Community. It would provide a comprehensive framework for the assessment of the consequences, and consistency of the overall policies of Member States. Specific national commitments may result together with Community-wide recommendations. The ECOFIN may aim at the examination of budgetary policies, ahead of national budgetary planning.

14. Where the performance of individual Member States were collectively judged detrimental to common objectives, the Council may engage in country-specific policy consultations.

15. Joint concertation to face outside disturbances would take place when the performance of the Community economy is considered to be threatened. Such a search for a Community response may occur, in particular, in the case of sudden international financial tensions.

PART 2: DRAFT OUTLINE OF COUNCIL DECISION ON THE
STRENGTHENING OF ECONOMIC POLICY COORDINATION
DURING STAGE ONE OF ECONOMIC AND MONETARY UNION*

1. Legal base: Art. 103 and 145 with reference in the preambles to Art. 102a.

2. Justifications:

- completion of the internal market will increase the degree of economic integration and amplify the cross-border effects of policy.
- the stability of the EMS requires more intensive and effective policy coordination;
- incompatible national policies with free capital movements from 1 July 1990 and integrated financial markets would quickly distort flows of savings and translate into exchange rate tensions.
- In order to facilitate progress towards EMU, greater convergence of economic performance is needed in the face of persisting internal and external disequilibria.
- achieving the full potential benefits of the internal market requires a strengthened competition policy and the common policies given in the Single European Act.

3. The Objectives of Economic Policy Coordination:

- contributing to the achievement of Community objectives, in particular convergence at a high level of economic performance in the framework of monetary stability and enhanced economic cohesion;
- ameliorating Member States' economic performance with regard to price stability, growth, employment and internal and external equilibria;
- increasing the social and economic cohesion in the Community;
- contributing to the efficiency of European financial markets.
- improving the Community's ability to influence world economic developments;

4. Policy Coordination should focus on:

- multilateral surveillance issues;

* (To replace the Council Decision 74/120/EEC and Directive 74/121/EEC of 18.2.74).

- country-specific policy issues;
- joint concertation to face outside disturbances.

5. Multilateral Surveillance should be mainly concerned with:

- the economic situation of the Community and in Member States;
- macro-economic, micro-economic and structural policies and conditions;
- the consistency of policies within Member States and in the Community at large;
- coordination of policies vis-à-vis the exterior.

5.1 The surveillance should be the primary responsibility of the Council of Economic and Finance Ministers (ECOFIN) together with the Commission and supported by the relevant committees. For this ECOFIN would meet on a regular basis. To ensure the consistency between monetary and economic policies, the Chairman of the Committee of Central Bank Governors would attend these meetings.

5.2 Multilateral surveillance should take place on the basis of Commission analyses having the form of:

- indicators of economic performance concerning monetary and budgetary policies, supply and demand trends, price and cost development, unemployment, financial markets, external and internal imbalances.
- country reports on national policies and their adequacy in view of the completion of the internal market and of economic and social cohesion.
- an annual report on the economic situation of the Community and of Member States.

In the above context, the ECOFIN will examine all aspects of economic policy. It should also consider annually reviewing budget policies, ahead of national budgetary planning. In due course, as more experience is gained in this domain, the coordination procedure may include the setting of medium-term budgetary orientations as well as initiating concerted budgetary actions by Member Countries.

5.3 The Annual Economic Report would be submitted to the European Parliament and the Economic and Social Committee.

5.4 The Council's multilateral surveillance should consist of in-depth examination of particular issues of national and Community concern.

(8)

It should increasingly result in agreed policy commitments by each Member State and in Community-wide recommendations aimed at achieving a high degree of economic convergence. As experience grows this should become an effective way of ensuring self-enforced coordination.

The Chairman of the ECOFIN and the Commission should periodically report to the European Parliament on the results of multilateral surveillance. The Council may also decide that, when suitable, its deliberations be summarised in "surveillance conclusions" to be made public.

6. Country-specific policy consultation would take place in the case of potential or manifested economic conditions threatening the interests of the Community, and incompatible with the general policy orientations adopted by the Community.

Such consultation can imply the formulation of recommendations with a view to promoting the necessary policy corrections in the country in question and, if necessary, by other Member States. The progressive implementation of this consultation should enhance the cooperative approach to national policy-making.

7. Joint Concertation to face outside disturbances would take place in the ECOFIN in the case of:

- the emergence of international economic and financial tensions likely to produce negative consequences for the Community economy;
- other unforeseen events threatening the Community economy.

This procedure may be developed to ensure that the Community coordinates its economic policy vis-à-vis the rest of the world. In conjunction with the Committee of Governors, exchange rate policy vis-à-vis third currencies may be coordinated.

8. Monitoring

There cannot be multilateral surveillance without appropriate monitoring of the follow-up to agreed upon commitments. This applies equally to concerted economic policy actions, to the country-specific policy consultation and to the joint concertation. As appropriate, the Commission may be asked to keep matters under review and report back to the Council.

ps/Chancellor
PS/financial secretary
Mr Wicks
Mr Lucas
 Mr G. Allen
 Mr P. Delors
 Mr W. White
 (M.S.)
Two translations by Gray

Dear Minister,

At the Council meetings on 10 and 17 July, the Ministers touched on the action to be taken following the European Council's conclusions on economic and monetary union.

invitation to high level group on EMU.
 M.S.
 30/8

At the last ECOFIN and General Affairs Councils, we discussed the appropriate method and timetable for progress towards such union. The Ministers for Finance have drawn up a working plan for the coming six months to study the financial and monetary problems arising. The General Affairs Council will assume responsibility for coordination and will ensure, in order to guarantee a good run-up to the European Council, that the preparatory work for the intergovernmental conference agreed on in Madrid is conducted as effectively as possible. The cohesion and comprehensiveness of the process will thus be assured.

In this connection, the Presidency has decided to convene a high-level restricted group (eg two members per delegation) of personal representatives of the Ministers for Foreign Affairs, the Ministers for Finance and the Commission. The main task of that group - which will not take over from the advisory committees or the normal Council bodies the role of drafting decisions on economic and monetary matters - will be to identify, analyse and organise the elements which could be included at the appropriate time in a Treaty on Economic and Monetary Union. It will report to the General Affairs Council and the ECOFIN Council.

Mrs Elisabeth Guigou, official representative of the President of the Republic, will be the Chairman of the group.

She has been asked to take all the necessary measures to ensure that the first meeting of the group is held at the beginning of September.

The Chairman would be grateful if you would inform her of the names of your personal representatives.

France will be represented in this regard by Mr Pierre de Boissieu, Head of the Department of Economic and Financial Affairs at the Ministry of Foreign Affairs, and by Mr Jean-Claude Trichet, Head of the Treasury Department at the Ministry of the Economy, Finance and the Budget.

[Complimentary close]

[signed] Pierre Beregovoy
Minister of State
for the Economy,
Finance and the Budget

Roland Dumas
Minister of State
for Foreign Affairs

FROM: MRS M E BROWN (EC1)
DATE: 29 AUGUST 1989
x 4709

CHANCELLOR

ch/ Are you content for the FCO to send a telex on the lines of this draft tomorrow (Foreign Secretary is seeing it tonight)?

And do you agree that, if we can't force a postponement, we should attend

in the shape of Wicks/Kerr?

cc PS/Financial Secretary
Sir P Middleton
Mr Wicks (or)
Mr Odling-Smee
Mr Evans (or)
Mr R I G Allen (or)
Mr Peretz
Mr White
Mr McIntosh

EMU: HIGH LEVEL GROUP

[Nigel is at home and would be very ready to discuss if you wish - 0483 222503] DIS

1. The French Presidency have decided to set up a high level group, chaired by Mme. Guigou (Elysee). The terms of reference are "to identify, analyse and move forward the elements which could be included, when the time comes, in a treaty on economic and monetary union". It is to report back to the Foreign Affairs and Finance Councils. You and the Foreign Secretary (to whom the letter is jointly addressed) have been asked to nominate representatives to attend a meeting of the group on 5 September.

2. This is an extremely unwelcome bounce by the French - or, to be more precise, by the Elysee and Quai d'Orsay. I have discussed it with Mr Wicks and with Foreign Office officials. We have also taken some preliminary soundings in capitals. The German Finance Ministry would prefer to have a Council discussion before any group is set up, but it is not clear that they will carry the day with the Foreign Ministry. The Dutch dislike the proposal, and may be prepared to join the UK in resisting it if we can muster other support. The Danes, however, have already agreed to attend on 5 September.

3. If there is any hope of putting off the meeting, you would need to write very quickly. A draft is attached. It argues that there should be a Council discussion of the remit of any high level group before a meeting is arranged, and that the informal ECOFIN on 8-10 September provides the obvious opportunity for this. The FCO are putting this draft in parallel to Mr Major.

BROWN
TO
CX
29 AUG

CONFIDENTIAL

4. The Prime Minister meets President Mitterand on Friday morning, and Mr Major will have a meeting at the same time with M. Dumas. If you decide to write, the Foreign Office will ask posts to lobby for any letters of support to reach the French before Friday, since M. Dumas will no doubt give his reaction to Mr Major then.

5. If we are not successful in stopping the meeting, we suggest that Mr Wicks and Mr Kerr should be the UK representatives. The French are fielding Trichet and de Boissieu (roughly Mr Kerr's equivalent in their Foreign Ministry). There seems no advantage in the UK not attending.

Mary Brown.

MRS M E BROWN

M. Pierre Beregovoy
Ministre d'Etat
Ministre de l'Economie
des Finances et du Budget

M. Roland Dumas
Ministre d'Etat
Ministre des Affaires Etrangeres

[Dear Colleagues]

1. Thank you for your letter, proposing a meeting of a high level group on Economic and Monetary Union on 5 September.

2. We were surprised to learn of this proposal. When the possibility of setting up a high level group was raised at the Foreign Affairs Council on 17 July, several delegations expressed reservations. The discussion was inconclusive. You propose that the group would report back to the Finance and General Affairs Councils. We strongly believe that the Council should agree the remit of such a group before it meets. The very short time available before the date you propose makes this impossible.

3. We suggest that the informal meeting of the ECOFIN Council on 8-10 September would provide an early and convenient opportunity to discuss the proposal for a new high level group, and that the meeting on 5 September should therefore be postponed. If further discussion by the General Affairs Council or by COREPER were necessary, we would of course see no difficulty with that.

Nigel Lawson
Chancellor of the Exchequer

John Major
Secretary of State for
Foreign and Commonwealth
Affairs

CONFIDENTIAL
FM COPENHAGEN
TO IMMEDIATE FCO
TELNO 276
OF 291200Z AUGUST 89
INFO IMMEDIATE UKREP BRUSSELS, PARIS
ROUTINE OTHER EC POSTS

mup

YOUR TELNO 649 TO PARIS : EMU : DELORS REPORT : NEXT STEPS

1. MAILAND-CHRISTENSEN (UNDER-SECRETARY RESPONSIBLE FOR EC AFFAIRS IN THE MFA), TOLD US THIS MORNING (29 AUGUST) HE HAD JUST LEARNED THROUGH THE FRENCH EMBASSY HERE THAT THE AD HOC GROUP SUGGESTED BY DUMAS WOULD MEET FOR THE FIRST TIME ON 5 SEPTEMBER IN BRUSSELS.
2. THE FRENCH NOW PROPOSED THAT THE GROUP CONSIST OF REPRESENTATIVES OF FOREIGN AND FINANCE MINISTRIES. DENMARK HAD ALREADY DECIDED TO SEND THOMSEN (PERMANENT SECRETARY, ECONOMIC AFFAIRS MINISTRY) AND MAILAND-CHRISTENSEN TO THE MEETING.
3. MAILAND-CHRISTENSEN WAS AWARE OF OUR VIEWS ABOUT AN AD HOC GROUP (PARA 2C OF TUR). HE WONDERED HOW THE UK WOULD BE REPRESENTED ON 5 SEPTEMBER. HOW SHOULD WE REPLY ?

WILLIAMS

YYYY

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MR RATFORD

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TELNO 716
OF 301451Z AUGUST 89
AND TO IMMEDIATE OTHER EC POSTS
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mnp

EMU: FRENCH PROPOSAL FOR A HIGH-LEVEL GROUP

1. FCO TELNO 649 TO YOU NOTED FRENCH PROPOSALS FOR A HIGH LEVEL GROUP TO CARRY FORWARD WORK ON EMU. M BEREGEVOY AND M DUMAS HAVE NOW WRITTEN JOINTLY TO THE CHANCELLOR AND MYSELF (TEXT IN MY FIRST IFT), INVITING US TO SEND PERSONAL REPRESENTATIVES TO THE FIRST MEETING OF SUCH A GROUP IN BRUSS:LS ON 5 SEPTEMBER.
2. OUR VIEW REMAINS THAT SUCH A MEETING WOULD BE PREMATURE, AND THAT THE REMIT OF ANY SUCH GROUP SHOULD FIRST BE AGREED BY THE COUNCIL.
3. (FOR PARIS) PLEASE DELIVER THE REPLY IN MY SECOND IFT AS SOON AS POSSIBLE TO DUMAS AND BEREGOVOY, AND REPORT REACTIONS. IF NECESSARY, I WOULD OF COURSE BE HAPPY TO DISCUSS THE PROPOSAL FURTHER WITH DUMAS AT CHEQUERS ON 1 SEPTEMBER.
4. (FOR BONN, THE HAGUE, LUXEMBOURG, LISBON, COPENHAGEN) PLEASE CALL URGENTLY ON APPROPRIATE CONTACTS IN THE FOREIGN AND FINANCE MINISTRIES AND SEEK SUPPORT FOR OUR SUGGESTION THAT THE MEETING SHOULD BE POSTPONED AT LEAST UNTIL AFTER THE INFORMAL ECOFIN. YOU SHOULD DRAW ON THE ARGUMENTS IN MY SECOND IFT AND MAY HAND OVER THE TEXT. WE HOPE THAT THOSE WITH SIMILAR VIEWS (INFORMAL CONTACTS ON 29 AUGUST INDICATED RESERVATIONS IN THE DUTCH AND GERMAN FINANCE MINISTRIES) WILL REPLY ACCORDINGLY TO THE FRENCH, IF POSSIBLE ON 30 OR 31 AUGUST. PLEASE REPORT REACTIONS BY IMMEDIATE TELEGRAM.
5. (OTHER POSTS) WE DOUBT WHETHER YOUR HOST GOVERNMENT WILL HAVE SERIOUS RESERVATIONS ABOUT THIS PROPOSAL, BUT PLEASE INFORM CONTACTS OF THE UK RESPONSE AND, IF APPROPRIATE, SEEK SUPPORT.

MAJOR

YYYY

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FRAME ECONOMIC

MY TWO IPTS: EMU: FRENCH PROPOSAL FOR A HIGH-LEVEL GROUP

1. TEXT OF UK REPLY TO BEREGOVY/DUMAS AS FOLLOWS:

BEGINS:

| | |
|---------------------------|----------------------------------|
| M PIERRE BEREGOVY | M ROLAND DUMAS |
| MINISTRE D'ETAT | MINISTRE D'ETAT |
| MINISTRE DE L'ECONOMIE | MINISTRE DES AFFAIRES ETRANGERES |
| DES FINANCES ET DU BUDGET | |

DEAR COLLEAGUES

THANK YOU FOR YOUR LETTER, PROPOSING A MEETING OF A HIGH-LEVEL GROUP ON ECONOMIC AND MONETARY UNION ON 5 SEPTEMBER. WE WERE SURPRISED TO LEARN OF THIS PROPOSAL. WHEN THE POSSIBILITY OF SETTING UP A HIGH-LEVEL GROUP WAS RAISED AT THE FOREIGN AFFAIRS COUNCIL ON 17 JULY, SEVERAL DELEGATIONS EXPRESSED RESERVATIONS. THE DISCUSSION WAS INCONCLUSIVE. IN VIEW OF THE PREVIOUS CONSIDERATION OF THIS ISSUE WE BELIEVE THAT THE COUNCIL SHOULD DISCUSS THE PROPOSAL AGAIN, AND THE INFORMAL MEETING OF THE ECOFIN COUNCIL ON 8 SEPTEMBER WOULD PROVIDE AN EARLY AND CONVENIENT OPPORTUNITY. WE ACCORDINGLY SUGGEST THAT THE MEETING PROPOSED FOR 5 SEPTEMBER SHOULD NOT TAKE PLACE. IF IT IS FELT NECESSARY FOR THE GENERAL AFFAIRS COUNCIL OR COREPER ALSO TO DISCUSS THE PROPOSAL, NO DOUBT ARRANGEMENTS COULD BE MADE.

| | |
|-----------------------------|---|
| NIGEL LAWSON | JOHN MAJOR |
| CHANCELLOR OF THE EXCHEQUER | SECRETARY OF STATE FOR FOREIGN AND COMMONWEALTH AFFAIRS |

ENDS.

MAJOR

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MIPT: EMU: FRENCH PROPOSAL FOR A HIGH-LEVEL GROUP

1. TEXT OF MESSAGE FROM BEREGOVY/DUMAS AS FOLLOWS:

BEGINS: AT THE COUNCIL MEETINGS OF 10 AND 17 JULY, MINISTERS TOUCHED ON THE ACTION TO BE TAKEN FOLLOWING THE EUROPEAN COUNCIL'S CONCLUSIONS ON ECONOMIC AND MONETARY UNION.

AT THE LAST ECOFIN AND GENERAL AFFAIRS COUNCILS, WE DISCUSSED THE APPROPRIATE METHOD AND TIMETABLE FOR PROGRESS TOWARDS SUCH UNION. THE MINISTERS FOR FINANCE HAVE DRAWN UP A WORKING PLAN FOR THE COMING SIX MONTHS TO STUDY THE FINANCIAL AND MONETARY PROBLEMS ARISING. THE GENERAL AFFAIRS COUNCIL WILL ASSUME RESPONSIBILITY FOR COORDINATION AND WILL ENSURE, IN ORDER TO GUARANTEE A GOOD RUN-UP TO THE EUROPEAN COUNCIL, THAT THE PREPARATORY WORK FOR THE INTERGOVERNMENTAL CONFERENCE AGREED ON IN MADRID IS CONDUCTED AS EFFECTIVELY AS POSSIBLE. THE COHESION AND COMPREHENSIVENESS OF THE PROCESS WILL THUS BE ASSURED. IN THIS CONNECTION, THE PRESIDENCY HAS DECIDED TO CONVENE A HIGH-LEVEL RESTRICTED GROUP (EG TWO MEMBERS PER DELEGATION) OF PERSONAL REPRESENTATIVES OF THE MINISTERS FOR FOREIGN AFFAIRS, THE MINISTERS FOR FINANCE AND THE COMMISSION. THE MAIN TASK OF THAT GROUP - WHICH WILL NOT TAKE OVER FROM THE ADVISORY COMMITTEES OR THE NORMAL COUNCIL BODIES THE ROLE OF DRAFTING DECISIONS ON ECONOMIC AND MONETARY MATTERS - WILL BE TO IDENTIFY, ANALYSE AND ORGANISE THE ELEMENTS WHICH COULD BE INCLUDED AT THE APPROPRIATE TIME IN A TREATY ON ECONOMIC AND MONETARY UNION. IT WILL REPORT TO THE GENERAL AFFAIRS COUNCIL AND THE ECOFIN COUNCIL.

MRS ELISABETH GUIGOU, OFFICIAL REPRESENTATIVE OF THE PRESIDENT OF THE REPUBLIC, WILL BE THE CHAIRMAN OF THE GROUP.

SHE HAS BEEN ASKED TO TAKE ALL THE NECESSARY MEASURES TO ENSURE THAT THE FIRST MEETING OF THE GROUP IS HELD AT THE BEGINNING OF

SEPTEMBER.

THE CHAIRMAN WOULD BE GRATEFUL IF YOU WOULD INFORM HER OF THE NAMES OF YOUR PERSONAL REPRESENTATIVES.

FRANCE WILL BE REPRESENTED IN THIS REGARD BY MR PIERRE DE BOISSIEU, HEAD OF THE DEPARTMENT OF ECONOMIC AND FINANCIAL AFFAIRS AT THE MINISTRY OF FOREIGN AFFAIRS, AND BY MR JEAN-CLAUDE TRICHET, HEAD OF THE TREASURY DEPARTMENT AT THE MINISTRY OF THE ECONOMY, FINANCE AND THE BUDGET.

(COMPLIMENTARY CLOSE) ENDS.

MAJOR
YYYY

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ADDITIONAL 1

FRAME

NNNN

FROM: MRS M E BROWN (EC1)
 DATE: 30 AUGUST 1989
 X 4709

MR H EVANS

cc PS/Sir P Middleton
 Mr Wicks
 Mr Odling-Smee
 Mr R I G Allen (or)
 Mr Riley (or)
 Mr Peretz
 Mr Melliss
 Mr N Williams
 Mr W White
 Mr McIntosh

1 John (for info)
 2 pwp

Ps/Chancellor - for
 information

PREPARATIONS FOR

- (i) MR WICKS' EMU GROUP, 4 SEPTEMBER
- (ii) MONETARY COMMITTEE, 6 SEPTEMBER
- (iii) SIR PETER MIDDLETON'S EMU GROUP, 6 SEPTEMBER
- (iv) EPC, 7 SEPTEMBER
- (v) ECOFIN, 8-10 SEPTEMBER

1. This note sets out what we are preparing - or what needs to be prepared - for the above meetings. If the French Presidency go ahead with a high level group on 5 September Mr Wicks will also need a brief for that - though it is likely to be short and negative! I understand that informal meetings with the Chancellor are also planned on Tuesday 5 and Thursday 7 September.

2. You and copy recipients will wish to see the attached letter from M. Beregevoy on the ECOFIN agenda.

EMU group, Monday 4 September

3. We will aim to circulate on Friday 1 September:

- (i) commentary on proposed revision of 1964 Decision on coordination by Central Bank Governors;
 (The text agreed by Central Bank Governors on 28 July will be circulated for the Antibes discussion);

(ii) commentary on proposed revision of 1974 Convergence Decision;

(The text circulated by Trichet on 10 August will be discussed);

(iii) notes on other stage 1 items: single market programme, single financial area, capital liberalisation, competition policy, regional funds;

(iv) note on private use of the ecu;

(v) Mr Kerr's letter of 15 August on democratic accountability.

4. I do not propose to circulate the various minutes received on the legal base for stage 1 texts: UKREP and T. Sol can be asked to summarise if necessary.

5. Items (i) - (iv) will form the main background briefing for the Antibes discussion of stage 1. I also propose to prepare a speaking note for the Chancellor which will: stress UK commitment to stage 1/emphasise that single market programme and associated measures are the main priority and require much further work/welcome the "learning by doing" approach to economic coordination in the revised Convergence Decision/stress the importance of leaving maximum scope to market forces and national policies/indicate UK concern about amount of independence envisaged for Central Bank Governors in revised 1964 text/restate our position on joining EMS during stage 1. Unless you think otherwise, I was not proposing to circulate this for discussion at Mr Wicks' (interdepartmental) meeting. But clearly the overall objective of that meeting is to identify the main points which the Chancellor should make at Antibes on stage 1.

Monetary Committee, Wednesday 6 September

6. Agenda attached. Item 6 is "preparation of EMU, particularly the first stage". The draft ECOFIN briefing on stage 1 will serve as briefing for this.

Sir Peter Middleton's EMU group, Wednesday 6 September

7. This has been called mainly to keep the Bank involved in our thinking. John Odling-Smee is discussing with Peter Middleton's Office whether a revised version of the whole or part of his paper is required: I do not yet know the result. We should probably also circulate the Deputy Governor's letter of 15 August on a possible alternative prescription to Delors.

Economic Policy Committee, Thursday 7 September

8. Mr Odling-Smee, probably with someone from EC, will attend. The main agenda points are (i) "work in view of EMU" and (ii) possible ways of coordinating budgetary policy. The second item is being discussed at a special pre-meeting this Friday which Mr Odling-Smee will attend. Draft ECOFIN briefing will again, I hope, serve for this meeting also.

ECOFIN, 8-10 September

9. The final version of the brief will need to go up on Thursday 7 September: the Chancellor leaves at ~~5.30~~ ^{1 pm} p.m. on Friday 8. Ideally, he should see a first draft before his small meeting with officials on Tuesday 5 September, but that may not be possible.

10. The main elements of the briefing will be:

Stage 1

(i) speaking note/overall objectives;

(ii) commentaries on revised 1964 and 1974 legal texts, with covering note on the main policy issues these give rise to;

(iii) notes on other stage 1 items (single market, single financial area, capital movements, competition policy, regional policies) - again with a summary note of the main policy points arising;

(iv) (?) note on private development of ecu;

(v) notes on other Governments' views. [FCO compiling summary of general positions on stage 1 and later stages; Bank supplying note on views on revised 1964 Decision];

(vi) note on handling of further work;

(vii) (?) note on legal aspects of revised texts.

Later stages

[Until we have seen the promised paper from Delors, it is difficult to prepare briefing for this part of the discussion. Mr Odling-Smee will probably circulate some thoughts tomorrow - Thursday. Possible items might be as follows]

(a) objectives/speaking note: general comments on our problems with the Delors approach; questions for further work; possible alternatives to the Delors prescription which should be included in this work;

(b) more detailed critique of Delors, especially fiscal and regional policy (covered by Mr Davies' note of 22 August), and the ESCB;

(c) notes on competing currencies and gold/commodities standard (relevant extracts from Mr Odling-Smee's paper - revised as necessary?);

(d) comments on Delors' "six questions": assuming these are the basis of the Commission paper. (Mr Kerr's material on democratic accountability will come in here);

(e) note on handling follow-up work, including the question of the high level group.

Other agenda items

(1) tax (indirect and fiscal fraud - see Beregevoy letter): Customs, Revenue and FIM are briefing for this - unexpected - ECOFIN discussion, and also for the Chancellor's breakfast meeting with Mme. Scrivener;

(2) economic overview (see Beregevoy letter - another unexpected item): Mr Melliss is briefing.

We are also preparing short briefs for use as necessary on:

(3) Community loan to Greece (Mr Wicks' minute of 28 July to Chancellor warned that he might be nobbled on this at ECOFIN): Mr Melliss is briefing;

(4) Poland/Hungary (see Mr Taylor's minute of 7 August to Mr Mountfield - Chancellor may wish to raise this in margins): AEF briefing if still thought necessary;

(5) Agrimonetary reform (Chancellor may wish to raise in margins): IAE briefing.

11. You and Mr Wicks may like to have a word with me about all this. Briefing for the ECOFIN discussion on stages 2-3 is the area in which we are at present least advanced.

Mary Brown

MRS M E BROWN

By fax to Mr Neilson (UKREP)

A revised version of the
attachment (in English)
may follow.

PARIS, le

23 AOUT 1989

Mary Don
30/8

Rec'd
weirp 29/8

Mon cher Collègue,

Comme je vous en informais par lettre du 21 juillet, la séance de travail de notre prochaine réunion informelle Ecofin se tiendra le samedi 9 septembre. Je vous propose qu'elle soit consacrée principalement à approfondir la réflexion sur l'Union économique et monétaire que vous avions engagée à S'Agaro, et que les conclusions du Conseil européen de Madrid nous font un devoir de poursuivre et de préciser.

Dans cette perspective, et comme elle s'y était engagée lors de la réunion du Conseil Ecofin du 10 juillet, la Commission des Communautés européennes m'a communiqué ses récents travaux en ce qui concerne la mise en oeuvre de la première étape de l'Union économique et monétaire. Ils prennent, ainsi que l'avait annoncé M. Christophersen, la forme d'un projet de modification des textes de 1974 sur la coordination des politiques économiques ; je vous prie donc de trouver ici le résultat de ces travaux. Je vous enverrai officiellement, dès que le Président Delors me la transmettra, la proposition de modification de la décision du 8 mai 1964 sur la coopération entre les banques centrales des Etats-membres, que le Comité des gouverneurs des banques centrales a faite à la Commission le 28 juillet. Ces documents constituent, à mon sens, la base qui nous permettra, le 9 septembre à Antibes, d'échanger précisément nos vues sur le contenu que nous désirons donner à la première étape de l'Union économique et monétaire. Ce débat se tiendra, notamment, à la lumière des discussions du Comité monétaire ; je souhaite qu'il nous permette d'arriver, entre nous, à un accord de principe sur les divers points qui seront soulevés.

A ces documents sera adjointe une communication du Président de la Commission sur les principaux points soulevés par les deuxième et troisième étapes de la construction de l'Union économique et monétaire, qui nous permettra de faire progresser nos débats en parallèle sur les différentes étapes prévues par le rapport Delors.

UKREP understand that this is a basic list of questions for discussion (presumably a translated - not version of the 16 questions raised by Delors in July). Delors is meeting Bergery to discuss it tomorrow - 31 August. UKREP hope to obtain a copy shortly afterwards.

Monsieur Nigel LAWSON
Chancelier de l'Echiquier
Parliament Street
LONDON SW1P 3 AG

MED

① revise of 1974 text attached - same as that attached to Trichet letter of 10/8.

② revise of 1974 decision will be that agreed by central bank governors, 28/7. MED.

Neilson

Brief
Commission
from
Customs, I.R.,
FIM.

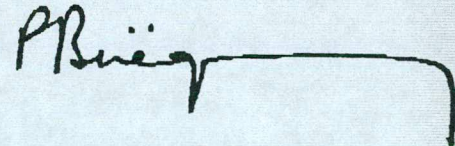
Par ailleurs, je vous propose que nous échangions nos vues sur les propositions de la Commission en matière fiscale, qu'il s'agisse de la fiscalité indirecte ou de la lutte contre l'évasion que pourrait entraîner la libération des mouvements de capitaux. Ce sont là en effet deux questions qui sont fort importantes pour la mise en place du marché unique des biens et des services, et sur lesquelles il importe maintenant que nous puissions progresser de concert.

LF Briefing
mes.

Ces différents débats pourraient être à mon sens précédés, comme nous y invite la proximité des réunions de Washington, d'un examen rapide de la situation économique à l'intérieur et à l'extérieur de la Communauté, complétant les commentaires que nous avons échangés le 10 juillet. Je proposerai alors à votre examen le projet, préparé par le Comité monétaire, de l'intervention que je ferai en notre nom devant l'Assemblée annuelle du Fonds Monétaire International et de la Banque Mondiale.

Je vous prie d'agréer, mon cher Collègue, l'expression de mes meilleurs sentiments.

Cordialement vôtre,



Pierre BÉREGOVOY

044/11355 DNBAM NL - DR. A. SZASZ - COPY D.H. BOOT - AMSTERDAM
051/262405 TREASURY LDN - MR N. WICKS - COPY MR D.L.C. PERETZ
LONDON
051/855001 BKEN - MR A.D. CROCKETT - COPY MR ARROWSMITH -
LONDON
045/82487 EIZCH - N. A. BASCOUL - BALE

IN AGREEMENT WITH THE CHAIRMAN, I CONFIRM THAT THE NEXT MEETING OF THE MONETARY COMMITTEE WILL TAKE PLACE ON MONDAY 6 SEPTEMBER 1989 STARTING AT 10. H. IN THE BORSCHETTE CENTRE, ROOM 3 C. THE DRAFT AGENDA IS AS FOLLOWS:

Wed

DRAFT AGENDA OF THE THREE HUNDRED AND FIFTY-SIXTH MEETING OF THE MONETARY COMMITTEE (BRUSSELS, 6 SEPTEMBER 1989)

- 1) ADOPTION OF THE DRAFT AGENDA..
- 2) APPROVAL OF THE DRAFT MINUTES OF THE 355TH MEETING (DOCUMENT II/268/89 OF 24 JULY 1989)..
- 3) TOUR D'HORIZON..
- 4) EXCHANGE OF VIEWS ON EXCHANGE AND INTEREST RATE DEVELOPMENTS..
- 5) PREPARATION FOR THE ANNUAL MEETINGS OF THE INTERNATIONAL MONETARY FUND AND THE WORLD BANK, AND THE PRESIDENCY SPEECH..
- 6) PREPARATION OF ECONOMIC AND MONETARY UNION, AND IN PARTICULAR OF ITS FIRST STAGE, ON THE BASIS OF THE WORKING DOCUMENTS DRAWN UP FOR THE INFORMAL MEETING OF FINANCE MINISTERS..
- 7) MISCELLANEOUS.

A. KEES
COMEU B
NNNN

Mr N Williams

Mr Wicks or.
" Mr Allan (IF)
Mr Ric-Allen (EC)
Mrs M Brown.

Mr Wicks will need briefing + " for me
on ite 5 for IF following today's Alternates meeting,
and ~~for~~ could EC coordinate a brief on
ite 6?
MJP 29/8

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21877 COMEU B
End of message

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Anon



FROM: D I SPARKES
DATE: 30 AUGUST 1989

MRS BROWN (EC1)

cc PS/Financial Secretary
Sir P Middleton
Mr Wicks
Mr Odling-Smee
Mr H P Evans
Mr R I G Allen
Mr Peretz
Mr White
Mr McIntosh

1. John
2. pwp

EMU: HIGH LEVEL GROUP

... The Chancellor was grateful for your minute of 29 August concerning the French proposal to set up a high level group on economic and monetary union that would meet on 5 September. Having discussed this now with Mr Wicks, the Chancellor is content with the revised text of the telegram that you supplied for the Chancellor and Foreign Secretary to send jointly to the French. I attach a copy of this revised text for the benefit of copy recipients.

SPARKES
TO
BRONN
30AUG

D.I.S.
DUNCAN SPARKES

M. Pierre Beregovoy
Ministre d'Etat
Ministre de l'Economie
des Finances et du Budget

M. Roland Dumas
Ministre d'Etat
Ministre des Affaires Etrangeres

[Dear Colleagues]

1. Thank you for your letter, proposing a meeting of a high level group on Economic and Monetary Union on 5 September.

2. We were surprised to learn of this proposal. When the possibility of setting up a high level group was raised at the Foreign Affairs Council on 17 July, several delegations expressed reservations. The discussion was inconclusive. In view of the previous consideration of this issue we believe that the Council should discuss the proposal again, and that the informal meeting of the ECOFIN Council on 8-10 September will provide an early and convenient opportunity. We accordingly suggest that the meeting proposed for 5 September should not take place. If it is felt necessary for the General Affairs Council or COREPER also to discuss the proposal, no doubt arrangements could be made.

Nigel Lawson
Chancellor of the Exchequer

John Major
Secretary of State for
Foreign and Commonwealth
Affairs



FROM: D I SPARKES

DATE: 31 August 1989

MR N L WICKS

cc Sir P Middleton
Sir T Burns
Mr H P Evans
Mr Odling-Smee
Mr R I G Allen
Mr Riley
Mr Peretz
Mrs M Brown
Mr Melliss**EMU: PAPER FOR THE PRIME MINISTER**

This minute is to confirm arrangements for the preparation of the note on EMU for which the Prime Minister has asked in advance of her bilateral with the Chancellor on the morning of Wednesday, 6 September.

2. You have agreed that it will be possible to have a first draft of the note for the Prime Minister in time for the Chancellor's box which closes this Friday evening. The note will set out our proposed line and objectives at ECOFIN on Stage 1 and later stages of Delors, the work we have done on possible alternatives to the Delors prescription, and our proposed stance at the high level group if it is successfully convened by the French for 5 September.

3. We have undertaken to send this note in its final form to No.10 by late afternoon on Tuesday. The Chancellor may therefore wish to hold a meeting with officials on his return to London on Tuesday to discuss the draft note which you put to him by the weekend. We already have a meeting pencilled in the diary for 2.00pm which Sir P Middleton, Sir T Burns and yourself are due to attend; I would be grateful if you and copy recipients could keep your diaries free in the event that this meeting has to be brought forward to Tuesday morning and the cast list extended.



4. The Chancellor's meeting on EMU at 5.00pm on Thursday, 7 September, which the Governor and his officials will attend, will still take place.

5. I have consulted the Chancellor and he is content with these arrangements.

D.S.

DUNCAN SPARKES

RESTRICTED

FM ROME

TO IMMEDIATE FCO

TELNO 532

OF 311315Z AUGUST 89

INFO PRIORITY OTHER EC POSTS

YOUR TELNO 716 TO PARIS: EMU: FRENCH PROPOSAL FOR A HIGH LEVEL GROUP

1. ACTION TAKEN WITH CAVARAI, HEAD OF EUROPEAN COMMUNITY (INTERNAL) DIVISION, MFA

2. CAVARAI SAID THAT THEY TOO HAD BEEN SOMEWHAT SURPRISED AT THE PROPOSAL TO SET UP THE GROUP NOW. THE ITALIAN REACTION WAS LIKELY TO BE THAT SINCE THIS SEEMED TO BE A MOVE IN THE DESIRED DIRECTION TOWARDS EMU, THEY WOULD TAKE PART. HOWEVER HE WAS NOT SURE ABOUT A MEETING ON 5 SEPTEMBER (HE POINTED OUT THAT THE DATE WAS NOT ACTUALLY MENTIONED IN THE BEREGOVY/DUMAS MESSAGE). WE EMPHASISED THE NEED FOR FURTHER DISCUSSION OF THE ISSUES INVOLVED, AND THAT THE INFORMAL ECOFIN AT ANTIBES PROVIDED A SUITABLE OPPORTUNITY FOR THIS. CAVARAI TOOK NOTE.

WOOD

YYYY

DISTRIBUTION

194

MAIN 193

.FRAME ECONOMIC
ECD (I)

MR BAYNE
MR KERR

ADDITIONAL 1

FRAME

NNNN

RESTRICTED
FM LUXEMBOURG
TO IMMEDIATE FCO
TELNO 307
OF 311530Z AUGUST 89
INFO PRIORITY EUROPEAN COMMUNITY POSTS

YOUR TELNO 716 : EMU : FRENCH PROPOSAL FOR A HIGH-LEVEL GROUP

1. ACTION TAKEN WITH PRIME MINISTER'S OFFICE AND FOREIGN MINISTRY. SANTER AND POOS HAVE NOW AGREED TO SEND A MESSAGE TO DUMAS AND BEREGOVY ASKING FOR THE MEETING TO BE POSTPONED. THE MESSAGE, WHICH WILL GO TOMORROW, WILL SAY THAT THE LUXEMBOURGERS ARE NOT, IN PRINCIPLE, AGAINST SUCH A MEETING, WHICH THEY THINK WILL BE NECESSARY, BUT THAT FOR PRACTICAL REASONS THEY CANNOT FIELD REPRESENTATIVES ON 5 SEPTEMBER.

2. AS WE KNOW FROM OUR ENQUIRIES THE OFFICIALS WHO NORMALLY DEAL WITH THIS DOSSIER ARE STILL AWAY AND MONDAY IS A HOLIDAY HERE. THE EXCUSE IS THEREFORE QUITE GENUINE.

CAMPBELL

YYYY

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DISTRIBUTION

192

MAIN 191

.FRAME ECONOMIC

ECD (I)

ADDITIONAL 1

FRAME

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RESTRICTED

FM BONN

TO IMMEDIATE FCO

TELNO 831

OF 311330Z AUGUST 89

INFO IMMEDIATE OTHER EC POSTS, UKREP BRUSSELS

FRAME ECONOMIC

FCO TELNO 718: EMU: FRENCH PROPOSAL FOR A HIGH LEVEL GROUP

SUMMARY

1. THE AUSWAERTIGES AMT AND THE FINANCE MINISTRY HAVE NOT FINALLY AGREED ON A COMMON POSITION ON A HIGH LEVEL GROUP (HLG). THE LIKELY OUTCOME IS THAT THEY WILL NOT (NOT) GO TO A MEETING ON 5 SEPTEMBER BUT WILL AGREE TO A HLG. WE SHALL TRY TO DISSUADE THEM FROM GIVING AGREEMENT BEFORE ANTIBES.

DETAIL

2. ACTION TAKEN WITH SCHOENFELDER AND WINKELMANN, HEADS OF DEPARTMENT IN THE AUSWAERTIGES AMT AND FINANCE MINISTRY RESPECTIVELY.

3. SCHOENFELDER TOOK NOTE OF THE BRITISH REPLY. HE SAID THAT THE POSITION OF THE AUSWAERTIGES AMT WAS MUCH MORE POSITIVE. THEY SUPPORTED A HIGH LEVEL GROUP, AND HAD ALREADY DECIDED THAT THEIR REPRESENTATIVE WOULD BE JELONEK, THEIR ECONOMIC DIRECTOR. THE AUSWAERTIGES AMT HAD NO PROBLEM WITH THE 5 SEPTEMBER DATE BUT THE FINANCE MINISTRY HAD QUOTE DIARY PROBLEMS UNQUOTE. THERE WOULD PROBABLY BE NO FORMAL REPLY TO THE FRENCH. ON THE FUNCTIONS OF THE GROUP, SCHOENFELDER SAID THAT IT SHOULD COORDINATE AND 'GINGER UP' THE INSTITUTIONS. THE FOCUS OF WORK WOULD BE PHASE II. SPEED WAS ESSENTIAL BECAUSE IMPORTANT DECISIONS HAD TO BE PREPARED FOR THE EUROPEAN COUNCIL. THE FAC IN OCTOBER WOULD BE TOO LATE FOR DECISIONS ON THE SETTING UP OF A GROUP.

4. WINKELMANN SAID THAT BEREGOVY HAD GIVEN THE GERMANS ADVANCE NOTICE OF THIS PROPOSAL AT THE FRANCO-GERMAN BILATERAL ECONOMIC COUNCIL LAST WEEK. HE SAID THAT TIETMEYER, WHO WOULD BE THE FINANCE MINISTRY MEMBER OF THE HLG, WOULD TODAY SEEK WAIGEL'S APPROVAL TO TELL THE FRENCH THAT THE HLG SHOULD NOT MEET BEFORE MID-SEPTEMBER AT THE EARLIEST AND THAT THE INFORMAL ECOFIN SHOULD FIRST DISCUSS ITS TERMS OF REFERENCE. THE AUSWAERTIGES AMT HAD AGREED THAT JELONEK

WOULD NOT ATTEND A MEETING WITHOUT TIETMEYER.

COMMENT

5. THE PICTURE PAINTED HERE IS CLOSE TO THAT REPORTED BY TELEPHONE TO THE DEPARTMENT ON 29 AUGUST FOLLOWING A CONTACT WITH WINKELMANN. THE DIFFERENCE IS THAT TIETMEYER'S VIEW THAT 5 SEPTEMBER WAS PREMATURE HAS NOW FIRMED UP INTO AGREEING THAT A GROUP COULD MEET FROM MID-SEPTEMBER ONWARDS. WINKELMANN DID NOT KNOW, WHEN HE SPOKE, THAT TIETMEYER AND WICKS HAD MANAGED TO TALK TO EACH OTHER AND WAS THEREFORE UNAWARE OF THE MUCH MORE RESERVED POSITION INDICATED BY TIETMEYER DURING THAT CONVERSATION. I THINK HOWEVER THAT WINKELMANN ALMOST CERTAINLY IS REFLECTING THE LATEST POSITION ESPECIALLY AS HE MADE NO SECRET OF HAVING BEEN IN TOUCH WITH THE AUSWAERTIGES AMT.

6. IT WOULD SEEM THAT THE GERMAN LINE WILL BE DECIDED BETWEEN THE TWO MINISTRIES DIRECT (WITHOUT INVOLVEMENT OF THE CHANCELLERY) QUITE POSSIBLY BY TONIGHT. IN ORDER TO TRY TO ENSURE THAT THE FINANCE MINISTRY STICK TO THEIR LINE THAT THERE WOULD BE NO MEETING OF ANY GROUP BEFORE ECOFIN HAS DISCUSSED THE MATTER AND TO PREVENT THEM FROM SAYING ANYTHING TO THE FRENCH WHICH ENCOURAGES THE PRESIDENCY TO SUGGEST A NEW DATE, WE WILL SPEAK AGAIN (MY TELCON WITH SHEINWALD) TO FINANCE MINISTRY TO UNDERLINE THE IMPORTANCE OF MINISTERS BEING ALLOWED TO TAKE DECISIONS AT THE ANTIBES MEETING.

NEVILLE-JONES

YYYY

DISTRIBUTION

192

MAIN 191

.FRAME ECONOMIC

ECD (I)

ADDITIONAL 1

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RESTRICTED

FM PARIS

TO DESKBY 311300Z FCO
TELNO 1137
OF 311121Z AUGUST 89
INFO PRIORITY UKREP BRUSSELS
INFO ROUTINE OTHER EC POSTS

FRAME ECONOMIC

YOUR TELNO 716: EMU: FRENCH PROPOSAL FOR A HIGH LEVEL GROUP

SUMMARY

1. FRENCH MAINTAIN PROPOSAL. SOME ATTEMPT TO DOWNPLAY ITS SIGNIFICANCE, WITH ASSURANCES THAT THE HIGH LEVEL GROUP CAN ONLY ANALYSE ISSUES, NOT TAKE DECISIONS. WE SAID THAT IN VIEW OF THIS REPLY WE EXPECTED THAT YOU WOULD RAISE SUBJECT ON 1 SEPTEMBER.

DETAIL

2. THE MINISTER CALLED ON 30 AUGUST ON DE BOISSIEU (QUAI), WITH THE TEXT OF OUR MESSAGE FOR DUMAS, AND ON MME GUIGOU (ELYSEE). WE ALSO TOOK PARALLEL ACTION WITH ANNEZO (BEREGOVY CABINET). IN EACH CASE WE UNDERLINED THE PREMATURE NATURE OF A HIGH LEVEL GROUP AND THE NEED FOR THE COUNCIL TO DISCUSS THE PROPOSAL FURTHER.

3. DE BOISSIEU SAID THAT HE WAS NOT SURPRISED BY OUR REACTION. HE WOULD PASS OUR MESSAGE ON TO DUMAS. BUT WE SHOULD BE CLEAR THAT THE GROUP WAS IN ANY CASE GOING TO MEET ON 5 SEPTEMBER. HE HOPED THAT UK WOULD ATTEND. POSITIVE RESPONSES HAD BEEN RECEIVED FROM SOME OTHERS. HE COULD UNDERSTAND HOW THE UK FEARED THAT THE FRENCH WANTED TO RUSH PRECIPITOUSLY INTO AN IGC, BUT IN REALITY THEIR MOTIVES WERE NOT SO MACHIAVELLIAN. EVERYONE AGREED THERE WERE WEAKNESSES IN THE DELORS REPORT, PARTICULARLY ON THE INSTITUTIONAL/ORGANISATIONAL FRONT. THE ROLE OF THE GROUP WOULD BE TO CLARIFY THE OBSCURE POINTS IN DELORS AND WORK OUT HOW, DRAWING ON THE DELORS REPORT, ONE WOULD BEGIN TO CONSIDER LEGAL TEXTS. THE GROUP COULD NOT BE A DECISION TAKING BODY.

4. LLEWELLYN SMITH EMPHASISED THAT IT MUST BE FOR THE COUNCIL TO CONSIDER THESE ISSUES, INCLUDING THE ORGANISATION OF ITS WORK. PROCEDURE AND SUBSTANCE COULD NOT BE NEATLY SEPARATED. DE BOISSIEU CLAIMED THAT PREPARATORY WORK FOR AN IGC HAD ALREADY BEGUN, WITH ITS BASIS IN THE DELORS REPORT. THAT WORK WOULD CONTINUE OVER A LONG PERIOD. HE DID NOT KNOW HOW MANY MEETINGS THE HIGH LEVEL GROUP WOULD HAVE. NOR DID HE EXPECT THAT THERE WOULD BE PAPERS BEFORE THE 5

SEPTEMBER MEETING, WHICH WOULD HAVE AS ITS TASK SIMPLY THE DEFINITION OF OBJECTIVES AND WORK METHOD.

5. LLEWELLYN SMITH SAID THAT WE HAD HOPED TO RESOLVE THIS ISSUE BEFORE YOU MET DUMAS ON 1 SEPTEMBER. HOWEVER, UNLESS DUMAS REVERTED QUICKLY WITH A POSITIVE RESPONSE TO OUR MESSAGE, WE EXPECTED THAT YOU WOULD WANT TO RAISE THE SUBJECT WITH HIM. DE BOISSIEU TOOK NOTE.

6. LLEWELLYN SMITH REINFORCED OUR MESSAGE WITH MME GUIGOU. SHE ATTEMPTED A REASSURING LINE. THE HIGH LEVEL GROUP WAS A PROCEDURAL DEVICE ONLY AND FLOWED FROM THE MADRID CONCLUSIONS. THE FRENCH WANTED AN IGC AS SOON AS POSSIBLE AFTER STAGE 1 OF DELORS AND WANTED TO THINK NOW ABOUTS ITS PREPARATION. A MECHANISM TO ENSURE THE QUOTE GLOBALITY UNQUOTE OF THAT PREPARATION WAS NEEDED. A MAJOR ROLE MUST REMAIN FOR ECOFIN. THE GROUP WOULD NOT UNDERMINE ECOFIN BUT SOME MEANS OF RECONCILING THE RESPECTIVE ROLES OF ECOFIN AND THE FAC WAS NEEDED, AND CLARIFYING INSTITUTIONAL QUESTIONS WHICH COULD FALL BETWEEN BOTH. SHE ADDED THAT BOTH DUMAS AND BEREGOVY HAD THOUGHT HARD ABOUT WHAT MECHANISM WOULD BEST FILL THE BILL, AND HAD THE SUPPORT OF MITTERRAND.

7. ASKED ABOUT THE EARLY DATE, MME GUIGOU SAID THAT NOT MUCH TIME WAS AVAILABLE. THERE WAS NO WISH TO ISOLATE THE UK, OR CREATE DIFFICULTIES FOR US. SHE HOPED THE UK WOULD ATTEND, ON THE SAME BASIS AS AT THE SOCIAL AFFAIRS GROUP I.E. WITHOUT PREJUDICE TO VIEWS ON THE SUBSTANCE.

8. HANNEZO ALSO TOOK PAINS TO TRY TO DOWNPLAY THE SIGNIFICANCE OF THE GROUP. WHEN WE SAID THAT FINANCE MINISTERS MIGHT BE SURPRISED TO HAVE THEIR DISCUSSIONS AT ANTIBES PRECOOKED BY OFFICIALS IN BRUSSELS, BE ASSURED US THAT THERE COULD BE NO QUESTION OF USURPING THE ROLE OF ECOFIN. WE SHOULD NOT OVERDRAMATISE THE GROUP. IT COULD ONLY LOOK AT TECHNICAL/LEGAL QUESTIONS, LEAVING POLITICAL ISSUES FOR MINISTERS. AS PRESIDENCY THE FRENCH WERE ONLY FULFILLING THE MADRID MANDATE OF ENSURING COMPLETE AND ADEQUATE PREPARATION OF AN IGC. HE WAS NOT SURE HOW MANY MEETINGS THE GROUP WOULD HAVE, BUT IT WOULD PROBABLY GET OFF TO A SLOW START. THE DATE OF 5 SEPTEMBER HAD BEEN CHOSEN BECAUSE OF ITS PROXIMITY TO THE MONETARY COMMITTEE, WHEN EXPERTS WOULD IN ANY CASE BE IN BRUSSELS. THE FRENCH SAW NO NEED TO CONSULT THE COUNCIL ON SETTING UP THE GROUP, SINCE ITS FIRST MEETING WOULD ONLY DEAL WITH WORK METHODS.

9. WE ASKED HANNEZO TO DRAW BEREGOVY'S ATTENTION TO YOUR VIEWS AND THOSE OF THE CHANCELLOR. OUR POSITION ON THE GROUP WAS RESERVED.

HANNEZO SAID THE WOULD DO THIS AND REEMPHASISED THAT BEREGOVY
WANTED TO CONTINUE TO WORK WITH THE CHANCELLOR IN ECOFIN, AND THAT
MINISTERS WOULD NOT ALLOW OFFICIALS TO ENCROACH ON THEIR OWN AREAS
OF RESPONSIBILITY.

FERGUSSON

YYYY

DISTRIBUTION

192

MAIN 191

.FRAME ECONOMIC

ECD (I)

ADDITIONAL 1

FRAME

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RESTRICTED

FM COPENHAGEN

TO DESKBY 311130Z FCO

TELNO 280

OF 311115Z AUGUST 89

INFO IMMEDIATE EC POSTS, UKREP BRUSSELS

(FRAME ECONOMIC)

FROM HEAD OF CHANCERY IN AMBASSADOR'S ABSENCE IN GREENLAND

YOUR TELNOS 716 - 718 TO PARIS : EMU : FRENCH PROPOSAL FOR A HIGH
LEVEL GROUP

SUMMARY

1. DENMARK WILL PARTICIPATE IN THE GROUP AND IS NOT (NOT) PREPARED
TO SUPPORT OUR SUGGESTION OF A POSTPONEMENT.

DETAIL

2. YOUR TURS WERE RECEIVED THIS MORNING (31 AUGUST). I CALLED
IMMEDIATELY ON DENMARK'S TWO NOMINATED REPRESENTATIVES ON THE GROUP,
THOMSEN (PERMANENT SECRETARY, ECONOMIC AFFAIRS MINISTRY) AND MAILAND
CHRISTENSEN (UNDER SECRETARY, EC AFFAIRS, MFA). I GAVE BOTH A COPY
OF YOUR AND THE CHANCELLOR'S LETTER TO YOUR FRENCH COLLEAGUES. I
ARGUED STRONGLY THAT ALTHOUGH DENMARK HAD ALREADY INDICATED ITS
WILLINGNESS TO PARTICIPATE IN THE GROUP (OUR TELNO 276 TO FCO), THE
FIRST MEETING SHOULD NOT BE HELD UNTIL AT LEAST AFTER NEXT MONTH'S
INFORMAL ECOFIN.

3. THOMSEN'S VIEW WAS THAT DENMARK WAS ALREADY COMMITTED TO
ATTENDING BUT MAILAND CHRISTENSEN SEEMED MORE OPEN TO THE ARGUMENT
THAT AGREEMENT TO PARTICIPATE DID NOT INVOLVE A COMMITMENT TO ATTEND
A MEETING ON A PARTICULAR DATE.

4. MAILAND CHRISTENSEN SUBSEQUENTLY TELEPHONED ME, FOLLOWING
DISCUSSIONS BETWEEN THE MINISTRIES (INCLUDING CONSULTATION WITH THE
RESPECTIVE MINISTERS). HE SAID DENMARK WOULD BE REPRESENTED AT THE 5
SEPTEMBER MEETING. HE CONSIDERED DANISH VIEW WAS THAT, ON
PROCEDURAL GROUNDS, IT WAS THE RIGHT OF THE PRESIDENCY TO CONVENE
MEETINGS, ON WHATEVER TOPIC, AS AND WHEN THEY WANTED. MEMBER STATES
COULD ATTEND OR NOT AS THEY WISHED. BUT DENMARK WOULD, WHEREVER
POSSIBLE, ATTEND SUCH MEETINGS.

5. I ARGUED AGAIN THAT SINCE RESERVATIONS ABOUT THE MEETING HAD BEEN EXPRESSED, NOT JUST BY THE UK, IT SHOULD NOT (NOT) TAKE PLACE BEFORE FURTHER DISCUSSION IN ECOFIN. MAILAND CHRISTENSEN WAS NOT TO BE MOVED. HE CONSIDERED THE PROPOSED 5 SEPTEMBER MEETING TO BE MERELY A PRELIMINARY ONE. IT WOULD NOT LOOK AT MATTERS OF SUBSTANCE BUT WOULD INSTEAD CONSIDER ONLY ITEMS SUCH AS THE TIMETABLE FOR FUTURE DISCUSSION. I SAID THAT EVEN THAT SEEMED TO BE GOING FURTHER THAN SOME MEMBER STATES, INCLUDING THE UK, THOUGHT DESIRABLE. MAILAND CHRISTENSEN REPLIED SIMPLY THAT DENMARK HAD ALREADY TOLD FRANCE SHE WOULD PARTICIPATE AND WOULD DO SO. I EXPRESSED DISAPPOINTMENT AT THIS RESPONSE.

WILLIAMS

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DISTRIBUTION

192

MAIN 191

.FRAME ECONOMIC

ECD (I)

ADDITIONAL 1

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RESTRICTED
 FM DUBLIN
 TO IMMEDIATE FCO
 TELNO 349
 OF 311045Z AUGUST 89
 AND TO IMMEDIATE PARIS
 INFO PRIORITY OTHER EC POSTS

(FRAME ECONOMIC)

YOUR TELNO 716 TO PARIS:EMU:FRENCH PROPOSAL FOR HIGH LEVEL GROUP MEETING.

ACTION TAKEN WITH FLAVIN COUNSELLOR DFA WHO CONFIRMED IRISH WERE IN FAVOUR AND WOULD ATTEND THE MEETING.

FENN

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DISTRIBUTION

195

MAIN 193

.FRAME ECONOMIC
 ECD (I)

PS/SIR J FRETWELL
 MR RATFORD

ADDITIONAL 2

FRAME

MR APLEYARD CAB OFF

NNNN

CONFIDENTIAL

FM THE HAGUE

TO DESKBY 311300Z FCO

TELNO 347

OF 310925Z AUGUST 89

INFO IMMEDIATE PARIS

INFO PRIORITY OTHER EC POSTS, UKREP BRUSSELS

YOUR TELNO 716: EMU, FRENCH PROPOSAL FOR A HIGH LEVEL GROUP

1. WE HAVE SPOKEN AS INSTRUCTED TO GOSSSES (DEPUTY TO VAN SWINDEREN IN THE FOREIGN MINISTRY) AND AGAIN TO STEK (FINANCE MINISTRY) AND HAVE GIVEN THEM COPIES OF THE TEXT IN YOUR TELEGRAM 718 FOR WHICH THEY WERE GRATEFUL.
2. GOSSSES SAID THAT AT THE DISCUSSION IN THE FAC ON 17 JULY THE DUTCH HAD BEEN AMONG THOSE WHO HAD EXPRESSED RESERVATIONS OVER THE FRENCH PROPOSAL (THEY HAD BEEN DISAPPOINTED THAT THE GERMANS HAD NOT VOICED OBJECTIONS AS WELL). THEY STILL BELIEVED THE WHOLE IDEA FOR A HIGH LEVEL GROUP TO BE PREMATURE, AND THEY WERE OPPOSED TO A MEETING ON 5 SEPTEMBER. VAN DEN BROEK HAD TAKEN THE OCCASION OF A FIRST CALL BY THE NEW FRENCH AMBASSADOR, BERNARD, TO MAKE THIS CLEAR ALTHOUGH HE HAD STOPPED SHORT OF OPPOSING THE CONCEPT OF A GROUP IN PRINCIPLE (SEE ALSO MY TELEGRAM 710). THE DUTCH AMBASSADOR IN PARIS HAD BEEN INSTRUCTED TO MAKE THE SAME POINTS TO MME GUIGOU. HE HAD ALSO BEEN ASKED TO PROBE FRENCH INTENTIONS OVER THE LONGER TERM FUTURE OF THE GROUP, AND IN PARTICULAR WHETHER IT WAS A DEVICE THEY INTENDED TO SERVE ONLY THR FRENCH PRESIDENCY OR TO HAVE A MORE PERMANENT STATUS.
3. STEK REPEATED BUT DID NOT ADD TO THE POINTS HE HAD MADE TO ME PREVIOUSLY (MY TELEGRAM UNDER REFERENCE). NEITHER HE NOR GOSSSES WAS ABLE TO SAY WHAT THE DUTCH POSITION WOULD BE IF THE FRENCH INSISTED ON HOLDING THE MEEETING ON 5 SEPTEMBER AND ALL OR MOST OTHER MEMBER STATES DECIDED TO ATTEND.

JENKINS

YYYY

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192

MAIN 191

.FRAME ECONOMIC

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ADDITIONAL 1

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074635
MDHIAN 3932

Ch/ This is the complete string of telegrams on the high level group. Worth glancing at the lot, starting at the back.

015

RESTRICTED
FM BONN
TO DESKBY 010830Z FCO
TELNO 834
OF 010507Z SEPTEMBER 89
INFO IMMEDIATE EUROPEAN COMMUNITY POSTS

MY TELNO 831 : EMU : FRENCH PROPOSAL FOR A HIGH LEVEL GROUP

1. AS FORESHADOWED IN TUR WE SPOKE AGAIN TO WINKELMANN (FINANCE MINISTRY) TO EMPHASISE OUR HOPE THAT THE GERMANS WOULD NOT ANNOUNCE A DECISION TO TAKE PART IN A HIGH LEVEL GROUP (HLG) BEFORE THE INFORMAL ECOFIN IN ANTIBES BUT WOULD ALLOW FINANCE MINISTERS TO TAKE THEIR OWN DECISIONS. WINKELMANN WAS GRATEFUL FOR THIS APPROACH, WHICH HE SAID MATCHED HIS OWN ADVICE TO TIETMEYER. HE WOULD MAKE SURE THAT TIETMEYER WAS AWARE OF OUR VIEWS. THE AUSWAERTIGES AMT HAD BROUGHT IN GENSCHER AND THE QUESTION WAS BEING DISCUSSED AT MINISTERIAL LEVEL. HE WOULD LET US KNOW THE OUTCOME.

NEVILLE-JONES

YYYY

DISTRIBUTION 192

MAIN 191

.FRAME ECONOMIC ECD (I)

ADDITIONAL 1

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RESTRICTED

FM LISBON

TO IMMEDIATE FCO

TELNO 267

OF 011215Z SEPTEMBER 89

INFO PRIORITY UKREP BRUSSELS

INFO ROUTINE OTHER EC POSTS

FRAME ECONOMIC

YOUR TELNO 716 :EMU

SUMMARY

1. PORTUGAL NOT UP TO SPEED THEY INCLINE TO OUR VIEW ,BUT MAY NOT WANT TO RESIST FRENCH.

DETAIL.

2. IN ABSENCE OF TELEGRAPHIC COMMUNICATIONS ,WE SENT A FAX MESSAGE TO TURNER (ECD(I) ON 31 AUGUST SUMMARISING VIEWS OF OUR FINANCE MINISTER CONTACT,WHICH WERE SYMPATHETIC TO OUR ARGUMENTS.FOLLOWING ARE ADDITIONAL DETAILS: WE SPOKE DIRECTLY WITH GONCALVEZ.HE CONCLUDED THAT THE FINAL DECISION WOULD BE POLITICAL:THE PORTUGESE MINISTER OF FINANCE MIGHT WELL CONSIDER THAT HAVING A USELESS MEETING WAS BETTER THAN ALIENATING THE FRENCH.

3. MEANWHILE,WE HAVE SPOKEN TO FOREIGN MINISTER ,WHO WERE UNSIGHTED ,BUT RECEPTIVE TO OUR ARGUMENTS,IN PARTICULAR THAT IT WAS ABSURD TO HOLD THIS MEETING BEFORE THE INFORMAL ECOFIN COUNCIL.

ARBUTHNOTT

YYYY

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198

MAIN 197.FRAME ECONOMIC
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ADDITIONAL 1PAGE 1
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MDHIAN 4757

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PAGE 2
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FM BRUSSELS

TO IMMEDIATE FCO

TELNO 295

OF 011613Z SEPTEMBER 89

INFO PRIORITY UKREP BRUSSELS

INFO SAVING OTHER EC POSTS

FRAME ECONOMIC

YOUR TELNOS 710 AND 716: EMU: FRENCH PROPOSAL FOR A HIGH
LEVEL GROUP AND INFORMAL ECOFIN

SUMMARY

1. NO AGREED POSITION AS YET BETWEEN THE FINANCE MINISTRY AND
FOREIGN MINISTRY ON THE PROPOSED HIGH LEVEL GROUP MEETING.
PREPARATIONS FOR THIS AND FOR INFORMAL ECOFIN IN BAULK BECAUSE
OF HOLIDAY ABSENCES.

DETAIL

HIGH LEVEL GROUP.

2. ACTION TAKEN WITH PETIT, (ADVISOR ON INTERNATIONAL
MONETARY AFFAIRS TO FOREIGN MINISTER EYSKENS) AND TAYMANS
(CABINET OF FINANCE MINISTER MAYSTADT) INFORMING THEM OF THE
UK RESPONSE TO THE FRENCH LETTER. TAYMANS TOOK NOTE BUT SAID,
AS EXPECTED, THAT THERE WERE NO OBJECTIONS TO THE PROPOSAL ON
THE PART OF THE FINANCE MINISTRY, ALTHOUGH THEY HAD YET TO
COORDINATE THEIR POSITION WITH THE FOREIGN MINISTER'S CABINET.
PETIT SAID THAT THE MFA WERE UNHAPPY WITH THE TIMING OF THE
MEETING BEFORE THE INFORMAL ECOFIN, BUT WERE UNLIKELY TO
OBJECT. REPRESENTATION WAS NOT YET DECIDED.

INFORMAL ECOFIN.

3. WITH EXPERTS AND MINISTERS ONLY JUST TRICKLING BACK FROM
HOLIDAY, THE BELGIANS HAVE NOT YET BEGUN TO COORDINATE THEIR
POSITION ON THE MAIN POINTS FOR DISCUSSION AT ANTIBES, EG THE
REVISION OF THE 1964 AND 1974 DECISIONS AND THE TIMING OF AN
IGC. IN PRACTICE, THE GOVERNMENT AND THE NATIONAL BANK HAVE
ENDORSED WITHOUT RESERVATION ALL THE CONCLUSIONS OF THE DELORS
REPORT. PRIME MINISTER MARTENS, FINANCE MINISTER MAYSTADT AND
FOREIGN MINISTER EYSKENS MAKE A POINT OF EXPRESSING TOTAL
COMMITMENT TO THE PRINCIPLE OF ECONOMIC AND MONETARY

INTEGRATION AS SOON AS POSSIBLE WHICH THEY SEE AS THE NATURAL
COMPLEMENT TO THE SINGLE MARKET.

4. AT MADRID, MARTENS SUPPORTED MITTERRAND IN PUSHING FOR AN
EARLY IGC (CONTRARY TO THE ADVICE OF HIS OFFICIALS AND HIS MFA
BRIEFING). MAYSTADT HAS USED THE QUOTE INEVITABLE LOSS OF
SOVEREIGNTY UNQUOTE WHICH WOULD RESULT FROM EMU AS AN ARGUMENT
FOR THE INTRODUCTION OF INSTITUTIONAL CHANGES/TREATY
AMENDMENTS AS SOON AS POSSIBLE TO PROVIDE THE NECESSARY CHECKS
AND BALANCES ON SUPRANATIONAL DECISION MAKING. HE HAS ALSO
ARGUED FOR EXTRA POWERS TO BE GIVEN TO THE EUROPEAN PARLIAMENT
SO THAT POLICY MAKING IS NOT LEFT IN THE HANDS OF BUREAUCRATS.
WORK IS CURRENTLY BEING CARRIED OUT BY AN INTER DEPARTMENTAL
WORKING GROUP (SUSPENDED FOR THE SUMMER) INCLUDING
REPRESENTATIVES FROM THE TRESOR, NATIONAL BANK AND THE BELGIAN
PERMANENT REPRESENTATION. OUR CONTACTS DESCRIBE THE WORK OF
THE GROUP AS BASED ON AN ENTIRELY POSITIVE APPROACH TO EMU,
BUT CONCENTRATING ON QUOTE MEDIUM TERM SAFEGUARDS UNQUOTE SUCH
AS THE PRINCIPLE OF SUBSIDIARITY.

O'NEILL

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TELNO 1152

OF 011639Z SEPTEMBER 89

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OUR TELNO 1137: EMU: HIGH LEVEL GROUP

SUMMARY

1. FRENCH PLAN TO STICK TO 5 SEPTEMBER MEETING.

DETAIL

2. GALLOT (SGCI) CONFIRMED ON 1 SEPTEMBER THAT THE PRESIDENCY WERE STILL PLANNING TO HOLD THE FIRST MEETING OF THE HIGH LEVEL GROUP ON 5 SEPTEMBER, EVEN THOUGH THE REPRESENTATION OF MEMBER STATES WOULD BE LESS THAN HOMOGENOUS. HE UNDERSTOOD THAT SOME MEMBER STATES WERE LIKELY TO DRAW ON THEIR PERMANENT REPRESENTATIONS IN BRUSSELS. HE DID NOT ELABORATE ON THE GERMAN ATTENDANCE.

3. GALLOT ADDED THAT THE PLAN WAS TO CONTINUE WITH MEETINGS OF THE HIGH LEVEL GROUP ON A THREE WEEKLY BASIS.

LLEWELLYN SMITH

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OF 011505Z SEPTEMBER 89

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MYTELNO 347: EMU, FRENCH PROPOSAL FOR A HIGH LEVEL GROUP

1. STEK (FINANCE MINISTRY) HAS RUNG ME TODAY TO SAY THAT THE DUTCH HAVE JUST SENT A WRITTEN REPLY, SIGNED JOINTLY BY VAN DEN BROEK AND RUDING, TO THE FRENCH INVITATION TO A MEETING ON 5 SEPTEMBER.
2. THE REPLY EXPRESSES SURPRISE AT THE CHOICE OF 5 SEPTEMBER FOR THE PROPOSED MEETING AND SUGGESTS THAT IT WOULD BE BETTER TO DELAY IT FOR SEVERAL WEEKS UNTIL DISCUSSIONS HAVE TAKEN PLACE WITHIN THE MONETARY COMMITTEE AND BETWEEN MINISTERS OF FINANCE. THE DUTCH HAVE ALSO MADE CLEAR THAT THE RELEVANT SENIOR OFFICIALS WOULD NOT BE AVAILABLE FOR A MEETING ON 5 SEPTEMBER.
3. STEK TOLD ME THAT THERE WAS AT PRESENT A DIFFERENCE OF VIEW BETWEEN THE FOREIGN AND FINANCE MINISTERS OVER THE WHOLE CONCEPT OF THE HLG. RUDING WOULD LIKE TO SEE THE PROPOSAL TORPEDOED, WHILE VAN DEN BROEK WAS IN FAVOUR ONLY OF DELAYING FOR THE TIME BEING ITS FIRST MEETING.

JENKINS

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EMU - pts

Are we building
one nation?

1. No need for an EMS unless & until a common currency
2. Main gain achieved by currency stability. Very little additional gain for common currency & considerable possible
3. Common currency would need to be clearly more stable (if in inflation) than status quo to be worth the costs
4. Competing national currencies the obvious alternative. Basically this requires much EC admission; but commonality of legal tender might help. [What in practice would this mean?]
5. This is no more & no less than a radical experiment rather than entailment.
6. Single market not until 1993, & then not fully until later. Plus Stage I won't also take 5-10 yrs. Assume to try & decide how when we ~~can~~ start for the single market, thereafter, & even have to legislate for that now. (See Dehrendorf paper of 22/3/89 - 104.)
7. ~~It is~~ Easy to underestimate radical nature of Stage I - single financial area, no EC, & free currency in ERM. Let's see how this goes: puts real discipline on members (hence lack of need for any further disciplines). Some may say that common currency is essential, because ERM can't survive without it: Stage I finally inevitable. Don't believe it: deflation. Anyway, let's see.
8. XR adjustments will be heavy for some time to come, esp as capital controls go & intra-European trade increases. Even factor of an attempt to make & equalise of labour costs & labour practices via 'social Europe'. Arguments for flexibility.
9. Appeal of gold standard chiefly that it avoids inflation & stag



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FINA

South Africa cracks down on protesters

By Patti Waldmeir in Johannesburg

SOUTH AFRICAN police yesterday cracked down on the organisers of an anti-apartheid campaign aimed at disrupting next Wednesday's general elections.

Protest action by anti-apartheid groups has increased sharply recently in the run-up to next week's elections from which blacks are excluded. Police have responded with widespread arrests and detention of activists and they have used tear-gas and rubber bullets to disperse demonstrators.

Yesterday they raided the offices of Cosatu, the country's largest black labour federation, which later called for two days of nationwide protest against the elections and a month-long consumer boycott as a protest against apartheid.

Police searched the home and office of Mr Jay Naidoo, Cosatu's general secretary, who is a prominent figure in the Mass Democratic Move-

ment (MDM) and a key organiser of the protest. They removed documents and 11 Cosatu members were held.

At the white University of the Witwatersrand, riot police repeatedly fired tear-gas and rubber bullets at students staging a rally in defiance of emergency regulations.

In Pretoria, Mr F.W. de Klerk, the acting President, said that nine guerrillas who had entered the country to disrupt the elections had been arrested. In Durban, police detained five activists, including a senior member of the banned United Democratic Front.

Political analysts said a police crackdown on protest was to be expected given the proximity of the general elections. Although security has been less of an issue in the latest election campaign than it was in the last whites-only poll of May 1987, there are still



Students flee as police fire teargas to

votes to be won from exploiting fears of black unrest.

The next few days could well see further confrontations between demonstrators and the security forces. The MDM has called for nationwide protests today to mark the first anniversary of the imposition of tough new labour laws.

National protest actions

Banks plan \$1bn funds for M

By Stephen Fidler, Euromarkets Correspondent

MEXICO'S leading bank creditors are considering further short-term finance for the country, perhaps of more than \$1bn, in order to surmount one of several obstacles holding up a final debt accord between the country and its banks.

The proposed standby finance, to be provided by a small group of lenders as a letter of credit, is considered easier to arrange than a formal bridging loan. However, there are doubts that those banks that plan to reduce their exposure to Mexico under the eventual agreement will be inclined to lend new funds, even temporarily.

The talks to finalise the agreement – the first to be agreed in principle under the international debt initiative

launched in March by the US Treasury Secretary, Mr Nicholas Brady – are proving significantly more complicated than expected.

This, together with a critical assessment of the Brady initiative by the US credit rating agency Moody's, is understood to be causing official concern in the US.

Mr Gerald Corrigan, president of the Federal Reserve Bank of New York, had been expected to attend a monetary conference this week in Jackson Hole, Wyoming, but is said instead to have been consulting bankers on the progress of the talks.

The Mexico deal would allow banks either to make new loans totalling 25 per cent of their exposure, or to exchange

their loans for 30-year bonds, which would either reduce Mexico's debt principal by 35 per cent or reduce the interest paid to a fixed 6½ per cent.

The bonds are backed by about \$7bn in official funds from the International Monetary Fund, World Bank, Japanese Export-Import Bank and Mexico's own reserves. Banks want all of these funds to be available as soon as they take the bonds, but the IMF and Japanese government want their credits phased in over a period depending on Mexico's economic performance.

The short-term financing proposal would have leading banks providing the letter of credit to bridge the period until the remaining IMF and Japanese funds are disbursed.

Moldavian language given officia

European monetary union

Towards a free market approach to Emu

By Giles Keating

Views on the development of economic and monetary union (Emu) for the European Community range between two extremes. The "dirigiste" approach involves the early pooling of reserves under an embryonic European Central Bank and an eventual move to central EC control over the size and financing of national budget deficits.

The "free market" approach envisages competition among rival currencies circulating throughout the EC, with fiscal discipline left to the markets.

Supporters of the first view stress market imperfections. A key passage of the Delors Report argues that "... market perceptions do not necessarily provide strong and compelling signals ... the constraints imposed by market forces might either be too slow and weak or too sudden and disruptive."

Yet this is not the core of the conflict. Given the loans to New York in the 1970s and to Latin America in the 1980s, and the rise in the dollar until 1985, the imperfection of markets is undeniable. The crucial issue is: would EC central control help to make up for the shortcomings of markets, or would it merely introduce further imperfections?

The Delors Report and its background papers are concerned with three types of market imperfection:

(i) markets would not impose proper fiscal discipline on countries with large government deficits, because of expectations of a bail-out;

(ii) markets may mistakenly finance unsustainable imbalances, possibly leading ultimately to market closure;

(iii) the potential gains from monetary/fiscal policy co-ordination cannot be realised by the market alone.

On (i), centralised EC political control of fiscal policy would not eliminate the possibility of a bail-out, and would probably increase it. A deficit country could play the game of political brinkmanship to the limit, without having to watch the market's reaction. The history of pork barrel politics in the US Congress illustrates the temptation to finance large handouts to local areas from small rises in federal taxation.

On (ii), governments as well as markets have a poor record of making mistaken, unredeemable loans. Recent debt write-offs and cash injections at privatisation give some idea of the scale: £6bn for the English and Welsh water industries; Pta 20bn (£100m) for the two Spanish railway equipment companies just sold to the French group Alstom; and a write-off is likely for the bulk of the L9,000bn (£4bn) debt outstanding at the Italian public sector steel group Finsider.

If the markets were left to impose fiscal discipline on individual EC governments, a central EC body could comment on the appropriateness of national deficits. Internationally, this role is played by the IMF and the credit rating agencies such as Moody's. Market

Abolition of exchange controls is the only major change needed

anticipations in early 1986 that the latter would downgrade Australia led to a 0.5 percentage point rise in the relative yield on Australia's US-dollar denominated debt, sending a clear signal to the government.

Earlier this year there were similar moves in anticipation of a further downgrading which finally occurred this week. For the US, had the Administration or the Federal Reserve played the role of a credit agency by breaking silence and indicating displeasure at the strength of the dollar prior to 1985, it seems unlikely that the currency would have risen to unsustainable levels.

On (iii), international co-ordination of national fiscal policies can offer considerable benefits, especially as the various European economies become more closely integrated. However, co-ordination need not mean central control - provided policy-makers in each country take account of the others' objectives. The Louvre Accord, which led to increased fiscal expansion in Japan and Germany, was an example of this.

The experience of the US, where neither President nor

Congress has full control over the budget, indicates that determination of fiscal policy at federal level does not guarantee its availability as a macroeconomic instrument. Those who wish to alter US fiscal policy must attempt to move it indirectly.

The Delors Report envisages federally-imposed limits on the size of member nation's budget balances, with a small central EC budget, so there would be less central control over taxes and spending than in the US. Even so, the system would be one of struggle among different powerful groups, closer to the US model than that of France or the UK. It would be vulnerable to a country that threatens to leave the system, or uses political pressure on another issue to bargain for release from earlier fiscal commitments.

In each of the three areas there is ample scope for measures to offset market imperfections without introducing the new problems caused by EC central control. This provides strong support for the free market approach to Emu.

For that approach, abolition of exchange controls is the only important EC-wide legal change needed to allow substantial progress on Emu. This would end government access to captive domestic funds, allowing markets to impose fiscal discipline.

Governments that tried to evade market discipline by continued reliance on central bank finance would put upward pressure on their domestic interest rates, or downward pressure on their currency, encouraging them to outlaw such finance via national legislation.

On the monetary side, abolition of exchange controls, plus (in some countries) amendments to company and contract law, would open the way to competition among EC currencies throughout the Community (though no-one would be obliged to accept a currency other than their own).

The free-market approach thus offers the potential for substantial progress on Emu, though not full union, without the need for a new treaty.

The author is chief economist of Crédit Suisse First Boston, London

** Content with this line; this work add "Why to rush? It is informed of no results"*

PLP

FROM: N L WICKS
DATE: 1 SEPTEMBER 1989
Ext : 4369

CHANCELLOR OF THE EXCHEQUER

cc PMG
FST
Sir P Middleton
Sir T Burns
Mr H P Evans
Mr Odling-Smee
Mr Scholar
Mr R I G Allen
Mr Peretz
Mr Riley
Mrs M E Brown
Mrs Chaplin (CX)
Mr Tyrie (FST)

Are you content with the lines proposed in paras 6, 7, & 9?

JL

*clear from informed of no results
conclusion
subject
matter, & conclusions
pamphlet
Dallas report
mark
stage 1
beyond
to necessary
years
st. m.*

EMU: HIGH LEVEL GROUP (HLG) AND MONETARY COMMITTEE

In case the French persist in summoning their proposed HLG on Tuesday, I should like your agreement to what (very little) I should say at the meeting. It would also be helpful to have your endorsement of my line for the following day's Monetary Committee discussion on "preparation of economic and monetary union, and in particular of its first stage, on the basis of the working documents drawn up for the informal meeting of Finance Ministers".

High Level Group

2. The French, in so hurriedly convening the HLG, presumably wish to advance work on Stages 2 and 3 for the Presidency to secure agreement at December's Strasbourg Council to summon an IGC which would meet directly Stage 1 had begun on 1 July 1990. They may then have in mind the completion of the IGC's work in time for a decision on a new Treaty at the December 1990 European Council under Italian Presidency.

3. Such a timetable is much too fast. A decision on an IGC at Strasbourg would require the preliminary work to be absurdly rushed and once the decision to call an IGC is taken, the pressure will be much reduced for ensuring effective work during the next (Irish) Presidency. In such circumstances there would be a good probability that Delors' scheme, or something like it, would form the proposals for a new Treaty.

WICKS
TO
CX
1 SEPT

4. So I suggest that our objective in the HLG (and one that you might take to Antibes) should be to frustrate any French plans for a decision on an IGC at Strasbourg and to ensure that work on EMU is done thoroughly and in a technically competent forum. Of course, we will need to deploy our arguments positively and constructively and in a way which avoids any suggestion that the UK is foot dragging.

5. Furthermore, a HLG with Foreign Office representatives and under Mme Guigou's chairmanship is not the right forum. Certainly Foreign Offices will need to be involved at some stage, for example over institutional and legal points. But these aspects cannot sensibly be addressed until there has been thorough consideration of the economic and other technical issues. Nor is Mme Guigou the right person to chair the group (though we clearly cannot say this). She is undoubtedly (too) able and has a Treasury background. But chairmanship by an Elysée official will give quite the wrong emphasis to the work.

6. In the light of all this, I suggest that our line in the HLG should be:

i. Recall the Madrid communiqué and in particular the emphasis on full and adequate preparation which would precede an IGC.

ii. Emphasise that priority must be given to work for Stage 1. Say what is involved. Unless Stage 1 is thoroughly prepared and properly implemented, the future monetary construction of Europe will rest on a flawed base. So action must be concentrated to Stage 1 in the next few months.

iii. This is not to say that consideration of Stages 2/3 should be put on a back burner. They raise some extremely deep and difficult issues, some of which, for understandable reasons, were hardly touched upon in the Delors Report. They are in part economic and part institutional/legal. The first task must be to examine the economic issues. Fruitless to

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try to consider legal/institutional aspects until the substantial economic and other technical work has been thoroughly investigated.

iv. Had thought that a satisfactory work programme had been established before the summer holidays to do all this. Say what that work programme was. Draw attention to President Delors' six questions. Finance Ministers' meeting at Antibes in four days' time is crucial in this timetable.

v. So my Ministers were very surprised to receive notification of this proposed HLG. Three rather curious aspects:

- a letter from M Bérégovoy, under cover of a letter dated 26 August, summoning a meeting for today. Such short notice difficult to understand;

- a discussion at July's General Affairs Council when the proposal for an HLG had been raised, but had certainly not been endorsed;

- the proposal that the group should report to the ECOFIN Council (and the General Affairs Council) when that Council had never discussed its establishment, let alone its terms of reference.

vi. So my Ministers have asked that the UK's position both on the establishment of the group and on the substance of the issues which it is suggested should be considered should be reserved until there has been a discussion in Council. Sure the Chancellor of the Exchequer will want to discuss the issue at the Antibes Council in a few days' time and no doubt the Foreign Secretary would wish an opportunity for it to be discussed too.

7. If there are attempts to draw up a work programme for the group, I will say:

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- this cannot be done until Ministers have agreed the group's terms of reference. Quite wrong for officials to abrogate unto themselves such a responsibility. Point out that work is already planned in the various competent bodies such as the Monetary Committee, Economic Policy Committee and the Committee of Central Bank Governors. There would no doubt be difficulties in the HLG trying to co-ordinate their work, certainly without a direct remit from Ministers.

Monetary Committee

8. The discussion in the Monetary Committee is likely to fall into two parts:

- a discussion of Stage 1 and especially the Commission note on the proposed revision on the Convergence Decision attached to M Bérégovoy's letter of 23 August, and the Central Bank Governors' draft of the new decision on co-operation between Central Banks;

- a preliminary discussion on Stages 2/3.

9. On Stage 1, we are submitting ^{— Mary Brown's submission below.} separately advice on the two decisions and I propose to be guided at the Committee by your views on those submissions. I will also emphasise the importance of carrying forward in Stage 1 work on freeing up the European capital and money markets, including the Investment Services Directive, life assurance and so on. Regarding Stages 2/3, I propose to say only that this is the time to consider issues in a really fundamental manner working from first principles and you will obviously wish to talk about this at Antibes.

10. I should be glad for your agreement that we should proceed in this way. I will want to discuss the line above with Mr Kerr in the Foreign Office when he returns from leave on Monday. If he proposes significant changes, I will consult you again.

N. L. W.

N L WICKS

*MRS is EMU in
minutes on 20th
(see pg 4)*

*2 EM, SM
- unam...*

*(see + Annex
1A)*

FROM: MRS M E BROWN (EC1)
DATE: 1 SEPTEMBER 1989
x 4709

CHANCELLOR

*The key issues arise on the role of ECOFIN & central
banks in monetary policy.*

I don't think this should go to No 10.

*It is very detailed and, in parts, raises questions
where the draft minutes to the PM gives answer
- eg on the role of fiscal policy.*

*In any event this amount of material could
confuse the discussion of the key issues in EMU.*

JC

- cc PS/Financial Secretary
- Sir Peter Middleton
- Mr Wicks
- Mr Evans
- Mr Odling-Smee
- Mr R I G Allen
- Mr Peretz
- Mr N Williams
- Mr W White
- Mr McIntosh

EMU: STAGE I LEGAL TEXTS

1. Two documents are being tabled for the ECOFIN discussion on Stage I:

- draft revision of the 1964 Decision on cooperation between central banks. This was prepared by the Committee of Central Bank Governors, on an initiative from the Bundesbank;
- proposals from the Commission for a revision of the 1974 Decision on economic convergence.

2. Revisions are needed to implement Delors' recommendations on strengthening coordination of economic and monetary policy in Stage I. Certain supporting texts may also need to be revised.

3. I attach the papers together with commentaries by MG and EC Divisions respectively. There is a great deal of work to be done on both items, which the French Presidency hope to complete by December. We have highlighted at the start of the commentaries the main issues which arise, in particular the degree of central bank autonomy which can be contemplated on monetary policy, and how much central coordination of other economic policies there should be.

4. There is to be a preparatory discussion of the two papers at the Monetary Committee meeting on Wednesday, 6 September.

5. We should be grateful to know:

- whether you are content with the line taken in the commentaries on each paper;
- whether there are specific points you would like Mr Wicks and Mr Peretz to make on them at the Monetary Committee on 6 September;
- ^{no} whether you wish to attach the texts and commentaries to your minute to the Prime Minister about ECOFIN (Mr Evans' separate minute of today). An alternative would be to attach brief summaries of the two proposals and of the principles which underlie our commentaries.

Mary Brown.

MRS M E BROWN

PROPOSED REVISION OF 1964 DECISION ON CENTRAL BANK COOPERATION

The main issues are:

- i. Central Bank autonomy;
- ii. the proposal that the Committee would normally be consulted in advance of national decisions on the course of monetary ^{policy};
- iii. avoiding all references to Delors' Stages 2 and 3;
- iv. excluding some objectives, such as full employment, from the Committee's mandate; and
- v. accountability to ECOFIN of the Committee's annual report.

A Commentary on EC Central Bank Governors' Draft Decision Revising 1964 Decision On Co-operation Between Central Banks (64/300/EEC)

This note provides a commentary on the text (Annex 1) which has been sent by the Chairman of the Governor's Committee to the President of the Commission. (The 1964 Decision is appended at Annex 2).

The text agreed by the Governors is based on a draft originally tabled by the Bundesbank.

Annex 3 briefly describes three closely related texts on the rules of the Governors' Committee, cooperation in the field of international monetary relations and strengthening cooperation between Central Banks (Annexes 4, 5 and 6).

Annex 7 summarizes the Central Bank Governors' discussion of the draft text.

UNCLASSIFIEDRecital 2

The text's reference to "the implementation of the first stage of Economic and Monetary Union", rather than the original Bundesbank draft "the implementation of Economic and Monetary Union", is in keeping with the Madrid Council's remit that steps be taken to implement Stage 1, while the Delors Report's recommendations for Stages 2 and 3 were only a basis for further progress towards EMU. The Bundesbank's draft reflected their view that the Committee should be the "core" of a European System of Central Banks.

The Bundesbank proposed "a high degree of convergence" rather than "an increasing degree of convergence", which was agreed. The Irish asked for the reference to "economic cohesion".

Recital 3

As with Recital 2, this recital is now linked to Stage 1. The Bundesbank's draft referred to "a European Central Bank System independent of instructions from the Governments of Member States and from Community institutions and committed to the goal of price stability [which] is essential to the achievement of Monetary Union".

Recital 4

The agreed text refers to Economic as well as Monetary Union.

The final line "give consideration to extending the scope of Central Banks' autonomy" is a compromise very close to paragraph 52 of the Delors Report which was proposed by the Bank of England in place of the French draft which referred to "exploring the extension of the scope of Central Banks' autonomy". The original Bundesbank draft said it was desirable for all Central Banks "to be granted the highest possible degree of independence from the Governments of the Member States". Although the present words are taken from the section of the Delors Report describing Stage 1, we

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could argue that this is really an issue for subsequent stages if and when they take place, and that the words after "competence" should therefore be dropped.

Recital 5

The agreed text says that "arrangements should provide for adequate autonomy for the institutions", less than the Bundesbank wanted (see Recital 3). If this wording survives it strengthens the case for dropping the words at the end of Recital 4.

Recital 6

The reference to "the objective of Economic and Monetary Union" looks beyond Stage 1, but does not contain a commitment to a particular form of EMU. We should at least press for "the objective of progressive realisation" of EMU. Also, we need to consider carefully whether we can accept that the "powers" of the Committee should be "reinforced": it would be better to say that the "work" of the Committee should be "intensified".

Paragraph 2

The final text replaced "questions relevant to the tasks of the Central Banks" with "issues involving the tasks of the Committee of Governors", reflecting Bank of England concern that the range of ECOFIN topics in which the Chairman might be involved should not be widely drawn.

We may want to expand the text to read "Either the Chairman or all its members shall be invited to participate.....". This possibility is not excluded in the letter from the Chairman of the Alternates to the Committee of Govenors (Annex ^A1).

UNCLASSIFIEDParagraph 3(1)

OK
The original decision has been amended by providing for the Committee's consultations to include "arrangements to preserve stability of financial institutions and markets" in view of several Central Banks' wishes to include some reference to supervisory issues. The Bundesbank warned, however, that the German government would almost certainly vote for the deletion of any explicit reference to Central Bank consultations on supervision.

Paragraph 3(2)

The final sentence providing for the Committee to be consulted in advance of national decisions on the course of monetary policy is taken from the Delors Report. The phrase "such as the setting of annual domestic monetary and credit targets", which was ⁽¹⁸⁾ in the Delors Report, was added at the behest of the Dutch. The Bank of England accepted the present wording on the understanding that it would mean no more than that the Committee would have a general discussion about UK monetary policy - say in January - so that the Governor could be aware of their views before decisions come to be made at Budget time about the next year's monetary targets; and that is the usual monthly discussions on the course of monetary policy the Governor would speak, as frankly as he could, about monetary conditions in the UK.

No!
This does however raise an important constitutional point, since in the UK it is the Government that sets monetary targets, not the Central Bank. This means that for us such issues if discussed at all in the Community should be discussed in a joint meeting of Finance Ministers and Governors. Deletion of the sentence would solve the immediate problem - we would oppose for the same reason that the Germans would oppose any reference to supervisory issues - but it would not solve the underlying difficulty.

UNCLASSIFIEDParagraph 3(3)-3(5)

These sub-paragraphs envisage a far more extensive role for the Committee. While the 1964 Decision confined the tasks of the Committee to holding consultations about the general principles and broad lines of policy of Central Banks, exchanging information about the most important measures falling within the competence of the Central Banks and examining those measures, the agreed text envisages a number of new tasks for the Committee which would appear to involve it, or could involve it, in carrying out quasi-executive functions. For instance, the Committee would promote the coordination of the monetary policies of the Member States (paragraph 3(3)) and have the aim of ensuring convergent monetary policies in the Community (paragraph 3(4)). We need to consider whether to accept this change in the status of the Committee or to argue for different words.

The text requires the Committee to submit its annual report to the Council of Ministers, the European Parliament and the European Council. The German, French and Italian Central Banks opposed the reference to the Council of Ministers. The Bank of England, with support from the Dutch and the Luxembourgers, considered this point important, at least while Ministers of Finance did not attend the European Council.

The proposal that the Chairman should on occasions make the Committee's deliberations public is potentially important, and follows a Delors proposal for Stage 1.

Paragraph 4

This does not define "Community objectives", which would be amplified in the letter from the Chairman of the Alternates (Annex 1). The Danes tried to secure a reference to non-inflationary growth, and with less determination, to full employment and external balance. The Bank argued strongly that the two latter objectives are not a proper objective of monetary policy.

It seems to me also to be ⁵ designed to reinforce the independence of the national representatives from their Governments.

Paragraph 5

Article 5 is amended so that the Committee may create sub-committees and provide its own Secretariat and research services. We have supported this idea. [The Delors Report proposed the setting up of three subcommittees, with an increased research advisory role and a permanent research staff:

- "- a monetary policy committee would define common surveillance indicators, propose harmonised objectives and instruments and help to gradually bring about a change from ex post analysis to an ex ante approach to monetary policy cooperation;
- a foreign exchange policy committee would monitor and analyse exchange market developments and assist in the search for effective intervention strategies;
- an advisory committee would hold regular consultations on matters of common interest in the field of banking supervision policy."]

EMU(W)(89)4

PROPOSED REVISION OF 1974 CONVERGENCE DECISION

Attachments

Annex I: Commission proposal and outline text (11/275/89-EN)

Annex II: Summary of 1974 Convergence Decision and 1974 Directive on Stability, growth and full employment

Annex III: Texts of the 1974 Decision and Directive.

Annex IV: Treaty Articles 103 and 145.

Main issues

(i) Text should give fuller recognition to using market forces to promote convergence, and to the importance of supply-side policies.

(ii) Overt policy coordination should be kept to a minimum. The text recognises the principles of subsidiarity and "learning by doing". But it also refers to "policy commitments" and "Community-wide recommendations". These need to be explained.

(iii) On the other hand, how far do we want to downplay the importance of coordination of budgetary policies? Will the market alone be a sufficient check on eg. Greece?

(iv) ECOFIN role in monetary policy. This text and that on the role of Central Bank Governors envisages coordination of monetary policy largely being undertaken by the Central Bank Governors, with ECOFIN undertaking more detailed coordination of other aspects of economic policy. This does not fit with the present institutional division in the UK, or, probably, in some other countries as well - where setting monetary

policy (including exchange rate policy) is a matter for the Government as well as the Central Bank. We might therefore argue:

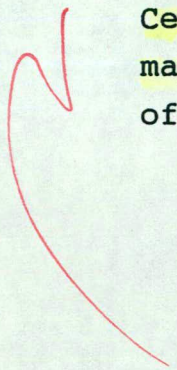
yes

(a) the ECOFIN should have a coordinating role for monetary policy, as well as other aspects of economic policy (but if it did, would it be more difficult to keep the Commission out of monetary issues?) and

(b) for the purpose there should, as in the G7, be joint surveillance discussions involving both Ministers and Governors (the current text proposes that the Chairman of the Governors Committee should attend alone).

(v) Can we accept multi-lateral meetings in the face of "outside disturbances"? These could add to Community competence on external matters.

(vi) How should work on this text and that on the role of Central Bank Governors be carried forward? A single forum may be advisable. Monetary Committee or an ad hoc group of officials?



*single forum:
Monetary Committee + 'ad hoc'*

COMMENTARY

PART 1: A BETTER WAY TO PROMOTE ECONOMIC CONVERGENCE

1. First Para

Second sentence not strictly relevant. We must resist anything in text which anticipates stages 2-3.

Second Para

This paragraph gives undue emphasis to policy coordination as the means of securing economic convergence, rather than market forces.

Indents

- the reference to the internal market illustrates the point that market forces, as much as overt policy coordination, will generate economic convergence. Increased mobility of capital and labour will make it more difficult for an individual country to have taxes/wage rates etc. which are greatly out of line with those pursued elsewhere;
- we do not accept that in the EMS (enhanced by free capital movements and fully integrated financial markets) incompatible national policies will necessarily be translated more quickly into exchange rate tensions. If the markets are confident that exchange rate linkages will be preserved, exchange rate pressures will be less. There will be more expectation that the incompatible policies will be changed.

2. [Debating point]

The changes which have occurred since 1974 show danger of designing later stages of EMU now, before stage 1 has even come into operation.

3. Indents 2 and 4

Not necessary in general to coordinate structural policies at Community level, though such policies clearly important and should be vigorously pursued by each member state. Community surveillance process must operate with aim of leaving maximum scope to (a) market forces and (b) national policies. Only major and necessary items should be the subject of overt coordination.

4. Noted.

5. A fourth principle is that market forces should be given full scope to promote economic convergence. Completing single market and associated measures therefore a key priority of stage 1.

6. First Para

Should give more weight to the importance of structural policies as a means of improving economic performance in individual member states and hence in the Community as a whole.

Both indents

These imply that budgetary policy has only a slow impact on markets. Unsound budgetary policy can have just as rapid an effect on markets as unsound monetary policy.

7. First Para

Welcome recognition of principle of subsidiarity - to which the principle of letting market forces operate to maximum extent possible should be added.

Second Para

Agree that ECOFIN approach to multilateral surveillance on 10 July worked well. But the rest of this paragraph is vague and ill thought out. It could presage precisely the kind of

*Commission
n.b. The
Office of
Mr. ...*

no

over-centralised control which the authors profess they want to avoid. We need to be clearer about what is envisaged. The terms

- "reciprocal commitments"
- "self-enforced policy coordination from within the Council"
- "Community-wide recommendations"

are not defined here - nor in Part II.

Is it accepted that

- "reciprocal commitments" would not have legal force (if so, it may be more appropriate to describe them as "undertakings")
- such undertakings would only cover areas of policy where subsidiarity does not operate
- Community-wide recommendations would not necessarily encompass all member states, and would be agreed by consensus and would not have legislative effect
- discussions and the analysis on which they were based (especially of individual countries) would be entirely confidential.

Second Para - last sentence

We question the role of the Commission in preparing multilateral surveillance discussions. It may be best for this to be done through the Monetary Committee with assistance as necessary from the Commission services.

An alternative approach would be to involve EPC - or perhaps a new committee spanning the present Monetary and Economic Policy Committees.

[Note: The question of preparation is particularly important if we are to press for ECOFIN to give equal weight to monetary as well as economic policy in its discussions. The Commission has so far been largely excluded from involvement in monetary policy. However, the Monetary Committee may not be best qualified to prepare for surveillance of eg. fiscal issues which have so far been the province of EPC and the Coordinating Group. There may be a case for a new supporting structure under the new regime].

8. Do not accept that institutional change inevitable as further progress made to EMU.

8& Welcome pragmatic "learning by doing" approach. [Underlines
9. nonsense of trying to set end-date for stage 1 or to start designing subsequent stages now]. UK believes it will be possible to keep explicit coordination to a minimum: "A.9 (second para) may go too far.

MS 10. The 1974 Convergence Decision was based on Articles 103 and 145, which require unanimity. Difficult to dispute as basis for revised Decision, although - were it not for the 1974 precedent - Article 103 would appear to apply only to dealing with short term economic problems.

Points to watch:

(i) "Measures" implemented under Article 103(2) can be implemented by directives under Article 103(3) which require only qualified majority. Obvious danger in adopting a framework which is then implemented by QM Directives. This underlines the importance of maintaining position that anything done under this Decision will be by consensus. Only way of avoiding this problem completely would be to base new Decision on Article 235, which requires unanimity unreservedly. But unlikely to be agreed, given 1974 precedent;

(ii) Reference to Article 102(A) (not in existence at time of 1974 Decision) seems an attempt to establish link with Internal Market programme and perhaps also to reinforce Commission role. We consider it unnecessary but not positively harmful.

11. No comment.

12. This raises the question of coordination of monetary policy (see also A13 below). If ECOFIN is to have substantive discussion of monetary policy:

- we would not want the Commission to have a full role. "... together with the Commission" should become "... assisted as appropriate by the Commission services";

- Central Bank Governors would need to be fully involved in monetary discussions. We would want all governors to attend relevant ECOFINs, not just the Chairman of the Central Bank Governors' committee. [Note: Germany and Central Bank Governors will resist this. They would prefer to have a single but independent voice, rather than to sit alongside their Finance Ministers in ECOFIN. France and others may support UK on this].

13. It should be explicit that

- multilateral surveillance will cover economic and monetary policies;

- national commitments (or "undertakings") and Community-wide recommendations will be adopted only where agreed objectives cannot be achieved by market forces and/or national policies (ie. the principle of subsidiarity);

- since ECOFIN surveillance will not be limited to fiscal policy, it is not appropriate to single out budgetary processes in this text. Specific procedures are to evolve through the process of "learning by doing".

14. This is probably acceptable. Discussions might be made mandatory in cases where an individual member state wished to make use of the medium-term and long-term Community Financing Mechanism.

15. We might question whether a separate category of discussions on responses to outside disturbances is needed. To the extent necessary, they will happen anyway: ad hoc, or as part of the general multilateral surveillance process. We do not wish to lose our ability to act quickly in a crisis. At Community level, the important thing is to promote policies which will strengthen all member states' economies so that they are better placed to withstand external shocks.

This is linked to a wider point. The more that "common rules" in the economic and monetary field are developed, the more the Community will acquire a measure of external competence in cases where international negotiations "affect" the Community common rules. There may be implications here for G5 and G7 meetings. It would therefore be desirable either to avoid having a separate category of meetings responding to outside disturbances; or as a minimum to ensure that control of such meetings is clearly in the hands of Finance Ministers, not the Commission. For instance, only Finance Ministers should be able to initiate them.

Since begin needs to be done in this area -
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if article 100
or @

PART 2; DRAFT OUTLINE

[The following are not drafting changes, but notes on points which would need to be amended in the light of our substantive comments on part 1.]

1. Legal base

Probably has to be accepted, though we would prefer Article 135 as legal base to ensure unanimity.

2. Justifications

The emphasis of this whole section needs to be changed to stress that market forces will be a major factor in promoting economic convergence, though some explicit policy coordination may also be required.

3. The objectives of economic policy coordination

No comment.

4. Policy coordination

We question whether a separate category of meetings for joint concertation to face outside disturbances is needed.

5. Multilateral surveillance

[If agreed] The first indent should refer to surveillance of the economic situation of the Community and member states, including both monetary and fiscal policies. The second indent should be deleted.

5.1 might be redrafted as follows:

"The surveillance should be the primary responsibility of the Council of Economic and Finance Ministers (ECOFIN) supported as appropriate by the relevant committees and Commission services. For this ECOFIN would meet on a regular basis. For discussions of monetary policies, the Central Bank Governors of each member state would attend these meetings, together with Finance Ministers."

In 5.2, it is questionable whether the Commission should have the sole responsibility for preparing multilateral surveillance meetings. There should be a reference to structural policies in the first indent.

Final paragraph of 5.2: the last sentence, referring explicitly to budgetary matters, should be omitted.

✓
5.4: the second sentence should make clear that policy commitments (or "undertakings") would be made only where market forces or national action were not sufficient to achieve Community objectives. Definitions of "policy commitments" (or undertakings) are "Community-wide recommendations" should be given. It should be clear that, apart from the agreed reports referred to in the text, surveillance discussions would be entirely confidential.

57 of 87 points
Agreement on any action following surveillance reviews should be by consensus. We would not wish any of this to lead to QM Directives.

6. County-specific policy consultation

Probably acceptable. Consultations might be mandatory in cases where a member state wished to make use of the medium-term and long-term Community Financing Mechanism.

7. Joint concertation to face outside disturbances

MM
OK
We question whether this separate category is necessary. As a minimum, we would want to specify that meetings could only be initiated by member states - not the Commission.

HM Treasury
September 1989

PLWP

[Handwritten notes in red ink: "What we mix in computer comments" and "see OS para 17, expl(i)"]

FROM: H P EVANS
DATE: 1 September 1989

CHANCELLOR

[Large handwritten notes in red ink: "Comments passed", "What must be needed", "Action because of this", "Mrs Brown"]

- cc
- Financial Secretary
- ~~Economic Secretary~~
- Sir P Middleton
- Sir T Burns
- Mr Wicks
- Mr Odling-Smee
- Mr Scholar
- Mr R I G Allen
- Mr Peretz
- Mr Riley
- Mrs Brown
- Mr W White
- Mrs Chaplin
- Mr Tyrrie

EMU: PAPER FOR THE PRIME MINISTER

I attach a first draft, mainly the work of Mrs Brown and Mr Odling-Smee, of a note on EMU for the PM, as commissioned by Mr Sparkes in his minute to Mr Wicks of 31 August. The draft covers: our line and objectives on both Stage 1 and on later stages of Delors; and our own work on possible alternatives to Delors. Sir Peter Middleton will, I am sure, wish to comment on the draft.

2. There are a number of points which you will want to consider:

(i) The ECOFIN discussion of Stage 1 will focus on the two draft texts on monetary and economic cooperation. We have prepared a commentary on each, which Mrs Brown is putting separately to you today. Do you want to include in the paper for the PM (paragraph 2) those texts and our commentary? The alternative is to spell out the principles which underlie our commentaries.

see below | No

(ii) Economic and Monetary Policy co-ordination (paragraph 4 and later): discussion of monetary policy needs to take place in ECOFIN (where else can monetary and

fiscal policies be discussed together?), preferably with all the Central Bank Governors present, as in G7. It would not be acceptable for the Central Bank Governors Committee to be the main forum for discussion of monetary policy. We shall need to watch all this very carefully, not least because of the Bank of England's own interests.

- (iii) On the conditions for the UK joining the ERM, paragraph 5 repeats the two main conditions set out by the PM in Madrid.
- (iv) On the alternatives to Delors Stages 2-3, the section of the paper headed "Beyond Stage 1" sketches out the main alternatives, focussing on the gold standard, and official competing ^{currencies} countries. (We did send a copy of Mr Odling-Smee's early August paper to number 10, at official level but doubt if anybody there has read it yet.) You will want to consider whether more needs to be said about the Hayekian proposal for private competing currencies - probably not at this stage. More generally, you will want to consider whether the alternatives of the gold standard and official competing currencies are to be presented as our version of EMU; as illustrations of the fact that there are various possible routes if one wants to go beyond Stage 1; or whatever. I should, perhaps, recall your description of the gold standard in your Chatham House speech as "...in fact, very far from monetary union".

3. We still do not know whether the High Level Group Meeting, summoned by the French for 5 September, will go ahead. As of today the French seemed determined to press ahead. Mr Wicks is minuting you separately on a possible line to take if it does.

see below

4. The timetable for your bilateral with the PM requires a final version of this note to go to No.10 by late afternoon on Tuesday.

HPE

H P EVANS

DRAFT MINUTE FROM THE CHANCELLOR

Much too long - & was quite well

PRIME MINISTER

ECONOMIC AND MONETARY UNION

1. The informal meeting of EC Finance Ministers on 8-10 September will concentrate on EMU. The French Presidency plan two separate discussions: on Stage 1, and on the longer term. I set out below the line I propose to take on each. I will also want to comment on how work on the longer term should be taken forward.

STAGE I

Summ. of the essence of submission

2. As you know, the Madrid Council agreed that Stage I should start on 1 July 1990. No end date was specified. The essential elements of Stage I are completion of the internal market, including capital liberalisation and completion of the single financial area; strengthening Community competition policy (in the sense of facilitating mergers and takeovers); [reforming and doubling the structural funds]; strengthening the coordination of both monetary and economic policies; and the inclusion of all Community currencies in the ERM. The only formal step which the Presidency consider to be necessary before Stage I starts is the revision of [existing legal texts] on economic and monetary cooperation. There is a lot of detail to consider here which will take much discussion and some time. The Presidency has tabled initial papers from the Commission which are to be the focus of the ECOFIN discussion on Stage I. [The texts and commentaries on them are attached at Annex I].

3. I propose to stress the UK's commitment to Stage I and to underline the fact that - if all the elements are fully implemented - it will bring a major degree of economic and monetary cohesion. But I will point out that the task of implementing Stage I will in itself be a large one, and is bound to take some time. A lot of detailed technical work remains to be done. Some elements, such as capital liberalisation, have been

great discussion

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agreed at Community level. The UK is well ahead in this area: it will be for other member states to liberalise fully by next July. On other elements, including nearly half of the single market programme, there is still a long way to go before agreement is reached even at Community level. Implementation by each member state must follow.

4. In many cases there will be a long lag between full implementation of the regulations necessary to create the internal market and the full economic effects being felt: witness the UK's liberalisation of the financial system (including the abolition of exchange controls) almost a decade ago and the long and still continuing adjustment.

5. In some areas there are already indications of lengthy timescales: for instance, the 1988 Future Financing Agreement provided for the structural funds to be doubled by the end of 1993. And the 1988 Capital Liberalisation Directive provided for full liberalisation by the end of 1992 for Spain, Portugal and Ireland - with legal provision for Portugal and Greece to extend to end 1995 (which, on current form, the Greeks will need).

repetition? [6. We want Stage I to begin on July 1, 1990, as agreed. We also want everybody to realise, as many do not, that there is an enormous amount of work to be done in the course of Stage I; and that the full effect of all the measures scheduled for implementation in Stage I will take some years to be felt.]

7. On proposals for strengthening the coordination of monetary and economic policies, I will say that there is clearly a great deal of work to be done. The Commission papers provide a useful starting point, but there are a number of important issues to be decided.

- I will argue that formal coordination should be kept to a minimum. Allowing market forces to operate freely throughout the Community is the best way to promote common objectives such as economic growth. The discipline of the market also provides a powerful

incentive for governments to follow sound budgetary policies, so that very little formal coordination in this area should be needed. However I will accept that countries in real financial difficulty should have to give explicit undertakings before gaining access to medium-term financial assistance from the Community.

Stabus quo?

- The coordination arrangements agreed for Stage 1 should not involve or foreshadow institutional changes : these are for subsequent stages, where decisions have yet to be taken.

see from
Dimitris
paper

- a particular case of this is the role the Commission papers appear to envisage for the Central Bank Governors Committee, and the division of responsibilities between that Committee and ECOFIN. First, the proposals envisage building up the independence of the Central Bank Governors, foreshadowing Delors Stages 2 and 3. And second the papers appear to envisage discussions of monetary policy largely being confined to the Central Bank Governors, rather than Finance Ministers. We need arrangements that acknowledge that the relative roles of Finance Ministers and Governors are different in different countries, and that the best way to deal with this is to have joint discussions involving both Finance Ministers and Governors, on the G7 pattern.

8. Finally, I will repeat as necessary our line on the ERM. The UK is not committed to join the ERM on any particular date but will do so during Stage I (by definition Stage I cannot be complete until we have joined). The decision to join will have to be judged against progress in a number of areas, particularly when the level of UK inflation is significantly lower ^{and} when there is full capital liberalisation in the Community.

Handwritten red bracket on the left side of the page.

no: implies (see para 5)
not until 1996. Our
bank must depend
on the Greeks.

BEYOND STAGE 1

9. As you know, we have been doing work in HM Treasury on alternative versions of economic and monetary union to that proposed in the Delors report.

Alternative versions of EMU

— Jantz considered

10. The alternative versions I have considered all relate to monetary arrangements. Fiscal policy is a separate issue and I think that ~~we should~~ argue that, whatever the monetary arrangements, fiscal policy should continue to be subject to national not Community competence. I return to this below in the context of the line to take at ECOFIN.

copy

[copy 62]

11. The main alternative versions of monetary union I have considered are: various ways in which the exchange rate mechanism (ERM) might be extended; systems of competing currencies; a gold standard or, alternatively, a commodity-based standard; and a system modelled on the old sterling area which in practice would probably have to be a deutschemark area.

12. There are, of course, many ways in which the ERM could be extended. I have considered four: narrowing the band within which exchange rates are allowed to fluctuate to, say, 1 per cent from the present 2½ per cent; a common Community policy towards the dollar and the yen, which will probably involve adopting specific exchange rate ranges with respect to those currencies and could also involve some centralisation of the management of reserves intervention operations; greater coordination of monetary policies, which would probably require the creation of a new Community institution if it was to be credible; and the incorporation of non-EC members (eg Norway, Austria) in the ERM.

13. Under competing currencies, there would be no legal barriers to the use of different Community currencies throughout the Community, although individual parties to any transaction might refuse to pay in or accept a particular currency. Over time - but

Amplified

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probably a very long period of time - one might see a few of the major currencies with stable price performance squeezing out all the other currencies. There are ^{in the} two versions, one in which the only currencies permitted are those issued by the national authorities in each country, and the other in which private organisations can also issue currencies.

14. I have considered all these alternative versions from various points of view, including their economic implications, their implications for sovereignty, whether they could be presented as forms of monetary union, and their likely acceptability to our EC partners. At this stage I think that we should take forward in discussions with our partners only two of them: ^{narrowed} official competing currencies and a gold/commodity standard. ^{more bitter dispute than Delors's} While these have both advantages and disadvantages, their overwhelming benefit is that they do not require any significant loss of sovereignty and they allow us to retain our independent monetary policy. They should also be ~~reasonably successful at controlling inflation.~~

for
M
whm

State purpose

Line to take

15. In the ECOFIN discussion of possible developments beyond Stage I, my main objectives will be:

- to prevent any crystallisation of opinion in favour of Delors or any other particular version of EMU;
- to agree a programme of ECOFIN studies which will include alternatives to Delors;
- to obtain agreement that binding rules on national budgetary policies are not a necessary or desirable part of EMU.

16. The points that I shall make can be grouped under four heading:

- sovereignty;
- fiscal policy;
- monetary policy;
- regional issues.

I will however make clear at the outset that Stage I is the starting point. Until that is fully implemented discussion of later Stages can only be provisional and speculative. My contributions to the discussion will all be subject to that general reservation.

Sovereignty

17. The main points that I shall seek to make are:

- any significant loss of control by national Parliaments over national budgets is not acceptable - national elections are often fought over budgetary matters (among other things). Community countries are not ready to down play the role of democratic forces at national level in this context;
- the transfer of power over budgets from national Parliaments to the European Parliament would not solve this problem, and could even make it worse;
- similar problems could arise with monetary policy. At the very least ECOFIN needs to study what should be the appropriate degree of political accountability of any Community monetary institution to member states, as opposed to independence.

insider - what does this mean?

Fiscal policy

18. The Delors report recommends binding rules for budgetary deficits. There is no need for these, whether the form of monetary union is that proposed by Delors or something else. Fixed exchange rate regimes in the past (eg the gold standard) ~~Bretton Woods~~ survived perfectly well without fiscal policy

23. More generally, what mechanisms would exist to ensure that the ESCB's monetary policy will prevent inflation? Independent central banks have not always prevented inflation (the Federal Reserve Board in the 1960s and 1970s). In the absence of any links to stable external values such as gold provided under the gold standard or the dollar in the early Bretton Woods years, there must be considerable concern about whether monetary policy under the Delors proposals will prevent inflation.

24. I plan to introduce alternative versions of monetary union in terms of the following points: Delors' proposals for monetary union describe only one possible system, albeit one which many people seem to find natural partly because of the history of these general ideas (eg the Werner proposals) and partly because they recreate at Community level the institutions which now operate at national level;

- there are, however, alternative types of monetary union. Since EMU is extremely important for the Community, it is essential that all options are thoroughly reviewed before any decisions are made. There is no need to rush this because it will be a few years at least before the completion of Stage 1 is in sight (ie 1992 plus). We should therefore give careful consideration to alternative forms of monetary union;
- the starting point for such consideration must be the Community at the end of Stage 1. At that point the single market programme will be completed, there will be no restrictions on capital flows, and exchange rates will fluctuate within narrow margins. This implies a large amount of monetary and economic union already, providing significant economic gains. [It is necessary to build on these foundations;]
- the spirit of the single market is to allow market forces to determine the outcome within agreed rules. This applies to monetary policy as much as to anything

*have 6
missed points*

else. It implies that there should be separate national monetary authorities who operate within an agreed framework of rules;

It is more sensible than the single market by. Both points are important & need separate treatment

- one system of rules would be a commodity standard under which the Central Bank of each country would undertake to buy or sell a basket of commodities (or perhaps just gold) at a set price (or at a price which is within prescribed limits). Another would be a system of competing community currencies under which people throughout the Community would be free to use whichever of the available currencies they wanted;

work on this

- either of these two forms of monetary union would avoid the sovereignty difficulties of the Delors proposals, and they would keep inflation under control without having to rely on the uncertain counter-inflationary ambitions of an independent ESCB.

25. I would say that much more work was, of course, required on both of these options. And I would ~~offer~~ ^{give notice of intention} to put in papers to ECOFIN on a later occasion.

Regional issues

26. We cannot accept the argument in the Delors report that increased regional and structural assistance is needed in order to make EMU a success. The main points that I shall make are:

But? m...

but this could point the other way since there is a vast federal budget in the US

- GDP per head in the regions of the US is more equally distributed than in individual European countries, ie a very large economy does not necessarily have greater regional differentials;

- regional assistance was by no means the main factor in the rapid economic growth of Ireland in the 1970s and Iberia in the second half of the 1980s, which moved both towards the Community average;

*(i) from paper
(ii) UK's own practice*

*(iii) growth in 'developed' areas (esp. S. California)
(iv) (possible) UK & Spain in 1980s*

- the argument that official flows are needed to compensate for the loss of exchange rate flexibility rests on the assumption that real wages are flexible but nominal wages are not. If anything, the evidence points in the opposite direction on both these issues in Community countries;
- there is no reason to believe that the advanced parts of the Community will gain economic activity following EMU at the expense of the less advanced ones. The attractions of locating investment in low labour cost or less congested areas could well outweigh the attractions of locating in the highly developed areas;
- the way for low income regions to catch up is for them to ensure that their low wages are translated into high profitability so that private investment is attracted from other parts of the Community.

with the XR statement

Further work on the longer term

27. The Madrid Council agreed that preparatory work should be undertaken for an Inter-governmental Conference, and that the Conference would meet once Stage I had begun. An extract from the Madrid communique is at Annex [2].

28. We had expected work on longer term issues to be coordinated at this stage by ECOFIN. But the French Presidency have announced their intention to set up a high level group of officials, chaired by Mme Gigou from the Elysee, "to identify, analyse and organise the elements which could be included at the appropriate time in a Treaty on Economic and Monetary Union". The group would report to both ECOFIN and the Foreign Affairs Council. This is clearly an attempt to accelerate preparations for an IGC, so that the French will have a positive achievement to record at the Strasbourg Council in December. Their aim may be to get formal agreement then to convene an IGC soon after 1 July 1990.

Either

29. [A meeting of the group was called for 5 September but was postponed under pressure from the UK, and others. But the Presidency will no doubt propose at ECOFIN that a group should be set up and should be responsible for coordinating further work in preparation for an IGC. We have no power to stop the Presidency setting up a group of this kind].

Or

30. [A meeting of the group is being held [tomorrow (Tuesday)], despite UK, German and Dutch objections. Mr Wicks and Mr Kerr will attend. They will take the line that the proposal for a group should be discussed at ECOFIN, and that they can make no substantive contribution to any discussion before that.]

31. I propose to say at ECOFIN that there are fundamental questions about both the Delors prescription for Stages 2 and 3, and alternative approaches, to be pursued. These must clearly be taken forward under the auspices of Finance Ministers. It is quite inappropriate at this stage for any parallel work to take place on legal or institutional questions. For that reason the proposal to have a group reporting to both Finance and Foreign Affairs Ministers is unnecessary and confusing.

32. I will propose that further work on longer term issues should be remitted to existing ECOFIN committees, particularly the Monetary Committee. If that is not agreed, I would as a fall back accept a new high level group reporting to ECOFIN only. If the Presidency persist in setting up a group reporting to both Councils, my aim will be to ensure that substantive work on economic and monetary issues is taken forward by ECOFIN and its committees; that any meetings of the new joint group are delayed as long as possible; and that the group is required to take full account of the results of the ECOFIN work: it must not proceed independently. I will firmly resist any timetable for further work by ECOFIN or anyone else which has Strasbourg as its deadline.

Copies to Foreign Secretary and Sir R Butler

NIGEL LAWSON

*See Mr
C...
New page.*

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[Relates to High Level
Group Lobbying]
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FRAME ECONOMIC
YOUR TELNO 716 TO PARIS: EMU

1. ACTION TAKEN. THE GREEKS WERE GLAD TO LEARN THE TERMS OF OUR
REPLY TO THE FRENCH INVITATION. THEY AGREE WITH US THAT MUCH
REMAINS TO BE CLARIFIED BEFORE IT IS APPROPRIATE FOR THE PROPOSAL
GROUP TO MEET, BUT SEEM DOUBTFUL IN PRACTICE ABOUT CONTESTING THE
PRESIDENCY'S PROCEDURAL RIGHT TO CALL THIS MEETING. THEY ARE
PUZZLED ABOUT HOW TO BE REPRESENTED. AT ONE STAGE THEY CONSIDERED
SENDING THEIR PERMANENT REPRESENTATIVE FROM BRUSSELS BUT SEEMED ON
1 SEPTEMBER TO HAVE DECIDED ON SENDING 2 OFFICIALS FROM ATHENS.

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ADDITIONAL 1

FRAME

NNNN

FROM: MRS M E BROWN (EC1)
DATE: 4 SEPTEMBER 1989
x 4709

FINANCIAL SECRETARY

cc ~~Chancellor~~ ^{2nd}
Paymaster General
Sir P Middleton
Mr Wicks
Mr H Evans
Mr R I G Allen
Mr Peretz
Mr White
Mr N Williams

mp

EMU: HOUSE OF LORDS SELECT COMMITTEE

1. The Clerk to the Committee has sent the transcript of your EMU evidence on 25 July. There is very little to pick up: the only substantive point is your comment on abolishing exchange controls at the top of page 43. MG Division suggest that your comment that controls were abolished as far as the rest of the common market was concerned in summer 1979 (ie. ahead of full abolition in the autumn) should be deleted. The relaxations in the summer related only to specific types of controls.
2. A self-explanatory draft letter to the Clerk is attached.

Mary Brown

MRS M E BROWN

DRAFT LETTER FROM PS/FINANCIAL SECRETARY TO:

W G Sleath Esq.
Clerk to the European Communities Committee
Sub-Committee A
House of Lords
London SW1

Thank you for your letter of 2 August enclosing the transcript of the Financial Secretary's evidence on 25 July.

The Financial Secretary would like to make the following corrections:

Page 43, lines 4-6: delete "and indeed we abolished them as far as the rest of the Common Market was concerned in the summer of 1979, as I recall";

Page 44, line 5: replace "more" by "most";

Page 46, line 6: replace "this" by "the";

Page 60, line 6" replace "they will only be depressed areas"
by "there will still be depressed areas".

The last sentence of question 221 on page 37 reads oddly. It should perhaps be amended to something on the following lines: "We understand it has asked the Treasury to conduct an exercise on possible alternative approaches, taking into account the political objectives which the Government agrees would be desirable".

S J FLANAGAN

EMU(W)(89) 2ND MEETING
4 SEPTEMBER 1989

HER MAJESTY'S TREASURY

CO-ORDINATING GROUP
ON ECONOMIC AND MONETARY UNION

AGENDA

The agenda for the meeting to be held in Mr Wicks' room, 113/2, at 4.30pm on Monday 4 September will be as follows:-

- 1) The proposed revision of the 1964 Decision on Central Bank Co-operation
 - Commentary by HM Treasury: EMU(W)(89)(3)(A) attached;
Note by the Bank of England on views of member states: EMU(W)(89)(3)(B) attached;

- 2) The proposed revision of the 1974 Decision on the Convergence of Economic Policies of Member States
 - Commentary by HM Treasury: EMU(W)(89)(4) attached;

- 3) Progress on other elements of the Stage One Process
 - Note by HM Treasury: EMU(W)(89)(5) attached

- 4) Private use of the ECU
 - Note by HM Treasury: EMU(W)(89)(6) attached

5) EMU: Democratic Accountability

- Mr Kerr's letter to Mr Wicks of 15 August: EMU(W)(89)(7) attached.

Also attached is M Bérégovoy's letter of 23 August setting out the agenda for the informal ECOFIN on 8-10 September.

SECRETARY: A E W WHITE

X 4441

MR WICKS' CO-ORDINATING GROUP ON ECONOMIC AND MONETARY UNION

Members

Mr Wicks (Chairman)

Mr H Evans

*Mr Odling-Smee

Mr R I G Allen

Mr D Peretz

*Mr C Riley

*Miss O'Mara

Mrs M E Brown

Mr Tyrie

Mr W White (Secretary)

)
)
)
) Treasury
)
)
)
)
)

Professor B Griffiths - No. 10

Mr D Hadley - Cabinet Office

Sir D Hannay/Mr Bonney - UKREP

Mr J Kerr - Foreign Office

Mr A Crockett - Bank

*Miss J Wheldon - Treasury Solicitors

*To receive papers and attend as necessary

Recipients of papers

PS/Chancellor

PS/Sir P Middleton

Mr Scholar

Mr Grice

Mr S J Davies

Mr McIntosh

Mrs Chaplin

)
)
) Treasury
)
)
)
)

Deputy Governor

Mr Flemming

)
) Bank of England

UNCLASSIFIED

PROPOSED REVISION OF 1964 DECISION ON CENTRAL BANK COOPERATION

The main issues are:

- i. Central Bank autonomy;
- ii. the proposal that the Committee would normally be consulted in advance of national decisions on the course of monetary;
- iii. avoiding all references to Delors' Stages 2 and 3;
- iv. excluding some objectives, such as full employment, from the Committee's mandate; and
- v. accountability to ECOFIN of the Committee's annual report.

A Commentary on EC Central Bank Governors' Draft Decision Revising 1964 Decision On Co-operation Between Central Banks (64/300/EEC)

This note provides a commentary on the text (Annex 1) which has been sent by the Chairman of the Governor's Committee to the President of the Commission. (The 1964 Decision is appended at Annex 2).

The text agreed by the Governors is based on a draft originally tabled by the Bundesbank.

Annex 3 briefly describes three closely related texts on the rules of the Governors' Committee, cooperation in the field of international monetary relations and strengthening cooperation between Central Banks (Annexes 4, 5 and 6).

Recital 2

The text's reference to "the implementation of the first stage of Economic and Monetary Union", rather than the original Bundesbank draft "the implementation of Economic and Monetary Union", is in keeping with the Madrid Council's remit that steps be taken to implement Stage 1, while the Delors Report's recommendations for Stages 2 and 3 were only a basis for further progress towards EMU. The Bundesbank's draft reflected their view that the Committee should be the "core" of a European System of Central Banks.

The Bundesbank proposed "a high degree of convergence" rather than "an increasing degree of convergence", which was agreed. The Irish asked for the reference to "economic cohesion".

Recital 3

As with Recital 2, this recital is now linked to Stage 1. The Bundesbank's draft referred to "a European Central Bank System independent of instructions from the Governments of Member States and from Community institutions and committed to the goal of price stability [which] is essential to the achievement of Monetary Union".

Recital 4

The agreed text refers to Economic as well as Monetary Union.

The final line "give consideration to extending the scope of Central Banks' autonomy" is a compromise very close to paragraph 52 of the Delors Report which was proposed by the Bank of England in place of the French draft which referred to "exploring the extension of the scope of Central Banks' autonomy". The original Bundesbank draft said it was desirable for all Central Banks "to be granted the highest possible degree of independence from the Governments of the Member States". Although the present words are taken from the section of the Delors Report describing Stage 1, we

could argue that this is really an issue for subsequent stages if and when they take place, and that the words after "competence" should therefore be dropped.

Recital 5

The agreed text says that "arrangements should provide for adequate autonomy for the institutions", less than the Bundesbank wanted (see Recital 3). If this wording survives it strengthens the case for dropping the words at the end of Recital 4.

Recital 6

The reference to " the objective of Economic and Monetary Union" looks beyond Stage 1, but does not contain a commitment to a particular form of EMU. We should at least press for "the objective of progressive realisation" of EMU. Also, we need to consider carefully whether we can accept that the "powers" of the Committee should be "reinforced": it would be better to say that the "work" of the Committee should be "intensified".

Paragraph 2

The final text replaced "questions relevant to the tasks of the Central Banks" with "issues involving the tasks of the Committee of Governors", reflecting Bank of England concern that the range of ECOFIN topics in which the Chairman might be involved should not be widely drawn.

We may want to expand the text to read "Either the Chairman or all its members shall be invited to participate.....". This possibility is not excluded in the letter from the Chairman of the Alternates to the Committee of Govenors (Annex 1).

Paragraph 3(1)

The original decision has been amended by providing for the Committee's consultations to include "arrangements to preserve stability of financial institutions and markets" in view of several Central Banks' wishes to include some reference to supervisory issues. The Bundesbank warned, however, that the German government would almost certainly vote for the deletion of any explicit reference to Central Bank consultations on supervision.

Paragraph 3(2)

The final sentence providing for the Committee to be consulted in advance of national decisions on the course of monetary policy is taken from the Delors Report. The phrase "such as the setting of annual domestic monetary and credit targets", which was in the Delors Report, was added at the behest of the Dutch. The Bank of England accepted the present wording on the understanding that it would mean no more than that the Committee would have a general discussion about UK monetary policy - say in January - so that the Governor could be aware of their views before decisions come to be made at Budget time about the next year's monetary targets; and that is the usual monthly discussions on the course of monetary policy the Governor would speak, as frankly as he could, about monetary conditions in the UK.

This does however raise an important constitutional point, since in the UK it is the Government that sets monetary targets, not the Central Bank. This means that for us such issues if discussed at all in the Community should be discussed in a joint meeting of Finance Ministers and Governors. Deletion of the sentence would solve the immediate problem - we would oppose for the same reason that the Germans would oppose any reference to supervisory issues - but it would not solve the underlying difficulty.

Paragraph 3(3)-3(5)

These sub-paragraphs envisage a far more extensive role for the Committee. While the 1964 Decision confined the tasks of the Committee to holding consultations about the general principles and broad lines of policy of Central Banks, exchanging information about the most important measures falling within the competence of the Central Banks and examining those measures, the agreed text envisages a number of new tasks for the Committee which would appear to involve it, or could involve it, in carrying out quasi-executive functions. For instance, the Committee would promote the coordination of the monetary policies of the Member States (paragraph 3(3)) and have the aim of ensuring convergent monetary policies in the Community (paragraph 3(4)). We need to consider whether to accept this change in the status of the Committee or to argue for different words.

The text requires the Committee to submit its annual report to the Council of Ministers, the European Parliament and the European Council. The German, French and Italian Central Banks opposed the reference to the Council of Ministers. The Bank of England, with support from the Dutch and the Luxembourgers, considered this point important, at least while Ministers of Finance did not attend the European Council.

The proposal that the Chairman should on occasions make the Committee's deliberations public is potentially important, and follows a Delors proposal for Stage 1.

Paragraph 4

This does not define "Community objectives", which would be amplified in the letter from the Chairman of the Alternates (Annex 1). The Danes tried to secure a reference to non-inflationary growth, and with less determination, to full employment and external balance. The Bank argued strongly that the two latter objectives are not a proper objective of monetary policy.

Paragraph 5

Article 5 is amended so that the Committee may create subcommittees and provide its own Secretariat and research services. We have supported this idea. [The Delors Report proposed the setting up of three subcommittees, with an increased research advisory role and a permanent research staff:

- "- a monetary policy committee would define common surveillance indicators, propose harmonised objectives and instruments and help to gradually bring about a change from ex post analysis to an ex ante approach to monetary policy cooperation;
- a foreign exchange policy committee would monitor and analyse exchange market developments and assist in the search for effective intervention strategies;
- an advisory committee would hold regular consultations on matters of common interest in the field of banking supervision policy."]

DRAFT COUNCIL DECISION
amending the Council Decision of 8th May 1964
on co-operation between the Central Banks of the Member States
of the European Economic Community

THE COUNCIL OF THE EUROPEAN ECONOMIC COMMUNITY,

Having regard to the Treaty establishing the European Economic Community, and in particular to Article 105(1) and to the first indent of Article 145 thereof,

Having regard to the Recommendation of the Commission dated 1989,

Having regard to the Opinion of the European Parliament,

Having regard to the Opinion of the Economic and Social Committee,

Whereas the European Council, at its meeting in Madrid on 26th and 27th June 1989, decided that the first stage of the implementation of Economic and Monetary Union shall begin on 1st July 1990;

Whereas the implementation of the first stage of Economic and Monetary Union calls for an increased degree of convergence in economic performance and of economic cohesion between the Member States;

Whereas greater convergence should be promoted with a view to achieving domestic price stability, which is at the same time a necessary condition for stable exchange rates, in accordance with the requirements of the European Monetary System;

Whereas the implementation of the first stage of ^{Economic and} Monetary Union will focus on removing all obstacles to financial integration, on strengthening the process of co-ordination of monetary policies, on

intensifying co-operation between Central Banks on other matters falling within their competence and, in this connection, ^{should give consideration to extending} ~~on exploring the extension~~ of the scope of Central Banks' autonomy;

Whereas arrangements for the formulation of monetary policy in ^{an} ~~Economic and~~ Monetary Union should provide for adequate autonomy for the institution^s and for commitment to price stability, which is essential to the success of that Union.

Whereas, in view of the objective of Economic and Monetary Union, the tasks and powers of the Committee of Governors of the Central Banks of the Member States of the European Economic Community should be extended and reinforced;

HAS DECIDED AS FOLLOWS:

The Council Decision of 8th May 1964 on co-operation between the Central Banks of the Member States of the European Economic Community shall be amended as follows:

- (1) Article 2, paragraph 1, shall be amended to read as follows:
"The Committee shall be composed of the Governors of the Central Banks of the Member States and the Director General of the Luxembourg Monetary Institute. If they are unable to attend, they may nominate another representative of their institution."
- (2) After Article 2, the following new Article 2a shall be inserted:
"The Chairman of the Committee shall be invited to participate in the meetings of the Council of Ministers, whenever it deals with issues involving the tasks of the Committee of Governors."
- (3) Article 3 shall be amended to read as follows:
"The tasks of the Committee shall be:
 - (1) to hold consultations concerning the general principles and the broad lines of policy of the Central Banks, in particular as regards credit, money and foreign exchange markets and including arrangements to preserve stability of financial institutions and markets;
 - (2) to exchange information regularly about the most important measures that fall within the competence of the Central

Banks, and to examine those measures. The Committee shall normally be consulted in advance of national decisions on ^{such as the setting of annual domestic monetary and credit targets,} the course of monetary policy. ~~X~~

- (3) to promote the co-ordination of the monetary policies of the Member States with a view to the proper functioning of the European Monetary System and the realisation of its objective of monetary stability;
- (4) to formulate opinions on the overall orientation of monetary and exchange rate policy as well as on the respective measures introduced in individual Member States with the aim of ensuring convergent monetary policies in the Community directed towards price stability;
- (5) to express opinions to individual governments and the Council of Ministers on policies which might affect the internal and external monetary situation in the Community and, in particular, the functioning of the European Monetary System.

The Committee shall ^{prepare} ~~submit~~ an annual report on its activities and on the monetary and financial conditions ^{which will be transmitted} in the Community ~~to the~~ Council of Ministers, the European Parliament and the European Council.

The Committee may authorise its Chairman to make the outcome of its deliberations public."

- (4) After Article 3, the following new Article 3a shall be inserted:
"The members of the Committee, who are the representatives of their institutions, shall act, with respect to their activities on the Committee, according to their own responsibilities and having due regard to Community objectives."
- (5) Article 5 shall be amended to read as follows:
"The Committee shall adopt its own rules of procedure. It may create sub-committees and provide its own Secretariat and research services."

LETTER FROM THE CHAIRMAN OF THE ALTERNATES
TO THE COMMITTEE OF GOVERNORS

Following the request by the Governors, the Committee of Alternates held a teleconference on 28th July 1989 to finalise the Draft Council Decision amending the Council Decision of 8th May 1964 on co-operation between the Central Banks of the Member States of the European Economic Community. As agreed by the Governors, the final version of the Draft Decision was sent by the Chairman of the Committee of Governors to the President of the Commission on the same day. Copies of the covering letter and of the Draft Decision were circulated by the Secretariat to the Committee of Governors.

During the above-mentioned teleconference, I was asked to bring some of the remarks, which were made in connection with the finalisation of the Draft Decision, to the attention of the Committee of Governors.

First, there was general agreement that the proposed new Article 2a which stipulates that "the Chairman of the Committee shall be invited to participate in the meetings of the Council of Ministers, whenever it deals with issues involving the tasks of the Committee of Governors" could not be interpreted as excluding the possibility that other members of the Committee could also attend such Council meetings.

Second, with regard to the proposed new Article 3a, the Danish representative at the teleconference would have liked to have clarified the meaning of "Community objectives". In his opinion, this notion covers overall economic objectives of the Community, including non-inflationary growth. In this connection, he referred to the broad objectives of economic policy co-ordination mentioned in the Delors Report (paragraph 33, page 24).

Finally, I would like to point out that two legal issues are still pending, i.e. whether the Council Decision should be amended or replaced and whether adoption of the Decision required unanimity or a simple majority in the Council of Ministers. These questions which have been mentioned in greater detail in my letter dated 27th July 1989 need further examination.

Yours sincerely,
signed L. Papademos

COUNCIL DECISION

of 8 May 1964

on co-operation between the Central Banks of the Member States of the European Economic Community

(64/300/EEC)

THE COUNCIL OF THE EUROPEAN ECONOMIC COMMUNITY,

Having regard to the Treaty establishing the European Economic Community, and in particular Article 105 (1) and the first indent of Article 145 thereof;

Having regard to the Recommendation of the Commission of 19 June 1963;

Having regard to the Opinion of the European Parliament¹;

Having regard to the Opinion of the Economic and Social Committee²;

Whereas the progressive realisation of economic union must involve the implementation of economic and monetary policies that help to ensure stable exchange parities between the currencies of the Member States;

Whereas a closer co-ordination of the monetary policies of the Member States could be promoted by arranging for consultations between the Central Banks of the Member States which should take place, so far as possible, before any decisions are taken by the Central Banks;

HAS DECIDED AS FOLLOWS:

Article 1

For the purpose of promoting co-operation between the Central Banks of the Member States, a Committee of the Governors of the Central Banks of the

Member States of the European Economic Community (hereinafter called the 'Committee') is hereby set up.

Article 2

The Committee shall be composed of the Governors of the Central Banks of the Member States. If they are unable to attend, they may be represented by another member of the directing body of their institution.

The Commission shall, as a general rule, be invited to send one of its members as a representative to the meetings of the Committee.

The Committee may, furthermore, if it considers it necessary, invite qualified persons to attend and in particular the Chairman of the Monetary Committee or, if he is unable to attend, one of the two Vice-Chairmen of that Committee.

Article 3

The tasks of the Committee shall be:

- to hold consultations concerning the general principles and the broad lines of policy of the Central Banks, in particular as regards credit and the money and foreign exchange markets;
- to exchange information at regular intervals about the most important measures that fall within the competence of the Central Banks, and to examine those measures. This examination shall take place before the measures concerned are adopted where circumstances, and in particular the time limit for their adoption, allow.

¹ OJ No 24, 8.1.1964, p. 409/64.

² OJ No 38, 5.3.1964, p. 652/64.

In carrying out its task, the Committee shall keep under review the trend of the monetary situation both inside and outside the Community.

Article 4

The Committee shall meet at regular intervals and whenever circumstances so require. The Commission may, if it considers the situation necessitates such a step, request an emergency meeting of the Committee.

Article 5

The Committee shall adopt its own rules of procedure and provide its own secretarial services.

Done at Brussels, 8 May 1964.

For the Council

The President

H. FAYAT

TEXTS CLOSELY RELATED TO THE DECISION OF 8 MAY 1964
ON COOPERATION BETWEEN CENTRAL BANKS (64/300/EEC)

The following three texts are closely related to the 1964 Decision on Central Bank cooperation. Whether or not they are amended remains to be seen.

Rules of Procedure of the Committee of Governors of the Central Bank of the Member States of the European Economic Community

Article 5 of the 1964 Decision setting up the Committee says that "the Committee shall adopt its own rules of procedure" and this is unchanged in the Central Bank Governors' agreed text.

The text of the Rules are appended (Annex 4). Whether the Rules will be amended remains to be seen. It seems open to question whether Article 6(3) - "the proceedings shall be confidential"- is compatible with proposal that the Committee may authorise its Chairman to make the outcome of its deliberations public (paragraph 3 of the proposed revision of the 1964 Decision).

Council Decision of 8 May 1964 on cooperation between Member States in the field of international monetary relations (64/301/EEC)

This Decision (Annex 5) provides for consultations to take place in the Monetary Committee in respect of any important decision by Member States in the field of international monetary relations, in particular the general working of the system, recourse to borrowing within the framework of international agreements and participation in monetary support operations in favour of third countries.

It is doubtful that this Decision would need to be amended in the light of revision of the proposed revision of the 1964 Decision. We would want to keep consultations of this kind in the Monetary Committee.

Council Decision of 22 March 1971 on the Strengthening of Cooperation Between the Central Banks of the Member States of the European Economic Community (71/142/EEC)

This Decision (Annex 6) would appear to be superfluous in view of the proposed revision of the 1964 Decision, though whether or not it would be abolished formally remains to be seen.

**Rules of procedure of the Committee of Governors of the Central Banks of
the European Economic Community**

The Committee of Governors of the Central Banks of the European Economic Community, hereafter referred as 'the Committee';

Having regard to the Treaty establishing the European Economic Community, in particular Article 105(1) thereof;

Having regard to the Decision of the Council of the European Economic Community of 8 May 1964 establishing a Committee of Governors of the Central Banks of the European Economic Community, and in particular Article 5 thereof;

Having regard to the proceedings of the Committee of 6 July 1964;

HAS DECIDED to adopt the following rules of procedure:

Article 1

1. The Committee shall be composed of the Governors of the Banque Nationale de Belgique, the Deutsche Bundesbank, the Banque de France, the Banca d'Italia and the Nederlandsche Bank. The Members may be accompanied at Committee meetings, or be represented at such meetings, by any other person belonging to the policy board of their institution.

2. The Committee Members or their representatives may be assisted, in the examination of specific technical questions, by experts from their Central Banks.

Article 2

1. The Commission of the European Economic Community shall, as a general rule, be invited to send one of its members as a representative to the meetings of the Committee.

2. The Committee may furthermore, if it considers it necessary, invite qualified persons to its meetings, including the Chairman of the Monetary Committee of the European Economic Community, or, if he is unable to attend, one of the two vice-chairmen of that Committee.

Article 3

1. Each Member of the Committee shall have one vote. Where a Committee Member is unable to attend, his right to vote shall automatically be delegated to the person representing him.

2. Within the general framework of its duties as defined by Article 3 of the Decision of 8 May 1964 of the Council of Ministers of the European Economic Community, the Committee may render opinions or submit memoranda. The opinions shall be adopted by a majority vote, the minority being entitled to express its views in an annexed document. In general, in respect of any deliberation or memorandum, the Committee may submit a report expressing either differing points of view or the unanimous views of its Members.

Article 4

Voting by simple majority, the Committee shall appoint a Chairman from among its Members for a period of one year. Should the Chairman not complete his term, the Committee shall choose a new chairman for the remainder of the term. Should the Chairman be unable to officiate, his duties shall be carried out by the oldest Committee Member.

Article 5

1. The Committee shall meet at regular intervals, normally every two months. The meetings shall usually take place on the same dates as meetings of the Board of Directors of the Bank for International Settlements.

2. The Chairman may also convene the Committee:

- (i) at the request of the Commission of the European Economic Community;
- (ii) at the request of a Committee Member, after consulting the other Members;
- (iii) whenever he considers that the situation necessitates a meeting.

Article 6

(1) The Agenda and - in cases of extraordinary meetings - the notices to attend must reach the Committee Members eight days before the meeting, except in emergencies.

2. The Chairman shall preside over the meetings. If he is unable to attend, he shall be replaced by the oldest Committee Member present.

3. The proceedings shall be confidential. A summary record shall be drafted at the end of each meeting, submitted to the Members for approval at the next meeting, and signed by the Chairman and by the Secretary-General.

Article 7

1. The Secretary-General of the Committee and his assistants shall be appointed by the Committee. They shall be chosen from officials of the Bank for International Settlements being nationals of the Member States of the European Economic Community or from officials of the Central Banks of the Member States.

2. The Secretary-General's duties shall include:

- (i) participation in the Committee meetings;
- (ii) drafting of the minutes of the meeting;
- (iii) execution, where appropriate in association with staff members specially designated within each Central Bank concerned, of tasks entrusted to him by the Committee;
- (iv) maintenance of liaison with the departments of the European Economic Community.

3. The administrative services of the secretariat of the Committee shall be provided by officials of the Bank for International Settlements being nationals of Member States of the European Economic Community.

4. The Members of the Secretariat shall report to the Chairman. They shall be required, even when no longer engaged in these duties, to refrain from disclosing information which, by its nature, is covered by requirements of professional secrecy.

5. The secretariat costs shall be shared out equally among the five Central Banks represented on the Committee.

Basle, 12 October 1964

COUNCIL DECISION

of 8 May 1964

on cooperation between Member States in the field of international monetary relations

(64/301/EEC)

THE COUNCIL OF THE EUROPEAN ECONOMIC COMMUNITY,

Having regard to the Treaty establishing the European Economic Community, and in particular Article 105 (1) and the first indent of Article 145 thereof,

Having regard to the Recommendation of the Commission of 19 June 1963,

Having regard to the Opinion of the European Parliament,

Having regard to the Opinion of the Economic and Social Committee,

Whereas there should be close coordination of the policies of the Member States in the field of international monetary relations and the most appropriate method of ensuring such coordination is for the necessary consultations to be held within the Monetary Committee,

HAS DECIDED AS FOLLOWS:

Article 1

Consultations shall take place within the Monetary Committee in respect of any important decision or position taken by Member States in the field of international monetary relations and concerning in particular:

- the general working of the international monetary system;
- recourse by a Member State to resources which can be mobilized within the framework of international agreements;
- participations by one or more Member States in substantial monetary support operations in favour of third countries.

Article 2

The Member States shall take the aforesaid decisions or positions only after the consultations referred to in Article 1 have been held, unless circumstances and in particular the time limits for taking them require otherwise.

Done at Brussels, 8 May 1964.

For the Council
The President
H. FAYAT

COUNCIL DECISION

of 22 March 1971

on the strengthening of cooperation between the central banks of the Member States of the European Economic Community

(71/142/EEC)

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community, and in particular Article 105 (1) thereof,

Having regard to the final communiqué of the Conference of Heads of State or Government held at The Hague on 1 and 2 December 1969, and in particular item 8 thereof,

Having regard to the Resolution of the Council and of the Representatives of the Governments of the Member States of 22 March 1971 on the phased establishment of economic and monetary union in the Community, and in particular item III (5) thereof,

Having regard to the Recommendation of the Commission,

Having regard to the Opinion of the European Parliament,

Whereas the Resolution referred to above provides for a strengthening of cooperation between central banks,

HAS ADOPTED THIS DECISION:

Article 1

Member States shall coordinate their monetary and credit policies having regard to the guidelines on general economic policy laid down by the Council.

Article 2

Within this framework, the central banks shall be invited, within the limits of their powers and the scope of their respective responsibilities:

- (a) to coordinate their policies in monetary and credit matters, within the Committee of Governors of Central Banks;
- (b) to establish general guidelines to be followed by each of them, in particular as regards the trend of bank liquidity, the terms for supply of credit and the level of interest rates;
- (c) to lay down practical methods for the application of this procedure.

Article 3

This Decision is addressed to the Member States.

Done at Brussels, 22 March 1971.

For the Council
The President
M. COINTAT

CONFIDENTIAL

EC GOVERNORS' DISCUSSION OF REVISIONS TO THE 1964 DECISION

1 The two most controversial areas were the proposed references to central banks' independence and to prior consultation with central banks before monetary policy decisions are taken. There was also discussion about the extent to which the Community's economic objectives should be spelt out in the Decision; and whether there should be an explicit reference to central banks' responsibility for banking supervision. These points are dealt with in turn in the following four sections.

Central banks' independence

2 The Germans were in favour of strong statements about central bank independence. For example, they proposed that the text of the decision should specify that "the members of the Committee shall be independent of instructions" and wanted the preamble to say that "it is desirable for all central banks of member states to be granted the highest possible degree of independence from the governments of member states". It appeared that Denmark and Ireland could support such wording.

3 The main opposition came from the UK. We had support from the French as far as references to independence during stage one were concerned; they accepted our argument that as a "non-institutional" stage, existing constitutional arrangements could not be altered in this way in stage one. The French were, however, happy to see references to greater independence in stages 2 and 3. France and the UK, with the support of the Netherlands, Belgium and Spain proposed that the text reference be deleted. The UK also proposed major alternatives to the preamble, although the other countries seemed prepared to see no more than relatively minor tinkering.

4 Largely as a result of UK pressure, the outcome was a substantial improvement on the original proposals. The text (the proposed new article 3a) makes no direct reference to independence

but instead talks of members of the Committee acting "according to their own responsibilities and having due regard to Community objectives". The recital in the preamble referring to stage one (the fourth recital) uses text taken from the Delors Report itself (para 52) and talks of giving "consideration to extending the scope of central banks' autonomy", whilst the recital dealing with EMU itself (the fifth recital) talks merely of "adequate autonomy".

Prior consultation about monetary policy decisions

5 The texts as originally proposed and as finally agreed by the Governors were both closely based on the Delors Report (para 52) and said that "The Committee shall normally be consulted in advance of national decisions on the course of monetary policy, such as the setting of annual domestic monetary and credit targets".

6 The UK, with only weak support from one or two others, and considerable opposition from the rest, wanted "normally" changed to "as far as possible". In order to help clarify the scope of the proposal, the Dutch successfully insisted that the final phrase ("such as the setting ...") be retained when others proposed that it be deleted.

Community's economic objectives

7 All were agreed on references to price stability as a Community objective. But Denmark unsuccessfully pressed for the new Article 3a to refer to other objectives of full employment, external balance and, in particular, non-inflationary growth. However, Ireland did succeed in getting a reference to "economic cohesion" included in the second recital.

Banking Supervision

8 The Dutch, with some support from Denmark, Belgium and Ireland, wanted an explicit reference in the text to the Committee's responsibilities for banking supervision. The Germans strongly objected on the grounds that this would almost inevitably oblige their government to call for the reference to be

deleted entirely, in which case it would be harder for the Committee to justify its involvement in supervisory matters. Eventually a low key reference, proposed by the UK, was agreed. This talks of "arrangements to preserve the stability of financial institutions and markets" [in Article 3(1)].

EMU(W)(89)4**PROPOSED REVISION OF 1974 CONVERGENCE DECISION****Attachments**

Annex I: Commission proposal and outline text (11/275/89-EN)

Annex II: Summary of 1974 Convergence Decision and 1974 Directive on Stability, growth and full employment

Annex III: Texts of the 1974 Decision and Directive.

Annex IV: Treaty Articles 103 and 145.

Main issues

(i) Text should give fuller recognition to using market forces to promote convergence, and to the importance of supply-side policies.

(ii) Overt policy coordination should be kept to a minimum. The text recognises the principles of subsidiarity and "learning by doing". But it also refers to "policy commitments" and "Community-wide recommendations". These need to be explained.

(iii) On the other hand, how far do we want to downplay the importance of coordination of budgetary policies? Will the market alone be a sufficient check on eg. Greece?

(iv) ECOFIN role in monetary policy. This text and that on the role of Central Bank Governors envisages coordination of monetary policy largely being undertaken by the Central Bank Governors, with ECOFIN undertaking more detailed coordination of other aspects of economic policy. This does not fit with the present institutional division in the UK, or, probably, in some other countries as well - where setting monetary

policy (including exchange rate policy) is a matter for the Government as well as the Central Bank. We might therefore argue:

(a) the ECOFIN should have a coordinating role for monetary policy, as well as other aspects of economic policy (but if it did, would it be more difficult to keep the Commission out of monetary issues?) and

(b) for the purpose there should, as in the G7, be joint surveillance discussions involving both Ministers and Governors (the current text proposes that the Chairman of the Governors Committee should attend alone).

(v) Can we accept multi-lateral meetings in the face of "outside disturbances"? These could add to Community competence on external matters.

(vi) How should work on this text and that on the role of Central Bank Governors be carried forward? A single forum may be advisable. Monetary Committee or an ad hoc group of officials?

COMMENTARY

PART 1: A BETTER WAY TO PROMOTE ECONOMIC CONVERGENCE

1. First Para

Second sentence not strictly relevant. We must resist anything in text which anticipates stages 2-3.

Second Para

This paragraph gives undue emphasis to policy coordination as the means of securing economic convergence, rather than market forces.

Indents

- the reference to the internal market illustrates the point that market forces, as much as overt policy coordination, will generate economic convergence. Increased mobility of capital and labour will make it more difficult for an individual country to have taxes/wage rates etc. which are greatly out of line with those pursued elsewhere;
- we do not accept that in the EMS (enhanced by free capital movements and fully integrated financial markets) incompatible national policies will necessarily be translated more quickly into exchange rate tensions. If the markets are confident that exchange rate linkages will be preserved, exchange rate pressures will be less. There will be more expectation that the incompatible policies will be changed.

2. [Debating point]

The changes which have occurred since 1974 show danger of designing later stages of EMU now, before stage 1 has even come into operation.

3. Indents 2 and 4

Not necessary in general to coordinate structural policies at Community level, though such policies clearly important and should be vigorously pursued by each member state. Community surveillance process must operate with aim of leaving maximum scope to (a) market forces and (b) national policies. Only major and necessary items should be the subject of overt coordination.

4. Noted.

5. A fourth principle is that market forces should be given full scope to promote economic convergence. Completing single market and associated measures therefore a key priority of stage 1.

6. First Para

Should give more weight to the importance of structural policies as a means of improving economic performance in individual member states and hence in the Community as a whole.

Both indents

These imply that budgetary policy has only a slow impact on markets. Unsound budgetary policy can have just as rapid an effect on markets as unsound monetary policy.

7. First Para

Welcome recognition of principle of subsidiarity - to which the principle of letting market forces operate to maximum extent possible should be added.

Second Para

Agree that ECOFIN approach to multilateral surveillance on 10 July worked well. But the rest of this paragraph is vague and ill thought out. It could presage precisely the kind of

over-centralised control which the authors profess they want to avoid. We need to be clearer about what is envisaged. The terms

- "reciprocal commitments"
- "self-enforced policy coordination from within the Council"
- "Community-wide recommendations"

are not defined here - nor in Part II.

Is it accepted that

- "reciprocal commitments" would not have legal force (if so, it may be more appropriate to describe them as "undertakings")
- such undertakings would only cover areas of policy where subsidiarity does not operate
- Community-wide recommendations would not necessarily encompass all member states, and would be agreed by consensus and would not have legislative effect
- discussions and the analysis on which they were based (especially of individual countries) would be entirely confidential.

Second Para - last sentence

We question the role of the Commission in preparing multilateral surveillance discussions. It may be best for this to be done through the Monetary Committee with assistance as necessary from the Commission services.

An alternative approach would be to involve EPC - or perhaps a new committee spanning the present Monetary and Economic Policy Committees.

[Note: The question of preparation is particularly important if we are to press for ECOFIN to give equal weight to monetary as well as economic policy in its discussions. The Commission has so far been largely excluded from involvement in monetary policy. However, the Monetary Committee may not be best qualified to prepare for surveillance of eg. fiscal issues which have so far been the province of EPC and the Coordinating Group. There may be a case for a new supporting structure under the new regime].

8. Do not accept that institutional change inevitable as further progress made to EMU.
- 8& Welcome pragmatic "learning by doing" approach. [Underlines
9. nonsense of trying to set end-date for stage 1 or to start designing subsequent stages now]. UK believes it will be possible to keep explicit coordination to a minimum: "A.9 (second para) may go too far.
10. The 1974 Convergence Decision was based on Articles 103 and 145, which require unanimity. Difficult to dispute as basis for revised Decision, although - were it not for the 1974 precedent - Article 103 would appear to apply only to dealing with short term economic problems.

Points to watch:

(i) "Measures" implemented under Article 103(2) can be implemented by directives under Article 103(3) which require only qualified majority. Obvious danger in adopting a framework which is then implemented by QM Directives. This underlines the importance of maintaining position that anything done under this Decision will be by consensus. Only way of avoiding this problem completely would be to base new Decision on Article 235, which requires unanimity unreservedly. But unlikely to be agreed, given 1974 precedent;

(ii) Reference to Article 102(A) (not in existence at time of 1974 Decision) seems an attempt to establish link with Internal Market programme and perhaps also to reinforce Commission role. We consider it unnecessary but not positively harmful.

11. No comment.

12. This raises the question of coordination of monetary policy (see also A13 below). If ECOFIN is to have substantive discussion of monetary policy:

- we would not want the Commission to have a full role. "... together with the Commission" should become "... assisted as appropriate by the Commission services";
- Central Bank Governors would need to be fully involved in monetary discussions. We would want all governors to attend relevant ECOFINs, not just the Chairman of the Central Bank Governors' committee. [Note: Germany and Central Bank Governors will resist this. They would prefer to have a single but independent voice, rather than to sit alongside their Finance Ministers in ECOFIN. France and others may support UK on this].

13. It should be explicit that

- multilateral surveillance will cover economic and monetary policies;
- national commitments (or "undertakings") and Community-wide recommendations will be adopted only where agreed objectives cannot be achieved by market forces and/or national policies (ie. the principle of subsidiarity);

- since ECOFIN surveillance will not be limited to fiscal policy, it is not appropriate to single out budgetary processes in this text. Specific procedures are to evolve through the process of "learning by doing".

14. This is probably acceptable. Discussions might be made mandatory in cases where an individual member state wished to make use of the medium-term and long-term Community Financing Mechanism.

15. We might question whether a separate category of discussions on responses to outside disturbances is needed. To the extent necessary, they will happen anyway: ad hoc, or as part of the general multilateral surveillance process. We do not wish to lose our ability to act quickly in a crisis. At Community level, the important thing is to promote policies which will strengthen all member states' economies so that they are better placed to withstand external shocks.

This is linked to a wider point. The more that "common rules" in the economic and monetary field are developed, the more the Community will acquire a measure of external competence in cases where international negotiations "affect" the Community common rules. There may be implications here for G5 and G7 meetings. It would therefore be desirable either to avoid having a separate category of meetings responding to outside disturbances; or as a minimum to ensure that control of such meetings is clearly in the hands of Finance Ministers, not the Commission. For instance, only Finance Ministers should be able to initiate them.

PART 2; DRAFT OUTLINE

[The following are not drafting changes, but notes on points which would need to be amended in the light of our substantive comments on part 1.]

1. Legal base

Probably has to be accepted, though we would prefer Article 135 as legal base to ensure unanimity.

2. Justifications

The emphasis of this whole section needs to be changed to stress that market forces will be a major factor in promoting economic convergence, though some explicit policy coordination may also be required.

3. The objectives of economic policy coordination

No comment.

4. Policy coordination

We question whether a separate category of meetings for joint concertation to face outside disturbances is needed.

5. Multilateral surveillance

[If agreed] The first indent should refer to surveillance of the economic situation of the Community and member states, including both monetary and fiscal policies. The second indent should be deleted.

5.1 might be redrafted as follows:

"The surveillance should be the primary responsibility of the Council of Economic and Finance Ministers (ECOFIN) supported as appropriate by the relevant committees and Commission services. For this ECOFIN would meet on a regular basis. For discussions of monetary policies, the Central Bank Governors of each member state would attend these meetings, together with Finance Ministers."

In 5.2, it is questionable whether the Commission should have the sole responsibility for preparing multilateral surveillance meetings. There should be a reference to structural policies in the first indent.

Final paragraph of 5.2: the last sentence, referring explicitly to budgetary matters, should be omitted.

5.4: the second sentence should make clear that policy commitments (or "undertakings") would be made only where market forces or national action were not sufficient to achieve Community objectives. Definitions of "policy commitments" (or undertakings) are "Community-wide recommendations" should be given. It should be clear that, apart from the agreed reports referred to in the text, surveillance discussions would be entirely confidential.

Agreement on any action following surveillance reviews should be by consensus. We would not wish any of this to lead to QM Directives.

6. County-specific policy consultation

Probably acceptable. Consultations might be mandatory in cases where a member state wished to make use of the medium-term and long-term Community Financing Mechanism.

7. Joint concertation to face outside disturbances

We question whether this separate category is necessary. As a minimum, we would want to specify that meetings could only be initiated by member states - not the Commission.

HM Treasury
September 1989

PART 1: A BETTER WAY TO PROMOTE ECONOMIC CONVERGENCE

A. THE RATIONALE FOR A NEW CONVERGENCE DECISION

1. The European Council in Madrid decided that the first stage of the process towards Economic and Monetary Union (EMU) should begin on 1 July 1990. It also stated that preparatory work for the organisation on the Intergovernmental Conference (IGC) to lay down the subsequent stages, should begin immediately.

Progress towards the monetary construction of Europe requires a greater convergence of economic performance and, as a means to it, stronger policy coordination. However, a greater degree of common economic policy-making is not only required in view of the future of Europe, with EMU prominent in it. It is also necessary to strengthen existing major building blocks of the Community. For example:

- the internal market which, by linking national economies more closely, will reduce the room for independent policy;
 - the EMS which, with free capital movements and fully integrated financial markets, will translate incompatible national policies into exchange rate tensions even more quickly than thus far.
2. The 1974 Council Decision on Economic Convergence (74/120/EEC) and its associated Directive on Stability, Growth and Full Employment (74/121/EEC) have not worked satisfactorily because of:
 - an excessive reliance on a single strand of economic thought (cyclical stabilisation via demand management);
 - a misplaced overcentralisation in decision-making (disregarding even the most elementary form of subsidiarity);
 - an overbureaucratic mechanism of implementation (with unrealistic sequencing of economic consultations).

Furthermore, these two 1974 texts predate the creation of the EMS, the internal market programme and the Single European Act, and since the Basle/Nyborg agreement the procedures for multilateral surveillance have been strengthened. Recently the exercises have been conducted at a Ministerial level.

3. In view of the above, the Commission proposes to replace the two 1974 acts with a new Council Decision to strengthen economic policy coordination during Stage One of EMU on the basis of a surveillance process. This new Decision will:
 - learn from the weaknesses of the 1974 legal texts;
 - be consistent with the importance now attached to the supply orientation of policy, and the ongoing structural adjustment of the Community economy;

- respond to the growing interdependence of policies as a consequence of the Internal Market and of the EMS discipline;
- foster multilateral surveillance, in the context of the EMS not only in monetary policy, but also in areas of national economic management affecting supply conditions, market regimes, aggregate demand, budgetary policy, prices and costs of production, and the unemployment situation.

4. There is also need for parallel revision of the texts governing the cooperation between central banks (notably Council Decision 54/400/CEE of 8.5.1964 and other texts⁽¹⁾). The Commission, after consultations with the Committee of Governors of Central Banks, will soon present its proposals on these texts.

B. MULTILATERAL SURVEILLANCE WITHIN THE COMMUNITY

5. Three main principles will support the process of policy coordination during the Stage One of EMU:

- (I) consensus on economic policy objectives;
- (II) subsidiarity and reciprocal commitments;
- (III) learning-by-doing, in a dynamic process.

(I) Consensus on economic policy objectives.

6. Member States agree on the objective of job-creating and non-inflationary growth with stability; on the framing of policy in the medium-term; and on the need to accompany good macroeconomic management with structural reforms, taking into consideration the economic and social cohesion in the Community. This, in turn, requires a double coherence in policy:

- within Member States. Lax budgetary policy, for example, when combined with stability-oriented monetary policy, eventually undermines stability and/or crowds-out private investment.
- between Member States. For monetary policy, in an integrated financial area, incoherence is immediately felt, and sharply. For budgetary policy interdependence may be slower acting. Yet, experience shows that major budgetary divergences, especially within the EMS, have important negative consequences.

Consensus on economic policy objectives is a necessary - but not a sufficient - condition for the type of enhanced multilateral surveillance required under Stage One of EMU. Other principles are required.

⁽¹⁾ Council decision 64/301/EEC of 8.5.1964, Council Decision 71/142/EEC of 22.3.1971, and rules of Procedure of the Committee of Governors of the Central Banks of the member States.

(II) Subsidiarity and reciprocal commitments

7. The principle that the Community should only seek to act where national governments cannot be expected to do so satisfactorily, is already widely reflected in areas of internal market and micro-economic policies. It should also be applied to the macro-economic area as the Community progresses towards Economic and Monetary Union. This was not the case with the 1974 Convergence Decision: a shortcoming to be redressed.

In full respect of subsidiarity, the present proposal sets up a procedure of reciprocal commitments leading to self-enforced policy coordination from within the Council. This implies a new modus operandi of the Economics and Finance Council, already successfully tested on July 10 and to be strengthened. Thus, in addition to the normal legislative responsibility discharged by the Council (the legislative mode), Ministers will be called for a periodic, in depth, confidential, common assessment of economic prospects - inclusive of the consequences of policy and their consistency within and among countries. In this capacity (the multilateral surveillance mode), the Council will review policy behaviours, examine individual members' policy commitments and agree on Community-wide recommendations aimed at achieving a more effective economic convergence. The Commission will prepare the discussions on the basis on analytical work and the necessary contacts with Member States.

(III) Learning-by-doing, in a dynamic process

8. Stage One aims at a greater convergence of economic performance through the strengthening of policy coordination within the existing institutions. Given the fact that institutions (the Treaty itself) will have to be changed as the monetary union process goes on, the self-policing of economic policy will have to gain in depth, breadth and scope in the course of Stage One.

9. This carries two consequences:

First, the process of surveillance itself cannot be prescribed in any definite form, lest it will be either premature (at first) or obsolete (later on).

Second, and this is the key point, policy coordination will have to be implicit at the start of Stage One. However, an experience with the process accumulates, it will eventually become explicit, resulting in commonly agreed recommendations and commitments, with growing influence on the formation of national policies.

It is on the basis of this adequate apprenticeship in policy coordination and economic convergence, that the subsequent stages of EMU will be launched.

C. MAIN FEATURES OF THE PROPOSED SURVEILLANCE SYSTEM

10. The new Decision would be based on Art. 103 and 145 of the Treaty. It would refer to Art. 102A, inserting the surveillance process at the very heart of the EMS, the Internal Market and the progress towards EMU.
11. Three main objectives of economic policy coordination are proposed:
 1. achievement of the Community's objectives;
 2. improvement of Member States' economic performance and convergence;
 3. betterment of the Community's ability to influence or withstand world economic developments.

Correspondingly, three main forms of coordination are put forward: multilateral surveillance, country-specific consultations; and concertation in the case of major outside disturbances.

12. The task of economic policy coordination is the primary responsibility of the Council of Economic and Finance Ministers (ECOFIN) together with the Commission and supported by the relevant committees. Due account will be taken of the views of the Committee of Governors of Central Banks.
13. General multilateral surveillance would be based on indicators of economic performance, country reports on national policies and an Annual Report on the economic situation of the Community. It would provide a comprehensive framework for the assessment of the consequences, and consistency of the overall policies of Member States. Specific national commitments may result together with Community-wide recommendations. The ECOFIN may aim at the examination of budgetary policies, ahead of national budgetary planning.
14. Where the performance of individual Member States were collectively judged detrimental to common objectives, the Council may engage in country-specific policy consultations.
15. Joint concertation to face outside disturbances would take place when the performance of the Community economy is considered to be threatened. Such a search for a Community response may occur, in particular, in the case of sudden international financial tensions.

PART 2: DRAFT OUTLINE OF COUNCIL DECISION ON THE
STRENGTHENING OF ECONOMIC POLICY COORDINATION
DURING STAGE ONE OF ECONOMIC AND MONETARY UNION*

1. Legal base: Art. 103 and 145 with reference in the preambles to Art. 102a.

2. Justifications:

- completion of the internal market will increase the degree of economic integration and amplify the cross-border effects of policy.
- the stability of the EMS requires more intensive and effective policy coordination;
- incompatible national policies with free capital movements from 1 July 1990 and integrated financial markets would quickly distort flows of savings and translate into exchange rate tensions.
- in order to facilitate progress towards EMU, greater convergence of economic performance is needed in the face of persisting internal and external disequilibria.
- achieving the full potential benefits of the internal market requires a strengthened competition policy and the common policies given in the Single European Act.

3. The Objectives of Economic Policy Coordination:

- contributing to the achievement of Community objectives, in particular convergence at a high level of economic performance in the framework of monetary stability and enhanced economic cohesion;
- ameliorating Member States' economic performance with regard to price stability, growth, employment and internal and external equilibria;
- increasing the social and economic cohesion in the Community;
- contributing to the efficiency of European financial markets.
- improving the Community's ability to influence world economic developments;

4. Policy Coordination should focus on:

- multilateral surveillance issues;

* (To replace the Council Decision 74/120/EEC and Directive 74/121/EEC of 18.2.74).

- country-specific policy issues;
 - joint concertation to face outside disturbances.
5. Multilateral Surveillance should be mainly concerned with:
- the economic situation of the Community and in Member States;
 - macro-economic, micro-economic and structural policies and conditions;
 - the consistency of policies within Member States and in the Community at large;
 - coordination of policies vis-à-vis the exterior.
- 5.1 The surveillance should be the primary responsibility of the Council of Economic and Finance Ministers (ECOFIN) together with the Commission and supported by the relevant committees. For this ECOFIN would meet on a regular basis. To ensure the consistency between monetary and economic policies, the Chairman of the Committee of Central Bank Governors would attend these meetings.
- 5.2 Multilateral surveillance should take place on the basis of Commission analyses having the form of:
- indicators of economic performance concerning monetary and budgetary policies, supply and demand trends, price and cost development, unemployment, financial markets, external and internal imbalances.
 - country reports on national policies and their adequacy in view of the completion of the internal market and of economic and social cohesion.
 - an annual report on the economic situation of the Community and of Member States.
- In the above context, the ECOFIN will examine all aspects of economic policy. It should also consider annually reviewing budget policies, ahead of national budgetary planning. In due course, as more experience is gained in this domain, the coordination procedure may include the setting of medium-term budgetary orientations as well as initiating concerted budgetary actions by Member Countries.
- 5.3 The Annual Economic Report would be submitted to the European Parliament and the Economic and Social Committee.
- 5.4 The Council's multilateral surveillance should consist of in-depth examination of particular issues of national and Community concern.

It should increasingly result in agreed policy commitments by each Member State and in Community-wide recommendations aimed at achieving a high degree of economic convergence. As experience grows this should become an effective way of ensuring self-enforced coordination.

The Chairman of the ECOFIN and the Commission should periodically report to the European Parliament on the results of multilateral surveillance. The Council may also decide that, when suitable, its deliberations be summarised in "surveillance conclusions" to be made public.

6. Country-specific policy consultation would take place in the case of potential or manifested economic conditions threatening the interests of the Community, and incompatible with the general policy orientations adopted by the Community.

Such consultation can imply the formulation of recommendations with a view to promoting the necessary policy corrections in the country in question and, if necessary, by other Member States. The progressive implementation of this consultation should enhance the cooperative approach to national policy-making.

7. Joint Concertation to face outside disturbances would take place in the ECOFIN in the case of:

- the emergence of international economic and financial tensions likely to produce negative consequences for the Community economy;
- other unforeseen events threatening the Community economy.

This procedure may be developed to ensure that the Community coordinates its economic policy vis-à-vis the rest of the world. In conjunction with the Committee of Governors, exchange rate policy vis-à-vis third currencies may be coordinated.

8. Monitoring

There cannot be multilateral surveillance without appropriate monitoring of the follow-up to agreed upon commitments. This applies equally to concerted economic policy actions, to the country-specific policy consultation and to the joint concertation. As appropriate, the Commission may be asked to keep matters under review and report back to the Council.

ECONOMIC CO-OPERATION IN THE EC - THE 1974 CONVERGENCE DECISION AND THE DIRECTIVE ON STABILITY, GROWTH AND FULL EMPLOYMENT

1. The Community's 1974 Convergence Decision provided for close consultation on, and co-operation in, the formulation of economic and monetary policy. This was to be reflected, inter alia, in

- three meetings a year to examine the economic situation in the Community, resulting in the adoption of guidelines "in order to achieve harmonious economic development";
- the adoption of an annual report on the economic situation after which guidelines would be established "to be followed by each Member State in its economic policy for the following year";
- the examination of the situation in the regions every 2½ years;
- the production at least every 5 years of a draft medium-term economic policy "whose purpose shall be, in the context of economic and monetary union, to facilitate a guide to structural changes ... and to ensure the convergence of overall economic policies;
- and where Member States departed from the guidelines, the Commission could send a recommendation to the State concerned or an emergency meeting of the co-ordinating committee could be requested.

A Directive on stability, growth and full employment in the Community was agreed on the same date. It required member states to take the steps necessary to comply with economic guidelines which may be issued under the Convergence Decision. The steps were almost all concerned with demand management and included:

- the adoption of provisions to enable public spending to be slowed down or accelerated, if necessary;

- each member state to draw up 5-year investment programmes;
- monetary authorities in each state to have powers to apply, if necessary, reserve ratios, modification of "rediscount ceilings with the central bank", credit controls;
- measures for temporary controls, if necessary, on prices and incomes.

2. In practice, member states have not been much influenced by the guidelines contained in these two Decisions in formulating their own macro-economic policy objectives: there has been no regular 2½ yearly examination of the regions and no 5-yearly medium term programme has been produced. It is highly questionable whether all member states are in a position to take all the actions envisaged under the 'stability' Directive.

3. Regular consultation on the main elements of economic and monetary policy does of course take place within ECOFIN, the Monetary Committee and the Committee of Central Bank Governors. Some strengthening of the procedure for joint monitoring of economic and monetary developments and policies was agreed in September 1987 at Basle/Nyborg. Since then, member states have co-operated closely on a number of occasions before making co-ordinated interest rate changes.

COUNCIL DECISION¹

of 18 February 1974

on the attainment of a high degree of convergence of the economic policies of the Member States of the European Economic Community
(74/120/EEC)

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community, and in particular Articles 103 and 145 thereof,

Having regard to the proposal from the Commission,

Having regard to the Opinion of the European Parliament,

Having regard to the Opinion of the Economic and Social Committee,

Whereas there can be no gradual attainment of economic and monetary union unless the economic policies pursued by the Member States henceforth converge and unless a high degree of convergence is maintained;

Whereas, for this purpose, the coordination procedures at present used must be substantially strengthened and improved; whereas, in particular, permanent consultation machinery must be instituted, covering both general economic policy and those policies for which the central banks are responsible in monetary matters;

Whereas such permanent consultation machinery must be supported by economic policy guidelines established at Community level; whereas such guidelines cannot be confined only to short-term policy, but must also cover medium-term policy; whereas no short-term action can suitably be implemented reconciling the development processes of nine national economies if it is not guided by and towards common objectives established over a longer period; whereas, consequently, medium-term guidelines are an indispensable instrument of a coherent short-term economic policy and thus a measure appropriate to such a policy;

Whereas monitoring of the implementation and effects of the national economic policies is necessary for the maintenance of consistency between these policies, so that any deviation from the guidelines adopted at Community level can be promptly corrected;

Whereas, in respect of currency exchange relations within the Community, the greater convergence of economic policies must be accompanied by specific and effective prior consultation machinery for any decision by a Member State relating to the conditions under which its currency is exchanged for the currencies of other Member States and of third countries,

¹ Text incorporating the amendments contained in the Council Decisions of 18 December 1975 (75/787/EEC) and of 6 February 1979 (79/136/EEC).

HAS ADOPTED THIS DECISION:

Article 1

The Council shall set aside each month a specific day, chosen in advance, for meetings on economic and monetary matters. Within this framework, the Council shall hold three meetings yearly to examine the economic situation in the Community. On the basis of a communication from the Commission accompanied, where appropriate, by proposals for decisions, directives or recommendations, the Council shall adopt guidelines on economic policy which the Community and each Member State are to follow in order to achieve harmonious economic development.

Article 2

The first examination shall take place as soon as possible during the first quarter.

On this occasion, on a proposal from the Commission, the Council shall adjust the economic policy guidelines for the current year as required by economic developments.

The proposals from the Commission shall be accompanied by a summary account of the economic policy pursued in the preceding year and by five-year forecasts covering the main macro-economic variables.

Article 3

A second examination shall take place during the second quarter. On that occasion the Council shall lay down appropriate guidelines for the main elements of the preliminary economic budgets. Within this framework, quantitative guidelines for the draft public budgets for the following year shall be fixed before these budgets are finally adopted and shall cover developments in government expenditure and revenue, the nature and extent of budget surpluses and deficits and the way the latter are to be financed or used. The guidelines figures for the draft public budgets shall not be published at this juncture.

Article 4

A third examination shall take place during the fourth quarter. At this stage, the Council shall, acting on a proposal from the Commission and after consulting the European Parliament and the Economic and Social Committee, adopt an annual report on the economic situation in the Community and shall establish the guidelines to be followed by each Member State in its economic policy for the following year.

Article 4a

At two-and-a-half year intervals, coinciding every other time with the examination of medium-term economic policy programmes and starting in 1980 on the occasion of the third annual examination referred to in Article 4, the Council, after consulting the European Parliament and the Economic and Social Committee, shall examine a periodic report on the situation and socio-economic developments in the regions of the Community drawn up by the Commission in close collaboration with the Regional Policy Committee.

On the basis of this report, the Council shall discuss the priorities and guidelines proposed by the Commission.

Article 5

As soon as this annual report has been adopted by the Council, governments shall bring it to the attention of their national parliaments so that it can be taken into account during the debate on the budget.

Article 6

On the basis of the preliminary draft prepared by the Economic Policy Committee, the Commission shall at regular intervals and at least once every five years establish a draft medium-term economic policy programme whose purpose shall be, in the context of economic and monetary union, to facilitate and guide structural changes — sectoral, regional and social — and to ensure the convergence of overall economic policies.

The draft shall indicate those points on which it departs from the preliminary draft of the Economic Policy Committee.

The Commission shall forward the draft programme to the Council, which shall forthwith place it before the European Parliament and the Economic and Social Committee, for consultation.

The programme shall be adopted by the Council and by the Governments of the Member States.

By adopting the programme, the Council and the Governments of the Member States shall express their intention of acting, in the field covered by the programme, in accordance with the guidelines laid down therein.

Parallel to the adoption of the programme, the Council shall, where appropriate and on a proposal from the Commission, unanimously adopt any decisions, directives or recommendations necessary to achieve the objectives set out in the programme and to implement the measures for which it provides.

Article 7

Any Member State intending *de jure* or *de facto*, to change, discontinue or re-establish the parity, central rate or intervention points of its currency shall initiate a prior consultation.

The consultation procedures, which shall be secret and urgent, shall take place in accordance with practical rules adopted by the Council after receiving an Opinion from the Monetary Committee.

Article 8

In addition to the consultations which are held by the Monetary Committee and by the Coordinating Committee on Short-term Economic and Financial Policies, the central banks shall be invited to promote by means of regular and frequent consultations, within the framework of the Council Decision of 22 March 1971 on the strengthening of cooperation between the central banks of the Member States of the European Economic Community, the continual coordination of their monetary policies especially as regards the development of the money supply and bank liquidity, the conditions for granting credit and the level of interest rates.

Article 9

Standing consultations on the general economic policy measures envisaged by the Member States and on their conformity with the economic policy guidelines laid down by the Council according to the procedure laid down in Articles 1 to 5 shall take place within the coordinating group referred to in Title I,

paragraph 2, of the Resolution of the Council and the Representatives of the Governments of the Member States of 21 March 1972 on the application of the Resolution of 22 March 1971 on the attainment by stages of economic monetary union in the Community.

The Chairmen of the Economic Policy Committee, of the Monetary Committee and of the Committee of the Governors of the Central Banks shall, as appropriate, attend the meetings of the group.

These meetings must involve prior consultation and cover the most significant measures being taken with a view to the convergence of economic policy within the Community.

The group shall meet often enough to ensure the standing nature of the consultations, and in any event, at least once a month.

Article 10

Any Member State or the Commission may request consultations within the Council:

- (i) if, in the course of the consultation referred to in Articles 8 and 9, it appears that any measure or decision contemplated by one or more Member States is the subject of serious reservations;
- (ii) or if economic developments in a Member State constitute a considerable danger for other Member States of the Community as a whole.

The Council shall meet within eight days.

Article 11

Where a Member State is pursuing economic, monetary and budgetary policies departing from the guidelines laid down by the Council or entailing economic risks for the Community as a whole, the Commission may send a recommendation to the State concerned. Within 15 days of receipt of this recommendation, the Member State concerned shall provide the Commission with all the appropriate information.

The Commission or a Member State may request an emergency meeting of the Coordinating Committee on Short-term Economic and Financial Policies and possibly an examination within the Council. The latter shall take a decision on the basis of proposals which the Commission shall submit to it, where appropriate.

Article 12

On the basis of a report submitted by the Commission, the Council shall examine once a year, at its meeting held in the first quarter, as provided for in Article 2 above, the application of this Decision and the conformity of the policies pursued with the objectives set. The Commission's report shall also be laid before the European Parliament.

Article 13

The following decisions are hereby repealed:

- (i) the Council Decision of 17 July 1969 on the coordination of short-term economic policies of the Member States;
- (ii) the Council Decision of 16 February 1970 on the appropriate procedures for the consultation arrangements provided for in the Council Decision of 17 July 1969;

(iii) the Council Decision of 22 March 1971 on the strengthening of the coordination of short-term economic policies of the Member States of the European Economic Community.

Article 14

This Decision is addressed to the Member States.

Done at Brussels, 18 February 1974.

For the Council
The President
H. SCHMIDT

COUNCIL DIRECTIVE
of 18 February 1974
on stability, growth and full employment in the Community
(74/121/EEC)

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community, and in particular Article 103 thereof,

Having regard to the proposal from the Commission,

Having regard to the Opinion of the European Parliament,

Having regard to the Opinion of the Economic and Social Committee,

Whereas the attainment by stages of economic and monetary union in the Community requires the implementation of convergent economic policies of which the key principle is the achievement of stability, growth and full employment in the Community;

Whereas procedures for coordinating economic policies have been organized, in this connection, at Community level, particularly in the Council Decision of 18 February 1974 on the attainment of a high degree of convergence of the economic policies of the Member States of the European Economic Community;

Whereas, to be in a position to meet the requirement of such coordination and in particular to be able to pursue compatible objectives at Community level with regard to stability, growth and full employment, each Member State must possess an adequate set of economic policy instruments;

Whereas such instruments must be available and ready for prompt use by the competent authorities of the Member States if they are to control short-term economic developments and keep these in line with the guidelines established at Community level,

HAS ADOPTED THIS DIRECTIVE:

Article 1

In order to achieve the objectives of price stability, external balance, growth and full employment in the Community, each Member State shall implement its short- and medium-term economic policies in accordance with the guidelines adopted by the Council pursuant to the Council Decision of 18 February 1974 on the attainment of a high degree of convergence of the economic policies of the Member States of the European Economic Community.

Article 2

When they take major measures of economic policy in order to achieve the objectives set out in Article 1, Member States shall make explicit reference to the guidelines adopted by the Council.

Article 3

The Governments of the Member States shall, according to their own arrangements, confer with the representatives of the main economic and social groups on the broad lines of economic policy.

Article 4

In order to establish medium-term economic programmes for the Community, each Member State shall prepare medium-term economic forecasts accompanied by information on the appropriate means to be used to promote a pattern of development in conformity with the guidelines specified in Article 1.

Article 5

Each Member State shall adopt the provisions necessary to enable the public authorities, if the need arises and for a limited period, to slow down or accelerate the rate of public spending and to modify direct or indirect taxes within not more than 90 days.

Article 6

Each Member State shall draw up public investment programmes covering a five-year period. Implementation of the programmes shall be in accordance with the requirements of current economic activity, within the framework of public expenditure.

Article 7

Each Member State shall take the measures necessary (where they do not as yet exist) to enable the competent authorities, without prior authorization, temporarily to freeze the yield of excess tax revenue or of loans, and to release such funds at a later date.

Article 8

Member States shall ensure that the management of the finances of local authorities and, where appropriate, of social security agencies contributes to the attainment of the objectives and to the implementation of the guidelines referred to in Article 1. They shall as far as necessary provide themselves with the means needed to enable the indebtedness of such authorities and agencies to be controlled.

Article 9

Member States shall take the measures necessary to enable them to take prompt action on the various elements covered by the policy of the monetary authorities, particularly money supply, bank liquidity, credit and interest rates.

For this purpose, Member States shall confer upon their monetary authorities, in so far as the latter do not already have them, at least the instruments and powers to enable them to apply, where necessary, the following measures:

- (i) imposition or modification of reserve ratios applying to the liabilities of monetary institutions;
- (ii) imposition or modification of reserve ratios applying to the credit granted by monetary institutions;
- (iii) recourse to an open market policy with wide scope for action, including the use, as necessary, of short-, medium- and long-term securities;
- (v) modification of the rediscount ceilings with the central bank;
- (iv) modification of the various intervention rates practised by the monetary authorities.

In addition, the monetary authorities shall, as far as possible, be invested with the instruments and powers enabling them to implement the following measures:

- (i) modification of the borrowing and lending interest rates paid or charged by public credit agencies;
- (ii) imposition or modification of conditions for consumer credit, hire-purchase sales and mortgage credit;
- (iii) quantitative or qualitative credit control.

Article 10

Member States shall, to the extent that they deem it expedient, take the measures necessary to enable them to impose, where necessary, without delay and temporarily, an overall or selective restriction on the rise in prices and incomes.

Article 11

To enable the guidelines which are to be adopted by the Council to be drawn up and to enable their application to be monitored, Member States shall ensure that essential information is gathered quickly and shall communicate it to the Commission as soon as it is available.

Article 12

Member States shall take the measures necessary to comply with this Directive within 12 months of its notification. This period shall, however, be extended to two years for the implementation of Articles 5 and 8.

Article 13

This Directive is addressed to the Member States.

Done at Brussels, 18 February 1974.

For the Council
The President
H. SCHMIDT

ARTICLE 103

1. Member States shall regard their conjunctural policies as a matter of common concern. They shall consult each other and the Commission on the measures to be taken in the light of the prevailing circumstances.
2. Without prejudice to any other procedures provided for in this Treaty, the Council may, acting unanimously on a proposal from the Commission, decide upon the measures appropriate to the situation.
3. Acting by a qualified majority on a proposal from the Commission, the Council shall, where required, issue any directives needed to give effect to the measures decided upon under paragraph 2.
4. The procedures provided for in this Article shall also apply if any difficulty should arise in the supply of certain products.

ARTICLE 145

To ensure that the objectives set out in this Treaty are attained, the Council shall, in accordance with the provisions of this Treaty:

- ensure coordination of the general economic policies of the Member States;
- have power to take decisions.
- confer on the Commission, in the acts which the Council adopts, powers for the implementation of the rules which the Council lays down. The Council may impose certain requirements in respect of the exercise of these powers. The Council may also reserve the right, in specific cases, to exercise directly implementing powers itself. The procedures referred to above must be consonant with principles and rules to be laid down in advance by the Council, acting unanimously on a proposal from the Commission and after obtaining the Opinion of the European Parliament.

EMU (W)(89)(5)

PROGRESS ON ELEMENTS OF STAGE ONE

The following annexes set out the position on five of the areas identified in the Delors Report as being necessary for Stage 1 of EMU:

- (a) completion of the single market (Annex I) including implementation (Annex II);
- (b) closely related to it, creation of a single financial area (Annex III);
- (c) full capital liberalisation (Annex IV);
- (d) strengthening of Community competition policy (Annex V);
- (e) implementation of the reform of the structural funds (Annex VI).

The other main elements of Stage I are:

- (f) revised arrangements for coordination of monetary and economic policies: see EMU(W)(89)(3) and EMU(W)(89)(4);
- (g) all Community currencies to join the ERM, under the same rules.

HM TREASURY
AUGUST 1989

COMPLETION OF THE SINGLE MARKET: SUMMARY

The attached lists set out single market measures which have been adopted; those for which proposals have been submitted but not yet adopted; and items on which proposals have yet to be submitted. Parts B and C indicate items that are or are likely to be UK priorities, offer very brief comments and (where possible) give an indication of the likely timescale for adoption.

A note on implementation is at Annex II. In summary, good progress has been made on the removal of technical barriers to trade, notably in the technical harmonisation directives (Part II 1, 1, of the attached list); in capital movements (Part II, V); in road haulage and air fares (Part II, IV, 2); and in the mutual recognition of qualifications (Part II, III). Important individual measures which have been agreed include the second banking and non-life insurance services directives (no's 177 and 109). Overall, 129 measures have been adopted, just under half of the original 279 identified in the Cockfield White Paper.

There is a long way to go before the programme is fully implemented at both Community and national levels. The conclusions of the Madrid European Council of 26/27 June identified as priority areas: financial services (II, IV, I); technical standards (II, I); transport (II, IV, 2) and public purchasing (II, II). The Prime Minister echoed this in her Press conference, stressing the need for action on banking and cabotage.

100 proposals have been submitted but not adopted, of which the greatest number are in the field of animal and plant health (II, I), on which very little progress has yet been made. There are also a number of proposals on VAT and excise duties (III, 1 and 2), nearly all of which are unacceptable to the UK, being either over-regulatory, incomplete, unnecessary or a restraint on HMG freedom to set rates of VAT and excise duty. An ad hoc Council working group is considering these issues; and may yield some more pragmatic and achievable approach.

There are ~~some~~ 50 items on which proposals are still awaited, over half of them in animal health. Community legislation on the measures identified in the original Cockfield White Paper will probably not all be in place by the end of 1992 (perhaps by the end of 1993); and full implementation by all Member States will take some years after that.

A: MEASURES ALREADY ADOPTED

PART I: THE REMOVAL OF PHYSICAL BARRIERS

I CONTROL OF GOODS

Various controls

1. Single administrative document (SAD):
third country aspects.
2. Simplification of Community transit procedure:
amendment to Reg 222/77.
3. Abolition of customs presentation charges.
4. Elimination of customs formalities
and the introduction of common
border posts - "banalisation".

Veterinary and phytosanitary controls

5. Production and trade in milk.
6. Imports of meat products from third
countries (animal and public health).
7. Harmonised health conditions for production
and trade in food products of animal
origin not covered by existing legislation:
eggs
8. Live animals of the bovine species:
amended eradication directives to provide
for final eradication of brucellosis,
tuberculosis and leukosis.
9. Live animals of the porcine species: eradication
of African swine fever in Portugal.
10. Live animals of the porcine species: eradication
of African swine fever in Spain.

11. Eradication of classical swine fever in the Community as a whole
12. Hormone growth promoters.
13. Microbiological controls (meats, poultry, red meat).
14. Medical examination of personnel.
15. Minced meat and similar products imported from 3rd countries.
16. Antibiotic residues.
17. Control of residues.
18. Swine fever.
19. Control of foot and mouth disease.
20. Zootechnical specifications applicable to breeding animals of the porcine species.
21. Modification of Directive 77/99/EEC on meat products.
22. Amendment to Directive 77/93 (plant health).
23. Maximum levels for pesticide residues in cereals and on foodstuffs of animal origin.
24. Amendment of Directive 79/117/EEC on the prohibition of certain plant protection products (ethylene oxide).
25. Proposal for Directive on the fixing of guidelines for the evaluation of additives used in animal foodstuffs
26. Modification of Directive 72/461 on health problems affecting intra-Community trade in fresh meat and Directive 72/462 on health and veterinary inspection problems upon import of bovine animals and swine and fresh meat from third countries.

27. Acceptance for breeding purposes of purebred breeding animals of the bovine species.
28. Amendment to Directive 80/215 on animal health problems affecting intra-Community trade in meat products.
29. Amendment to Directive 74/63 on undesirable substances and products in animal nutrition (maximum pesticide residues in animal feeding stuffs).
30. Improvement of Community systems of certification of seeds.
31. Amendment to Directive 64/433 on health problems affecting trade in fresh meat.
32. Amendment to Directive 72/462/EEC on health and veterinary inspection problems upon importation of bovine animals and swine and fresh meat from third countries.
33. Harmful organisms in seeds and seed potatoes.
34. Pleuro-pneumonia in Portugal
35. Pedigree animals: sheep and goats.

II CONTROL OF INDIVIDUALS

36. Sixth Directive relative to exemptions in international travel: increase to 350 ECUs.
37. Tax reliefs to be allowed on the importation of goods in small consignments of a non-commercial character.
38. Small consignments: exemption from value added tax on the final importation of certain goods.

PART II: THE REMOVAL OF TECHNICAL BARRIERS

I FREE MOVEMENT OF GOODS

1 New approach in Technical harmonization and standards policy

- 39. Extension of information procedures on standards and technical rules (amendment to Directive 83/189).
- 40. Simple pressure vessels.
- 41. Safety of toys
- 42. Machine safety
- 43. Electro-magnetic compatibility

2 Sectoral measures concerning approximation of Laws

2.1 Motor Vehicles

- 44. Gaseous emissions, passenger cars
- 45. Modification of Directive 70/220: revision of limit values for gaseous emissions of cars (vehicles below 1400 cc).
- 46. Gaseous emissions, commercial vehicles.
- 47. Type approval of motor vehicles and their trailers, Directive 70/156.
- 48. Diesel particulates - passenger cars
- 49. Modification of Dir 78/1015 on motorcycle replacement exhaust systems
- 50. Lateral protection of motor vehicles.

2.2 Tractors and agricultural machines

- 51. Rollover protection structures (incorporating two pillars and mounted in front of the driver's seat on narrow-track wheeled agricultural and forestry tractors).

52. Implementation of Directive 74/150 (weight and dimensions, drive-shaft, engine stopping device, windscreen wipers, footrest) [tractors].
53. Modification of tractors - framework Directive 74/150.

2.3 Food Law

54. General Directive on quick frozen foods.
55. Flavourings
56. Extraction solvents
57. General Directive on sampling and methods of analysis
58. Emulsifiers (modification)
59. Food additives (in part modification of existing directives)
60. Food for particular nutritional use (amendment)
61. Food labelling (amendment)
62. Fruit juices
63. Food inspection
64. Materials and articles in contact with food (amendment)
65. Jams
66. Coffee extracts chicory extracts (modification)
67. Simulants (plastic materials in contact with foodstuffs)

2.4 Pharmaceuticals and high-technology medicines

68. Directive concerning the placing on the market of high-technology medicinal products including those derived from biotechnology

69. Amendment to Directive 75/318/EEC concerning the testing of medical specialities
70. Amendment to Directive 81/852/EEC concerning veterinary medicinal products
71. Extension of directives to medicinal products not already included
72. Recommendation concerning tests relating to the placing on the market of medical specialities
73. Directive amending 65/65/EEC concerning medical specialities
74. Membership of the European Pharmacopoeia
75. Price transparency in the prices of medicines and social security refunds

2.5 Chemical products

76. Council Directive relating to restrictions on the marketing and use of PCB's (polychlorinated biphenyls)
77. Council Directive relating to restrictions on the marketing and use of asbestos
78. Non-ionic detergents (modification of existing Directive)
79. Membership of the European Agreement on Detergents
80. Classification, packaging and labelling of dangerous preparations
81. Liquid fertilisers
82. Secondary fertilisers

2.6 Construction and construction products

83. Tower cranes: permissible sound levels

84. Construction products

2.7 Other items

85. Household appliances: airborne noise

86. Tyre pressure gauges

87. Hydraulic diggers (noise)

88. Protection of hotels against fire

89. Directive on products which, appearing to be other than they are, endanger the health or safety of consumers

90. Cosmetics - 4th modification to Directive 76/768

91. Amendment to Directive 79/581 on consumer protection in the indication of the prices of foodstuffs

92. Consumer protection in respect of the indication of prices for non-food products

93. Good laboratory practices - non-clinical testing of chemicals

94. Amendment to Directive 84/538 on Lawn mower noise

II PUBLIC PROCUREMENT

95. Co-ordination of procedures for the award of public supply contracts

96. Co-ordination of procedures for the award of public works contracts

III FREE MOVEMENT FOR LABOUR AND THE PROFESSIONS

97. Comparability of vocational training qualifications

98. Co-operation between higher education and industry for advanced training relating to new technologies (COMETT)

99. Co-ordination relating to commercial agents

100. Co-ordination of provisions in respect of certain activities in the field of pharmacy

101. Mutual recognition of diplomas in pharmacy

102. Specific training in general medical practice

103. Directive on setting up a general system of mutual recognition of higher education diplomas

IV COMMON MARKET FOR SERVICES

1 Financial Services

1.1 Banks

104. Own funds of credit institutions

105. Accounts of banks

106. Obligations of branches established in a MS by credit institutions and financial institutions having their head offices outside that MS regarding the publication of annual accounting documents

1.2 Insurance

107. Co-ordination of laws relating to legal expenses insurance

108. Credit insurance

109. Facilitation of freedom to provide services in insurance other than life insurance

1.3 Transactions in securities

110. Collective investment undertakings for transferable securities

111. UCITS Directive: Special measures concerning certain investments

112. Information to be published when major holdings in the capital of a listed company are acquired or disposed of

113. Co-ordination of requirements on share offer prospectuses

2 Transport

114. Fares for scheduled air services

115. Air transport: sharing of passenger capacity and market access

116. Air transport: application of Articles 85 and 86 (rules of competition)

117. Road transport: organisation of the market (Community quota) for the carriage of goods by road between Member States: transitional and final stages

3. New Technologies and Services

118. Pan European mobile telephones

119. Establishment at Community level of a policy and plan of priority action for the development of an information services market

V CAPITAL MOVEMENTS

120. Liberalisation of units in collective investment undertakings for transferable securities

121. Liberalisation of operations such as transactions in securities not dealt in on a Stock Exchange, admission of securities of the capital market and long-term commercial credits

122. Liberalisation of capital movements

VI CREATION OF SUITABLE CONDITIONS FOR INDUSTRIAL CO-OPERATION

123. Proposals for a Regulation for a European Economic Interest Grouping

124. Legal protection of micro circuits

125. First Directive to approximate the Laws of Member States to trade marks.

PART III : THE REMOVAL OF FISCAL BARRIERS

1. VAT

126. 13th VAT Directive concerning tax refunds to persons not established in the Community

127. 17th VAT Directive concerning the temporary importation of goods other than means of transport

128. 18th VAT directive concerning abolition of certain derogations

129. Authorisation of French Republic to apply in its overseas Departments and in metropolitan France, by way of derogation from Article 95 of the Treaty, a reduced rate of duty imposed on the consumption of traditional rum produced in those Departments

B: MEASURES AWAITING ADOPTION
denotes measures which were not part of the
original White Paper programme

UK priority

Comments/Timescale

PART I: THE REMOVAL OF PHYSICAL BARRIERS

1. CONTROL OF GOODS

Various Controls

130. Duty free admission of fuel contained in the fuel tanks of commercial motor vehicles: lorries and coaches - COM(84)171 updated by COM(86)383 (lorries)

*

Will reduce formalities:
Germany blocking
Adoption date unclear

COMMENT: PARTIALLY ADOPTED

131. Elimination of controls performed at frontiers of Member States in the field of road and inland waterway transport COM(88)800

132. Statistics relating to the trading of goods between Member States - COM(88)810

Problem of costs/competence
Likely adoption late 1989

Veterinary and phytosanitary controls

133. Production and trade in medicated feeding stuffs - COM(81)795 and COM(83)378

134. Boar meat - COM(83)504

Unlikely to proceed -
unnecessary

135. Personnel responsible for inspection - COM(81)504

136. Aujeszky's disease and swine vesicular disease - COM(82)529

137. Semen of animals - COM(83)512, COM(86)657

COMMENT: PARTIALLY ADOPTED

138. Proposal for the placing of plant protection products on the market - COM(76)427

139. Harmonised health and hygiene conditions: fish and fish products - health guarantees (nematodes) - COM(88)47

May be tackled elsewhere -
too wide as currently
drafted.

140. Amendment to Dir 77/93 on protection measures concerning entry into Member States of organisms harmful to plants/ plant products COM (88) 170

Not enough safeguards as
currently drafted. Adoption
end 1990?

141. Animal health problems: ovine and caprine species COM(88)742

142. Embryos of farm animals - COM(88)785

*

Safeguards standards -
to be adopted shortly.

- 143. Poultry meat and hatching eggs - COM(89)9
- 144. Marketing of compound feeding stuffs
COM(88) 303, COM(89) 125
- 145. Pedigree animals not covered by existing
directives: other species COM(88)598
- 146. Veterinary checks in intra-Community trade COM(88)383
- 147. Intensification of controls on the application of
veterinary rules COM(88)383
- 148. Mutual assistance: Regulation 1468/81 Customs
and agricultural matters - COM(88)383
- 149. Rabies: cats and dogs (including echinococcosis)
COM(88)836
- 150. Modification of Dir 76/895 (maximum levels for
pesticide residues in fruit and vegetables) COM(88)798

(with 2 following) health
worries, transitional measures
not enough. Adoption date
unclear.

II CONTROL OF INDIVIDUALS

- 151. Directive on the easing of controls at intra-
Community borders - COM(84)749, COM(85)224
- 152. Directive on the control of the acquisition and
possession of arms - COM(87)383
- 153. Modification of Directive 83/183 on tax
exemptions applicable to permanent imports from a
Member State of the personal property of
individuals (removals) - COM(86)584, COM(88)298.
- 154. Proposal for a Directive amending for the first
time Dir 83/182 on temporary importation of
certain means of transport (motor vehicles)
- COM(87)14, COM(88)297

Need Channel Tunnel
exemption [proposal
may be dropped]

Worries about terrorism/
crime/bureaucracy of
arrangements.
Adoption some way off.

PART II: THE REMOVAL OF TECHNICAL BARRIERS

1. FREE MOVEMENT OF GOODS

1. New approach in technical harmonisation and standards policy

- 155. Mobile machines - COM(88)740. *
- 156. Medical equipment: electro-medical implantables - COM(88)717 *
- 157. Gas appliances - COM(88)786.

Helpful for UK industry.

Helpful for UK industry.
Common position likely by
end 1989, adoption 1990.

158. Non-automatic weighing instruments (metrology)
- COM(88)780

*

Over-regulatory, but
helpful for industry.
Common position probably
December 1989, adoption 1990

159. Personal protective devices

COMMENT : COMMON POSITION

2. Sectoral proposals concerning approximation of Laws

2.1 Motor vehicles

160. Directive on safety glass for use in motor
vehicles - COM(72)981.

161. Directive on the approximation of laws relating
to tyres for motor vehicles and their trailers - COM(76)712.

162. Directive on the approximation of the laws
relating to weights and dimensions of certain
motor vehicles - COM(76)701.

2.3 Food Law

163. Preservatives (modification) - COM(81)712

COMMENT: PARTIALLY ADOPTED

164. Infant formulae on follow-up milk (dietetic
food) - COM(84)703 modified by COM(86)564

Legal problems:
Adoption date unknown

165. Obligation to indicate ingredients and alcoholic
strength - COM(82)626

Trade opposition/
over-regulatory.
Full adoption unclear

COMMENT: PARTIALLY ADOPTED

166. Modified starches - COM(84)726.

167. General Directive on irradiation of foodstuffs
- COM(88)654

*

In line with UK policy.
Safeguards on stability.
Adoption soon.

168. Additional labelling requirements (nutrition
labelling) (2 proposals) - COM(88)489

169. Definition of spirituous beverages and
aromatised wines - COM(88)328, COM(86)159

COMMENT : COMMON POSITION

2.4 Pharmaceuticals and high technology medicines

170. Amendment of Directive on veterinary medicines (3
proposals) - COM(88)779

*

Useful on health
grounds

2.5 Chemical products

Oligo-elements in fertilisers
COM(88)562

COMMENT: COMMON POSITION

II PUBLIC PROCUREMENT

171. Coordination of procedures for the award of public works contracts COM(86)679, COM(88)354 * Adoption soon: important to UK on competition/deregulation grounds.
COMMENT: COMMON POSITION
172. Application of Community rules on procedures for the award of public supply and public works contracts - COM(87)134, COM(88) 733 * As above
COMMENT: COMMON POSITION
173. Opening up public procurement in the excluded sectors: transport, energy and water - COM(88)377 * Presidency hope for common position by end 1989, adoption by mid 1990.
174. Opening up public procurement in the excluded sectors: telecommunications - COM(88)378 * As above.

III FREE MOVEMENT FOR LABOUR AND THE PROFESSIONS

175. Harmonisation of income taxation provisions with respect to freedom of movement of workers within the Community - COM(79)737 Bilateral approach better; proposals too rigid Adoption date unclear.
176. Freedom of movement of workers: residence permits - COM(88)815 Extending rights too far-outside Treaty.

IV COMMON MARKET FOR SERVICES

1. FINANCIAL SERVICES

1.1 Banks

177. 2nd banking directive * Important items. Close to adoption.
COMMENT : COMMON POSITION
178. Solvency ratios directive * As above.
COMMENT : COMMON POSITION
179. Freedom of establishment and freedom to supply services in the field of mortgage credit - COM(84)730, COM(87)255 Over-regulatory - might compromise second banking directive. Proposal may die
180. Reorganisation and winding-up of credit institutions - COM(85)788, COM(88)4 Likely to die

1.2 Insurance

181. Insurance contract law - COM(79)355, COM(80)854
Burdensome, will cause upheavals. Adoption long off.
182. Annual accounts - insurance undertakings - COM(86)764 *
Better accountability/information. Adoption 1990?
183. Winding up of insurance undertakings - COM(86)768
Against UK legal principles + practices. Adoption not before mid 1990.
184. Proposal for a Third Directive concerning motor liability insurance - COM(88)644 *
Liberalising measures. Adoption unclear.
185. Freedom to supply services in the motor liability insurance sector - COM(88)791 *
As above.
186. Freedom to supply services in the field of life insurance - COM(88)729 *
Liberalising, but not enough. Adoption 1990?

1.3 Transactions in securities

187. Directive on insider trading - COM(87)111, COM(88)549
188. Investment services in the securities field - COM(88)778 *
Consumer protection, regulatory framework. Adoption 1990.

2, Transport

189. Inland waterways: goods and passengers. Freedom to provide services by non-resident carriers within a Member State - COM(85)610
190. Road transport: goods. Freedom to provide services by non-resident carriers within a Member State - COM(85)611 *
Liberalising, but UK industry at disadvantage. Divergences in regimes. Adoption unclear.
191. Road transport: passengers. Freedom to provide services by non-resident carriers within a Member State - COM(88)596
192. Road transport: common rules for the international carriage of passengers by road - COM(87)79, COM(88)595 *
As above.
193. Maritime transport: goods and passengers. Freedom to provide services in the sea transport sector within a Member by non-resident carriers - COM(85)90

COMMENT: PARTIALLY ADOPTED

3 New Technologies and services

194. Open network provision - COM(88)825 * Liberalising measure.

195. Broadcasting activities - COM(88) 146, 154, COM(89) 247

COMMENT: COMMON POSITION

V CREATION OF SUITABLE CONDITIONS FOR INDUSTRIAL CO-OPERATION

1 Company Law

196. Fifth Company Law Directive (structure of public limited companies) - COM(72)887, COM(83)185 Worker participation and non-executive director provisions cause UK major problems. Adoption long way off.

197. Tenth Directive concerning cross-border mergers - COM(84)727 Technical problems. Not adopted this year.

198. Proposal for Council directive amending Dir 78/66-/EEC on annual accounts and Dir 83/349/EEC on consolidated accounts as regards the scope of those directives (4th and 7th Co Law directives) - COM(86)238 Conflicts with deregulation. Not agreed before 1990

199. Merger control regulation - COM(73)1210, COM(88)97, COM(88)734 Problems of excessive regulation/competence.

200. Proposal for a Directive on takeover bids - COM(88)238 Rigid, would weaken UK system. Common position sought by end 1989

201. 11th Company Law Directive - disclosure requirements COM(88)397, 153 in overseas branches Adoption likely by end 1989

COMMENT: COMMON POSITION

2 Intellectual and industrial property

202. Regulation on Community trademarks - COM(80)635, COM(84)470 * Support in principle offset by worry of costs, diminishing influence of London

203. Regulation on the rules needed for implementing the Community trademark regulation - COM(85)844 * No progress before 1990.

204. Regulation on rules of procedure for the Boards of Appeal of the Community's Trademark Office - COM(86)742 *

205. Community trademark office - regulation on fees - COM(86)731 *

206. Proposal for a Directive on legal protection of biotechnological inventions - COM(88)496

207. Proposal for a Directive to protect computer programs - COM(88)816

*

Technical problems, but support in principle. Presidency aim of common position by end 1989 optimistic

3 Taxation (removing tax obstacles to co-operation between enterprises)

208. Arbitration procedure concerning the elimination of double taxation - COM(76)611

209. Common system of taxation applicable to parent companies and their subsidiaries - COM(69)6

Opposed on competence grounds

210. Common system of taxation of mergers, divisions and contributions of assets - COM(69)5

211. Harmonisation of taxes on transactions in securities - COM(76)124, modified by COM(87)139

Loss of revenue for UK
Changes in two burdens by sector

212. Harmonisation of laws relating to tax arrangements for carryover of losses of undertakings - COM(84)404, COM(85)319

Differing systems hard to reconcile.

PART III: THE REMOVAL OF FISCAL BARRIERS

1 VAT

213. Proposal for Council directive instituting a process of convergence of rates of VAT and excise duties - COM(87)324

Constraint on HMG freedom. Progress will be shown.

214. Proposal on special schemes for small business (includes flat rate farmers proposal now no longer necessary) - COM(86)444, COM(87)524

*

Deregulation

7th VAT Directive - works of art, collectors' items, antiques and used goods †
COM(77) 735, COM(79)249

Too regulatory.

215. 12th VAT Directive concerning expenditure on which tax is not deductible - COM(82)870, COM(84)84

Goes too far in blocking deductions

216. 19th VAT Directive: miscellaneous supplementary and amending provisions of Directive 77/388/EEC - COM(84)648, COM(87)315

Too rigid

217. VAT - modification to Articles 28 and 32 of Dir 77/388 - COM(88)846

Problem of zero rating

| | |
|---|--|
| 218. Directive on the stores of ships, aircraft and international trains - COM(79)794 | Unnecessary harmonisation |
| 219. Approximation of VAT rates - COM(87)321 | Constraint on HMG freedom |
| 220. Abolition of fiscal frontiers - COM(87)322 | Part of approximate package. Ad hoc group considering alterations. |
| 2 <u>EXCISE DUTIES</u> | |
| 221. Harmonisation of the structure of excise duties on alcoholic drinks (alcohol) - COM(72)225/2 | Gaps in this and proposals below. Agreement remote. |
| 222. Harmonisation of the structure of excise duties on alcoholic drinks - (specific rules) - COM(85)150 | As above. |
| 223. Harmonisation of the structure of excise duties on alcoholic drinks (intermediate products) - COM(85)151 | As above. |
| 224. Excise duty on wine - COM(72)225/3 | As above. |
| 225. Harmonisation of the structure of excises on mineral oils - COM(73)1234 | Limits UK freedom. Technical problems, costs. |
| 226. Consumption taxes on manufactured tobacco other than cigarettes - COM(87)326 | World change. UK duty structure; loss of revenue. |
| 227. Approximation of taxes on cigarettes - COM(87)325 | c£600m revenue loss |
| 228. Approximation of the rate of excise duties on all alcoholic beverages - COM(87)328 | Revised proposals being considered by ad hoc group. Health/law and order concerns. |
| 229. Approximation of the excise duties on mineral oils - COM(87)327 | Change structure - would increase petrol prices, reduce diesel |

PART 1: THE REMOVAL OF PHYSICAL BARRIERS**1. CONTROL OF GOODS****1 Various controls**

230. Adaptation of Community transit legislation to take account of abolition of internal frontiers (amendment to Regulation 222/77)

231. Transport of dangerous wastes

2 Veterinary and phytosanitary controls

232. Eradication of swine fever in Sardinia.

233. Creation of special veterinary fund to finance eradication schemes for tuberculosis, brucellosis and leukosis in the bovine species, classical swine fever in the Community as a whole and African swine fever in Spain and Portugal and provide financial assistance in relation to control and eradication of other diseases which may arise.

234. Modification to the rules of frontier controls relating to welfare of animals in international transport in order to attain free movement

235. Formulation of Directives on animal health problems relating to trade in live animals of the equine species

236. Formulation of directives on animal health problems relating to trade in fish and fish products

237. Brucellosis in small ruminants

238. Formulation of directives concerning veterinary inspection problems relating to trade in animals and products of animal origin not covered by existing Directives: (a) rodents
(b) genetically modified animals and other species

239. Harmonised health and hygiene conditions for production and trade in shellfish and crustacea and preparation

240. Harmonised health and hygiene conditions for production and trade in fish and fish products (one proposal already made on this subject)

241. Harmonised health and hygiene conditions for production and trade in game meat, products and preparations

242. Harmonisation of control of foot and mouth disease

243. Harmonised health conditions for production and trade in food products of animal origin not covered by existing legislation: milk products (hygiene) and animal fats

COMMENT: Proposal partially approved on egg aspects

244. Second revision of the safeguard clause concerning the veterinary sector the exporting Member State takes the appropriate measures in order to avoid specific obstacles to intra-Community trade.

245. Pathogens in feeding stuffs

246. Application of health standards to national products

247. Suppression of veterinary certificates for animal products and simplification of certificates for live animals

248. Proposal for a system of certification of reproductive materials in fruit plants

249. Establishment of certain rules on liability in respect of plant health

250. Simplification of annexes in Directive 77/93/EEC (plant health)

251. Alignment of national standards and Intra-Community standards in plant health

252. Reduction of role of phytosanitary certificate in Intra-Community trade

253. Proposal for a system of certification in reproduction materials for decorative plants

254. Extension of application Directives 66/401/EEC, 70/437/EEC and 70/458/EEC to seedlings

255. Proposal for creation of a European law on plant breeders

256. Suppression of plant health certificates

257. Directive on organic production of foodstuffs and marketing of organically produced foodstuffs

II CONTROL OF INDIVIDUALS

258. Directive on the co-ordination of rules concerning the right of asylum and the status of refugee

Problems of principle for UK and others. Not expected for some time.

PART II: THE REMOVAL OF TECHNICAL BARRIERS

I FREE MOVEMENT OF GOODS

1 New approach in technical harmonisation and standards policy

259. Lifting equipment

2 Sectoral Proposals Concerning Approximation of Laws

2.4 Pharmaceuticals and high-technology medicines

260. Pharmaceutical products: completion of work eliminating obstacles to free circulation of pharmaceutical products

*

Some difficulties but keen in principle - useful for UK industry.

261. Harmonisation of conditions of distribution to patients

262. Information for doctors and patients

II PUBLIC PROCUREMENT

263. Public procurement in the field of services

*

Extremely important - deregulatory.

III FREE MOVEMENT FOR LABOUR AND THE PROFESSIONS

264. Proposal concerning the introduction of a European vocational training card proving the qualification of its holders

Smacks of "social engineering"

265. Mutual recognition of educational diplomas (of less than 3 years duration)

Should not be too difficult to agree - companion to adopted directive

266. Rights of residence: students

Was originally one proposal. Extends terms of Treaty and community competence: also operational problems, potential costs.

267. Rights of residence: pensioners

As above.

268. Rights of residence: non-active persons

As above.

IV COMMON MARKET FOR SERVICES

| | | | |
|------|--|---------------|---|
| 1 | <u>Financial Services</u> | | |
| 1.1 | <u>Insurance</u> | | |
| | Group pensionst | | |
| | Non-life insurancet | (mass risks)t | Stage 2 of insurance |
| | Life insurancet | (mass risks)t | proposals. UK priorities, but offers protectionist. Questions of prudential supervision and tax will arise. |
| 1.3 | <u>Credit institutions</u> | | |
| | 2nd consolidated supervision directivet | | Not opposed in principle, but possible blurring of responsibilities. Expected to be proposed to Council early 1990. |
| 1.4 | <u>Investment services</u> | | |
| | Capital adequacy directivet | * | |
| 2 | <u>Transport</u> | | |
| 269. | Air crew qualifications | | |
| 270. | Revision of air services (fares) directive | * | Keen on competition grounds. Possible technical problems. |
| 271. | Revision of passenger capacity and market access directive - air transport | | As above. |
| 3 | <u>NEW TECHNOLOGIES AND SERVICES</u> | | |
| 272. | Mutual recognition of terminal | | Keen on cut in monopoly grounds, but questions of competence raised. |
| V | <u>CAPITAL MOVEMENTS</u> | | |
| | Measures to avoid tax evasion including mutual assistancet | | May be unnecessary/costly. |
| VI | <u>CREATION OF SUITABLE CONDITIONS FOR INDUSTRIAL CO-OPERATION</u> | | |
| 1 | <u>Company Law</u> | | |
| 273. | Proposal for a Directive on the relationship of undertakings in a group | | |

274. Amended proposal on European Company Statute

Worker participation problems; attempts to tack *tax provisions to proposal (expected shortly). Agreement will take long time.

PART III: THE REMOVAL OF FISCAL BARRIERS

I VAT

275. Passenger transport

276. VAT Clearing house system

Would be problem, but may not be necessary.

II EXCISE DUTIES

277. Gradual abolition or reduction of excises not covered by the Common system and giving rise to border formalities

278. Introduction of a linkage between national bonded warehouses for excise goods

IMPLEMENTATION

Of the 279 measures in the original 1985 White Paper, 130 have been formally adopted at Community level. The Fourth Annual Progress Report on implementation of the White Paper programme, issued on 28 June 1989, says that good progress has been made on free movement of capital and on recognition of qualifications. Progress on VAT has been less good, and "nothing has been done to abolish physical and tax frontiers". Overall, four key areas are identified by the Commission as being behind schedule:

- (i) the "citizens' Europe" package;
- (ii) taxation;
- (iii) animal and plant health; and
- (iv) industrial property rights.

2. Information about implementation in Member States is incomplete, but the Progress Report says that the increase in volume of Community legislation has caused problems for many Member States. Of the 68 measures supposed to have been implemented by now, only 2 have been incorporated into national legislation in every Member State. The record varies by both Member States and field. Historically, Italy, Greece, France and Belgium have the worst record of failing to apply single market measures. Greece has attracted the most complaints for non-implementation, but few cases have gone as far as the European Court of Justice; and it must be noted that the overall transition period following Greek accession to the EC only expired on 1 January 1988. Italy and France are major offenders in all spheres and at all stages, while Belgium's record is also poor. The UK, (together with Denmark, Luxembourg and the

Netherlands) has the best record. Infringement and non-application are most common in the areas of food law (especially materials in contact with foodstuffs); quantitative restrictions on intra-Community trade (Article 30-36 of the Treaty of Rome); taxation (Article 95); the 6th VAT directive; and co-insurance.

3. Implementation of remaining measures needed for completion of the single market, especially the single financial area, is still some way off: and while the bulk of the legislative framework at Community level will be in place by the end of 1992, incorporation in national legislation will not be complete. Difficult areas include:

(i) Animal and plant health - work has scarcely begun on lifting controls, not because of problems of principle but because the UK (among others) has been stressing the need first of all for the eradication of diseases in all Member States. (Britain's standards are among the highest in the Community). Negotiations on Commission proposals will take a number of years before agreement is reached; and Community-wide implementation will lag behind;

(ii) Pharmaceuticals - not yet into work on the difficult Commission proposals. Negotiations in Brussels will get under way next year; and implementation will probably not be complete until 1991;

(iii) Procurement - the French Presidency hope to achieve a common position on the proposal on "excluded sectors" (transport, energy, water) by the end of this year, with a view to adoption at Community level by mid-1990. Implementation by Member States will take some time: the UK will need 18 months to 2 years to put the measures into effect and will push for a target implementation date of mid-1992. A proposal on procurement of services in the public sector is expected by the end of 1989, with a likely timescale of common position by end 1990, adoption by mid-1991 and implementation by mid-1992; and a proposal for the private sector is expected to follow after about six

months, with a similar lead time. A proposal on compliance in excluded sectors is also expected, but the UK has been arguing that the major proposals need to be agreed first; while negotiations on telecommunications are being held up by a French legal challenge on a Commission Directive about procurement of terminal equipment. Even after implementation in all Member States, it will take some time for the change in culture to make itself felt - for example, companies may initially be resistant to take governments to court over protectionist actions - and a truly competitive market in procurement is several years away;

(iv) Insurance - work is going slowly and much remains to be done. The proposals on motor insurance, winding up of businesses and accounts will not be adopted this year; and the second life services directives, scheduled for adoption in 1991, will give member states two years to implement its provisions. (It took five years for the first life insurance directive, adopted in 1981, to be implemented in all Member States);

(v) Investment services - it is unlikely that a common position on the investment services directive will be reached under the French Presidency, and the Irish who will succeed the French show no sign at this stage of wishing to push it. DTI would need a common position to be reached by December 1989 in order to meet the implementation deadline of 1 January 1993 - and many other Member States are further behind;

(vi) Banking - even though there has been agreement on the second banking directive, it is unlikely that all of the Member States will be able to implement it by the end of 1992. It will also take some time to establish regulatory bodies and cooperation procedures between Member States, taking account of secrecy provisions etc; and it will be many years before Europe-wide banking is a reality and institutions take advantage of the opportunities open to them;

(vii) Taxation and measures to combat tax evasion are likely to drag beyond the deadlines - questions both of principle and of operation remain to be resolved; and

(viii) Transport - while reasonable progress is being made on liberalising air transport, there have been difficulties with cabotage (scheduled implementation 1990) and international road passenger transport (scheduled for 1992) which make a fully liberalised area for transport unlikely before mid-1993.

4. It is difficult to foresee precisely how negotiations will proceed or what delays will occur in implementing measures: but it is probably not over-pessimistic to suggest that framework for implementing the single market at national level in all Member States will not be fully in place before the mid-1990's. Even then, it will take some time for the practical effects to be felt.

COMPLETION OF THE INTERNAL MARKET : SINGLE FINANCIAL AREA

This annex comments on the measures required for completion of the 'single financial area'. The Delors Report (paragraph 52) states that in 'Stage 1':

"... through the approval and enforcement of the necessary Community directives, the objective of a single financial area in which all monetary and financial instruments circulate freely and banking, securities and insurance services are offered uniformly throughout the area would be fully implemented".

2. The Delors objective is imprecise. At one extreme it could be argued that the requirement for the free circulation of monetary and financial instruments could be satisfied simply by the liberalisation of capital movements. At the other extreme it could be interpreted as requiring fundamental change in regulatory rules in member states, either to standardise which instruments can be offered for sale, or the range of instruments which can be held by particular investors, or both. Similarly, the uniform offering of banking, securities and insurance services would appear to require extensive harmonisation of conduct of business rules and marketing systems throughout the Community and considerable convergence in the structure of financial systems.

3. It follows that there will be a fair degree of scope for judgement as to whether the Delors conditions are satisfied; and for bringing to bear wider considerations in making that judgement. However, a literal interpretation of the Delors test of "uniformity" would imply a greater degree of harmonisation, and of intrusive regulation, than the UK would wish to see, would involve many years' work, and, more immediately, would be interpreted by our partners as a deliberate wrecking tactic.

4. In commenting on the outstanding measures required for completion of the single financial area we therefore concentrate on those areas where progress is most urgently needed and may reasonably be expected within the next two to three years. Essentially this means defining the single financial area by:

(i) removal of direct constraints on free movement of capital between member states;

(ii) the right for financial firms established in one member state to branch into other member states without further authorisation requirements; and

(iii) the right for financial firms established in one member state to sell financial services across borders into other states subject to non discriminatory regulation by the host state over the way the service is sold.

5. This falls short of complete uniformity and of a strict interpretation of the Delors condition, but provides a guide both to what is broadly achievable and desirable from a UK point of view and hence a reasonable standard against which progress can be judged. As noted, however, the UK will have to take a strategic judgement on what constitutes fulfilment of the Delors conditions.

6. We consider first the liberalisation of capital movements and then the three main areas of financial services: banking, securities and insurance.

Liberalisation of capital movements

7. The liberalisation of capital movements is the single most important foundation of the internal market in financial services.

8. The formal timetable requires removal of all exchange controls by eight states by 1 July 1990 and by Ireland, Spain, Portugal and Greece by 1 January 1993, (with some scope for further delay by the latter two countries). Given the extensive liberalisation already achieved, the only countries which will

need to take further action before the 1990 deadline are France and Italy. France has already liberalised all commercial transactions. Adherence to this timetable will remove direct controls on capital movements, but a number of indirect controls which should arguably be removed under the directive will then remain. These include:

(i) overstrict regulation of investments by investing institutions and pensions funds. Article 4 of the capital movements directive rather ambiguously allows prudential regulation provided it does not interfere with capital liberalisation. Question: should the UK press the Commission to investigate possible infringements of the directive in this field?

(ii) tax incentives to invest at home. The Commission has signalled its intention to tackle these in a pragmatic manner. The UK is not immune from criticism (PEPs, BES etc).

(iii) limits on access to primary markets in public sector debt such as German restrictions on sales overseas of certain classes of public debt securities.

Banking

9. Common position has been reached on the key second banking directive with its supporting capital adequacy directives on our funds (adopted) and solvency ratios. Full implementation is required in all states by 1 January 1993 although transitional arrangements are allowed for compliance with certain elements. (Member states have several years to require compliance with the minimum solvency ratio requirements for example). Implementation will satisfy in broad terms the second and third conditions for a single financial area by providing for EC authorised banks to branch freely into other states and sell a defined range of services across borders.

10. Hence the UK's first priority is to see full implementation of the directives already agreed. Beyond this, further measures could be adopted to bring greater uniformity in European markets but we would not regard these as essential. These include:

(i) Measures to extend mutual recognition of financial techniques practised in different member states. For example variable rate mortgages are not permitted in Belgium or Germany. The proposed mortgage and mortgage bonds directives may provide a means of establishing a more effective European wide mortgage market but neither is being actively pursued.

(ii) Measures to harmonise consumer protection. For example the Commission is likely to propose a draft recommendation on transparency of bank charges, and the recently adopted Consumer Credit directive provides a standard formula for calculating the cost of credit. The 1986 Commission recommendation on deposit guarantee schemes considers harmonisation of this element of consumer protection. In principle, all elements of consumer credit and banking law could be subject to such harmonisation.

(iii) Measures to harmonise further the minimum standards of prudential supervision of banks. Examples are the Commission recommendation on large exposures and the draft directive on Consolidated Supervision.

(iv) Measures to encourage growth of European markets by laying down common standards. For example the 1987 Commission statement on Electronic Funds Transfer at Point of Sale (EFTPOS) considers common technological standards in this field but makes no formal proposals; and the 1988 recommendation on payment systems seeks to encourage standardisation.

Securities

11. This is a broad heading which encompasses the activities of securities firms, cross border marketing of mutual funds (unit trusts etc), and minimum standards for listing, publishing information about and trading in securities.

12. Considerable progress has already been made through the Banking directive, which will give a European passport for securities business for bank subsidiaries; through the UCITS directive, which will allow cross border marketing of certain collective investment vehicles in most member states from October of this year; and through directives on prospectuses, insider dealing and disclosure of information on large shareholdings which have already been adopted.

13. Current UK priorities are:

(i) Adoption of the investment services directive, provided it is in a form which gives a passport to non bank financial institutions, to compete on reasonably fair terms with banks; and provided it is supported by a position risk directive laying down minimum capital adequacy requirements for securities business. The target is for adoption in time for implementation on 1 January 1993 in line with the Banking directive.

(ii) Implementation of the range of directives outlined above which have already been adopted.

(iii) Adoption of the draft amendment to the directive on listing particulars and implementation of the amended directive.

14. These measures will provide a substantial measure of liberalisation in the securities field. Further refinements which we may wish to press for in future include:

(i) Extension of the UCITS directive to cover the wider range of unit trusts soon to be permitted for authorisation in the UK (money, futures and options, and commodities funds).

(ii) Some measure of harmonisation of conduct of business rules to facilitate cross border selling.

Insurance

15. Progress towards a single market in insurance has been slow because most member states argue that detailed regulation of premiums and policy terms and conditions is needed to protect their consumers. This substantially limits competition based on price and product design.

16. Both life and non life insurers have for some years been free to establish branches in other member states, provided they satisfy the authorisation requirements in those states. Non life insurers will be able to insure risks (other than motor liability) across frontiers from mid 1990 under a directive agreed last year, but only large commercial risks will be free of host state control of premium rates and policy terms and conditions. The draft life services directive currently under discussion will provide limited freedom for life insurers to sell policies across borders when they are approached by consumers on their own initiative.

17. This is an area where substantial further progress needs to be made. UK priorities are:

(i) Adoption of the life services directive in at least as liberal a form as that proposed. We want to see it extended to allow advertising, to allow brokers to arrange policies with foreign insurers, and ideally to replace the 'own initiative' restriction with simple requirement that the customer agree to place himself under the protection offered by the host state of the insurer. (Resistance to all these points is being led by the Germans who are seeking to restrict this limited measure still further).

(ii) Rapid progress on a further life service directive (or directives) which will extend freedom to transact cross frontier services to pensions, group life, and most importantly individual 'mass risk' business.

(iii) Adoption of the draft motor insurance directive which extends the non life services directive to cover motor liability (and therefore only brings large commercial motor risks within the liberal regime).

(iv) Rapid progress on a further non life services directive to extend the liberal regime for 'large' risks to individual 'mass risk' business.

18. There is clearly a great deal of work here (probably more than the Commission can realistically handle given current resources). And it must be noted that even these steps will not provide a passport to branch into other states on the basis of home state authorisation. Hence they will leave the second suggested condition for a single market unfulfilled.

Checklist

19. A checklist of outstanding measures for implementation or adoption in the financial services field is attached.

FIM2
HMT
1 September 1989

(ANNEX 1
REFERENCE)

CHECKLIST OF FINANCIAL SERVICES SINGLE MEASURES TO
BE IMPLEMENTED OR ADOPTED

I. BANKING

Essential

- 177 Second Banking Directive (Common position reached)
- 104 Own Funds Directive (adopted)
- 178 Solvency Ratios Directive (common position reached)
which are supporting capital adequacy directives to
the Second Banking Directive.

Not essential

- 179 Mortgage Directive (text formally proposed by the
Commission is to be reconsidered in September, but
unlikely to lead to early action.)
- P22 1.4 Consolidated Supervision Directive (not in internal
market programme; discussions in progress in
Commission working group.)
- Recommendation on payment systems (made by
Commission in November 1988.)
 - Consumer Credit Directive (adopted. Further
technical measure, not in internal market programme,
now under discussion.)
 - Mortgage Bonds Directive (Commission proposals
effectively shelved.)
 - Electronic Funds Transfer at point of sale (covered
in January 1987 Commission policy statement, but no
formal proposals made.)

- **Transparency of Bank charges** (Commission likely to propose draft recommendation in Autumn 1989.)
- **Recommendation on large exposures** (made by Commission in December 1986)
- **Recommendation on deposit guarantee schemes** (made by Commission in December 1986).

Not acceptable to UK

180 **Winding Up Directive**

II. SECURITIES

Essential

110 **UCITS Directive** - adopted, to be implemented by most member states (October 1989) and Greece and Portugal (April 1992).

188 **Investment Services Directive**, provided it is in a form which grants passport etc to wide range of non-bank financial institutions on reasonably competitive terms in relation to banks' investment business.

- depending on the outcome of the ISD and the evolution of Community jurisprudence, possibly a further measure covering **conduct of business rules**, to facilitate cross-border selling. See also comments on life assurance.

p22 1.4 **Position Risk Directive(s)** - supporting capital adequacy directive(s), without which we could not accept the ISD, for supervisory and competition reasons.

- 187 Insider Dealing Directive (common position reached) included for political rather than economic reasons.
- 113 Prospectus Directive (adopted) Deadline for implementation 17 April 1991.
- Mutual recognition of listing particulars - attempt to reach a common position on a proposed amendment to this directive (adopted in 1987) by October 1989; deadline for implementation 17 April 1991.

Not essential

- 112 Information to be published when major holdings are acquired or disposed off (adopted).

Not acceptable to UK

None.

III. INSURANCE

Essential

- 109 Non-Life Directive - Provides freedom of cross-border services only for large commercial risks. Inadequate We should press for further directive to provide similar freedoms for non-life retail market.
- p22 1.2
- 186 First Life Services Directive - in at least as liberal form as proposed. (This is a limited measure which provides freedom only for "own initiative" business.) Inadequate: we should press for further directives as planned by the Commission to cover group life and pensions business and individual "mass risk" business.

185 Motor Insurance Directive (extends freedom of services directive to motor insurance.)

Not essential

181 Law of insurance contracts

182 Annual accounts of insurance undertakings

183 Winding-up of direct insurance undertakings

Not acceptable to UK

None.

CAPITAL LIBERALISATION DIRECTIVE

Present position

The directive was adopted by the Community on 24 June 1988. It provides for the abolition of all exchange controls within the Community for the eight major Member States by 1 July 1990 and for the Community to "endeavour to attain the highest possible degree of liberalisation" in respect of capital movements to and from third countries. Ireland, Spain, Portugal and Greece have until the end of 1992 to comply with the directive's requirements, with the possibility of an extension to 1995 for the last two.

Among the eight majors, exchange controls have already been abolished in the UK, Germany, the Netherlands and Denmark. Belgium and Luxembourg have also abolished all controls, except those required to maintain the two-tier foreign exchange system. They have undertaken to abolish that by end December 1992 and meanwhile to administer the system to ensure there are no notable or lengthy spreads between the official and free markets. France has abolished almost all controls, although residents are still generally not permitted to hold bank accounts abroad or open foreign currency accounts in France. Italy has also removed most of its controls: the remaining restrictions are on residents' holdings of Lira or foreign currency lines of credit in favour of foreign countries and foreign exchange forward or option transactions with foreign counter parties.

Points to watch

- i. Of the major countries, Italy is probably the most likely to backslide. It has reintroduced controls in the past.
- ii. France has earlier tried to tie full implementation of the directive to progress on preventing tax evasion on savings, although the directive only committed the Council to taking a position on Commission proposals on the subject by 30 June 1989 (Article 6). More recently, France has agreed that

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there is no direct link between the two issues and reaffirmed it is wholly committed to full liberalisation by 1 July 1990. Indeed, to the extent that the French want to develop their domestic financial market, exchange control abolition is very much in their own interest.

- iii. The progress of the four laggards will need to be monitored, especially post 1992, as will the Belgian/Luxembourg commitment to abolition of the dual exchange rate.
- iv. Article 3 provides a safeguard clause under which controls could be reintroduced temporarily, although the very existence of this provision is to be reviewed before the end of 1992. We shall need to ensure this is invoked very sparingly - in drafting the directive, the Italians, as well as Ireland and the other Mediterranean states, attached considerable importance to it.
- v. Article 4 states that the provisions of the directive are without prejudice to the right of Member States to take "requisite measures" to prevent infringements of their laws and regulations, inter alia "in the field of taxation and prudential supervision of financial institutions, or to lay down procedures for the declaration of capital movements for purposes of administrative or statistical information". Clearly, this Article could be used to reintroduce exchange controls by the backdoor: we suspect the Germans would attempt to justify some of their "hidden" controls in eg the pension field on these grounds.
- vi. The Commission have already indicated that they will want to examine some of the discriminatory practices Member States currently adopt in eg the tax field which appear to be in conflict with the directive. We probably have more to gain than lose by supporting them in this: we are by no means whiter than white ourselves (BES, PEPs, FOTRAS etc) but a number of other Member States are probably at greater fault than we are.

COMMUNITY COMPETITION POLICY

Paragraph 51 of the Delors Report envisages the completion of the internal market being "accompanied by a strengthening of Community competition policy". The report does not make clear the meaning of the term "competition policy" or what is meant by strengthening it. The only Commission proposals in the area of competition are aimed at removing barriers to takeovers. Three items are outstanding, all of importance to the UK:

(i) EC Merger Control Regulation - progress has been difficult, but the French Presidency are determined to make headway this autumn. The major problem for the UK has been that thresholds for referring takeover bids to the Commission are too low (but agreement may be close) and criteria for disallowance have gone wider than competition; and that it gives too much power to the Commission. Agreement at Community level will not be before 1990 at the earliest, and the machinery for implementation will take some time to set up.

(ii) Barriers to Takeovers Exercise - partly as a result of UK pressure, the Commission is reviewing the existing situation in Member States. A report will issue shortly, which is expected to show that there are a wide variety of barriers, both legal and procedural, from country to country. Procedural barriers (as in France) should be removed by the Merger Control Regulation; legal barriers (as in West Germany) will require further work: it is difficult to establish a timetable for this, but some difficult questions have to be answered. The UK may seek to tie progress on (i) to progress on this.

(iii) 13th Directive on Takeovers - This safeguards shareholders, gives transparency to takeover procedures, establishes rules on defensive measures against takeovers, and provides for regulatory authorities in Member States. As

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presently drafted, it would weaken the UK regulatory system. Progress has been difficult. The French Presidency hope to have a common position by the end of 1989, but even if early adoption is secured, implementation seems likely to be at least two to three years away.

Until all single market measures are in place, there will not be genuine competition in all areas marked by a lack of competition at the moment: such as transport telecommunications, and procurement. As has been noted in Annex II, this will take at least until the mid 1990s to achieve.

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REGIONAL POLICY: REFORM OF THE STRUCTURAL FUNDS

The Delors Report identified the full implementation of the reform of the Structural Funds as one of the elements necessary for Stage 1 of EMU, "in order to enhance the ability of Community policies to promote regional developments and to correct economic imbalances" (paragraph 51).

Reform of the three funds - the European Regional Development Fund, The European Social Fund and the European Agricultural Guarantee and Guidance Fund (Guidance Section) - together with the doubling of their resources in the EC Budget (from 7 becu in 1987 to 14 becu in 1993 at 1988 prices) was agreed at the European Council of 11-12 February 1988. A new "framework" regulation was adopted in June 1988 and the regulations covering the detailed operation of the individual Funds were adopted that December.

Implementation will, however, take some time. Member States must submit Regional Development Plans to the Commission outlining intended measures and bidding for support: a Community Support Framework (CSF) will then be drawn up; measures will be put into effect in the Member State, and part of the domestic public expenditure incurred on these measures will be reimbursed from one or other of the Funds. CSFs for the UK are expected to be adopted during October: adoption may take longer for other Member States. The practical effects will take some time to make themselves felt.

The level of regional spending each year will be decided in the normal negotiations on the Community budget but in practice will be guided by the agreed path for increases in expenditure. Although from past experience there may be some difficulties in identifying sufficient projects to absorb the full increase proposed by 1993, it is likely that the level of spending will be reached as planned.

OBSTACLES TO THE GREATER USE OF THE PRIVATE ECU

The Delors Report states that there should be no discrimination against the private use of the ECU and that existing administrative obstacles should be removed. This note describes the main obstacles that remain. Many of them will be removed as foreign exchange controls are relaxed in these countries where controls still exist. Annex A provides a detailed country by country analysis of the ECU's status.

Present status, remaining restrictions and preferential treatment

Legal Status

2. The ECU is explicitly recognised as a foreign currency in Belgium, Denmark, Greece, Spain, France, Ireland, Italy and Portugal. In the remaining countries it is treated on the same footing as foreign currency.

Restrictions on acquisition of ECU assets and borrowing in ECUs

3. All transactions relating to the acquisition of ECU assets and borrowing in ECUs (except the issue of ECU securities on the respective domestic market, see paras 6 and 7 below) are free in Denmark, France, Germany the Netherlands and the United Kingdom, as well as in Belgium and Luxembourg (subject to the provisions governing the two-tier exchange market).

4. In the other EC countries, there are a variety of restrictions deriving from foreign exchange controls. In Greece and Portugal residents are generally prevented from holding foreign exchange and therefore ECU assets. However, residents may acquire bonds issued by Community institutions (including bonds denominated in ECUs). Residents in Spain may freely acquire all kinds of securities issued by non-residents in foreign currencies up to a certain limit which is equal to 30% of the investor's own

resources. This limit does not apply to purchases of bonds launched by supranational institutions (of which Spain is a member) and securities issued by Spanish residents abroad.

5. Foreign exchange control in Italy and in Ireland mainly applies to short-term capital movements (ie in particular the possibility of holding foreign currency and hence ECU bank deposits) while there are no restrictions on portfolio investments.

Issue of ECU securities by residents on their domestic market

6. No authorisation is necessary in the United Kingdom, the Netherlands and Luxembourg, and indeed there have already been issues by non-governmental entities in each of these three countries. No restrictions exist either in Denmark (provided that associated payments are not carried out in ECUs) but so far only the Government has launched domestic ECU bond issues. Domestic ECU bond issues should also be possible in France (where again, so far there has only been a government issue). In Belgium, proposed issues have to be submitted to the Commission Bancaire, which authorised a domestic issue by a Belgian bank in 1987.

7. In the remaining EC countries (including Germany), residents are presently not allowed to raise funds by issuing ECU-denominated bonds on the domestic market. However, a number of governments have issued ECU-denominated instruments. And in Germany issues are permitted if only subscribed by non-residents.

8. There are no restrictions on issues of ECU-denominated instruments by member states in the euromarkets.

Preferential treatment

9. Greece, Ireland, and now Portugal give preferential treatment to the ECU under their exchange controls by permitting use of their own currencies for operations by foreign banks designed to cover open ECU positions.

Do legal and administrative constraints impede growth of private ECU market

10. In his paper on the ECU, prepared for the Delors Committee, Snr. Ciampi argues that if the ECU is to be evaluated by the market on the basis of intrinsic merit, it will be necessary to remove the legal provisions hindering the general use of the ECU in place of national currencies. In most, if not all countries, as noted above, the ECU does not have that same status as the domestic currency. Obstacles to its use (and usually to other foreign currencies as well) take the form of a legal requirement that only domestic currency can be used for particular purposes (eg. legal tender).

11. The ECU Banking Association (EBA) in their report on "Concrete Steps for Developing the ECU" (April 1989) state that in contrast to its growing use in financial operations, the ECU has not achieved a significant success as a transactions currency. They see this as a major restraint on the further development of ECU financial markets and argue that it is therefore imperative to reduce all regulatory, administrative and legal discriminations against the ECU. Specifically, the EBA recommend that any regulatory and legal restrictions applying to ECU bank accounts, jointly operating with national currency accounts, and fully usable for foreign exchange operations, should be eliminated.

12. The EBA also observe that the ECU capital market exhibit a number of weaknesses. Some are only signs of immaturity and time, they suggest, will correct them. Other weaknesses are more deep-seated. The major weaknesses are limited liquidity, a restricted range of financial instruments and irregular activity. They state that of about 400 outstanding issues only 50-80 are considered as liquid and argue demand for ECU bonds by institutional investors needs to be developed more vigorously. In certain instances, national traditions and legal requirements restrict institutional investors to national currency assets, paper traded on national exchanges, or paper issued by national government or its agencies.

13. To address this, the EBA recommend that all regulations or laws limiting admissible securities for certain institutional investors to those in national currency, those domestically listed, or securities of national issues should be reviewed to put ECU securities listed on any European exchange and issued by an European government or supra-national agency on the same footing as domestic currency issues. This would be a major change for Germany, as well as most EC countries with remaining exchange controls (see paras 6 and 7 above).

14. More generally, the EBA argue that in Community countries the ECU should be given a "most favoured currency status" and be put on an equal footing with the national currency wherever possible. They also favour acceptance and legal adoption of a restricted legal tender status for the ECU, amounting to the elimination of all restrictions on the use of the ECU and making contractual ECU obligations enforceable. In addition they argue that it is important to put the ECU at least on an equal legal basis with national currencies for purposes of company accounts. They note that although some companies use the ECU for accounting purposes this is limited. In addition, the Commission and other European institutions should progressively use the ECU for receipts, expenditure and lending.

Other obstacles

15. Other factors are however as important, if not more important, in limiting the use of the ECU than remaining legal and administrative constraints. A fundamental obstacle to greater use of the ECU is often simply the assessment by one or more parties involved in a transaction that the ECU is less attractive to use than another currency (often the dollar). This has been brought out clearly in two surveys carried out last year.

16. A survey of its members carried out by the CBI last year showed little enthusiasm for, or knowledge of, the private use of the ECU at present. Less than 5% of respondents agreed with those calling for European Governments to accept tax payments in ECUs in

order to ensure that some portion of the outgoings of every company are denominated in ECUs. British firms appeared reluctant to make greater use of the ECU for invoicing without the co-operation of other companies in the same market.

17. A much larger survey covering over a thousand business leaders carried out last year on behalf of the Association for the Monetary Union of Europe made the same point. The main handicap in the use of the ECU is lack of knowledge, and the second handicap is linked with difficulties in getting it accepted.

18. To overcome this widespread ignorance of and reluctance to use, the ECU, the EBA have proposed repeated, massive and well structured information campaigns supported by the Commission, member governments, central banks and the EBA.

Annex

LEGAL STATUS OF THE PRIVATE ECU IN COMMUNITY COUNTRIES (BASED ON STUDY CARRIED OUT BY THE ECU BANKING ASSOCIATIONS LEGAL COMMITTEE)

Belgium/Luxembourg

Since 1983 the Belgo-Luxembourg Exchange Control Institute (which polices the exchange control system) has regarded the ECU as an instrument which is equivalent to a currency and on an equal footing with the other major currencies. This means that accounts and other transactions do not have to be broken down into their component parts.

Residents can buy or sell ECUs on the free market in order to subscribe or sell bonds denominated in ECUs. They can also make term deposits with Belgian banks. Non-residents may buy or sell convertible ECUs for another currency on this market on the basis of the fixing session or spot rates prevailing at the time of the transaction.

Non-residents may use ECUs on the financial market for any financial transactions.

However, the ECU is not legal tender in either country, and anyone may refuse a payment in ECUs unless it has been stipulated in a contract. The ECU is therefore a purely contractual currency, which may pose particular legal problems.

Belgian law requires that amounts stipulated in public and administrative deeds be denominated in Belgian francs. This means that, in principle, it is not possible to obtain a ruling in ECUs from Belgian courts and tribunals. (This is unlikely to be a major obstacle).

Although some industrial groups have decided to publish their company accounts in ECU, Belgium law requires the publication of annual financial statements in the national currency. The law also prevents mortgage loans from being denominated in ECUs.

Italy

Italy was the first country to attribute the ECU the status of a foreign currency in August, 1981. The main consequences in the field of financial and commercial transactions are:

- a) The ECU is quoted on the Milan and Rome foreign exchanges. It can be utilised by the non-residents for all banking transactions. Residents are able to conduct financial transactions and to open bank accounts in ECU just as they would in other foreign currencies subject to the same exchange control regulations in force;
- b) customers can make use of ECU as an invoice currency: they can ask for the issue of exchange control forms, obtain overdrafts in relation to import and export transactions, perform spot and forward exchange contracts within set limits all in ECU;
- c) the ECU is included in the exchange position of the banks;
- d) as a rule foreign banks (and also foreign branches of Italian banks) maintain ECU accounts with some Italian banks.

The Bank of Italy maintains ECU accounts with foreign banks abroad; when necessary it has acted as counterparty of Italian banks in relation to banking imbalances.

More generally legal opinion is unclear whether the ECU can be considered as a legal tender under Italian law. If a pecuniary debt is denominated in a money which is not legal tender in the State, the debtor is required to pay in legal money (that is the Lira) unless the contract specifically states otherwise.

Germany

The assumption of debts in foreign currency owed between residents of the Federal Republic of Germany is governed by Article 3 of the Wahrungsgesetz - Currency Law.

According to Article 3, Clause 1 of the Currency Law monetary debts in a currency other than DM require the permission of the Deutsche Bundesbank. Article 3, Clause 2, stipulates that monetary debts require a permit if their amount in DM is to be determined by the exchange rate of such other currency or by the price or a quantity of fine gold or by other goods or services.

Until 1987 this permission was not given for debts incurred in ECU, since the Deutsche Bundesbank did not consider the ECU to be a currency but a form of index linking. In June 1987, the Deutsche Bundesbank changed its position on the ECU.

Now, liabilities denominated in ECU between residents are authorised in the following cases:

- the keeping of ECU accounts with credit institutions
- the raising of ECU loans from credit institutions for terms of up to 12 months
- for the acquisition of precious metals (gold, silver and platinum) as well as gold and silver coins
- for the acquisition of ECU denominated liabilities and ECU denominated securities
- the issue of guarantees and standing surety on behalf of non-residents or for liabilities denominated in ECUs
- the taking out of life insurances - endowment as well as annuity insurances - and corresponding reinsurance and in addition by way of policy loans, provided however that the insurance company only has the right to set off

the claim under the loan upon the occurrence of the event insured against or upon the surrender of an insurance policy

- the taking out of insurance (including corresponding reinsurance) against risks in connection with foreign trade, cross-frontier transport of removal goods, luggage and goods for exhibition and property situated in foreign economic territories.

However this does not extend to the assumption of liabilities denominated in ECU, should their amount be determined on the basis of the future exchange rate of a currency, the future gold price or the future price or value of other goods or services.

General issues of ECU denominated bonds by residents of the Federal Republic are not permitted. However, in practice, the authorities agree to issues where a consortium comprising non-residents acquires the ECU denominated bonds upon issue. Cheques and bills of exchange denominated in ECU are not permitted as the ECU does not constitute money in accordance with German Law.

France

ECU is treated as a foreign currency according to a decision of the Directeur du Tresor dated May 21, 1982.

This implies that:

- a) French banks may grant loans and overdrafts in ECU to residents (Residents can directly borrow ECU from foreign banks)
- b) residents can invest in ECU denominated securities.
- c) French banks can manage their assets and liabilities in ECU, provided that the limits of their global position in exchange are not exceeded.

ECU is quoted on the Paris foreign exchange. It is used as currency unit in domestic contracts; in international contracts in which it is used as currency payment if the place of payment is situated in France the debtor may discharge its pecuniary obligation by paying in French francs but case law is not very clear on this point.

UK

Under the law of contract, payment can be, and is, denominated in ECU as readily as it can be, and is, denominated in any other foreign currency.

Under English law, the ECU occupies an ambiguous position between a unit of account and a unit of currency.

Spain

The private ECU, is fully comparable with other currencies having been admitted for listing on the Madrid foreign exchange market by the Bank of Spain, in July 1987. This means that it is now possible to use the private ECU in foreign commercial and financial operations, with the restrictions established in the current exchange control regulations.

Greece

The ECU is recognised in Greece as foreign currency and is subject to the Greek laws and regulations on foreign exchange.

In particular, it is prohibited in Greece in general to carry out contractual obligations in foreign exchange, irrespective of place of contract.

Furthermore, judgements (foreign or local) are in Greece always executed in drachmas according to the official rate at payment date.

Under Greek law where monetary obligations in foreign exchange are payable in Greece, the debtor is entitled to pay in local currency.

Under Greek Civil Code, jurisprudence has interpreted the concept of "foreign currency" as instruments accepted as money in private transactions. Consequently, the ECU would be expected to be recognised as foreign currency not only under Greek foreign exchange regulations, but under the Greek Civil Code (private law) as well.

The Netherlands

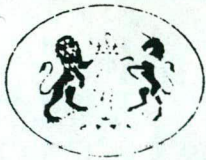
Under Dutch law there are no legal or regulating provisions directed specifically to the ECU. Consequently the private-ECU is not Dutch legal tender and is treated (by the monetary authorities) as a foreign currency.

Where two parties have explicitly agreed upon payment in foreign currency the creditor is allowed to refuse payment in guilders by the debtor, but the creditor will accept guilders if the foreign currency might not be available. If it is not explicitly agreed the debtor is allowed to pay in Dutch guilders.

There are in the Netherlands no limitations regarding the use of the ECU by banks or their customers.

Denmark, Ireland and Portugal

No detailed information is to hand for these three countries.



Foreign and Commonwealth Office

London SW1A 2AH

15 August 1989

N L Wicks Esq CBE
H M Treasury

Dear Nigel,

EMU: "DEMOCRATIC ACCOUNTABILITY"

| SECOND FERM SEC'S OFFICE OVERSEAS FINANCE SECTOR | |
|---|-----------------|
| ACTION: | Mr H P Gove |
| COPIES TO | Mr R C Allen |
| | Mr Peretz |
| | Mr Collins-Smee |
| | Mr Riley |
| | Mrs Brown |
| | Mr Tuck |

1. You asked me to think about possible Antibes handling of the accountability issue.

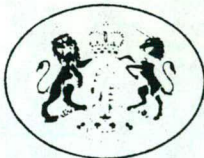
2. It may be best to start by noting the sequence of events last month. At the 10 July ECOFIN the Chancellor, calling for a rather wider agenda of Stage II/III work than the four points which Delors had suggested, mentioned the need to address inter alia the problems of "democratic accountability" which EMU would raise. The point was taken, and by the 17 July Foreign Affairs Council Delors had added to his agenda a further two questions, viz:

- (a) should the European Central Bank be accountable to the European Parliament and the European Council; and
- (b) should there be some democratic quid pro quo for the growing role of the system of Community economic and monetary institutions?

One week later, on 26 July, Delors expanded, and answered, his question (b) when he told the European Parliament that "there was a need to reinforce the democratic counter-weight to EMU through representative Community institutions responding to public opinion".

3. This sequence prompts five deductions.

/4. ...



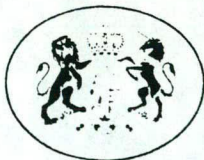
4. First, it demonstrates how discussion of democratic accountability in the Community tends to be quickly translated into talk of accountability to Strasbourg. It is hardly surprising that the Commission, and many of our partners, think first of the Parliament, not the Council, when considering democratically elected institutions, for in countries with multi-polar political systems changes in national representation in the Council spring as often from coalition changes as from election results. Moreover some member states (e.g. Italy) are genuinely keen to seize any opportunity to increase the power and role of the Parliament. And the Commission, who are in many ways the Parliament's natural ally (against the Council), are willing to play along with Strasbourg's ambitions. Since we take a different view, we need to define rather carefully what we mean by the implications of EMU for democratic accountability.

5. Secondly, we clearly do not mean that any increase in the Community's role on economic or monetary issues need be complemented by an increased role for Strasbourg. So our answer to Delors's question (b) must be No. As in the pre-SEA discussions, we still take the view that more power for Strasbourg should be opposed if it means less power for the Council, or for national Parliaments. And we are on record this year as opposing suggestions - e.g. from Lord Plumb and the Spanish Presidency - that the time is now ripe for a post-SEA review of next steps in the development of the EP. We have taken the line that the SEA's institutional innovations need plenty of time to bed down satisfactorily: conceivably the Chancellor may need to say something on these lines at Antibes.

6. Third, the more difficult question is whether any increase in the Community's role on economic or monetary issues need have adverse effects for accountability to national political institutions. We might do well in this context to distinguish between the implications of Economic and of Monetary Union. The July Delors sequence illustrates that, as in his Report, he sees no such distinction - a relatively tight form of economic union is postulated as a necessary condition for a monetary union, and it is the monetary institutions which are to be accountable to other Community institutions, including the Parliament. The extent to which a monetary institution should be politically

/accountable

JK1ACH

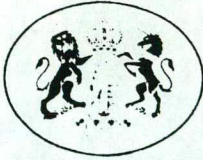


accountable or independent is obviously a good subject for Community debate - preferably German-led - over the months ahead, and it might be useful if Pauline Neville-Jones could remind us of the precise current relationship between the Bundesbank, the Federal Government, and the Bundestag. But I suspect that it would be quite difficult to argue that Westminster control over UK monetary policy-making is very tight, or therefore that all conceivable forms of Community monetary union would weaken it, and so create a new democratic deficit.

7. On the other hand, Westminster obviously does have considerable control over economic policy-making, and I suspect that what the Chancellor had in mind at ECOFIN was the doubtful acceptability to national legislatures of the controls over national fiscal policies inherent in an economic union as foreseen by Delors. For on economic, as distinct from monetary, issues, national legislatures would have to cede powers which they now have, and which are real. And whereas I suspect that we might be able to give an affirmative answer to Delors's 17 July question (a) (provided that ECOFIN's role alongside the European Council was entrenched, and any role for Strasbourg kept pretty notional), I cannot conceive of any Community mechanism which would satisfactorily deal with this issue.

8. So my final deduction is that the Chancellor's point is an excellent one to make in specifically attacking the idea of a tight form of economic union: not only are tight controls not essential for a monetary union, it would also be unacceptable to several national legislatures that decisions on overall national taxation should not be, at least ostensibly, made nationally. I do not think such legislatures would be at all mollified if the binding controls laid down by the institutions of the economic union were made subject to approval by Strasbourg: the national legislators would argue that it would be their seats, not those of their Strasbourg colleagues, which would be at risk if the fiscal limits proved unpopularly onerous in practice. (You might welcome a view from Paris on how such arguments might play in the Assembly.)

/9. ...



9. From these five points my provisional conclusion is that your brief for Antibes might:

- (a) warn the Chancellor that stress on democratic accountability in relation to EMU as a whole could be a double-edged weapon: rather than undermining Delors's form of EMU, it could lead others to suggest Strasbourg additions which would only increase its undesirability for us;
- (b) advise him if necessary to warn his ECOFIN colleagues that talk of further transfer of power to the Parliament (Delors's question (b)) would be seen, at least in London, as wholly premature, so soon after the SEA;
- (c) suggest that the appropriate degree of political accountability/independence of any Community (Central Bank) monetary institution might indeed be a suitable subject for ECOFIN study, as Delors implied to the FAC (his question (a));
- (d) argue that the objections on grounds of diminished democratic accountability to the Delors form of EMU are best made specifically in relation to the Delors concept of economic union, and the extent to which it - much more than monetary union - could entail conflict with policies and pledges voted for in national elections; and
- (e) point out that these objections could not be met, and would if anything be strengthened, by talk of a Strasbourg role in the oversight of national fiscal policies.

Yours ever,

J O Kerr

/cc:

JK1ACH

CONFIDENTIAL



cc:

Sir D Hannay KCMG
UKREP BRUSSELS

Miss L P Neville-Jones CMG
BONN

M J Llewellyn Smith Esq CMG
PARIS

D A Hadley Esq
Cabinet Office

J Arrowsmith Esq
Bank of England

JK1ACH

CH/EXCHEQUER

| | |
|--------------|---|
| REC. | 30 AUG 1989 |
| ACTION | Mrs BROWN |
| COPIES TO | PS/EST Sur P. Middleton Mr WICKS, Mr EVANS Mr ODLING-SMEE Mr R. G. ALLEN Mr PERETZ Mr WHITE Mr MCINTOSH |

PARIS, le 23 AOUT 1989

Mon cher Collègue,

Comme je vous en informais par lettre du 21 juillet, la séance de travail de notre prochaine réunion informelle Ecofin se tiendra le samedi 9 septembre. Je vous propose qu'elle soit consacrée principalement à approfondir la réflexion sur l'Union économique et monétaire que vous avons engagée à S'Agaro, et que les conclusions du Conseil européen de Madrid nous font un devoir de poursuivre et de préciser.

Dans cette perspective, et comme elle s'y était engagée lors de la réunion du Conseil Ecofin du 10 juillet, la Commission des Communautés européennes m'a communiqué ses récents travaux en ce qui concerne la mise en oeuvre de la première étape de l'Union économique et monétaire. Ils prennent, ainsi que l'avait annoncé M. Christophersen, la forme d'un avant-projet de modification des textes de 1974 sur la coordination des politiques économiques ; je vous prie donc de trouver ici le résultat de ces travaux. Je vous enverrai officiellement, dès que le Président Delors me la transmettra, la proposition de modification de la décision du 8 mai 1964 sur la coopération entre les banques centrales des Etats-membres, que le Comité des gouverneurs des banques centrales a faite à la Commission le 28 juillet. Ces documents constituent, à mon sens, la base qui nous permettra, le 9 septembre à Antibes, d'échanger précisément nos vues sur le contenu que nous désirons donner à la première étape de l'Union économique et monétaire. Ce débat se tiendra, notamment, à la lumière des discussions du Comité monétaire ; je souhaite qu'il nous permette d'arriver, entre nous, à un accord de principe sur les divers points qui seront soulevés.

A ces documents sera adjointe une communication du Président de la Commission sur les principaux points soulevés par les deuxième et troisième étapes de la construction de l'Union économique et monétaire, qui nous permettra de faire progresser nos débats en parallèle sur les différentes étapes prévues par le rapport Delors.

.../...

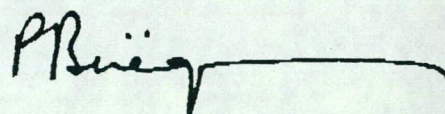
Monsieur Nigel LAWSON
Chancelier de l'Echiquier
Parliament Street
LONDON SW1P 3 AG

Par ailleurs, je vous propose que nous échangions nos vues sur les propositions de la Commission en matière fiscale, qu'il s'agisse de la fiscalité indirecte ou de la lutte contre l'évasion que pourrait entraîner la libération des mouvements de capitaux. Ce sont là en effet deux questions qui sont fort importantes pour la mise en place du marché unique des biens et des services, et sur lesquelles il importe maintenant que nous puissions progresser de concert.

Ces différents débats pourraient être à mon sens précédés, comme nous y invite la proximité des réunions de Washington, d'un examen rapide de la situation économique à l'intérieur et à l'extérieur de la Communauté, complétant les commentaires que nous avons échangés le 10 juillet. Je proposerai alors à votre examen le projet, préparé par le Comité monétaire, de l'intervention que je ferai en notre nom devant l'Assemblée annuelle du Fonds Monétaire International et de la Banque Mondiale.

Je vous prie d'agréer, mon cher Collègue, l'expression de mes meilleurs sentiments.

Cordialement vôtre,



Pierre BÉREGOVOY

Trying to market a new species of EMU

In the dignified version of an intray that awaits a Chancellor returning from holiday sits the British Treasury's alternative to the Delors report on European Monetary Union. Nigel Lawson has to decide whether to polish these papers up in time for circulation among his fellow finance ministers at their meeting in Antibes next weekend.

No less a person than the Permanent Secretary to the Treasury has been busy himself with this ticklish task, though it is obviously questionable whether it will make any difference to anything.

Lawson's position

Mr Lawson has expressed his resistance to EMU in pretty robust terms, not least to the Treasury Committee of MPs. Admittedly, that was at a time when he was hitting the idea hard in order to convince the Prime Minister he was "sound", and that full EMU — a single European currency, central bank *et al* — should be distinguished from mere membership of the existing European Monetary System of semi-fixed exchange rates, which of course he favours. (Only afterwards did his officials slip in a footnote to his evidence, to the effect that the kind of EMU he was rejecting was the particular bird in Jacques Delors' aviary).

After Madrid, however, there is

singularly little point in proffering other finance ministers a series of papers rubbishing the whole idea. The Governor of the Bank of England, Britain's signatory to the Delors report, has been running the line that the committee did not take a view on whether EMU was actually desirable; it merely sought to describe how it might be hatched. That is pretty disingenuous, but it is a tactfully apolitical course that the Treasury may find useful too.

For the Treasury is hardly the right outfit to devise constitutional answers to the most fundamental objection: that the Delors report proposes the creation of a new and powerful institution unconstrained by a proper network of political accountability.

A more circumspect, task is for it to define a "market-based" approach to EMU that deals with some of the Government's other objections. Such an approach offers certain obvious advantages. For a start, it will inevitably stress the importance of universal capital liberalisation, which is quite as much part of Stage 1 of the Delors scheme of things as universal membership of the EMS. It is also in obvious contrast to the *dirigiste* approach to EMU which is well-described by Giles Keating* as involving most of the aspects of the Delors report that are anathema to the British Government: the early

pooling of foreign exchange reserves; and Brussels control over budget deficits.

It might seem rather curious that the latter should so concern a government which is running a large budget surplus. Professor Wynne Godley also finds it curious that the Government should take such exception to the Delors idea of regional transfers within a monetary union, from which Britain (with its balance of payments deficit) might, after all, expect to benefit. But fiscal control is overstressed in the Delors report, and its call for "binding rules" adds to the image of Brussels bossiness. The Delors committee feared "market imperfections" would permit unsustainable budget deficits; but Mr Keating argues there are plenty of ways of offsetting these short of the improbable "solution" of central control.

Market forces

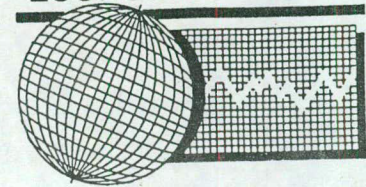
Mr Keating, indeed, believes Europe can get a long way farther towards EMU without a new treaty. Certainly, market-based solutions cut the problem of accountability down to size: the more that is left to market forces, after all, the less there is for a new and potentially undemocratic institution to do. But since the rest of Europe is bent on eventual treaty revision, and the problem of political accountability

for a central bank cannot easily be handled without it, there are clearly limits to such an approach. A fruitful area of exploration, however, is the form monetary power-sharing should take. For that not only determines the moment at which treaty revision becomes necessary, but also divides the Europeans.

French enthusiasm for union is built upon its efforts to wrest some of the Bundesbank's supreme control of the EMS away from it. This is the answer to the question that frequently puzzles the British: why should the French be so carefree about the loss of sovereignty involved in EMU? In effect, they have already given up monetary sovereignty to the Bundesbank, and would like to claw a little back. The Bundesbank has sat pretty because it did not have to intervene to support weak currencies until they bumped up against their parity limits in the EMS; but the owners of those weaker currencies felt obliged to do so before they were up against the wall.

They therefore ended up doing most of the work of holding the currency grid together, while the Germans retained control over their money supply. The German central bank has budged a little on this point, but not certainly as much as it would have to if its role were to be absorbed by a European System of Central Banks whose council would

ECONOMIC OUTLOOK



be partly appointed by Brussels. There is thus an obvious tactic for Britain in making common cause with the Bundesbank, which means backing the idea of increased co-ordination between European central banks.

It is, indeed, pretty clear that this is the proper route to EMU. For the French alternative — a European Reserve Fund that would foreshadow the future European System of Central Banks, and have some reserves to play with — would require an early treaty revision, which the co-operative approach would not. Indeed, the co-operative approach would require no politically disturbing changes at all until everyone was ready for fully-fledged EMU. For — always supposing Britain has, eventually, joined the EMS — who is to distinguish between ordinary consultations on the one hand; and pre-EMU training on the other
**Perspectives on the Delors Report*, Edited by Giles Keating, CSFB Economics, published today.

Sarah Hogg

THE TIMES

to arms at Antibes ²³

The informal meeting of EC finance ministers in Antibes at the end of the week provides the first opportunity since the July economic summit to re-open the debate on the next steps towards economic and monetary union.

Since the July summit the consensus behind the Delors plan has begun to crack a little. In particular, Herr Karl Otto Pöhl, president of the Bundesbank, has pointed out a number of difficulties inherent in the Delors blueprint, and his concern has been echoed by some voices within the West German government, especially the Economics Ministry.

Mr Lawson will seek to play on these reservations and expose still further the tension that lies at the heart of the single currency and European central bank proposals - namely the desire of the French to have some influence on monetary policy within the European Monetary System and the Bundesbank's determination to set its policies with the interests of the German economy alone in mind.

The Chancellor can also participate with a reasonable degree of enthusiasm in discussions about closer multilateral surveillance of economic policies. International economic co-operation, provided the policy decisions remain firmly with national governments, is common sense in an increasingly interdependent world, and has been endorsed several times by Mr Lawson on the wider stage of the International Monetary Fund.

Apart from the not unimportant matter of full British membership of the EMS, the Government can support the first stage of the Delors plan unreservedly.

However, Mr Lawson will need to do more than play on the sensitivities of supporters of Delors. At some point, he needs to produce his own market-based version of monetary union. Antibes is a good place to make a start.

Rodney Lord
Economics Editor

Daily Telegraph

Caution over benefits of single market ²¹

By Roland Gribben

EMPLOYMENT and other economic benefits expected from the Common Market reforms and the elimination of the remaining barriers to the movement of goods and services are challenged in a report today from the Employment Institute.

Extravagant and frequently unsubstantiated claims have been made about the benefits from the 1992 programme, according to the report prepared by two London Business School economists.

Paul Geroski and Jonathan Haskell say that:

- Any reduction in production costs resulting from the expanded European market are likely to be small and will be probably confined to a limited number of sectors.
- The effects of increased competition resulting from the reforms are seen as potentially more powerful spin-offs but the available evidence is not "overwhelming one way or the other."
- Increases in employment will be "rather modest."

Estimates of job growth in the range of 1.8m to 5m are a "small gain" when set against the EEC's working population of more than 140m, say the economists.

The job creation effects are likely to reduce the EEC's unemployment rate by only 1 p.c. to 2 p.c. The changes are

also unlikely to usher in major changes in the structure of employment or induce major movements of labour inside the EEC, the report argues.

Dr John Philpott, the Institute's director, says delegates to the TUC Congress this week and the party political conferences would be "wise to ignore the hype and rhetoric" surrounding the 1992 proposals and consider the more sober view offered in the report.

The programme should produce benefits but claims that the 1992 reforms will result in a major transformation of industry and employment should be treated with caution.

All member states will almost certainly have to move towards full economic and social integration if the EEC is to mount a proper challenge in world markets to America, Japan and newly developed countries, said Dr Philpott.

COUNTDOWN



TO 1992

7/2.



PLP

FROM: JOHN GIEVE

DATE: 4 SEPTEMBER 1989

MR N L WICKS

cc PS/Paymaster General
PS/Financial Secretary
Sir P Middleton
Sir T Burns
Mr H P Evans
Mr Odling-Smee
Mr Scholar
Mr R I G Allen
Mr Peretz
Mr Riley
Mrs M E Brown
Mrs Chaplin (CX)
Mr Tyrie (FST)

EMU: HIGH LEVEL GROUP (HLG) AND MONETARY COMMITTEE

The Chancellor was grateful for your minute of 1 September. He is content with the line you proposed but he thinks it is worth adding:

"Why the rush? It is clear from informed consideration of the issues - and implicitly conceded in the Delors Report - that any move beyond Stage 1 is necessarily several years off".

JL

JOHN GIEVE

GIEVE
TO
WICKS
4 SEPT