



PO-CH/NL/0868

PART A

Chester
Lawson

PART A

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PART A

0868

986,

MEETING OF THE EUROPEAN
COMMUNITY (EC) ECONOMIC
AND FINANCE COUNCIL
(ECOFIN), 17 NOVEMBER
1986, BRUSSELS


PO -CH /NL/0140
0868

PO -CH
PART A

Begin: 8/10/86

DD: 25 years

Ends: 19/11/86

 5/9/95

FROM: JANET BARBER
DATE: 8 OCTOBER 1986

SIR PETER MIDDLETON

cc PS/Chancellor
Mr Lavelle
Mr Byatt or
Mr Edwards
Mr Scholar
Mr Odling-Smee
Mr Mortimer
Mr Riley
Mr Matthews
Mr Dolphin
Mr Beales - UKREP

UK PRESIDENCY: MEETING OF THE CO-ORDINATING GROUP

This note suggests that we convene a meeting of the EC Co-ordinating Group on Monday 10 November, to discuss the 1986-87 Annual Economic Report.

Background

2. The EC Council of Ministers is required, by its 1974 Decision on convergence of economic policies of member states, to adopt an Annual Report on the economic situation in the Community. The Council acts on a proposal from the Commission, and its discussion of the Report is prepared by the Co-ordinating Group.
3. In respect of the 1986-87 Report, we have so far seen an internal Commission draft, and this was discussed by the EC Economic Policy Committee on 1 October. We expect that a revised version will be adopted by the Commission, as its proposal to the Council, on 15 October. At this point, the Report will enter the public domain. There are two EC Finance Council meetings scheduled after 15 October at which the Report could be discussed and/or adopted. The dates for these are 17 November and 8 December. As Presidency, it is up to us to take the lead on the timing of ECOFIN discussion.
4. We currently favour scheduling a discussion of the Annual Economic Report for the November Council. The reason for this is to allow ECOFIN to pronounce on the Report before the London European Council on 5/6 December, thus giving a steer to any discussion which Heads of States may have on the economic situation in the Community. (In fact, as Presidency, we plan to focus the European Council economic discussion on "business and jobs" ie the internal market, enterprise, and employment growth. But discussion may well touch on more general macro-economic issues, and the Commission are very likely to speak about the Annual Economic Report. So it seems desirable to have an ECOFIN response to it on record.)
5. This would suggest a Co-ordinating Group discussion of the Report on Monday 10 November, to prepare for ECOFIN on 17 November. It would also give member states an additional opportunity to raise with the Commission any points on the Report which they would like changed prior to adoption by the Council.
6. We may well have to schedule a further discussion of the Report at ECOFIN on 8 December, so that it can be adopted. This is likely

to be necessary if member states have difficulties with the Report which cannot be resolved before the November Council. However, there should be no need for a further Co-ordinating Group meeting.

7. As far as the content of the Report is concerned, Mr Riley will be minuting the Chancellor later this week on the draft which we have seen and the EPC discussion.

8. Would you be willing to chair a meeting of the Co-ordinating Group on 10 November? UKREP have already made the necessary room booking. The meetings usually begin at 2.30 pm. We have also to decide who would represent the UK - Mr Scholar is our nominated national spokesman, and Mr Byatt has represented us at some past meetings.

Janet Barber

JANET BARBER
EC1

From: MISS E A CLARKE

Date: 14 October 1986

MISS J BARBER

EEC CO-ORDINATING GROUP: BRUSSELS

Sir Peter Middleton is happy for this meeting to go ahead on Monday 10 November but would be grateful for an earlier start than usual. I have worked out a programme as follows:

Sir Peter Middleton	Depart Heathrow		
	0805	1000	BA 374

The meeting could start at:

10.45 am and go on until 12.45pm approximately with a break for lunch (he personally doesn't mind if there isn't one)
2pm - 3 pm meeting reconvenes.

Sir Peter Middleton	Depart Brussels		
	1605	1605	SN 607

which means he should be back in Wimbledon at about 5 pm to collect his wife so that they can get to the Guildhall for a reception/dinner (Lord Mayor's Banquet) by 6 pm.

If this can't be done he could go out the night before but would prefer not.

... I attach the complete 'plane timetable so you can see if you agree with me.

E A Clarke

MISS E A CLARKE

Assistant Private Secretary

BRUSSELS: EEC CO-ORDINATING GROUP

SUNDAY 9 NOVEMBER

Heathrow

1835	2035	BA 388
1900	2055	SN 610
2115	2310	SN 614

MONDAY 10 NOVEMBER

From Heathrow

	0805	1000	BA 374
Gatwick	0820	1015	SN 562
Heathrow	0900	1100	SN 602
Heathrow	1005	1205	
Heathrow	1100	1255	

Departing Brussels

1405	1405	SN 605
1605	1605	SN 607
1700	1700	Gatwick
1805	1805	SN 609

Ch
I am not sure what prompted this: it is hardly news
22/10

This is Williams -
order for a tax vick
✓

Qz.05389

Mr Powell (10 Downing Street)

CH/EXCHEQUER	
REC.	22 OCT 1986 ✓ 22/10
ACTION	MST
COPIES TO	

What is this in £?

European Community: VAT on small and medium sized businesses

The Prime Minister will recall that the United Kingdom sets the VAT threshold for small businesses at turnover of £20500; that the Commission attacked us and set in train the first steps of a challenge in the European Court of Justice on the grounds that this threshold was not consistent with a Community Directive (the 6th) and should be reduced; and that we immediately counter-attacked by hammering the inconsistency with policy on small businesses and deregulation and by demanding an amending directive. We were advised on a number of occasions that this would not be possible (eg because of loss or revenue by other member states) and a relatively simple issue required an inordinate amount of hammering. The Commission has now, however, tabled a formal proposal to set the threshold at a higher level which is consistent with our national rules. The proposal is for a threshold of 35000 ecu turnover (which would be indexed) below which traders may be exempted and for a simplified scheme for traders with turnover below 150000 ecu. We consider that we have a good chance of getting the corrected exemption threshold adopted in our Presidency. This would be useful in itself and would also be helpful in relation to the emphasis on small and medium businesses at the London European Council.

£25,600

£110,000

I am sending copies to Colin Budd (FCO), Alex Allan (Treasury), John Turner (Department of Employment) and Sir Robert Armstrong.

What is the
Cnk - over a above
thresholds - of
to the
threshold?

DF Williamson

D F WILLIAMSON

What this
involve
budgetary
Cnk?

21 October 1986

FROM: JANET BARBER
DATE: 23 OCTOBER 1986

SIR PETER MIDDLETON

cc PS/Chancellor 12/2
Mr Lavelle
Mr Byatt or
Mr Edwards
Mr Scholar
Mr Odling-Smee
Mr Mortimer
Mr Riley
Mr Matthews
Mr Dolphin
Mr Bostock - UKREP
Mr Beales - UKREP

Ch
Any news on 'x'
(over)

WT
6 (a) < 6 (b) latter;
6 (a) < 6 (b) latter;
water of the water
Rep. in the
no points in the
24/10
(also with
from 5.12.86)

UK PRESIDENCY: MEETING OF THE CO-ORDINATING GROUP

Following my minute of 8 October, Miss Clarke asked, in her minute of 14 October, if we could arrange for the proposed Co-ordinating Group meeting on 10 November to begin earlier than usual, so that you could be on the 16.05 plane back to London.

2. I have discussed this with UKREP, who have made enquiries in Brussels. I understand that we have reserved a suitable room, with the usual interpretation facilities, in the Charlemagne, for the whole of 10 November. On timing, the constraints appear to be as follows:

- (a) the meetings last 3-3.5 hours on average;
- (b) the lunch break must be at least 1.5 hours, to meet interpreters' rules
- (c) if you are not willing to travel to Brussels the night before, it would be very ambitious to schedule the start of the meeting for any earlier than 10.45 Brussels time (and even this is optimistic - see paragraph 4 below).

This gives very little room for manoeuvre, and suggests a schedule as follows:

10.45	start meeting
10.45-12.45	meeting
12.45-14.15	lunch
14.15-15.15	meeting
15.15	end meeting

This would enable you to catch the 16.05 plane, and would allow a maximum of 3 hours for the meeting.

3. In my previous minute, I raised the issue of who might represent the UK. Mr Scholar is our nominated national spokesman, and Mr Byatt has represented us on several occasions in the past. (However, I understand that Mr Byatt has a competing engagement on 10 November.) The other possibilities are Mr Bostock (UKREP), or another senior Treasury official. An alternative would be for you to represent the UK as well as chairing the meeting.

4. I have discussed these points with Mr Bostock. The purpose of the meeting will be to prepare ECOFIN's discussion of the EC

Annual Economic Report. This is a fairly long document (copy attached - top copy only), the Commission may wish to speak at length about it, and some member states might have problems and want to press for possible amendments. Mr Bostock is concerned that the schedule suggested above runs the risk that this item will not be sufficiently prepared for ECOFIN, in which case handling at ECOFIN might be more difficult and lengthy than necessary. Mr Bostock's specific worries are as follows:

- (a) there is always slippage in meeting timetables in Brussels - we would be lucky to start a 10.45 meeting before 11.00;
- (b) only allowing 3 hours for discussion may mean that some delegations will claim that their views have not been fully taken into account, and that they will expound them at length at ECOFIN;
- (c) the 10.45 start may turn out to be optimistic - half hour or so delays in plane journeys are not unusual, and in November in Brussels early morning fog is not uncommon
- (d) it may be necessary to discuss with the Council Secretariat and the Commission after the meeting how the group's work is to be fed into the ECOFIN discussion - depending on the outcome of the meeting, it might be difficult for anyone other than yourself (or Mr Byatt if he were available) to do this with sufficient authority.

Given these considerations, it might be more comfortable to go for a 10.00 start, with an overnight stay on 9 November, and to have a suitable national representative as an added insurance if the meeting went on longer than planned.

5. Once you have decided which option you prefer, UKREP will ask the Council Secretariat to inform the members of the group.

6. On point 4(d) above, it would be logical for the Co-ordinating Group's discussion to be reported to ECOFIN in some way. There is no set formula for this, and indeed it is not very clear what, if anything, happened last year on this. There would seem to be three possibilities:

- (a) you would attend ECOFIN on 17 November, and give an oral report
- (b) you would report to the Chancellor, as chairman of ECOFIN, who could then refer to your report in his opening remarks
- (c) there could be a written report from the Group. This would be fairly unusual - I do not think that it has happened much in the past, and certainly not in the last two years)

You and copy recipients may want to consider this. In the end, the procedure adopted might be determined by the nature of the Group's discussion (eg decisions on drafting changes to the Report and/or to the terms of the Council Decision, or a general exchange of views on the Report as a whole).

Transport

7. Whatever schedule you opt for, I assume that you will want UKREP to arrange a car for you. If so, perhaps your office could write to Mr Bostock in UKREP.

Janet Barber

JANET BARBER
EC1



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

From: B H KNOX
Date: 23 October 1986

CHANCELLOR

Ch
Do you agree to adding
this to an already
full agenda (see
separate note from
Roger Lavelle)?

cc Economic Secretary
Minister of State
Sir P Middleton
Sir G Littler
Mr Lavelle
Mr Edwards
Mr Mortimer
Miss Sinclair
Mr Romanski

*DLK
24/10*

*1. 15th paper, if possible, to keep
the 13th document in an A post,
away from the 19th, & wrap up the
22nd (small trades) with
NIC IV & a general
SMV item.
H.*

NOVEMBER ECOFIN: INDIRECT TAX MATTERS

1. We have been reviewing our Presidency work programme on indirect tax matters both against the remits of the June ECOFIN and European Councils and in the light of our desire to appear to our Community colleagues to be taking the fiscal barriers section of the internal market programme as seriously as we take the other areas of internal market work.

2. Pending receipt of the Commission's detailed proposals on indirect tax rate approximation and the VAT clearing house, the June ECOFIN invited COREPER

Internal circulation: Mr Jefferson Smith, Mr Howard, Mr Wilmott, Mr Cockerell, Mr Trevett, Mr Bostock (UKREP), Ms French.

"to deal with the proposals already submitted covering the common basis of assessment of VAT and the common excise structure, and with the proposals before it aimed at simplifying procedures at frontiers."

In its conclusions on the internal market the European Council confirmed that a number of basic decisions needed to be taken rapidly in relation to the removal of fiscal barriers at the frontiers in order to achieve the goals set for 1992, and welcomed the work programme proposed to this end by the Commission and endorsed by the Council of Finance Ministers. The Hague conclusions also state that the December European Council will evaluate the progress made in all sectors of the internal market. If some review of progress on the fiscal side is needed prior to the London European Council, then clearly ECOFIN is the right body to undertake it.

3. We have targetted two items from the Presidency Rolling Action Programme for adoption during the UK Presidency, the 13th and 19th VAT directives. The former, which deals with refunds to traders from third countries, has progressed well and is ready for adoption at the November ECOFIN. Despite whittling down the number of outstanding difficulties with the 19th VAT directive (miscellaneous amendments to the 6th VAT directive) we have now hit a major obstacle in the shape of the European Parliament, who are refusing to give an opinion on the proposal because they consider it peripheral to completion of the internal market. Progress on the other VAT directives discussed and on the alcoholic drinks duty package has generally been good, but we are still a long way from agreement.

4. There is a distinct possibility, therefore, that all we will have to show for our efforts at the end of the Presidency will be the 13th VAT directive. Nevertheless, we believe that we have a reasonably good story to tell and that progress has been blocked more by the intransigence of other Member States than by any failing on the part of the Presidency. Both to help forestall any criticism of the Presidency which may arise and to prepare for the European Council, we consider it would be useful to stage a brief general discussion of indirect tax matters at the November ECOFIN.

5. There is a third reason for seeking a discussion. It concerns the small traders VAT directive which has finally been submitted to the Council by the Commission. The directive is a UK priority and is the proposal in this field we would most like to be able to set up during our Presidency for further adoption. Its appearance so late in the day obviously puts us at a disadvantage, but we might be able to extract from ECOFIN some words of approbation for the proposal to help it on its way if the right opportunity could be found.

6. This raises the question of how a discussion in ECOFIN might best be arranged to achieve all three objectives. In the normal course of events, the 13th VAT directive would go forward to ECOFIN as an 'A' point (ie not for discussion), but we have the option of putting it on the agenda as a false 'B' point for discussion. This could give us a peg on which to hang a general discussion of indirect tax matters. But it is not a particularly good peg. Although it might allow us to set out our defence of the Presidency's efforts to achieve progress, it could look very contrived if we attempted to provoke discussion of the 22nd VAT directive.

7. As an alternative, we suggest that the 13th VAT directive should be taken as an 'A' point and that a general discussion should be based on a short Presidency note recalling the June ECOFIN and European Council texts, reviewing work since June in as upbeat a manner as possible, and noting presentation of the 22nd VAT directive as the only new Commission proposal to emerge during our Presidency. The objective would be to ask ECOFIN to take note, and, if at all possible, to acknowledge the importance of the 22nd VAT directive. The basis for such an acknowledgement could be the link with measures to help small businesses which are going to be one of the main themes of our European Council in December.

8. I understand that the agenda for November's ECOFIN is becoming fairly full and you may feel that adding indirect tax matters as a further substantive item would be a mistake. Nevertheless we consider that the reasons for holding some discussion are strong; we doubt whether this would be particularly lengthy. To give the most favourable wind to the 22nd VAT directive, our recommendation would be to follow the course outlined in paragraph 7.

Bryce Knox

B H KNOX

CONFIDENTIAL

CHANCELLOR

FROM : R G LAVELLE
23 October 1986cc PS/Economic Secretary
PS/Minister of State
Sir P Middleton
Sir G Littler
Mr A J C Edwards
Mr H P Evans
Mr Scholar
Miss Barber
Mrs LesterNOVEMBER OVERSEAS MEETINGS

You asked about any points for discussion with Balladur at the time of the Anglo-French Summit on 21 November. I take the opportunity to mention how the agenda for the 17 November ECOFIN is shaping up.

Anglo-French Summit : 21 November

2. There would be no difficulty in working up an agenda of items from the current international scene for a discussion with Balladur. But at present we see no pressing need for a bilateral. You have had regular contacts with him since his London visit and he will probably be at the November ECOFIN. The Budget Council is meeting on 26-27 November. There might be issues which it would be useful to discuss in that connection. But they cannot be predicted and cannot be a decisive consideration.

3. The best working assumption is, we conclude, that there is no need for Finance Ministers to participate on this occasion. The approach to your Private Office rather suggests that this is also Balladur's conclusion.

ECOFIN : 17 November

4. No such luck as regards ECOFIN, which will almost certainly be heavier than last time.

5. At present, it looks as if the formal agenda will include:

- (a) Capital movements Directive
- (b) VAT Directives : progress report [Mr Knox's minute of 23 October refers]
- (c) R&D framework programme : ECOFIN stocktaking
- (d) NIC IV
- (e) Annual Report
and (possibly)
- (f) Tied aid : revised Community mandate.

[The Greek loan will be for the December meeting.]

6. Most of these items are dismally familiar. We have not yet thought much about optimum ordering (something turns on how far we can successfully pre-cook NIC IV). But it looks like a whole day meeting, perhaps knocking off items (a)-(c) before lunch.

7. It might be possible to avoid an overnight stay. But this agenda, and fitting in eg a bilateral with Pfeiffer, probably means an early departure (? 8 am scheduled flight) and a fairly early (? 11 am) Council start.

8. Subject to your comments, perhaps we might give an indication of this provisional timetable to UKREP.



R G LAVELLE

~~Tony~~
we should be
getting a note by
this evening from
Mr Trevett in C&E



FROM: A W KUCZYS
DATE: 23 October 1986

1. Cathy
2. Alf with
response
(at 30/10) A

MR ROMANSKI

meena
31/10

Meena
Pl chase

cc PS/Minister of State
Mr Lavelle
Mr Cassell
Mr A Edwards
Mr Scholar
Mr Crabbie
Miss Sinclair
PS/C&E

EUROPEAN COMMUNITY: VAT ON SMALL AND MEDIUM SIZED BUSINESSES

As you know, there is a Commission proposal to set a VAT exemption threshold of 35,000 ecu; and to allow for a simplified VAT scheme for traders with a turnover below 150,000. Given recent shifts in the £/ecu exchange rate, 35,000 ecu is now equivalent to £25,600 (if my arithmetic is correct). The Chancellor has asked what is the cost - over and above indexation - of moving to this threshold?

2. He has also asked whether the simplified scheme for turnover up to 150,000 ecu (£110,000 I think) would involve any budgetary cost?

A W KUCZYS

CONFIDENTIAL

CHANCELLOR

FROM : R G LAVELLE
23 October 1986

cc PS/Economic Secretary
PS/Minister of State
Sir P Middleton
Sir G Littler
Mr A J C Edwards
Mr H P Evans
Mr Scholar
Miss Barber
Mrs Lester

Handwritten notes in red ink:
1 Agree with
Para 3. ...
ECOFIN ...
Re logistic ...
W. will not ...
No RAF ...
OK.
So position ...
Deferred? ...
How come ...
John ...

NOVEMBER OVERSEAS MEETINGS

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3. The best working assumption is, we conclude, that there is no need for Finance Ministers to participate on this occasion. The approach to your Private Office rather suggests that this is also Balladur's conclusion.

ECOFIN : 17 November

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5. At present, it looks as if the formal agenda will include:

- (a) Capital movements Directive
- (b) VAT Directives : progress report [Mr Knox's minute of 23 October refers] (In separate blue folder) *awk*
- (c) R&D framework programme : ECOFIN stocktaking
- (d) NIC IV
- (e) Annual Report and (possibly)
- (f) Tied aid : revised Community mandate.

[The Greek loan will be for the December meeting.]

6. Most of these items are dismally familiar. We have not yet thought much about optimum ordering (something turns on how far we can successfully pre-cook NIC IV). But it looks like a whole day meeting, perhaps knocking off items (a)-(c) before lunch.

7. It might be possible to avoid an overnight stay. But this agenda, and fitting in eg a bilateral with Pfeiffer, probably means an early departure (? 8 am scheduled flight) and a fairly early (? 11 am) Council start.

8. Subject to your comments, perhaps we might give an indication of this provisional timetable to UKREP.

Ch

See note from me below

awk
24/10

R

R G LAVELLE

CONFIDENTIAL



FROM: A W KUCZYS
DATE: 24 OCTOBER 1986

CHANCELLOR

cc PS/Minister of State
Mr Lavelle
Mr A J C Edwards
Miss Barber
Mrs Lester

ECOFIN: 17 NOVEMBER

Mr Lavelle's minute of 23 October says that it might be possible to avoid an overnight stay in Brussels on 16/17 November, with an early departure from London, and an 11.00 am Council start. If nothing happens to change this, then (given our experience on scheduled flights to and from Brussels in July) I think the **best plan would be to use the RAF once again.**

2. The timetable might look something like this:

7.30 am - depart Heathrow
9.30 am* - arrive Brussels Airport
10.00 am - arrive Charlemagne Building
11.00 am - Council begins
(say) 6.00 pm - Council ends
7.00 pm - Depart Brussels Airport
7.00 pm* - Arrive Northolt

*NB: We lose an hour going over, and gain an hour coming back.

3. With an 11.30 am Council start, it would be possible to delay departure until 8.00 am, and take off from Northolt rather than Heathrow. If, however, it does prove necessary to stay overnight, then the RAF option becomes prohibitively expensive.

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

A W KUCZYS

61F 13/11
P



FROM: A W KUCZYS
DATE: 27 OCTOBER 1986

MR KNOX - C&E

cc PS/Economic Secretary
PS/Minister of State
Sir P Middleton
Sir G Littler
Mr Lavelle
Mr A Edwards
Mr Mortimer
Miss Sinclair
Mr Romanski

PS/C&E

Mr Bostock (UKREP)

NOVEMBER ECOFIN: INDIRECT TAX MATTERS

The Chancellor has seen your minute of 23 October.

2. He would prefer, if possible, to keep the 13th Directive as an "A point", avoid the 19th, and wrap up the 22nd (small traders) with NIC IV in a general SME item.

AWK
A W KUCZYS

CONFIDENTIAL



FROM: A W KUCZYS
DATE: 27 OCTOBER 1986

~~AF 28/10~~
~~AF 6/11~~
11/11

MR LAVELLE

cc PS/Economic Secretary
PS/Minister of State
Sir P Middleton
Sir G Littler
Mr A J C Edwards
Mr H P Evans
Mr Scholar
Miss Barber
Mrs Lester

NOVEMBER OVERSEAS MEETINGS

The Chancellor has seen your minute of 23 October.

2. On the Anglo-French Summit, the Chancellor agrees with you that there is no need for Finance Ministers to participate on this occasion. (*Spoke to M. Benon - AWK 28/10*)
3. On ECOFIN, the Chancellor is, provisionally, content with the suggested agenda. But if there is a time problem, is there an item that could be deferred? He assumes (f) could be. (See also my separate minute to Mr Knox.)
4. On logistics, the Chancellor would prefer to use the RAF, and not to stay overnight, and I shall make provisional plans on this basis.

*Provisional bookings
made by phone 28/10
AWK*

AWK

A W KUCZYS



FROM: A W KUCZYS
DATE: 27 October 1986

SIR P MIDDLETON

cc Mr Lavelle
Mr Byatt
Mr A Edwards
Mr Scholar
Mr Odling-Smee
Mr Mortimer
Mr Riley
Mr S Matthews
Mr Dolphin
Miss Barber
Mr Bostock - UKREP
Mr Beales - UKREP

UK PRESIDENCY: MEETING OF THE CO-ORDINATING GROUP

The Chancellor has seen Miss Barber's minute of 23 October to you. On Miss Barber's paragraph 6, the Chancellor thinks the choice is between (a) and (b), and we can decide between these later, depending on the nature of the Report. He would be grateful to be kept posted on this.

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

A W KUCZYS

17
From: R B SAUNDERS

Date: 27 October 1986

MISS BARBER

cc PS/Chancellor
Sir G Littler
Mr Lavelle
Mr Byatt
Mr Edwards
Mr Scholar
Mr Odling-Smee
Mr Mortimer
Mr Riley
Mr Matthews
Mr Dolphin

Mr Bostock) UKREP
Mr Beales)

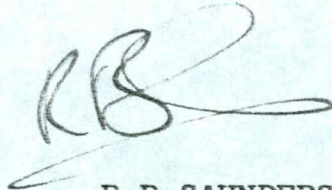
UK PRESIDENCY: MEETING OF THE CO-ORDINATING GROUP

I spoke to Herr Pini at the Council Secretariat today.

2. He began by telling me that he doubted if it would be necessary to use the 10 November slot to discuss the Annual Economic Report. This does not need to be ratified until 8 December, and he said it would be more usual to have the Co-ordinating Group meeting about ten days before that. There would be a danger that the Parliament and ECOSOC would not have given their opinions by 10 November. Although it would be most unusual for them actually to have anything of interest to say, this might be perceived as discourteous. I said that, notwithstanding these points, we would like to go ahead on 10 November.

3. I then went on to say that, because of an unbreakable engagement in the evening, Sir Peter Middleton would not be able to chair an afternoon meeting. After some grumbling, he agreed to send out a telex announcing the meeting on 10 November, saying that Sir Peter Middleton suggested a 10 am start, and inviting members of the Group to respond if they saw any difficulty. He asked what we would do if a significant number of responses raised difficulties. I said we should have to assess the situation

in the light of the responses, but that, if the worst came to the worst, the meeting would have to go ahead in the afternoon with a substitute Chairman, probably Sir G Littler (given Mr Byatt's unavailability). He asked if Sir Peter Middleton would mind if a morning meeting meant that some deputies would attend; I said he would not.

A handwritten signature in dark ink, consisting of stylized, overlapping letters that appear to be 'R B' followed by a long, sweeping horizontal stroke.

R B SAUNDERS

Private Secretary

From: R B SAUNDERS

Date: 29 October 1986

MISS BARBER

cc PS/Chancellor
 Sir G Littler
 Mr Lavelle
 Mr Byatt
 Mr A Edwards
 Mr Scholar
 Mr Mortimer

Mr Bostock - UKREP

RBSA
b/f with response
PI

UK PRESIDENCY: MEETING OF THE CO-ORDINATING GROUP

This is to confirm our telephone conversation. Pini telephoned me this morning. He said that Commissioner Pfeiffer had been on to him to say that he thought a discussion on 10 November without the views of the Parliament and the Economic and Social Committee would be completely inappropriate, although he would see no problem with a preliminary exchange of views at ECOFIN on 17 November. He suggested that instead a meeting should take place in early December. I said I would consult further and call him back as soon as possible.

2. I am not sure to what extent this is a put-up job. I should be grateful for urgent advice, in concert with Mr Bostock, who is I understand in London this afternoon for a meeting of EQO. Sir Peter Middleton cannot manage Monday 1 December, since he has an appearance before the PAC on that day. When I mentioned this to Pini, he said that in any case 1 December might be a little late, so that a meeting the previous week would be best from his point of view. We could probably do Monday 24 November, although I should prefer to avoid this if possible, since it would involve cancelling a visit outside the Treasury.

RBS

R B SAUNDERS

Private Secretary



Am Jmli
or kmj
points.
M.

Ch

1. See Janet Barber's note below. Pfeiffer & Pini are being difficult. Content with line for PS/PEM to take with Pini? Especially 'X' and 'Y'?

2. You wanted to discuss this with PEM at a bilateral. I'm afraid I failed to put this on the agenda yesterday: my apologies for that.

Your next bilateral is not until tomorrow week (7 November). Do you want to speak to Peter about this before then?

Re (1) OK
Re (2) Re mark
to the
for

Mark
30/10
MSI & I
supplied with
specie & draft

28

FROM: JANET BARBER
DATE: 29 OCTOBER 1986

MR SAUNDERS

cc PS/Chancellor 12/2
Sir Geoffrey Littler
Mr Lavelle
Mr Byatt
Mr Edwards
Mr Scholar
Mr Mortimer
Mr Bostock - UKREP

UK PRESIDENCY: MEETING OF THE CO-ORDINATING GROUP

Your minute of today's date.

2. First, you ought to be aware of what happened last year, under the Luxembourg Presidency. The Annual Economic Report was discussed at ECOFIN on 28 October, 18 November, and 9 December. There was one meeting of the Co-ordinating Group on 11 November. The European Parliament adopted its Resolution on the Report on 14 November, and the Economic and Social Committee adopted its Opinion on the Report on 28 November (the Opinion being transmitted to the Council on 5 December).

3. This year, I would guess that the Parliament will adopt its resolution on the Report at its plenary session of the week 10-14 November, as its following plenary session is not until the week 8-12 December. The Economic and Social Committee has just been reconstituted, and I do not know the date of its next plenary session.

4. I have discussed your minute ^{below} with Mr Bostock. We feel that there is no good reason to change the 10 November date for the Co-ordinating Group meeting this year, and that you might make the following points to Mr Pini:

- (a) the UK is well aware of the legal requirement to have opinions from the European Parliament and the Economic and Social Committee before the Annual Economic Report is adopted. There is no question of the report being adopted at the November ECOFIN - this will be done at the 8 December ECOFIN.
- X | (b) however, the Chancellor does wish to have a substantive discussion on the Report on 17 November, and we feel that it is sensible for the Co-ordinating Group to prepare this discussion in the normal way.
- (c) (b) is what was done last year - when the Co-ordinating Group met on 11 November last year, the opinions from the Parliament and the E&SC were not available (see para 2 above).
- (d) in any case, the Parliament's and E&SC's opinions do not usually feature in ECOFIN discussions on the Annual Economic Report; and, if any new factors emerge in these opinions, they could be taken into account at the December ECOFIN.
- (e) Pfeiffer's Cabinet have known for some time that the Chancellor wants to discuss the Report in November, and indeed we are arranging a meeting between the Chancellor and Pfeiffer before the Council so that they can discuss

the Report. But Mr Bostock will in any case speak to Pfeiffer's Cabinet tomorrow morning to explain to and pacify them.

5. I think that, if absolutely necessary, we could live with the Co-ordinating Group meeting on 24 November. But given the above arguments, the inconvenience to you of changing to 10 November, and the fact that the invitation telex has now gone out, I think that we should stick to the 10 November date if at all possible.

6. As background, you might like to be aware that Delors has now mentioned the possibility of a Commission paper on the macro economic position being on the table for the European Council on 5/6 December. In these circumstances, an ECOFIN view on the Annual Economic Report would be very useful background.

Janet Barber

JANET BARBER
EC1

b/f 13/11
07

From: R B SAUNDERS

Date: 30 October 1986

MISS BARBER

cc PS/Chancellor —
Sir G Littler
Mr Lavelle
Mr Byatt
Mr A Edwards
Mr Scholar
Mr Mortimer

Mr Bostock - UKREP

UK PRESIDENCY: MEETING OF THE CO-ORDINATING GROUP

Many thanks for your minute of yesterday. I showed this to Sir Peter Middleton, and have also obtained from Mr Kuczys confirmation that the Chancellor is also content with the line you set out. I have accordingly spoken to Pini and told him that we want to go ahead on 10 November. Mr Kuczys also told me that the Chancellor has asked if he and the Minister of State could be supplied with specific and well-drafted amendments on key points for the ECOFIN meeting.



R B SAUNDERS

Private Secretary

GRS 1000

Confidential

CONFIDENTIAL
FM UKREP BRUSSELS
TO IMMEDIATE FCO
TELNO 3635
OF 301928Z OCTOBER 86
INFO PRIORITY EUROPEAN COMMUNITY POSTS

ch
See over
AWK
31/10

FRAME GENERAL
COREPER (AMBASSADORS) 30 OCTOBER

SUMMARY REPORT
NB (X) DENOTES ITEM NOT REPORTED ELSEWHERE

(I) POINTS (X)
1. CLEARED

FOLLOW UP TO 27/28 OCTOBER FOREIGN AFFAIRS COUNCIL

2. FROM THE CHAIR I DREW PROCEDURAL CONCLUSIONS ON: EC/JAPAN, EC/US, EC/CANADA, EC/CMEA AND EC RELATIONS WITH CMEA STATES, SOUTH AFRICA, MEDITERRANEAN, WEST BANK/GAZA, AND GSP: AND PROPOSED TO OUTLINE THE THEMES FOR THE EUROPEAN COUNCIL AT COREPER ON 13 NOVEMBER. (UKREP TELNO 3618). ON SYRIA MISS SPENCER (UK) SAID THERE COULD BE NO QUESTION OF THE UK AGREEING TO A THIRD FINANCIAL PROTOCOL WITH SYRIA IN PRESENT CIRCUMSTANCES.

FOLLOW UP TO 21 OCTOBER RESEARCH COUNCIL

3. ACTION FOR CREST AND RESEARCH GROUP ON FRAMEWORK PROGRAMME NOTED. COMMISSION READY TO PROVIDE FINANCIAL INFORMATION FOR ECOFIN DISCUSSION. COMMISSION REQUESTED INCLUSION OF THEIR PROPOSAL ON THE NOVEMBER FOREIGN AFFAIRS COUNCIL AGENDA.

VISIT OF NAM DELEGATION (X)

4. KRENZLER (COMMISSION) GAVE AN ACCOUNT OF THE VISIT OF THE NAM DELEGATION TO THE COMMISSION YESTERDAY ALONG THE LINES OF UKREP TELNO 3614.

PREPARATION FOR 11 NOVEMBER DEVELOPMENT COUNCIL

5. (A) AGENDA APPROVED:
- FOOD AID POLICY (TO COVER BOTH FRAMEWORK REGULATION AND EMERGENCY RESERVE)
 - POPULATION AND DEVELOPMENT
 - LOME III PROGRAMMING
 - AFRICA FAMINE REHABILITATION
 - SYSTEM OF COMPENSATION FOR LOSSES OF EXPORT EARNINGS FOR NON-LOME LLDCS (COMPEX)
 - AID TO ASIA AND LATIN AMERICA (TO ALLOW SPANISH AND GERMAN STATEMENTS: NO CONCLUSIONS)
- (B) GOOD PROGRESS ON FOOD AID REGULATION. PROSPECTS FOR AGREEMENT ON COMMON POSITION EMERGING.

EC/TURKEY

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16

6. AFTER GOING THROUGH MAIN POINTS STILL OUTSTANDING IN TEXT OF COMMON POSITION I CONDUCTED A MORE POLITICAL DISCUSSION. ALL EMPHASISED THE NEED FOR A COMMON POSITION AND I SET COREPER OF 19 NOVEMBER AS TARGET DATE. THERE WAS LITTLE ENTHUSIASM FOR INFORMAL CONTACTS BY THE COMMISSION MEANWHILE. NO-ONE DISSENTED FROM THE VIEW THAT NOTHING SHOULD BE DONE TO UNDERMINE THE COMMUNITY'S LEGAL POSITION THAT THE PROVISIONS ON FREE CIRCULATION OF LABOUR WERE NOT AUTOMATICALLY APPLICABLE IN THE ABSENCE OF AN IMPLEMENTING DECISION.

EC/ACP

7. AGREED THAT ACP AMBASSADORS SHOULD BE PERSUADED TO RAISE CONCERNS OVER MEMBER STATES VISA REGIMES BILATERALLY AND NOT AT THE EC/ACP AMBASSADORS' MEETING ON 10 NOVEMBER. FULL PREPARATORY DISCUSSION FOR MEETING AT NEXT WEEK'S COREPER.

PREPARATION FOR 17 NOVEMBER ECOFIN COUNCIL (X)

8. I INDICATED THAT THE ITEMS ON THE AGENDA WERE LIKELY TO BE:

- ANNUAL ECONOMIC REPORT
- LIBERALISATION OF CAPITAL MOVEMENTS
- NIC IV
- R AND D FRAMEWORK
- AND POSSIBLY
- INDIRECT TAX: PROGRESS REPORT.

*ch/you propose to avoid this.
But Sir D Hannay still hankers
after it DWK 21/10*

TWO DELEGATIONS HAD ALSO REQUESTED A DISCUSSION OF FISHERIES STRUCTURES UNDER ARTICLE 8 OF THE BUDGET DISCIPLINE CONCLUSIONS: THE CHAIR WAS CONSIDERING AT WHICH COUNCIL THIS WOULD BEST BE TAKEN. FOR SUBSTANTIVE DISCUSSION AT NEXT WEEK'S COREPER.

PREPARATION FOR 18 NOVEMBER INDUSTRY COUNCIL (X)

9. FOLLOWING AGENDA WAS CIRCULATED:

- FUTURE STATE AIDS STRATEGY FOR SHIPBUILDING AFTER 1986:
PROPOSAL FOR 6TH DIRECTIVE
- FURTHER LIBERALISATION OF ARTICLE 58 ECSC STEEL QUOTA SYSTEM
- (POSS) INTEGRATED SERVICES DIGITAL NETWORK (ISDN)

I SAID THAT MR SHAW WOULD LIKE TO INVITE HIS MINISTERIAL COLLEAGUES TO DINNER ON THE EVENING BEFORE THE COUNCIL (IE 17 NOVEMBER). I ASKED DELEGATIONS TO CONSULT CAPITALS AND TO INFORM THE ANTICI GROUP NEXT WEEK WHETHER THEIR MINISTERS WOULD BE ABLE TO ATTEND. A DECISION ON WHETHER TO HOLD THE DINNER OR NOT WOULD DEPEND ON THEIR REACTIONS.

HANNAY

*UCLNAN 4815
FRAME GENERAL
ECO (1)*



Office of the United Kingdom Permanent Representative
to the European Community
Rond-Point Robert Schuman 6 1040 Brussels

Telephone 230.62.05

MW Kings

R Lavelle Esq
H M Treasury
Parliament Street
LONDON

Your reference

Our reference

Date 31 October 1986

Dear Roger

ECOFIN 17 NOVEMBER AND COORDINATING COMMITTEE
10 NOVEMBER: ANNUAL ECONOMIC REPORT

1. I have just had a long discussion with Schubert (Pfeiffer Cabinet) about the arrangements for consideration of the Annual Economic Report.
2. Schubert's message was that it was wrong for the Council to consider the Annual Economic Report before the Economic and Social Committee and European Parliament had given their opinions. The Council should not think that it could respect the letter of the law by delaying formal adoption until the December Council, having had its main discussions in November. Any discussion at the November EcoFin should be described and regarded as preparation for the European Council, not as an examination of the AER. The Coordinating Committee should meet in late November, in preparation for the December EcoFin, not on 10 November.
3. Schubert cited what he described as legal and political arguments in support of this case:
 - (a) Article 4 of the 1979 Convergence Decision, under which the AER is presented and adopted, says
"A third examination [of the economic situation in the Community] shall take place towards the end of 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."

This, said Schubert, meant that any discussion by the Council must await the delivery of the EP and ESC opinions.

/(b)



(b) It was unacceptable for the Commission and the Council to appear not to be giving proper weight to the EP's and ESC's views. The cooperative growth strategy required the consent of the social partners represented in the ESC; the EP's political importance in the Community was growing all the time, and would be greatly enhanced by the Single European Act.

4. I said that the Chancellor of the Exchequer had taken such factors fully into account but had decided that EcoFin must turn its attention to a document as important as the Annual Economic Report at the first available opportunity. It was astonishing that the Commission should be asking the Council to slow down its consideration of a Commission proposal. As for his detailed arguments and suggestions:

(a) Nothing in Article 4 of the Convergence Decision prohibited the Council from beginning its work on the Annual Economic Report on 17 November. It was part of the normal life of the Community for the Council to begin work on Commission proposals before receiving the other institutions' opinions.

(b) I did not understand the point Schubert was making about the Single European Act. The Act gave certain defined extra rights to the European Parliament in respect of certain Articles of the Treaty of Rome - and not those under which the Convergence Decision was made. It did not mean that the power and influence of the EP had been increased in a more general sense.

(c) Discussion at the November EcoFin in no way excluded further consideration on 8 December: the Presidency would be happy to put the item on the agenda then as a 'B' point. (The Commission can of course insist on this themselves). The Commission could make this clear to the EP and ESC if they needed to; I would be happy to speak to Cassidy, the EP Rapporteur myself. How substantive a discussion took place in December would depend, as ever, on who wanted to say what.

(d) It made little sense to camouflage the November discussion under the rubric "preparation for European Council": if the intention was to discuss the Annual Economic Report, the agenda should say so.

/(e)

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CHANCELLOR

FROM : R G LAVELLE

31 October 1986

cc Minister of State
 Mr Edwards
 Mr Mortimer
 Mr Bonney
 Miss Barber

NOVEMBER ECOFIN

Perhaps I could report developments on the agenda for the 17 November ECOFIN. On a minor point, UKREP (and Customs) hope you might relent on the handling of indirect tax matters. (see telegram below)

2. The agenda now looks likely to cover:

- a. Capital movements Directive
- [b. VAT Directives : progress report]
- c. R&D framework programme : ECOFIN stocktaking
- d. Fisheries structures : ECOFIN stocktaking
- e. NIC IV
- f. Annual Report.

3. One piece of good news, given the clutter of items, is that tied aid will not be ready for discussion, so that comes off. (Ch/Ac you hoped AWK)

4. A second piece of good news, which you may already have heard, is that we think we have sold a compromise on NIC IV to the French and Germans. So given suitable further diplomatic activity in COREPER over the next week or so, the prospects for a manageable and positive outcome here now look quite rosy.

5. Moving on to other items, you may wish to allow a judicious amount of general discussion on the Annual Report as background to the London European Council. Pfeiffer appears to take the view that the Council cannot conclude its discussions before the Opinion of the Economic and Social Committee and the European Parliament are available. The theology may be questionable but anyway this also suggests discussion in terms of time spent is split between November and December. On a point you have raised

*see letter below from David Bostock

AWK

Re para 9, OK; but
 to show how common
 @ least one of the
 must be discussed @ lunch?
 Pse advise.
 2. X
 Pse know that
 I'm not sure

Pps PA

separately, amendments are already being fed in. The Co-ordinating Committee meeting and your position in the chair should provide suitable backing to the provision by UKREP of further amendments to the Commission prior to the December ECOFIN.

ch/Jan said: "The main point is for MST & I to be supplied with specific drafted amendments on key points"
X DWK

6. Work is now well advanced in preparing suitable resolutions on the R&D framework programme. The French have asked for a similar exercise on fisheries structures, and (as is their right) for this item to be added to the November agenda. This is a smaller programme (850 mecu) which has come forward from the Commission only very recently, but does need to be settled in December. (Discussion in December ECOFIN would be too late.) We will need to act rather briskly within Whitehall and UKREP to refine UK objectives and prepare the way for some modestly useful exchanges on 17 November. This has been set in hand and doubtless Hannay's histrionic sensitivities will enable us to avoid any appearance of the magistrates court.

7. The capital movements Directive is pretty well buttoned up.

8. It is possible that Ministers will be able, for a change, to lunch in peace. The Commission has still to say whether they think a reference by Delors to the timetable for later discussion of the borrowing by Greece would be helpful climatically. But this would not amount to more than a procedural background to the meal.

9. This leaves Indirect Tax. You had wondered whether the aspect of most interest to us, small traders, might not be wrapped up with the NIC IV item. Hannay continues strongly to prefer the notion of tabling a short Presidency paper (already prepared) recording UK activity on indirect tax matters: partly for the usual Presidential reasons but also as a better peg on which to look for some words of approbation from ECOFIN on the small business directive. I think it is right that this would be the better Community procedure, more likely to secure the right language in the minutes and so on. The potential penalty looks to be really one of time, viz essentially the length of the Cockfield intervention. Could we settle for this on the basis that UKREP exert themselves to ensure that Cockfield is kept within bounds?

ch/A challenge, even for Sir D Hannay!
DWK


R G LAVELLE

c Miss Barber

Meena

*Eo fin
blgd
T.*

GRS 700

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*unredacted dist
4-11*

CONFIDENTIAL
FM ATHENS
TO IMMEDIATE FCO
TELNO 517
OF 310845Z OCTOBER 86
AND TO IMMEDIATE DTI
INFO ROUTINE UKREP BRUSSELS
INFO SAVING EC POSTS, WASHINGTON

(see para X)

GREEK TRADE MEASURES

SUMMARY

1. GREEKS CONFIRM INTENTION TO END IMPORT DEPOSITS BY END APRIL. RECOGNISE EXPORT SUBSIDIES WILL ALSO HAVE TO BE REMOVED BUT IMPRECISE ON TIMING. GIVE ASSURANCE THAT CEMENT EXPORTERS WANT TO REACH AGREEMENT BETWEEN THE COMPANIES NOT TO DISRUPT THE UK MARKET.

DETAIL

2. COMMERCIAL COUNSELLOR GAVE A DINNER LAST NIGHT FOR THE GREEK OFFICIALS TAKING PART IN TODAY'S MEETING OF THE ANGLO-HELLENIC INDUSTRIAL WORKING GROUP. CHRISTOPHER ROBERTS (CHIEF EXECUTIVE BOTB) AND I DISCUSSED THE GREEK TRADE MEASURES WITH BELLAS AND KANDALEPAS, THE SENIOR ADVISERS AT THE MINISTRIES OF COMMERCE AND NATIONAL ECONOMY.

3. THE GREEKS CONFIRMED THAT THEY WILL HAVE PHASED OUT THEIR IMPORT DEPOSIT SCHEME BY END APRIL 1987. IN SOME CASES DEPOSITS HAD BEEN ABOLISHED ALREADY AND OTHERS HAD BEEN REDUCED FROM 80 TO 40 PER CENT. THEY WOULD, BETWEEN NOW AND APRIL, BE READY TO MEET SYMPATHETICALLY AD HOC REQUESTS TO WAIVE THE DEPOSITS ON SPECIFIC IMPORTS OF NON-LUXURY GOODS. THE HIGHER RATE DEPOSITS WOULD GENERALLY BE PHASED OUT EARLIER THAN THE LOWER. THEY RECOGNISED THAT THE SCHEME'S VALUE WAS A WASTING ONE.

4. ON THEIR INTENTIONS OVER THE EXPORT SUBSIDY, THE GREEKS WERE LESS PRECISE. THEY ADMITTED THAT THE SUBSIDY WOULD HAVE TO GO. BUT THEY WOULD NOT SAY WHEN. THEY ARGUED THAT OTHER EC MEMBERS IN EFFECT OPERATED THEIR OWN VARIETIES OF EXPORT SUBSIDIES: IN THE UK, FOR EXAMPLE, THE VAT RATE ON CEMENT WAS (THEY SAID) ZERO. WE MADE THE POINT THAT THE COMMUNITY RULES FOR EXPORT SUPPORT HAD TO BE OBSERVED. THE GREEKS CONFIRMED THAT AN ELEMENT IN THEIR SUBSIDY WAS RELIEF ON BANK INTEREST AND THAT THIS WOULD HAVE TO GO SOON.

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15

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5. ON CEMENT THE GREEKS GAVE US A FIRM ASSURANCE THAT BOTH THE GREEK GOVERNMENT AND THE GREEK CEMENT COMPANIES WANTED TO REACH AN INFORMAL AGREEMENT BETWEEN THE BRITISH AND GREEK COMPANIES TO AVOID THE DISRUPTION OF THE UK CEMENT MARKET. THIS WAS NOT IN THE LONG-TERM INTEREST OF EITHER COUNTRY. THE GREEK GOVERNMENT HAD GIVEN THEIR COMPANIES AUTHORITY TO NEGOTIATE WITH THAT OBJECTIVE. BY THE END OF LAST WEEK AGREEMENT BETWEEN THE TWO SIDES APPEARED CLOSE. IT WOULD NEED TO BE A GENTLEMEN'S AGREEMENT AND TO AVOID SUTHERLAND'S CONCERNS OVER COMPETITION POLICY AND PRICE FIXING. ROBERTS WELCOMED THE GREEK ASSURANCE AND CONFIRMED OUR VIEW THAT SOME VOLUNTARY RESTRAINT ARRANGEMENT ON THESE LINES WAS THE BEST WAY TO PROCEED. HE EMPHASISED THE POLITICAL IMPORTANCE OF REACHING A SETTLEMENT. HE UNDERTOOK TO REPORT TO MINISTERS AND SAID THAT WE WOULD BE IN TOUCH WITH OUR INDUSTRY EARLY NEXT WEEK.

is this what we want?

X

COMMENT

6. THIS WAS A USEFUL SESSION. THE CONFIRMATION OF THE GREEK INTENTION TO END IMPORT DEPOSITS BY END APRIL IS SATISFACTORY. BUT THEIR IMPRECISION OVER THE EXPORT SUBSIDY UNDERLINES THE NEED FOR THE COMMISSION TO MAINTAIN THE PRESSURE IN BRUSSELS. THE ASSURANCE ON CEMENT IS WELCOME AND ROBERTS AND I BELIEVE THAT IT IS IN THE UK INTEREST TO KEEP THE GREEKS TO THEIR WORD AND AIM FOR AN UNDERSTANDING AT THE INDUSTRY LEVEL.

7. ROBERTS HAS SEEN AND AGREED THIS TELEGRAM.

8. FCO PLEASE ADVANCE TO DTI FOR WILLIAMS (DEP SEC) AND MOGG (ECIP).

THOMAS

YYYY

FCO PLEASE PASS SAVING EC POSTS, WASHINGTON

ATHPAN 3631

NNNN

FRAME EXTERNAL
ECD (1)
SEP

-2-

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COPIES TO:
ADVANCE ADDRESSEES

From: P TREVETT
Date: 31 October 1986



HM CUSTOMS AND EXCISE
VAT CONTROL DIVISION D
ALEXANDER HOUSE 21 VICTORIA AVENUE
SOUTHEND-ON-SEA X SS99 1AJ

TELEPHONE SOUTHEND-ON-SEA (0702) 348944 ext 6285

PS/Chancellor of the Exchequer

cc PS/Minister of State
Mr Lavelle
Mr Cassell
Mr A Edwards
Mr Scholar
Mr Crabbie
Miss Sinclair
Mr Cropper

EUROPEAN COMMUNITY: VAT ON SMALL AND MEDIUM SIZED BUSINESSES

1. In your note to Mr Romanski of 23 October you said that the Chancellor had asked about the revenue implications of the draft EC Directive on VAT on small and medium sized businesses. I am replying as this is a matter for which Customs are responsible.

The VAT registration threshold

2. The current VAT registration threshold is £20,500, which we estimate could be revalorised to around £21,000, to take account of inflation in the year to 31 December 1986. At today's £/ECU exchange rate 35,000 ECU is equivalent to £25,400. If the threshold were to be increased by some £4,000, over and above that justified by indexation, the cost would be in the range of nil to £50m per year. We can only give a range because the actual revenue loss depends crucially on the number of traders who take advantage of the option to deregister. An increase in the threshold in the order of £4,000 is not, we believe, likely to encourage many more deregistrations than the normal revalorisation of the threshold. This points to relatively few trader deregistering, with a revenue loss towards the bottom of the range.

Internal circulation

CPS
Mr Knox
Mr Howard

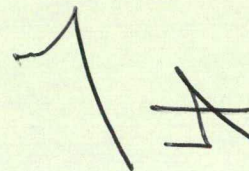
Mr Wilmott
Mr Hewett
Mr Holloway

Mr Topping

3. It must be remembered that the Commission's proposal for an optional threshold of 35,000 ECU is only an unadopted draft at present. To implement it before it has been adopted by the Council of Ministers would be likely to antagonise the Commission and other Member States, which could make adoption of the Directive more difficult. It could also lead to the Commission deciding to reopen the infraction proceedings over our existing threshold. There are precedents for the Commission taking infraction proceedings even where they have tabled draft directives which would legalise the practice concerned.

Simplified scheme for turnover up to 150,000 ECU

4. The Commission's proposed scheme for traders with a turnover up to 150,000 ECU (about £110,000) is in two parts. These two parts are represented by our proposals outlined in the consultative paper "VAT: Small Business Review" for cash accounting and annual accounting. The proposal for annual accounting should be neutral in revenue terms. That for annual accounting, and assuming a 50% take up among those eligible to use the scheme, would be a £30m once and for all loss in the year the scheme was introduced as traders delay accounting for VAT from the date they issue the invoice until the date they receive payment. There would also be a continuing annual loss of some £2-3m as traders using the scheme will effectively get full bad debt relief. These proposals are already permitted under present EC legislation and we would not need to wait the adoption of the draft directive on small and medium sized businesses before introducing them.



P TREVETT



Meena

pl keep as background
to next ECOFIN

FROM: MRS M HENSON

DATE: 3 November 1986

T.

MR P TREVETT - CUSTOMS AND EXCISE

EUROPEAN COMMUNITY: VAT ON SMALL AND MEDIUM SIZED BUSINESSES

The Chancellor has seen and was grateful for your minute of 31 October.

Meena Henson
MEENA HENSON

GRS 600

RESTRICTED

RESTRICTED
FM UKREP BRUSSELS
TO IMMEDIATE FCO
TELNO 3680
OF 031745Z NOV 86
INFO PRIORITY PARIS, BONN

FRAME ECONOMIC

BONN TELNO 907

NIC IV.

*The X, Delors will
be so difficult to be
hostile - He was here & he
must be realistic. The
President on home. The
no further work must
be done. The effort on this
is.*

SUMMARY.

FAVOURABLE INITIAL REACTION FROM MATUTES TO COMPROMISE IN TUR, BUT DELORS CABINET AND COMMISSION SERVICES MORE RETICENT.

DETAIL.

2. I EXPLAINED TO MATUTES THIS MORNING OUR UNDERSTANDING THAT THE GERMANS WERE NOW PREPARED TO COUNTENANCE A COMPROMISE ON THE LINES OF TUR: WE EXPECTED THEM TO MAKE THIS CHANGE IN THEIR POSITION CLEAR WHEN COREPER RECONSIDERED THIS THURSDAY THE VARIOUS OPTIONS ON THE TABLE. THE GERMANS HAD TAKEN A SIGNIFICANT AND HELPFUL STEP, OPENING THE WAY FOR AGREEMENT TO BE REACHED ON PROVISION OF LENDING FACILITIES OF 1.5 BECU FOR SMES, THE FIGURE PROPOSED BY THE COMMISSION. I HOPED THAT THE COMMISSION WOULD BE ABLE TO RESPOND POSITIVELY, AND THAT MATUTES IN PARTICULAR WOULD SEE AN AGREEMENT ON THESE LINES AS ANOTHER EARNEST OF THE COMMUNITY'S SUPPORT FOR SMES, TO SET ALONGSIDE THE OCTOBER INDUSTRY COUNCIL DECLARATION AND THE COMMISSION'S PROPOSAL ON VAT AND SMES.

3. MATUTES THANKED ME FOR THE PRESIDENCY'S EFFORTS TO RESOLVE THE ISSUE OF NIC IV. HIS FIRST REACTION WAS TO LOOK FAVOURABLY ON A COMPROMISE INVOLVING 750 MECU NIC IV/750 EIB LENDING, THOUGH HE WONDERED WHETHER THE EIB WOULD BE DIVERTED FROM ITS MORE IMPORTANT TASKS OF LENDING IN PRIORITY REGIONS. BUT LANGUAGE WAS IMPORTANT: IT WOULD BE HARD FOR THE COMMISSION TO ACCEPT THE GERMAN PROPOSITION THAT THIS WAS THE END OF NIC.

4. I AGREED THAT GREAT CARE WOULD HAVE TO BE GIVEN TO THE DRAFTING AND PRESENTATION OF ANY COMPROMISE, BUT THE ARGUMENT CUT BOTH WAYS. THE GERMANS AND PERHAPS SOME OTHER DELEGATIONS APPEARED TO HAVE A NEED TO MAKE A DECLARATION OF INTENT NOT TO GO ON PROLONGING NIC. THE COMMISSION SHOULD AVOID ASKING TOO MUCH OF THEM AND BE PREPARED TO MAKE HELPFUL GESTURES ON ITS SIDE, FOR INSTANCE BY INDICATING THAT NO NEW INITIATIVES FOR LENDING TO SMES COULD BE PROPOSED UNTIL THE 1.5 BECU HAD BEEN USED UP.

5. WE HAVE ALSO SPOKEN IN SIMILAR TERMS TO VIGNON (DELORS CABINET) AND RAVASSIO (DG XIX, BUT STILL PROVIDING ADVICE ON NIC IV, FOR

RESTRICTED

which

RESTRICTED

WHICH HE WAS RESPONSIBLE IN DG11). BOTH WERE LESS ENCOURAGING, FEARING THAT THE 750/750 COMPROMISE WOULD PREJUDICE THE COMMISSION'S RIGHT TO PROPOSE FUTURE TRANCHEs OF NIC. VIGNON SUGGESTED THAT A STUDY MUST STILL BE PART OF ANY COMPROMISE, RAVASIO 750 NIC PLUS A STUDY (CARRIED OUT IN THE MAIN BY THE BANK), WITH NO AGREEMENT ON A SECOND TRANCHE. BOTH THOUGHT THAT A STUDY WOULD STRENGTHEN THE COMMISSION'S ARGUMENT THAT IT WAS NOT SATISFACTORY FOR THE EIB TO TAKE OVER RESPONSIBILITY TO SMES THROUGHOUT THE EC, RAVASIO CLAIMING THAT A SIMPLE MAJORITY OF EIB GOVERNORS WOULD NOT BE OBTAINED FOR AN EIB SME FACILITY ONCE GOVERNORS FROM THE SOUTHERN MEMBER STATES AND IRELAND OBSERVED THAT, OVER A PERIOD OF YEARS, THE EFFECT WOULD BE TO CROWD OUT LENDING TO PRIORITY REGIONS. RAVASIO SAYS HE HAS GIVEN THE SAME ADVICE TO MATUTES, SUBSEQUENT TO MY INTERVIEW.

COMMENT.

6. HOW THE COMMISSION WILL REACT TO THE 750/750 IDEA ON THURSDAY IS NOT YET CLEAR. MATUTES, A REALIST WHO IS LIKELY TO BE MORE CONCERNED TO MAKE SUBSTANTIVE PROGRESS ON SMES THAN WITH QUESTIONS OF INSTITUTIONAL PRIDE, CAN BE EXPECTED TO BE REASONABLY FLEXIBLE: DELORS'S ATTITUDE IS HARDER TO PREDICT. BUT I WILL HAVE A CHANCE TO DISCUSS IT WITH HIM ON 11 NOVEMBER.

HANNAY

YYYY

ADVANCE

RENWICK FCO

WALL FCO

JAY CAB

MERCER CAB

LAVELLE TSY

EDWARDS TSY

MORTIMER TSY

BARBER TSY

MAIN

FRAME ECONOMIC

UCLNAN 4879

FRAME ECONOMIC

ECD (I)



FROM: A W KUCZYS
DATE: 3 November 1986

Handwritten: b/f with response (or 11/11) p

Handwritten: b/f 13/11 p

MR LAVELLE

cc PS/Minister of State
Mr A Edwards
Mr Mortimer
Mr Bonney
Miss Barber

NOVEMBER ECOFIN

The Chancellor has seen your minute of 31 October. He is content with the line you propose right at the end: that we settle for tabling a Presidency paper, but that UKREP do their best to restrain Lord Cockfield. However, the Chancellor wonders whether, to save time, we could not discuss at least one of the other agenda items over lunch?

Handwritten signature: AWK

A W KUCZYS

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FM UKREP BRUSSELS

TO IMMEDIATE FCO

TELNO 3743

OF 062147Z NOVEMBER 86

INFO IMMEDIATE BRUSSELS, PARIS, BONN

INFO ROUTINE COPENHAGEN, THE HAGUE, ROME, DUBLIN, LUXEMBOURG

INFO ROUTINE ATHENS, LISBON, MADRID

*Re Para 12,
we shd see
STH...
Spk to Gyskas.
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FRAME ECONOMIC

DRAFT 7TH AND 8TH TRAVELLERS ALLOWANCES DIRECTIVE (DUTY FREE SHOPS):
MEETING OF FINANCIAL QUESTIONS GROUP: 6 NOVEMBER 1986

SUMMARY

1. PRESIDENCY TABLED ELEMENTS OF POSSIBLE COMPROMISE PACKAGE COVERING LEGAL BASE FOR TAX FREE SALES, POSSIBLE DATE FOR ABOLISHING TAX FREE SHOPS, DEROGATION FOR BUTTERSHIP CRUISES AND PROHIBITION OF AQUAMARTS, AND SEVERENCE OF AUTOMATIC LINK BETWEEN THIRD COUNTRY AND INTRA-COMMUNITY ALLOWANCES, DENMARK REQUESTED 3-YEAR EXTENSION TO ITS EXISTING DEROGATION RESTRICTING THE QUANTITIES OF DUTY FREE GOODS FOR RETURNING DANISH RESIDENTS, AND UK (SUPPORTED BY FRANCE) REQUESTED PROVISION FOR DUTY FREE SHOPS AT EACH END OF THE CFL. DELEGATIONS RECOGNISED THAT FINAL DECISIONS WOULD HAVE TO BE TAKEN AT A POLITICAL LEVEL, BUT AT A TECHNICAL LEVEL BUTTERSHIPS CAUSED THE GREATEST PROBLEMS, WHEREAS THE DANISH REQUEST AND THE CFL WERE SYMPATHETICALLY RECEIVED.

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Electors
Jan 4*

2. PRESIDENCY TO CONSIDER REVISED ELEMENTS OF A PACKAGE, FOR POSSIBLE SUBMISSION TO COREPER AND ECOFIN COUNCIL ON 8 DECEMBER, IN THE LIGHT OF ANY FURTHER VIEWS FROM DELEGATIONS BY 12 NOVEMBER. AGREEMENT POSSIBLE ON 100 ECU AS LEVEL FOR THIRD COUNTRY ALLOWANCE, SUBJECT TO GREEK DEROGATION. PROSPECTS, WHILE NEVER GOOD, HAVE NOT WORSENEED SIGNIFICANTLY EXCEPT FOR A GENERAL BELGIAN RESERVE ON THE WHOLE PACKAGE: WE NEED TO CONSIDER HOW TO BRING PRESSURE TO BEAR ON BELGIANS.

DETAIL

TIME LIMIT FOR ABOLITION OF DUTY-FREE SHOPS

8. MAJORITY OPPOSED TO HAVING TIME LIMIT FOR ABOLISHING DUTY FREE SHOPS IN INTRA-COMMUNITY TRADE, EVEN IN BROAD TERMS SUGGESTED IN PRESIDENCY COMPROMISE ('FOR AS LONG AS FISCAL FRONTIERS REMAIN'). BELGIUM AND THE COMMISSION STILL FAVOURED AN ABOLITION DATE, BUT PRESIDENCY CONCLUDED THAT NO LIMIT SHOULD APPEAR IN THE TEXT BUT THAT CONSIDERATION WOULD BE GIVEN TO A POSSIBLE COUNCIL STATEMENT AGREEING TO RE-EXAMINE THE ISSUE IN THE LIGHT OF PROGRESS TOWARDS COMPLETION OF THE INTERNAL MARKET.

4. AT THIS POINT BELGIUM ENTERED A GENERAL RESERVE ON THE WHOLE PROPOSAL

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PROPOSAL. THEY WERE PREPARED TO CONTINUE TO CONTRIBUTE TO TECHNICAL DISCUSSION BUT HELD OUT NO HOPE OF AGREEMENT AT ANY LEVEL.

EXEMPTION AT IMPORT FOR TAX-FREE GOODS

5. MAJORITY OF MEMBER STATES CONSIDERED THAT AN OPTION TO ALLOW EXEMPTION AT IMPORT COULD LEAD TO DIFFERENT TREATMENT BETWEEN MEMBER STATES AND TO UNCERTAINTY FOR TRAVELLERS. PRESIDENCY CONCLUDED THAT IMPORT EXEMPTION SHOULD THEREFORE BE MADE OBLIGATORY. NO ONE DISSENTED.

SEVERENCE OF LINK BETWEEN THIRD COUNTRY AND INTRA-COMMUNITY ALLOWANCES

6. INITIALLY IRELAND, NETHERLANDS, ITALY AND PORTUGAL FAVOURED MAINTAINING AN AUTOMATIC LINK BETWEEN THE LEVEL OF BOTH ALLOWANCES, BUT EVENTUALLY INDICATED THAT THEY MIGHT BE ABLE TO RALLY TO THE MAJORITY VIEW THAT THE LINK SHOULD BE SEVERED AFTER AN INCREASE FOR BOTH ALLOWANCES TO, SAY, 100 ECU. IRELAND AND NETHERLANDS DREW ATTENTION TO PRACTICAL PROBLEMS WHICH COULD ENSUE IF ALLOWANCES DIVERGED IN THE FUTURE. FAVOURABLE REACTION TO SUGGESTION THAT QUANTITY AND VALUE OF INTRA-COMMUNITY ALLOWANCE SHOULD BE SPELLED OUT IN A TABLE IN THE TEXT.

DUTY FREE SHOPS ON CFL

7. FRANCE AND COMMISSION SUPPORTED UK REQUEST TO ALLOW POSSIBILITY OF DUTY-FREE SHOPS ON THE CFL TO PRESERVE EQUALITY OF COMPETITION BETWEEN DIFFERENT MODES OF TRANSPORT ACROSS THE CHANNEL. ITALY, SPAIN AND NETHERLANDS EXPRESSED SOME HESITATION BUT RECOGNISED THAT FINAL DECISION WOULD HAVE TO BE TAKEN AT A HIGHER LEVEL. MAJORITY OF DELEGATIONS FELT THAT WORDING COVERING CFL ('AND SIMILAR SHOPS') SHOULD BE REDRAFTED TO MAKE A MORE PRECISE REFERENCE TO THE INTENDED CIRCUMSTANCES. A POTENTIALLY USEFUL SPANISH SUGGESTION THAT THE COUNCIL SHOULD RECOGNISE IN AN APPROPRIATE DECLARATION THAT 'PORTS' SHOULD ALSO INCLUDE THE ENDS OF THE TUNNEL, THUS REMOVING THE NEED FOR ANY SPECIFIC PROVISION FOR THE CFL, WAS NOT TAKEN UP BY OTHER DELEGATIONS.

AQUAMARTS

8. BELGIUM COMMENTED THAT THE PRESIDENCY'S DRAFT WHICH ATTEMPTED TO BLOCK TAX FREE IMPORTS FROM AQUAMARTS WAS NOT ACCEPTABLE BECAUSE IT WOULD NOT ACHIEVE THE DESIRED RESULT, BUT THEY HAD BEEN UNABLE TO COME UP WITH ANY BETTER FORMULATION. PRESIDENCY THEREFORE CONCLUDED THAT THE ONLY POSSIBILITY WAS TO DELETE THE PHRASE, AND LEAVE IT TO BELGIUM TO PRODUCE AN ACCEPTABLE ALTERNATIVE.

BUTTERSHPIS

9. GERMANY WELCOMED PRESIDENCY TEXT, BUT SAID THAT THE REVIEW CLAUSE SHOULD ONLY OPERATE AFTER 7 OR 8 YEARS BECAUSE THE POSITION WAS UNLIKELY TO CHANGE BEFORE THEN. THEY ALSO ARGUED THAT THE DEROGATION

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SHOULD BE OPEN ENDED SINCE THE REFERENCE TO FISCAL FRONTIERS FOR THE EXISTENCE OF DUTY-FREE SHOPS HAD NOW BEEN REMOVED. COMMISSION OPPOSED, BUT IN RESTRAINED TERMS. ITALY, SPAIN AND PORTUGAL ENTERED RESERVES, BUT RECOGNISED POLITICAL SENSITIVITY OF THE ISSUE. NETHERLANDS ENTERED RESERVE BECAUSE THEIR EXISTING CRUISES MEET THE REQUIREMENTS OF THE ECJ RULING AND A DEROGATION FOR GERMANY UNDER MORE FAVOURABLE CONDITIONS WOULD LEAD TRAVELLERS TO USE GERMAN BUTTERSHIPS RATHER THAN DUTCH CRUISES. DESPITE PRESIDENCY'S INSISTENCE THAT DEROGATION WAS LIMITED TO EXISTING SERVICES, GREECE AND PORTUGAL REQUESTED THAT THEY BE ALLOWED TO INTRODUCE BUTTERSHIP CRUISES. BELGIUM EXPRESSED SERIOUS RESERVATIONS, AND ASKED FOR THE COUNCIL LEGAL SERVICE'S ADVICE ON THE LEGALITY OF INTRODUCING IN THE DIRECTIVE A DEROGATION FOR GERMANY, AND ON WHETHER THE COMMUNITY WAS ABLE TO MODIFY THE COMMISSION'S ORIGINAL PROPOSAL IN THIS RESPECT. PRESIDENCY RECOGNISED THAT WITHOUT THIS ELEMENT ANY COMPROMISE PACKAGE WAS UNLIKELY TO SUCCEED.

DANISH DEROGATION

10. SYMPATHETIC RECEPTION TO DANISH REQUEST FOR 3 YEAR EXTENSION TO THEIR CURRENT DEROGATION, BUT COMMISSION INSISTED THAT ANY PROPOSAL TO MEET IT COULD ONLY BE PUT FORWARD BY THEM. DELEGATIONS RECOGNISED POLITICAL NATURE OF REQUEST.

8TH DIRECTIVE - THIRD COUNTRY ALLOWANCE

11. LARGE MAJORITY IN FAVOUR OF AN INCREASE TO 100 ECU, BUT GREECE INSISTENT THAT THEY MUST BE ABLE TO RETAIN THE PRESENT 45 ECU ALLOWANCE FOR 5 TO 6 YEARS BECAUSE OF PROBLEMS OF GREEK RESIDENTS MAKING TRIPS TO EASTERN BLOC COUNTRIES TO PURCHASE GOODS WITH HARD CURRENCY. FRANCE QUERIED WHETHER, FOR THE THIRD COUNTRY ALLOWANCE, IT WAS LEGALLY POSSIBLE FOR THERE TO BE DIFFERING LEVELS OF ALLOWANCE WITHIN THE COMMUNITY IN RESPECT OF CUSTOMS DUTY. IRELAND, WHILE INITIALLY HAVING BEEN READY TO ACCEPT 100 ECU, DREW BACK SLIGHTLY WHEN COMMISSION REFUSED TO COUNTENANCE INTRODUCING A QUANTITATIVE LIMIT FOR IMPORTS OF BEER. NEVERTHELESS IRELAND PREPARED TO RECONSIDER IN THE LIGHT OF DISCUSSION. PRESIDENCY CONCLUDED THAT 100 ECU APPEARED TO COMMAND ALMOST UNANIMOUS SUPPORT.

COMMENT

12. THE ODDS ARE STILL AGAINST TYING UP THIS PACKAGE, BUT THERE IS A CHANCE THAT WE MAY DO SO. A NECESSARY CONDITION FOR GETTING ANY MOVEMENT IS HOWEVER THAT THE BELGIANS SHOULD NOT CONTINUE TO BLOCK AND, IF NECESSARY, BE PREPARED TO CONTINUE WORK IN THE NEW YEAR.

ONLY AN INTERVENTION WITH EYSKENS SEEMS LIKELY TO HAVE ANY CHANCE OF SHIFTING THEM. THE CHANCELLOR OF THE EXCHEQUER SHOULD HAVE A CHANCE TO SPEAK TO EYSKENS IN THE MARGINS OF ECOFIN ON 17 NOVEMBER.

BRUSSELS MAY WISH TO ADVISE ON WHETHER AN APPROACH BY THE CHANCELLOR IS LIKELY TO BE PRODUCTIVE, WHAT ARGUMENTS MIGHT BE LIKELY BEST TO SERVE OUR CAUSE, AND WHETHER IT WOULD ALSO BE WORTH TRYING TO MOVE STOLTENBERG OR BALLADUR, WHO SHOULD ALSO WANT A DEAL, TO SPEAK TO EYSKENS.

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13. THE COMMISSION WERE REMARKABLY HELPFUL IN TODAY'S DISCUSSIONS, WE SHOULD CONSIDER CAREFULLY WHETHER IT COULD BE COUNTER-PRODUCTIVE TO MAKE A FORMAL WRITTEN APPROACH TO THEM.

HANNAY

YYYY

ADVANCE:

WALL:

HOLROYD CAB

JAY CAB

MERCER CAB

KENT C/E

BOLT C/E

GARRETT C/E

LOUGHEAD DTI

MISS SINCLAIR TSY

COLMAN TSY

HOLMES D/TP

MISS LAMBERT D/TP

MAIN:

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UCLNAN 4961

FRAME ECONOMIC
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FCO

MR RENWICK
MR BRAITHWAITE

RESIDENT CLERK
HD/ECD(I) (3)
HD/NEWS DEPT
HD/ERD
HD/
HD/
HD/

PLUS FCO

MR BLOOMFIELD, ECD(I)

<p><u>CABINET OFFICE</u> MR D WILLIAMSON MR JH HOLROYD MR MERCER MR M H JAY</p>	<p><u>D T I</u></p>	<p><u>PLUS OGD's</u> MR P KENT HM CUSTOMS & EXCISE</p>
<p><u>H M TREASURY</u> PS / CHANCELLOR SIR GEOFFREY LITTLER MR J E MORTIMER MR C D CRABBIE MR R G LAVELLE MR EDWARDS MISS BARBER</p>	<p><u>M A F F</u> PERMANENT SECRETARY</p> <p><i>per let me have a setup</i></p>	

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OF 062325Z NOVEMBER 86
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FRAME ECONOMIC

COREPER II - 6 NOVEMBER

PREPARATION FOR ECOFIN COUNCIL - 17 NOVEMBER: NIC IV

SUMMARY

1. GENERAL WILLINGNESS TO CONSIDER 750/750 COMPROMISE, BUT COMMISSION OPPOSED. FURTHER COREPER DISCUSSION NEXT WEEK.

DETAIL

2. I NOTED THAT AT THE LAST ECOFIN ALL MINISTERS HAD AGREED THAT 1500 MECU SHOULD BE MADE AVAILABLE FOR LENDING TO SMES AND THAT BRODER'S LETTER ESTABLISHED THAT THERE WERE NO FINANCIAL OR LEGAL OBSTACLES TO THE EIB'S TAKING OVER NIC FUNCTIONS. THERE REMAINED A POLITICAL CHOICE AS TO WHETHER THE COMMISSION OR THE EIB WAS TO CARRY OUT THE BORROWING CONCERNED. COULD A SOLUTION BE FOUND WHICH DREW ON THE BELGIAN SUGGESTION THAT, AS A FIRST STEP, A NIC FACILITY OF 750 MECU SHOULD BE AGREED?

3. KITTEL (GERMANY) INDICATED WILLINGNESS TO PROCEED IN THIS WAY, PROVIDED THAT THE 750 NIC TRANCHE WAS PART OF A COMPROMISE WHICH MADE CLEAR THAT RESPONSIBILITY FOR ANY SUCCESSOR ARRANGEMENT WOULD FALL TO THE EIB. NIEMAN (NETHERLANDS) AGREED, ADDING THAT A QUICK DECISION WAS NEEDED.

4. I THEN TRIED OUT ON THE COMMITTEE THE SUGGESTION THAT A 750 MECU TRANCHE OF NIC LENDING SHOULD BE FOLLOWED BY AN OPERATION OF THE SAME RISE BY THE EIB, UNDER ITS OWN AUSPICES.

5. CALAMIA (ITALY), CAMPBELL (IRELAND), SCHEER (FRANCE), WESTENDORP (SPAIN), MATHIAS (PORTUGAL), NOTERDAEME (BELGIUM) AND, ON A PERSONAL BASIS, ... (DENMARK) AGREED THAT THIS IDEA DESERVED SERIOUS

(SPAIN), MATHIAS (PORTUGAL), NOTERDAEME (BELGIUM) AND, ON A PERSONAL BASIS, ESER LARSEN (DENMARK) AGREED THAT THIS IDEA DESERVED SERIOUS CONSIDERATION, THOUGH NONE EXPRESSED ENTHUSIASM. CAMPBELL, CALAMIA AND WESTENDORP FEARED THAT THERE WOULD BE ADVERSE CONSEQUENCES FOR THE EIB'S OPERATIONS IN LESS FAVOURED REGIONS, PAPADOPOULOS (GREECE) THAT AN EIB FACILITY WOULD BE LESS FLEXIBLE THAN NIC.

6. CHRISTIE (EIB) EXPLAINED HELPFULLY THAT 750 MECU FOR SMBS WAS SMALL BEER WHEN SET AGAINST THE EIB'S FORECAST LENDING NEXT YEAR OF 7.5 BECU, THAT A FACILITY OF THIS SIZE WOULD ADVERSELY AFFECT NEITHER THE EIB'S STANDING AS AN INTERNATIONAL BORROWER NOR ITS LOANS TO ASSISTED AREAS, AND THAT THE BANK COULD OPERATE AS FLEXIBLY IN ADMINISTERING MONIES WHICH IT HAD BORROWED AS IN MANAGING NIC.

7. RUSSO (COMMISSION) OPPOSED THE 750/750 COMPROMISE. THE COMMISSION WOULD MUCH PREFER TO AGREE ON A 750 MECU NIC AND A STUDY, WITHOUT AGREEMENT NOW THAT A SECOND TRANCHE WOULD PASS TO THE EIB.

8. THERE WAS LITTLE DISCUSSION OF THE GERMAN VIEW (WHICH KITTEL DID NOT PUT WITH MUCH FORCE) THAT IT MUST BE RECOGNISED THAT IN FUTURE ANY SME FINANCING WOULD PASS TO THE EIB. CALAMIA AND RUSSO WERE OPPOSED, NOTERDAEME SAID THAT FOR THE EIB TO PROVIDE A SECOND TRANCHE OF 750 MECU SHOULD NOT PREVENT THE COMMISSION FROM MAKING FUTURE PROPOSALS. I COMMENTED THAT IT SEEMED UNLIKELY THAT THE COUNCIL WOULD BE PREPARED TO ENDORSE THE GERMAN VIEW, GIVEN THE LUKEWARM RESPONSE EVEN TO THE IDEA OF A 750 MECU EIB TRANCHE.

9. I CONCLUDED THAT COREPER WOULD RETURN TO NIC IV NEXT WEEK IN THE HOPE OF ESTABLISHING A BASIS FOR AGREEMENT AT ECOFIN. COMPROMISE WOULD BE NEEDED ON ALL SIDES.

COMMENT

10. SO FAR, SO GOOD. THE MAIN DANGERS ARE:

(A) THAT THE GERMANS WILL REFUSE TO SEE THE WRITING ON THE WALL AND PRESS FOR COUNCIL AGREEMENT THAT NIC-STYLE OPERATIONS MUST IN FUTURE BE FOR THE EIB:

(B) THAT OTHER DELEGATIONS WILL BACK-PEDAL:

(C) THAT THE COMMISSION WILL CONTINUE THEIR UNHELPFUL ATTITUDE OF TODAY.

X IF (A) OR (B) HAPPENS NEXT WEEK IT MAY BE HELPFUL FOR THE CHANCELLOR TO SEND A MESSAGE TO COLLEAGUES IMMEDIATELY BEFORE THE COUNCIL URGING COMPROMISE ALL ROUND. AS FOR (C), WE WILL TRY TO CONVINCe DELORS AND OTHERS IN THE COMMISSION BEFORE NEXT THURSDAY OF THE SUBSTANTIVE ADVANTAGES OF THE 750/750 PACKAGE AS COMPARED WITH CONTINUED DEADLOCK.

HANNAY

YYYY
ADVANCE:
WALL FCO
BLOOMFIELD FCO
JAY CAB
MERCER CAB
PS/CHANCELLOR TSY
LAVELLE TSY
EDWARDS TSY
MORTIMER TSY
MISS BARBER TSY
MAIN:
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UCLNAN 4963

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6/6 18/11
D

FROM: A W KUCZYS
DATE: 7 NOVEMBER 1986

MR LAVELLE

cc Sir G Littler
Mr A Edwards
Mr Crabbie
Mr Mortimer

Sir D Hannay - UKREP

NIC IV

The Chancellor has seen the attached telegram from UKREP. Sir D Hannay says (right at the end) that Delors' attitude is hard to predict. The Chancellor has commented that Delors will, he fears, be difficult and hostile. He will have to be made to realise that it is this or nothing. The Presidency will invest no further time and effort on this issue.

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

A W KUCZYS

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BONN TELNO 907
NIC IV.

SUMMARY.

FAVOURABLE INITIAL REACTION FROM MATUTES TO COMPROMISE IN TUR, BUT DELORS CABINET AND COMMISSION SERVICES MORE RETICENT.

DETAIL.

2. I EXPLAINED TO MATUTES THIS MORNING OUR UNDERSTANDING THAT THE GERMANS WERE NOW PREPARED TO COUNTENANCE A COMPROMISE ON THE LINES OF TUR: WE EXPECTED THEM TO MAKE THIS CHANGE IN THEIR POSITION CLEAR WHEN COREPER RECONSIDERED THIS THURSDAY THE VARIOUS OPTIONS ON THE TABLE. THE GERMANS HAD TAKEN A SIGNIFICANT AND HELPFUL STEP, OPENING THE WAY FOR AGREEMENT TO BE REACHED ON PROVISION OF LENDING FACILITIES OF 1.5 BECU FOR SMES, THE FIGURE PROPOSED BY THE COMMISSION. I HOPED THAT THE COMMISSION WOULD BE ABLE TO RESPOND POSITIVELY, AND THAT MATUTES IN PARTICULAR WOULD SEE AN AGREEMENT ON THESE LINES AS ANOTHER EARNEST OF THE COMMUNITY'S SUPPORT FOR SMES, TO SET ALONGSIDE THE OCTOBER INDUSTRY COUNCIL DECLARATION AND THE COMMISSION'S PROPOSAL ON VAT AND SMES.

3. MATUTES THANKED ME FOR THE PRESIDENCY'S EFFORTS TO RESOLVE THE ISSUE OF NIC IV. HIS FIRST REACTION WAS TO LOOK FAVOURABLY ON A COMPROMISE INVOLVING 750 MECU NIC IV/750 EIB LENDING, THOUGH HE WONDERED WHETHER THE EIB WOULD BE DIVERTED FROM ITS MORE IMPORTANT TASKS OF LENDING IN PRIORITY REGIONS. BUT LANGUAGE WAS IMPORTANT: IT WOULD BE HARD FOR THE COMMISSION TO ACCEPT THE GERMAN PROPOSITION THAT THIS WAS THE END OF NIC.

4. I AGREED THAT GREAT CARE WOULD HAVE TO BE GIVEN TO THE DRAFTING AND PRESENTATION OF ANY COMPROMISE, BUT THE ARGUMENT CUT BOTH WAYS. THE GERMANS AND PERHAPS SOME OTHER DELEGATIONS APPEARED TO HAVE A NEED TO MAKE A DECLARATION OF INTENT NOT TO GO ON PROLONGING NIC. THE COMMISSION SHOULD AVOID ASKING TOO MUCH OF THEM AND BE PREPARED TO MAKE HELPFUL GESTURES ON ITS SIDE, FOR INSTANCE BY INDICATING THAT NO NEW INITIATIVES FOR LENDING TO SMES COULD BE PROPOSED UNTIL THE 1.5 BECU HAD BEEN USED UP.

5. WE HAVE ALSO SPOKEN IN SIMILAR TERMS TO VIGNON (DELORS CABINET) AND RAVASSIO (DG XIX, BUT STILL PROVIDING ADVICE ON NIC IV, FOR

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WHICH HE WAS RESPONSIBLE IN DG11). BOTH WERE LESS ENCOURAGING, FEARING THAT THE 750/750 COMPROMISE WOULD PREJUDICE THE COMMISSION'S RIGHT TO PROPOSE FUTURE TRANCHEs OF NIC. VIGNON SUGGESTED THAT A STUDY MUST STILL BE PART OF ANY COMPROMISE, RAVASIO 750 NIC PLUS A STUDY (CARRIED OUT IN THE MAIN BY THE BANK), WITH NO AGREEMENT ON A SECOND TRANCHE. BOTH THOUGHT THAT A STUDY WOULD STRENGTHEN THE COMMISSION'S ARGUMENT THAT IT WAS NOT SATISFACTORY FOR THE EIB TO TAKE OVER RESPONSIBILITY TO SMES THROUGHOUT THE EC, RAVASIO CLAIMING THAT A SIMPLE MAJORITY OF EIB GOVERNORS WOULD NOT BE OBTAINED FOR AN EIB SME FACILITY ONCE GOVERNORS FROM THE SOUTHERN MEMBER STATES AND IRELAND OBSERVED THAT, OVER A PERIOD OF YEARS, THE EFFECT WOULD BE TO CROWD OUT LENDING TO PRIORITY REGIONS. RAVASIO SAYS HE HAS GIVEN THE SAME ADVICE TO MATUTES, SUBSEQUENT TO MY INTERVIEW.

COMMENT.

6. HOW THE COMMISSION WILL REACT TO THE 750/750 IDEA ON THURSDAY IS NOT YET CLEAR. MATUTES, A REALIST WHO IS LIKELY TO BE MORE CONCERNED TO MAKE SUBSTANTIVE PROGRESS ON SMES THAN WITH QUESTIONS OF INSTITUTIONAL PRIDE, CAN BE EXPECTED TO BE REASONABLY FLEXIBLE: DELORS'S ATTITUDE IS HARDER TO PREDICT. BUT I WILL HAVE A CHANCE TO DISCUSS IT WITH HIM ON 11 NOVEMBER.

HANNAY

YYYY

ADVANCE

RENWICK FCO

WALL FCO

JAY CAB

MERCER CAB

LAVELLE TSY

EDWARDS TSY

MORTIMER TSY

BARBER TSY

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FROM: JANET BARBER
DATE: 7 November 1986

SIR PETER MIDDLETON

cc PS/Chancellor
Sir Geoffrey Littler
Mr Lavelle
Mr Byatt
Mr Edwards
Mr Mortimer
Mr Riley
Mr Shaw
Mr Dolphin
Mr Bostock - UKREP

CO-ORDINATING GROUP 10 NOVEMBER

You are chairing a meeting of the EC-Co-ordinating Group for Economic and Financial Policies on 10 November. You are also representing the UK. The meeting begins at 10.00am, and UKREP are arranging for you to see Mr Pini of the Council Secretariat beforehand at 9.30am, to discuss procedure.

2. The purpose of the meeting is to discuss the 1986-87 Annual Economic Report, with a view to preparing ECOFIN's first discussion of it on 17 November. You already have a copy of the Report.

3. The UK's comments on the Report are set out in a brief prepared by Mr Dolphin, attached at Annex A. Attached at Annex B is a list of amendments which the UK would like to see made to the Report prior to adoption. Those to which we attach a high priority are marked. Attached also (topy copy only) is a clean version of Annex B which, depending on how the discussion goes, you may like to give to the Commission and the Council Secretariat.

4. This note covers the procedural aspects of the meetings.

Background

5. The EC Council of Ministers is required, by the 1974 Decision on convergence of economic policies of member states, to adopt an annual report on the economic situation in the Community.

The Council acts on a proposal by the Commission, and its discussion of the Report is usually prepared by the Co-ordinating Group. Copies of the relevant Community legislation are attached at Annex C:

- (a) the 1974 Convergence Decision;
- (b) a 1975 subsequent Decision amending Article 4 of the Convergence Decision;
- (c) an extract from the 1972 Council Resolution which set up the Co-ordinating Group.

Timing of this year's ECOFIN discussion

6. The 1986-87 Annual Economic Report was adopted by the Commission and issued on 15 October. (A draft had previously been discussed by the Economic Policy Committee.) This left two possible dates for ECOFIN discussion: 17 November and 8 December.

7. We want to have a substantive discussion on 17 November (while leaving adoption until 8 December), for two main reasons:

- (a) to allow ECOFIN to have an exchange of views on the Report and on the economic situation generally, as background for the European Council discussion on 5/6 December;
- (b) to give member states a chance to air any problems with the Report which could complicate adoption in December.

On (a), we anticipate that the Chancellor will sum up ECOFIN views, and that this summary can be referred to in any European Council discussion on the economic situation.

8. For information, in order to save time, we may handle the November ECOFIN as follows. The discussion might start shortly before lunch, and continue over lunch, with the Chancellor's summing up in the formal Council session immediately afterwards. But there is no final decision on this, so you should not mention it, not even to Pini.

9. In respect of the European Council, you should be aware that, as Presidency, we hope to avoid the usual discussion of the economic situation, and plan to focus the economic discussion on "business and jobs" ie on the internal market, job creation, small businesses, deregulation, and consumer interests. But:

- (a) there is an obvious link with the themes in the Annual Economic Report;
- (b) discussion may well touch on the more general macro-economic issues;
- (c) the Commission may speak about the Annual Economic Report;
- (d) at a recent meeting with the Foreign Secretary, President Delors said that the Commission might table a 3 or 4 page paper on the macro-economic background for the European Council.

A prior ECOFIN discussion would pre-empt any Commission attempt to get unwarranted approval for its economic policies, and would keep ECOFIN in the lead on this subject.

10. (Not all member states are yet aware of how we plan to organise the European Council, but, if pressed, you could say in general terms that the economic discussion will concentrate on business and employment.)

11. You are aware of the Commission's worries about discussing the Report before opinions have been received from the European Parliament and the Economic and Social Committee (See Annex C). We feel that these worries are unjustified, because:

- (a) there is no question of adopting the Report until 8 December, and we are not excluding substantive discussion in December if member states want it;
- (b) we are not doing anything new - last year, the Report was discussed at ECOFIN in October and November before the EP and E&SC opinions were received. And, like this year, the Co-ordinating Group was a week before the November ECOFIN.

However, if it is necessary to placate the Commission, you could refer to the November ECOFIN discussion as a first exchange of views. You should be aware that we are arranging a meeting between the Chancellor and Commissioner Pfeiffer before the November Council begins, so that they can discuss the Report.

12. For information, we expect that the Parliament will adopt its resolution on the Annual Economic Report at its next plenary session in the week 10-14 November (although it is possible that this may slip), and that the E&SC will adopt its opinion at its next plenary session starting on 24 November.

Discussion at the Co-ordinating Group

13. I understand that the usual procedure is for the Commission and each member state to give its views on the Report.

14. If he is present, you will want to ask the chairman of the Economic Policy Committee, Mr Milleron, for the EPC's views on the Report. The EPC have agreed an opinion on the Report. This has now been circulated to EPC members, and a copy is attached at Annex D.

15. We are asking Mr Milleron to report the EPC's views to the Council in November rather than in December. The EPC opinion is a helpful one, and, in any case it will still be on the table in December.

Handling amendments

16. You will probably not want to let the Co-ordinating Group discussion degenerate into a drafting session. But it is likely that member states will have amendments to the Report which they would like to see made prior to adoption. You might ask the Council Secretariat how these can be fed into the Report. (The Commission will of course be reluctant to accept changes.

17. Member states normally send amendments to the Commission for bilateral discussion with the aim of agreeing as much as possible in advance of ECOFIN. Last year the Council Secretariat circulated a list of requested amendments just before the December Council. The list was in two parts - those the Commission had accepted, and one (a UK one) which they had not. (Agreement was subsequently reached on the unaccepted UK one.) Agreed amendments were then included in the adopted version of the Report.

The terms of the Council Decision

18. If member states have a lot of problems with the Report, one possible solution would be to change the terms of the Council Decision adopting it. The usual form is the one shown on the back of the 1986-87 Report. This involves explicit adoption of the policy guidelines in Part I and the guidelines for individual member states in Part II (Article 1). Two years ago, a different, more general, formula for Article 1 was agreed, as follows:

"The Council hereby adopts the annual report on the economic situation in the Community attached hereto"

There was not much support for this option last year, and in the end the traditional formula was used. It is not likely to appeal to the Commission, but given the 1984 precedent, it remains an option. We would be happy to accept it, indeed we would prefer it.

Reporting the discussion to ECOFIN

19. You will want to decide, in the light of the discussion, how the Group's discussion should be reported to ECOFIN on 17 November. In practice, there are two alternatives:

(a) you would attend ECOFIN on 17 November, and give an oral report;

(b) you would report to the Chancellor, as Chairman of ECOFIN, who could then refer to your report in his opening remarks;

A written report would be unusual, and we would not favour it.

20. Finally, as useful background, Annex E gives some economic statistics on the Community, US and Japan.

Janet Barber

JANET BARBER

EC1

CHANCELLOR

FROM : R G LAVELLE

7 November 1986

cc PS/Minister of State
Mr Edwards
Mr Mortimer
Miss Barber

Handwritten notes in red ink:
I wd rather do
NIC IV over lunch, Annual Report.
Annual Report OK.
(to name is details) & this over lunch
Lavelle
to AR,

NOVEMBER ECOFIN

I have lodged with UKREP your suggestion of speeding up proceedings by discussing at least one agenda item over lunch.

2. The optimum ordering of events ought to be easier to judge in a week's time. Nothing need be settled before then. Assuming Greece does not figure, the two most plausible candidates for lunchtime discussion look to be NIC IV or the Annual Report. In either case, final stages would need to be taken in the Council. The case for NIC IV depends on how much haggling is still required. I quite like the idea of getting Pfeiffer to introduce the Annual Report shortly before lunch, grumbling about it during lunch, with a summing up after lunch.

3. On that basis, one sequence might be, (starting at 11.30 am) :
- i. Capital Movements Directive (easy, very short)
 - ii. VAT Directives (easy, short) leading into
 - iii. NIC IV (with luck 45 minutes)
 - iv. Annual Report
 - v. R & D)
 - vi. Fisheries) best taken sequentially

You would have to allow time for Pfeiffer before the start and probably some moments for another word with Delors about exchange controls.

4. May I treat with UKREP on this sort of pattern?

R G Lavelle
R G LAVELLE



FROM: A W KUCZYS
DATE: 10 NOVEMBER 1986

MR LAVELLE

cc: PS/Minister of State
Mr A Edwards
Mr Mortimer
Miss Barber

NOVEMBER ECOFIN

The Chancellor has seen your minute of 7 November, about the ordering of the agenda next week.

2. He would rather do NIC IV over lunch, instead of the Annual Report. (The reason is that we may have detailed amendments to the Annual Report, and this is impossible over lunch.)
3. Apart from this, he agrees with your proposals.

A handwritten signature in dark ink, appearing to be "AWK".

A W KUCZYS

10/165



FROM: A W KUCZYS
DATE: 10 NOVEMBER 1986

MR LAVELLE

cc: Sir G Littler
Mr A Edwards
Mr Mortimer
Mr Crabbie
Miss Barber

ECOFIN 17 NOVEMBER: NIC IV

In telegram number 3746 of 6 November UKREP say that, if the Germans refuse to compromise, or other delegations back peddle, then it might be helpful for the Chancellor to send a message to colleagues this week urging compromise all round. The Chancellor would be grateful for a situation report on whether this is necessary.

A W KUCZYS

FCO

MR RENWICK
MR BRAITHWAITE

RESIDENT CLERK
HD/ECD(I) (3)
HD/NEWS DEPT
HD/ERD
HD/
HD/
HD/

PLUS FCO

MR WALKER
ECD(I)

CABINET OFFICE

MR D WILLIAMSON
MR JH HOLROYD
MR MERCER
MR M H JAY

DTI

MR NOGG

PLUS CGD's

MR P KENT
HM CUSTOMS & EXCISE

H M TREASURY

MR C LITTLE
SIR GEOFFREY LITTLER
MR J E MORTIMER
MR C D CRABBIE I
MR R G LAVELLE
MR EDWARDS
MR BARBER

M A F F

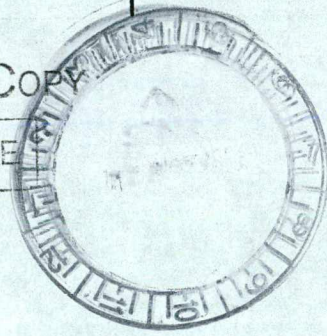
PERMANENT SECRETARY

MR HOPE
DOE

CONFIDENTIAL
FM UKREP BRUSSELS
TO DESKBY 111530Z FCO
TELNO 3809
OF 111320Z NOVEMBER 86
INFO PRIORITY ATHENS

ADVANCE COPY

IMMEDIATE



FRAME ECONOMIC

GREEK TRADE MEASURES

SUMMARY

1. DELORS NOT CONVINCED THAT IT WOULD BE HELPFUL TO DISCUSS GREEK MEASURES AT ECOFIN LUNCH; BUT WOULD BE READY TO DO SO IF THE CHANCELLOR OF THE EXCHEQUER WISHES.

DETAIL

2. AT BREAKFAST WITH DELORS ON 11 NOVEMBER, I SOUNDED HIM OUT ON THE ADVISABILITY OF DISCUSSING GREEK TRADE MEASURES OVER LUNCH AT THE NOVEMBER ECOFIN COUNCIL IN ORDER TO KEEP UP THE PRESSURE ON THE GREEK GOVERNMENT. DELORS' OFF-THE-CUFF REACTION WAS THAT IT WOULD BE BETTER TO AVOID DISCUSSION. THE COMMISSION WAS IN CONFLICT WITH THE GREEKS ON A RANGE OF ISSUES. THERE WAS A RISK OF TRYING TO FORCE THEM BEYOND WHAT WAS REASONABLE, GIVEN THE STATE OF THE GREEK ECONOMY.

3. I SUGGESTED THAT IT MIGHT HELP THE COMMISSION IN HANDLING THE GREEK GOVERNMENT IF OTHER MEMBER STATES WERE TO EXPRESS SUPPORT FOR WHAT IT WAS DOING IN RELATION TO GREECE. DELORS COMMENTED THAT SIMITIS WAS ALREADY CONVINCED OF THE NEED TO DISMANTLE THE GREEK TRADE MEASURES AND WAS CO-OPERATING WITH THE COMMISSION. THE PROBLEM WAS THAT PAPANDEOU WAS IN AN INFLEXIBLE MOOD, WITH LITTLE FREEDOM OF MANOEUVRE. HE CONCLUDED HOWEVER THAT, IF THE CHANCELLOR OF THE EXCHEQUER WANTED TO HAVE THE GREEK MEASURES DISCUSSED OVER LUNCH AT ECOFIN, HE WOULD BE READY TO CO-OPERATE.

4. I EXPLAINED THAT THE UK'S MAIN PREOCCUPATION CONCERNED GREEK CEMENT EXPORTS. IT WAS IMPORTANT THAT THE EXPORT SUBSIDIES SHOULD NOT BE RENEWED AFTER THE END OF THE YEAR. DELORS' IMPRESSION WAS

Handwritten notes:
*
J.P. 2. Urgent

Handwritten notes:
Ch
We will get advice tomorrow. HMT officials see no need, but FCO (and possibly DTI) think differently.
dWK

Handwritten notes:
AS
Janet Barber has pushed the point about a possible VRA (telegram below) with DT4. The Athens telegram is wrong in suggesting that any industry-to-industry agreement is imminent, so this is somewhat academic dWK 11/11

NOT BE RENEWED AFTER THE END OF THE YEAR. DELORS' IMPRESSION WAS THAT THE GREEKS ALREADY ACCEPTED THIS. HIS WIDER PROBLEM WAS THAT IF HE INSISTED ON SUPPRESSING GREEK EXPORT SUBSIDIES OUTRIGHT, GREECE'S ECONOMIC PROBLEMS WITH THE COMMUNITY WOULD BE AGGRAVATED. IF ON THE OTHER HAND HE DUCKED THE PROBLEM, HE WOULD FACE TROUBLE WITH OTHER MEMBER STATES, NOTABLY IN THE MONETARY COMMITTEE. HE HAD NOT YET DECIDED HOW TO HANDLE THE PROBLEM AND INTENDED TO MAKE ONE MORE VISIT TO ATHENS. I REPEATED THAT THE UK'S ESSENTIAL CONCERN WAS CEMENT; IF THE COMMISSION DECIDED TO PRESS FOR A GRADUAL REDUCTION OF OTHER EXPORT SUBSIDIES, WE WOULD PROBABLY NOT OBJECT.

5. IT WAS LEFT THAT UKREP WOULD REMAIN IN CONTACT WITH THE DELORS CABINET ABOUT HANDLING AT ECOFIN.

6. IF THE CHANCELLOR WISHES GREECE TO BE DISCUSSED OVER LUNCH AT MONDAY'S ECOFIN, I SHALL NEED TO GIVE WARNING IN COREPER ON 13 NOVEMBER. GRATEFUL FOR INSTRUCTIONS BY CLOSE OF PLAY TOMORROW.

HANNAY

YYYY
ADVANCE
RENWICK FCO
WALL FCO
WILLIAMSON CAB
JAY CAB
MOGG DTI
PS/CHANCELLOR TSY
LAVELLE TSY
EDWARDS TSY
MORTIMER TSY
BARBER TSY
HOPE DOE
MAIN
FRAME EXTERNAL

UCLNAN 5048

NNNN

FCO

MR RENWICK
MR BRAITHWAITE

RESIDENT CLERK
HD/ECD(I) (3)
HD/NEWS DEPT
HD/ERD
HD/
HD/
HD/

PLUS FCO

MR WALL ECA(1)

CABINET OFFICE

MR D WILLIAMSON
MR JH HOLROYD
MR MERCER
MR M H JAY

DTI

PLUS CGD's

MR P KENT
HM CUSTOMS & EXCISE
MR LAWSON CIE
MR BOLT CIE
MR KNOW CIE

H M TREASURY

~~PS/~~
SIR GEOFFREY LITTLER
MR J E MORTIMER
MR C D CRABBIE I
MR R G LAVELLE
MR SINCLAIR
MR BARTON
MR EDWARDS

M A F F

PERMANENT SECRETARY

MR LANGRISH A/T

ADVANCE COPY

RESTRICTED
FM UKREP BRUSSELS
TO DESKBY 120900Z FCO
TELNO 3814
OF 111648Z NOVEMBER 86
INFO DESKBY 120800Z BRUSSELS
INFO PRIORITY COPENHAGEN, DUBLIN, PARIS, BONN

FRAME ECONOMIC

ECOFIN LUNCH: 17 NOVEMBER 1986

DANISH REQUEST FOR DISCUSSION OF THEIR DEROGATION FOR TRAVELLERS ALLOWANCES FOR TRIPS OF LESS THAN 48 HOURS

SUMMARY

1. DANES REQUEST DISCUSSION OF THIS ISSUE AT ECOFIN LUNCH. CAN WE TURN THIS TO OUR ADVANTAGE ON THE CHANNEL FIXED LINK AND 7TH TRAVELLERS ALLOWANCES DIRECTIVE?

DETAIL

2. MY DANISH COLLEAGUE TOLD ME THIS MORNING THAT, EXCEPTIONALLY, SIMONSEN, THE DANISH FINANCE MINISTER, WOULD ATTEND ECOFIN, WITH THE EXPRESS PURPOSE OF RAISING DURING LUNCH THE PROBLEM OF THE CURRENT DANISH DEROGATION WHICH ALLOWS THEM TO LIMIT THE QUANTITIES OF GOODS WHICH DANISH RESIDENTS CAN IMPORT AS TRAVELLERS ALLOWANCES WHEN MAKING TRIPS OF LESS THAN 48 HOURS TO ANOTHER COUNTRY. ESPEL LARSEN SAID THAT SIMONSEN WOULD WANT TO MAKE THE FOLLOWING POINTS:

(A) THE DANISH GOVERNMENT ATTACH GREAT IMPORTANCE TO THE SOLUTION OF THIS PROBLEM BEFORE THE END OF THE YEAR WHEN THE PRESENT DEROGATION STARTS TO UNWIND - THE AMOUNTS ALLOWED TO BE IMPORTED TAX-FREE BY DANISH RESIDENTS BEGIN TO INCREASE TOWARDS THE AGREED COMMUNITY

DANISH RESIDENTS BEGIN TO INCREASE TOWARDS THE AGREED COMMUNITY LEVELS FROM 1 JANUARY 1987.

(B) SEVERAL BILLION CROWNS WERE AT STAKE FOR THE DANISH EXCHEQUER (AS IMPORTANT AS THE FONTAINEBLEAU REBATE FOR THE UK, HE SAID EXCLAM)

(C) THE ROOT OF THE PROBLEM WAS THAT THE COMMISSION HAD REFUSED TO COME FORWARD WITH A PROPOSAL TO PROLONG THIS DANISH DEROGATION.

(D) IF NO PROPOSAL WAS FORTHCOMING IN THE NEXT COUPLE OF WEEKS, THE DANISH PRIME MINISTER WOULD WISH TO TAKE THE MATTER UP AT THE EUROPEAN COUNCIL IN LONDON AND INSIST ON A SOLUTION THEN AND THERE.

3. I UNDERTOOK TO REPORT ESPER LARSEN'S REMARKS TO LONDON, SUGGESTED THAT SIMONSEN MIGHT WISH TO SEND A MESSAGE TO THE CHANCELLOR BEFORE ECOFIN IF HE INTENDED TO DO AS ESPER LARSEN SUGGESTED AND ASKED WHAT ACTION THE DANES HAD TAKEN VIS-A-VIS THE COMMISSION. THE REPLY WAS THAT DANISH MINISTERS HAD ALREADY RAISED THIS ISSUE WITH DELORS AND COCKFIELD AND HAD GOT NO JOY. (ESPER LARSEN HAS SINCE ADDED THAT SIMONSEN WILL INDEED WRITE TO THE CHANCELLOR LATER THIS WEEK; AND HAS GIVEN ME HIS DRAFT SPEAKING NOTE FOR THE ECOFIN LUNCH; MUFAXED TO PB KENT C AND EXCISE: MISS SINCLAIR, MISS BARBER, TREASURY).

COMMENT

4. I UNDERSTAND THAT WHEN THE DANISH MINISTER OF TAXATION (FOIGHEL) MET THE MINISTER OF STATE, TREASURY, ON 24 SEPTEMBER, UK SUPPORT FOR THE DANISH REQUEST WAS PROMISED IN RETURN FOR DANISH SUPPORT FOR OUR WISH TO HAVE DUTY-FREE SHOPS ON THE CFL. THE DANISH REQUEST WAS DISCUSSED BRIEFLY IN THE FINANCIAL QUESTIONS GROUP ON 6 NOVEMBER (MY TELNO 3743) WHEN IT WAS SYMPATHETICALLY RECEIVED BY OTHER DELEGATIONS, WHO RECOGNISED IT AS A MATTER FOR POLITICAL DECISION.

5. THE DANISH DEROGATION WILL BE INCLUDED AS AN AMENDMENT TO THE 7TH TRAVELLERS ALLOWANCE DIRECTIVE IN A PRESIDENCY COMPROMISE PACKAGE FOR CONSIDERATION BY COREPER, PROBABLY ON 26 NOVEMBER. THE CHANCES OF SUCCESS ARE NOT GREAT, PARTICULARLY SINCE ADDITIONAL ELEMENTS ARE BEING ADDED TO THE PACKAGE - THE IRISH HAVE JUST TOLD US THAT THEY REQUIRE A DEROGATION TO LIMIT THE QUANTITY OF BEER WHICH MAY BE IMPORTED TAX-FREE. THE COMMISSION'S ATTITUDE TO THE DANISH REQUEST IS ALSO NEGATIVE. THEY FEEL IT IS TIME FOR THE DEROGATION TO BEGIN TO END (IT HAS EXISTED SINCE DENMARK JOINED THE COMMUNITY), AND MAY CHALLENGE THE RIGHT OF THE COUNCIL TO INSERT SUCH AN AMERDMENT IN THE DRAFT 7TH TRAVELLERS ALLOWANCE DIRECTIVE IF IT IS PUT FORWARD AS PART OF A COMPROMISE PACKAGE.

6. A LARGELY UNPREPARED ECOFIN LUNCH DISCUSSION IS NOT LIKELY TO CLARIFY OR RESOLVE DISCUSSION OF THE DANISH REQUEST. BUT IT MAY BE POSSIBLE FOR THE CHANCELLOR TO TURN IT TO OUR ADVANTAGE BY EXTRACTING FROM THE DISCUSSION AGREEMENT THAT A NUMBER OF PROBLEMS EXIST ON DUTY FREE ALLOWANCES (DANISH DEROGATION, GERMAN BUTTERSHIPS, CFL, IRISH BEER, ETC) AND THAT A SOLUTION MUST BE FOUND RAPIDLY. IN THE PROCESS SOME PRESSURE COULD BE PUT ON THE BELGIANS TO DROP THEIR RESERVE ON THE 7TH DIRECTIVE (OF MY TELNO 3743). IT MIGHT BE POSSIBLE FOR COREPER TO BE INSTRUCTED TO REPORT TO THE 8 DECEMBER ECOFIN ON THIS COMPLEX OF ISSUES, IN THE HOPE THAT AGREEMENT CAN BE FOUND THEN.

7. IF WE ARE TO TRY AND BUILD ON THE DANISH REQUEST IN THIS WAY WE MUST START ALERTING OTHER INTERESTED DELEGATIONS ON THURSDAY. I SHALL OF COURSE ALSO NEED TO RESPOND FORMALLY TO THE DANISH REQUEST

7. IF WE ARE TO TRY AND BUILD ON THE DANISH REQUEST IN THIS WAY WE MUST START ALERTING OTHER INTERESTED DELEGATIONS ON THURSDAY. I SHALL OF COURSE ALSO NEED TO RESPOND FORMALLY TO THE DANISH REQUEST IN COREPER THIS THURSDAY.

8. GRATEFUL FOR INSTRUCTIONS BY TOMORROW NIGHT. (ie tonight)

HANNAY

YYYY

ADVANCE:

RENWICK FCO

WALL FCO

WILLIAMSON CAB

JAY CAB

HAWKEN C/E

KENT C/E

BOLT C/E

M KNOX C/E

SINCLAIR TSY

BARBER TSY

PS/CHANCELLOR TSY

LAVELLE TSY

EDWARDS

LAMBERT D/TP

MAIN:

FRAME ECONOMIC

UCLNAN 5053

NNNN

(x) P

FROM: JANET BARBER
DATE: 11 NOVEMBER 1986

PS/CHANCELLOR

cc PS/Minister of State
Mr Lavelle or
Mr Garrett - C&E
Mr Bostock - UKREP
Mr Walton - UKREP

ECOFIN 17 NOVEMBER: DRAFT 7TH AND 8TH TRAVELLERS ALLOWANCES
DIRECTIVE (DUTY FREE SHOPS)

This note is to warn you that this subject might be raised at the ECOFIN lunch on 17 November.

X1

- 2. We spoke about your minute of yesterday's date. You should also have seen my minute of today to Mr Garrett in Customs and Excise. (below)
- 3. You will have gathered from my note to Mr Garrett that UKREP feel that there is a strong UK interest in this topic in respect of the the Channel tunnel, (not brought out very well in telegram number 3743). Customs agree with this.
- 4. In any case, since I wrote to Mr Garrett on this point, we have heard from UKREP that the Danes are asking for a lunchtime discussion at ECOFIN on a particular concern of theirs on this topic. UKREP will be reporting the details in a telegram which we should receive in the morning. However, Mr Bostock has told me that he thinks that it would be very difficult to refuse the Danish request, and that we might well be able to turn it to our advantage by widening the discussion to press our own concerns on the Belgians. One possibility is that Ministers might ask Coreper to report back to the 8 December ECOFIN on ways forward.
- 5. We will be advising further in due course.

Janet Barber

JANET BARBER
EC1

you: W
can do
NIC IV
this @
lunch.

ah

In view of this, perhaps best not to switch Annual Report back to lunchtime — which I think you suggested following your discussion with PEM today?

awk
1/11

From: SIR PETER MIDDLETON

Date: 11 November 1986

CHANCELLOR

cc Sir G Littler
 Mr Byatt
 Mr Lavelle
 Mr A Edwards
 Mr Mortimer
 Mr Riley
 Mr Shaw
 Mr Dolphin

 Mr Bostock - UKREP

THE MEETING OF THE CO-ORDINATING GROUP ON THE ANNUAL ECONOMIC REPORT

Yesterday I chaired the meeting of the Co-ordinating Group on the Commission's draft Annual Economic Report. Before that I had ploughed through the whole Report. The conclusion that I came to was that it was not really so bad as some indications might have suggested.

2. This view was confirmed by the reaction of other countries at the meeting itself. Led by the Germans and the French there was general agreement that the Report was on the right lines. The summary at the beginning rather than the body of the text was taken as the basis for discussion. The general thrust of strategy with consolidation of the fiscal and monetary position together with movement on the supply side was welcomed. It was agreed that strategy had to be sensitive to the world position but no one took the words about flexibility in fiscal policy to mean that individual countries should change their budgetary stance - and certainly there was no attempt to suggest that any country should increase its deficit. The French questioned this specifically and were content with the reply from the Commission. There was a welcome for the fact that the Commission had retreated from its more precise formulation of the previous year in order to allow much more scope for individual countries to fit in with the strategy according to their own circumstances. The only general point of significance to note was a harmless desire of

the poorer countries to see progress on convergence in Europe resumed.

3. The main point of criticism was on the section on financial engineering. It was strongly represented to the Commission that this section would destroy the whole Report if left in its present form. If it could not be taken out altogether, a preamble would be needed to make it clear that there was no question of bouncing through a decision on this subject; it would have to be properly considered in a budgetary context.

4. No one saw any difficulty with the section on social partners (whose own comments on the Report were not unhelpful). Every country had some sort of social dialogue which they felt could be fitted within the terms of the Report.

5. The Co-ordinating Committee is not the place to pass detailed amendments. It was agreed that as on previous occasions the Commission would say what major amendments had been received and which had been accepted by them. We need to send off our own list which, I suggest, should be a good deal shorter than at present.

6. So far as ECOFIN is concerned, I doubt whether you will find it necessary or desirable to take amendments at this stage. The Report will have to come back to ECOFIN for approval in December when the views of the Parliament and the Economic and Social Committee are available. If we fail with our own amendments in discussion with the Commission there will thus be a further occasion to register them at Ministerial level. You might hold a second reading discussion in which you could assert - as practically everyone did at my meeting - that UK policy is fully consistent with what the Report suggests taking our particular circumstances into account. The Reports of the EPC and the social partners are both helpful.

7. So far as the UK is concerned, I was asked if we would want to change our section following the Autumn Statement. I said probably not because there had been no change in fiscal and

monetary policy - and the section still seemed apposite. I would however like to see M3 replaced by or joined by M0. Spcaking on the Report I made the points in the brief in very moderate terms. Given that practically every part of the Report except the section on social engineering has a qualification which makes it acceptable, I don't think we should get too fussed about it. If we want to have a row with the Commission, I should be inclined to pick a better target than this Report which will not constrain us at all - or even make life difficult - so far as I can see.



PP P E MIDDLETON

CHANCELLOR

FROM : R G LAVELLE

11 November 1986

cc Mr Edwards
Mr Mortimer
Miss Barber

ECOFIN 17 NOVEMBER : NIC IV

You asked the position on a suggestion in a recent UKREP telegram that it might be helpful for you to send a message to colleagues this week urging the case for compromise on NIC IV.

2. Neither Mr Edwards nor I think much of this idea. This is not only a matter of logistics although it might not be too easy to arrange for a message following Thursday's COREPER which hopefully will take matters close to a conclusion. We think that Ministerial messages should be used reasonably sparingly. It is one thing to do so before a Budget Council, but rather different in relation to a single item at ECOFIN.

3. The better course seems to us to be for Hannay, in the light of the discussion on Thursday, to say that he is glad that such good progress has been made (or whatever comment is suitable). It will be important for Monday's ECOFIN to reach a decision and he hopes that those present will be advising their Ministers accordingly. He is sure that will be the Chancellor's wish.

4. Shall we convey this thought to UKREP?

Yes. You know the Commission has to be clear that we will support Commission. Colleagues (who matter) (over smoke).

R G LAVELLE

GRS 500

UNCLASSIFIED
FM UKREP BRUSSELS
TO IMMEDIATE FCO
TELNO 3810

OF 111430Z NOVEMBER 86

AND TO DESKBY 111530Z TREASURY

INFO ROUTINE COPENHAGEN, THE HAGUE, ROME, DUBLIN, PARIS, BONN

INFO ROUTINE LUXEMBOURG, ATHENS, LISBON, MADRID, STRASBOURG

INFO SAVING BRUSSELS

FRAME ECONOMIC/AGRICULTURE

EUROPEAN PARLIAMENT 10 NOVEMBER 1986 : EP BUDGETS COMMITTEE
1987 BUDGET

SUMMARY

1. EP BUDGETS COMMITTEE APPROVES ADDITIONAL MODIFICATIONS TO FEOGA GUARANTEE EXPENDITURE: A 5 PER CENT CUT IN MILK QUOTAS, WITH 40 PER CENT OF RESULTING SAVINGS SPENT ON COMPENSATION FOR DAIRY FARMERS: A MODIFICATION PROPOSING 2.5 BECU STOCK DISPOSAL FUND WITH SPECIAL FINANCIAL CONTRIBUTIONS FROM MEMBER STATES UNDER ARTICLE 200 OF EEC TREATY: AND INCREASED EXPENDITURE ON STOCK DEPRECIATION FUNDED FROM SAVINGS ON STOCK FINANCING. IT ALSO AGREED TO RE-CLASSIFY THE CEREALS CORESPONSIBILITY LEVY AS REVENUE.

2. DRAFT RESOLUTION ON 1987 BUDGET AGREED, INCLUDING PARLIAMENT'S VIEWS ON CLASSIFICATIONS.

DETAIL

3. EP BUDGETS COMMITTEE MET TO RESOLVE OUTSTANDING QUESTIONS ON 1987 BUDGET BEFORE PLENARY DEBATE ON 12 NOVEMBER. MOST CONCERNED FEOGA GUARANTEE.

4. AFTER FURTHER DEBATE, A CD-SOCIALIST COMPROMISE PROPOSAL ON THE DAIRY SECTOR WAS APPROVED BY A LARGE MAJORITY. THIS PROPOSES A 5 PER CENT CUT IN MILK QUOTAS, 40 PER CENT OF THE 1 BECU SAVING TO BE USED AS COMPENSATION FOR DAIRY FARMERS AFFECTED. SOCIALLY AND ECOLOGICALLY DISADVANTAGED PRODUCERS, PARTICULARLY IN MOUNTAIN AREAS, TO BE EXEMPT OR GIVEN GREATER COMPENSATION. THIS MODIFICATION WAS SEEN AS A POLITICAL SIGNAL TO COUNCIL AND NOT, WE UNDERSTAND FROM CURRY, A CAUSE FOR REJECTION OF BUDGET IN LIKELY EVENT OF COUNCIL DELETING IT.

5. AFTER A CONFUSED DEBATE, SOCIALIST PROPOSAL FOR A SPECIAL STOCK DISPOSAL FUND OF 2.5 BECU, FINANCED BY CONTRIBUTIONS FROM MEMBER STATES UNDER ARTICLE 200 OF THE EEC TREATY OUTSIDE THE BUDGET, WAS APPROVED. IT WAS ALSO AGREED TO CUT EXPENDITURE ON STOCK FINANCING AND USE THE RESULTING 88 MECU SAVINGS FOR DEPRECIATION OF BEEF STOCKS.

Meena
ECOFIN
bled

6. GUIDANCE SECTOR AMENDMENT TO CREATE NEW LINE TO FIND
CONVERSION OF MARGINAL LAND TO WOODLAND, AGREED WITH P.M. ENTRY.

7. DRAFT RESOLUTION ON 1987 BUDGET, WITH AMENDMENT INSERTING EP'S
VIEWS ON CLASSIFICATION.

8. REVISED SUMMARY DOCUMENT ON EP'S AMENDMENTS CIRCULATED,
SHOWING INCREASED RATES OF DNO AS 14.8 PER CENT FOR COMMITMENTS AND
10.2 PER CENT FOR PAYMENTS ON COUNCIL'S CLASSIFICATION, AND 9.7 PER
CENT AND 4.0 PER CENT RESPECTIVELY ON PARLIAMENT'S CLASSIFICATION.

9. IN MARGINS, DAVID CURRY (RAPPORTEUR) TOLD US HE WAS TRYING TO
PERSUADE SOCIALIST GROUP TO SUPPORT EXCLUSION OF SYRIA FROM
BENEFITTING FROM FINANCIAL PROTOCOLS IN 1987, BUT MAY HAVE TO
CONCEDE EDG SUPPORT SOCIALIST PROPOSAL FOR REDUCTION OF FUNDS FOR
TURKEY.

HANNAY

YYYY
ADVANCE
WALL FCO
BLOOMFIELD FCO
MERCER CAB
HADLEY MAFF
PERRINS MAFF
CRUIKSHANK MAFF
PS/MST TSY
EDWARDS TSY
CRABBIE TSY
BONNEY TSY
DONNELLY TSY
MAIN
FRAME ECONOMIC
FRAME AGRICULTURE

UCLNAN 5049

FRAME ECONOMIC/AGRICULTURE

ECD(1).

(ADVANCED AS REQUESTED)



FROM: A W KUCZYS
DATE: 11 November 1986

Meena
ECOFIN b/gcd
107

MR LAVELLE

cc PS/Minister of State
Sir G Littler
Mr A Edwards
Mr Mortimer
Mr Crabbie
Miss Barber

NOTE OF TELEPHONE CONVERSATION: ECOFIN 17 NOVEMBER

This is to record part of a telephone conversation between the Chancellor and Dr Stoltenberg, the West German Finance Minister, yesterday afternoon. The rest of the conversation is recorded elsewhere.

2. Dr Stoltenberg hoped that we would be able to reach agreement on liberalisation of capital movements at the forthcoming ECOFIN. He thought it was "worth a push". The Chancellor agreed, and went on to ask Dr Stoltenberg about the position on NIC **IV**. Stoltenberg said there had been discussions between the Germans and the French about a possible solution. He thought they would reach agreement with the French. The Chancellor noted that the Commission might prove awkward, but of course this was in the end a decision for Ministers.

A handwritten signature in dark ink, appearing to read 'AWK'.

A W KUCZYS

ASCOT
14/24



17/11

Ch

ECOFIN: 17 NOVEMBER

We need to settle who is going to Brussels next Monday. As usual, we will be limited to 7 in total (the capacity of the RAF plane). I have discussed with Roger Lavelle, and we suggest:

- Chancellor +1
- MST +1
- Lavelle
- Edwards
- ~~Pickford~~ Culpin

(Roger thought no need for anyone from Customs). Content with this line-up?

Post have Culpin unless
part of Pak -> A
New is some
Compell -> 10/11
to Rob the



cc PS/MST
Mr Lavelle
Mr A Edwards
Mr Culpin
Mr Beales } UKREP
Miss Lothian }
Mrs Lester }

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

Meena
ECOFIN bldg m

Ms Sylvia Richards
Movops RAF
Room 5178
Ministry of Defence
Main Building
Whitehall
London SW1

12 November 1986

Dear Sylvia

I am writing to confirm the arrangements we discussed yesterday for the Chancellor's and Minister of State's attendance at ECOFIN in Brussels on Monday 17 November. The party will be as follows:

Chancellor (Rt.Hon. Nigel Lawson MP)
Minister of State (Hon. Peter Brooke MP)
Mr Roger Lavelle
Mr Andrew Edwards
Mr Robert Culpin
PS/Chancellor (Tony Kuczys)
PS/Minister of State (Debbie Francis)

2. You are providing a 7-seater HS125 (flight number Ascot 1434, departing Northolt at 08.00 gmt, arriving Brussels National Airport Abelay Area at 10.00am local time). Coffee and continental breakfast will be available on the outward flight.

3. The plane will be standing by to return to Northolt from 18.00 Brussels time (17.00 gmt). Drinks and snacks will be available.

Yours ever,

Tony

A W KUCZYS



FROM: A C S ALLAN
DATE: 12 NOVEMBER 1986

SIR P MIDDLETON

cc: Sir G Littler
Mr Byatt
Mr Lavelle
Mr A Edwards
Mr Mortimer
Mr Riley
Mr Shore
Mr Dolphin

Mr Bostock - UKREP

EC ANNUAL ECONOMIC REPORT

The Chancellor was grateful for your minute of 11 November about the meeting of the Co-ordinating Group on the Commission's draft Annual Economic Report which you had chaired. He agreed with the approach you suggested in paragraph 6 for handling the report at ECOFIN.

ACSA

A C S ALLAN

Meena
ECOFIN b/gd (A)



FROM: A W KUCZYS
DATE: 12 NOVEMBER 1986

MR LAVELLE

cc Mr A Edwards
Mr Mortimer
Miss Barber

ECOFIN 17 NOVEMBER: NIC IV

In your note of 11 November you suggest a line for Sir D Hannay at COREPER tomorrow. The Chancellor agrees that you should convey this to UKREP.

2. You will have seen my note of the conversation between the Chancellor and Stoltenberg. The Chancellor thinks it is clear that we will simply have to override the Commission.

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

A W KUCZYS

b/f 13/11 A
(? Delors)



FROM: A W KUCZYS
DATE: 12 NOVEMBER 1986

MISS BARBER

cc: PS/Minister of State
Sir G Littler
Mr Lavelle
Mr A Edwards
Mr Mortimer
Mr Romanski
Mr Dolphin
Mr Knox C&E
Mr Marshall DTI
Mr Wall FCO
Mr Bostock UKREP

ECOFIN 17 NOVEMBER: LUNCHTIME DISCUSSION

The Chancellor has seen your note of today. He agrees with your advice.

A handwritten signature in dark ink, appearing to be "AWK".

A W KUCZYS

FROM: JANET BARBER
DATE: 12 NOVEMBER 1986

1. MR MORTIMER

I agree
Am.

12/11

2. CHANCELLOR

OK

cc Minister of State
Sir G Littler
Mr Lavelle
Mr Edwards
Mr Romanski
Mr Dolphin
Mr Knox - C&E
Mr Marshall - DTI
Mr Wall - FCO
Mr Bostock - UKREP

ECOFIN 17 NOVEMBER: LUNCHTIME DISCUSSION

This note seeks your views on what might be discussed over lunch at ECOFIN on Monday.

2. You will recall that we were working on an agenda as follows:

liberalisation of capital movements
annual economic report
NCI IV
progress on proposals concerning indirect taxation
budgetary discipline: Community R & D
budgetary discipline: fisheries structures

You expressed a preference for having some of the discussion on NCI IV over lunch.

3. We have now received two telegrams from UKREP (both attached), raising the possibility of taking two other items over lunch:

- (1) Greek trade measures (telegram no.3809)
- (2) travellers' allowances (telegram no.3814)

We have to take a view on this today, in time for Coreper tomorrow, when the Presidency will have to give its final view on the ECOFIN agenda.

4. In respect of travellers allowances, the request for a lunchtime discussion has come from the Danes. However, Customs and Excise, supported by FP division, UKREP, the Foreign Office and the Cabinet Office, are very much in favour of agreeing to the request. A very important objective for us is to get agreement on a complete package on travellers' allowances including an extension of duty free facilities to the Channel Tunnel. However, there is total Belgian intransigence on the issue, and, as well as the Danes, the Germans have a problem, on butterships. (You will recall that Stoltenberg wrote to you about butterships just before Gleneagles, and you offered him some support in return for his help on the CFL.) Customs feel that progress now requires a political impetus, and that the Danish request is an excellent opportunity to get this.

5. In respect of the Greek trade measures (ie their import deposit scheme and export subsidies particularly for cement), the

Commission are leaving it to us to decide whether we would like a discussion. Both DTI and FCO feel that it would be useful to keep up the pressure on the Commission in their negotiations with the Greeks. However, there are a number of points which weaken the case for a discussion at this ECOFIN, given the already full agenda:

- (a) the discussion could cover only the trade measures. It could not cover the Greek loan and the Greek economy, as discussion on these points has to be prepared by the Monetary Committee.
- (b) the whole Greek loan issue will be taken at ECOFIN on 8 December, and discussion is bound to cover the trade measures.
- (c) the Monetary Committee will meet on 25 November to prepare the December ECOFIN discussion, and we will have a chance then to make our views known to both the Greeks and the Commission.
- (d) if there is no plenary discussion on Greece on Monday, we will in any case brief the Minister of State to speak to Simitis about cement in the margins (if Simitis is there).

Recommendation

6. We suggest that travellers allowances and NCI IV should be discussed over lunch at ECOFIN on Monday, and that there should be no plenary discussion of the Greek trade measures. We have spoken to Mr Lavelle, who is in Luxembourg today, and he agrees. DTI and FCO will go along with this, on the basis that it would be very difficult to add another item to the lunchtime agenda. Travellers' allowances would be taken first, and then NCI IV with the possibility of continuing this in the formal Council after lunch if necessary. The agenda would therefore be as follows:

morning (11.30 start)
liberalisation of capital movements
annual economic report

over lunch (scheduled for 13.15)
travellers' allowances
NCI IV

afternoon
NCI IV (if necessary)
progress on proposals concerning indirect taxation
budgetary discipline: Community R & D
budgetary discipline: fisheries structures

We need to advise UKREP today.

Janet Barber

JANET BARBER
EC1

Restricted

RESTRICTED
 FM BRUSSELS
 TO IMMEDIATE FCO
 TELNO 292
 OF 121327Z NOVEMBER 86
 INFO PRIORITY UKREP BRUSSELS, PARIS, BONN, COPENHAGEN

ch
 This is overtaken by
 events: you have now
 agreed to a lunchtime
 discussion *dk*

FRAME ECONOMIC
 UKREP TELNO 3743: DRAFT 7TH AND 8TH TRAVELLERS' ALLOWANCES DIRECTIVE
 (DUTY FREE SHOPS)

SUMMARY

1. THE BELGIAN FINANCE MINISTER MAY NOT HAVE FOCUSED ON THE PROBLEM, BUT IT WOULD PROBABLY BE SALUTARY FOR THE CHANCELLOR TO SPEAK TO HIM.

DETAIL

2. ACCORDING TO DE BELDER, HEAD OF THE EUROPEAN DEPARTMENT IN THE BELGIAN FOREIGN MINISTRY, THE DRAFT DIRECTIVES HAVE NOT BEEN DISCUSSED RECENTLY IN THE BELGIAN INTERNAL CO-ORDINATING MACHINERY. HE THOUGHT IT LIKELY THAT IT WAS THE BELGIAN PERMANENT REPRESENTATION RATHER THAN THE FINANCE MINISTRY WHO ARE DETERMINING THE BELGIAN POSITION.

3. THIS SUGGESTS THAT THE BELGIAN PERMANENT REPRESENTATION ARE FOLLOWING WHAT THEY SEE AS A TRADITIONAL EURO-INTEREST RATHER THAN A SPECIFICALLY BELGIAN ONE. BUT THEY COULD ALSO MOBILIZE SOME FINANCE MINISTRY SUPPORT FOR ANYTHING THAT LOOKED LIKELY TO AVOID LOSS OF NATIONAL TAX REVENUE.

4. I AGREE THAT IT WOULD BE HELPFUL IF THE CHANCELLOR RAISED THE MATTER WITH EYSKENS AT ECOFIN ON 17 NOVEMBER. EYSKENS' INITIAL RESPONSE MIGHT BE MORE POSITIVE IF HE HAD NOT BEEN FOREWARNED OF THE APPROACH AND BRIEFED UNHELPFULLY BY THE BELGIAN PERMANENT REPRESENTATION. DEPENDING ON EYSKENS' REACTION I COULD IF YOU WISH FOLLOW UP BY CALLING ON HIM OR GOING OVER THE GROUND WITH HIS CABINET.

PETRIE

YYYY

BWLNAN 1883

NNNN

FRAME ECONOMIC
 ECD (1)

Restricted

MR KUCZYS

FROM : R G LAVELLE

13 November 1986

NIC IV

The attached telegram reporting today's COREPER discussion reverts (paragraph 13) to the possibility of a message to colleagues before Monday's ECOFIN.

2. We remain firmly of the view that this would be unduly fussy and might indeed make Stoltenberg feel unnecessarily under threat. We negotiated (in Luxembourg yesterday) some words for the minutes which both Germans and French, at official level, would accept. I fear he would feel still more anxious if there were an indication that he was being asked to give something up on NIC IV in exchange for a lunchtime opportunity to restate his views on butterships (where we have already said we will try to help).

*1 Agree; he / agree
I have a similar
with S'day before
Begin starts.*

*Phoned
through
to Roger.*

R
R G LAVELLE

FCO

MR RENWICK
MR BRAITHWAITE

RESIDENT CLERK
HD/ECD(I) (3)
HD/NEWS DEPT
HD/ERD
HD/
HD/
HD/

PLUS FCO

MR LAW ECD(1)
Mr Bloomfield
ECD(1)

<u>CABINET OFFICE</u> MR D WILLIAMSON MR JH HOLROYD MR MERCER MR M H JAY	<u>D T I</u>	<u>PLUS CGD's</u> MR P KENT HM CUSTOMS & EXCISE
<u>H M TREASURY</u> PS/ CHANCELLOR SIR GEOFFREY LITTLER MR J E MORTIMER MR G D CRABBIE MR R G LAVELLE MR EDWARDS MISS BARBER	<u>M A F F</u> PERMANENT SECRETARY	

RESTRICTED
 FM UKREP BRUSSELS
 TO DESKBY 131530Z FCO
 TELNO 3863
 OF 13135Z NOVEMBER 86
 INFO PRIORITY EUROPEAN COMMUNITY POSTS

FRAME ECONOMIC

YOUR TELNO 503

COREPER (AMBASSADORS) 13 NOVEMBER 1986

PREPARATION FOR 17 NOVEMBER ECOFIN

- (I) AGENDA
- (II) NIC IV

SUMMARY

1. AGENDA: AGREED AS IN PARA 5 OF YOUR TELNO 503.
2. NIC IV: GERMANY PRESS COUNCIL MINUTES STATEMENT THAT EIB SHOULD TAKE OVER SME FINANCING. HOSTILITY FROM OTHER DELEGATIONS INCLUDING NETHERLANDS. COMMISSION KEEPS ITS HEAD DOWN.

DETAIL

3. ARRANGEMENTS FOR ECOFIN CONFIRMED AS IN YOUR TUR.
4. I SUGGESTED THAT THE DISCUSSION OF THE DANISH POINT ON TRAVELLERS ALLOWANCES COULD WELL GO WIDER TO INCLUDE OTHER PROBLEMS RELATING TO THE 7TH TRAVELLERS ALLOWANCE DIRECTIVE.

NIC IV

5. I RECALLED THE THREE ELEMENTS FOR WHICH THERE APPEARED TO HAVE BEEN A GOOD DEAL OF SUPPORT IN COREPER LAST WEEK:

5. I RECALLED THE THREE ELEMENTS FOR WHICH THERE APPEARED TO HAVE BEEN A GOOD DEAL OF SUPPORT IN COREPER LAST WEEK:

- (I) ENDORSEMENT OF THE PROPOSITION THAT 1.5 BECU BE MADE AVAILABLE FOR THE FINANCING OF SMES;
- (II) 750 MECU OF THIS TO BE MADE AVAILABLE UNDER NIC IV
- (III) A SECOND 750 MECU SHOULD BE MADE AVAILABLE FROM THE EIB'S OWN RESOURCES BUT SUBJECT TO THE SAME TERMS AS NIC IV.

6. UNGERER (GERMANY) OBJECTED TO THE SECOND ELEMENT OF THE PACKAGE UNLESS THERE WAS A CLEAR AGREEMENT THAT ANY FUTURE SME-LENDING PROGRAMMES WOULD BE CONDUCTED BY THE EIB. THIS WOULD NEED TO BE REFLECTED IN A COUNCIL MINUTES STATEMENT. IF THIS CONDITION WERE NOT MET, GERMANY WOULD REVERT TO ITS EARLIER VIEW THAT THE FULL 1500 MECU MUST BE AN EIB FACILITY.

7. NIEMANN (NETHERLANDS) HELPFULLY SUGGESTED THAT THE DUTCH GOVERNMENT MIGHT BE ABLE TO CONTEMPLATE AGREEING TO A PACKAGE THAT WAS SILENT ABOUT THE FUTURE, THOUGH THE FINAL AGREEMENT HAD TO BE LEFT TO MINISTERS. HE QUESTIONED THE LOGIC AND PROPRIETY OF A MINUTES STATEMENT, LIKE THAT SUGGESTED BY UNGERER, WHICH TRIED TO CALL IN QUESTION THE COMMISSION'S RIGHT OF INITIATIVE.

8. LYBEROPOULOS (GREECE) TOOK A SIMILAR LINE. CALAMIA (ITALY) OUTSPOKENLY CONDEMNED THE GERMAN POSITION AS AN ULTIMATUM WHICH SHOULD BE CONTRASTED WITH THE WILLINGNESS OF OTHER MEMBER STATES TO COMPROMISE. THERE SHOULD BE A COMMON COMMITMENT NOT TO DRAW FINAL CONCLUSIONS ON THE ARRANGEMENTS FOR FUTURE LOAN FACILITIES.

9. WESTENDORP (SPAIN) EXPRESSED HOSTILITY TO THE EIB'S UNDERTAKING THE SECOND 750 MECU FINANCING BEING UNDERTAKEN BY THE EIB. I SAID THAT IF THIS ELEMENT OF THE COMPROMISE WAS REJECTED THEN AN AGREEMENT WOULD BE UNOBTAINABLE.

10. RUSSO (COMMISSION) SAID THAT THE COMMISSION'S POSITION HAD NOT CHANGED. AGREEMENT ON A 750 MECU NIC AND A STUDY WOULD BE MUCH BETTER. (WE UNDERSTAND THAT THERE IS A CONTINUING CONFLICT IN THE COMMISSION BETWEEN MATUTES, WHO WANTS TO ACCEPT 750/750 AND DELORS).

11. NOTERDAEME (BELGIUM) ASKED ABOUT THE NATURE OF AN COUNCIL DECISION. I SAID THAT WE WERE SEEKING TO REACH A POLITICAL AGREEMENT ON THE ELEMENTS TO A COMPROMISE. PROCEDURAL POINTS SUCH AS DEALING WITH THE PARLIAMENT'S REQUEST FOR CONCILIATION AND A FORMAL APPROACH TO THE BANK WOULD BE TACKLED LATER.

12. SUMMING UP, I SAID THAT THE COUNCIL DISCUSSION WOULD NEED TO CONCENTRATE ON THE THREE ELEMENTS OF THE COMPROMISE PACKAGE TOGETHER WITH THE QUESTION WHETHER THERE SHOULD BE ANY STATEMENTS ON FUTURE SUCH ARRANGEMENTS. THE THREE ELEMENTS SHOULD BE REGARDED AS A WORKING HYPOTHESIS SO THAT DISCUSSION WOULD INEVITABLY FOCUS ON ANY GERMAN REQUEST FOR A STATEMENT ON THE FUTURE.

COMMENT

13. THE CHANCELLOR MAY WISH TO GIVE FUTHER THOUGHT TO WHETHER IT WOULD BE HELPFUL FOR HIM TO SEND A MESSAGE TO COLLEAGUES, URGING COMPROMISE ON ALL OF THEM AND IN PARTICULAR DRAWING TO STOLTENBERG'S ATTENTION THE APPARENT UNNEGOTIABILITY OF THE GERMAN DEMAND. SUCH A MESSAGE COULD ALSO BRIEFLY CONFIRM THE CHANCELLOR'S INTENTION TO

COMPROMISE ON ALL OF THEM AND IN PARTICULAR DRAWING TO STOLTENBERG'S
ATTENTION THE APPARENT UNNEGOTIABILITY OF THE GERMAN DEMAND. SUCH A
MESSAGE COULD ALSO BRIEFLY CONFIRM THE CHANCELLOR'S INTENTION TO
ENLARGE THE LUNCHTIME DISCUSSION OF TRAVELLERS' ALLOWANCES TO COVER
THE CONCERNS OF OTHERS THAN SIMONSEN - WITH AN INDICATION TO
STOLTENBERG THAT ON THIS OTHER ISSUE FOR LUNCHTIME DISCUSSION THE
CHAIR WILL BE TRYING TO HELP ALONG THE GERMAN REQUEST FOR A
SATISFACTORY SETTLEMENT ON THE BUTTERSHIPS DISPUTE.

14. WE HAVE MUFAXED A POSSIBLE DRAFT MESSAGE TO MORTIMER AND
MISS BARBER (TREASURY).

HANNAY

YYYY

ADVANCE

RENWICK FCO

WALL FCO

BLOOMFIELD FCO

JAY CAB

MERCER CAB

PS/CHANCELLOR TSY

LAVELLE TSY

EDWARDS TSY

MORTIMER TSY

MISS BARBER TSY

MAIN

FRAME ECONOMIC

UCLNAN 5112

NNNN

below

cc Mr Lavelle
Mr Edwards

for information. Am 13/11

Mufax Mr Mortimer

Misc Barber. desk 1530 2 15/11

DRAFT MESSAGE FROM CHANCELLOR OF EXCHEQUER
TO OTHER FINANCE MINISTERS

reference: UKRep
telegram no 3863

reporting Cooper 13/xi

EcoFin Council 17 November:

Community Lending to Small and Medium-Sized Enterprises:
New Community Instrument, and Travellers Allowances

1. In the EcoFin Council on Monday, we shall be reconsidering the Commission's proposal to provide a Community lending facility of 1.5 billion ecus for the benefit of small and medium-sized enterprises (SMEs) by means of a renewal of the New Community Instrument - NIC IV.
2. When we discussed this proposal at Gleneagles in September and in Luxembourg last month, it was clear that there was agreement that a lending facility of this size should be made available for SMEs, but a division of views within the Council as to how this result should be achieved. Since then there has been discussion in the Committee of Permanent Representatives of a possible compromise.
3. As you will know, under the compromise which has been suggested, a 1.5 billion ecus lending facility would be provided in two stages. First, 750 mecu would be provided under the Commission's proposal for NIC IV - borrowed by the Commission, but with lending to SMEs carried out and managed, on the Commission's behalf, by the European Investment Bank (EIB). Second, after the 750 mecu NIC IV had been exhausted, the EIB would make available a further 750 mecu for SMEs throughout the Community, lent from its own resources but according to exactly the same criteria and requirements as apply to the preceding NIC IV 750 mecu.
4. I realise that this solution is not the first choice of any Member of the Council, or of the Commission. But in my view, a compromise on these lines offers the best chance for

/the

the Council to reach an agreement which would permit 1.5 billion ecus to be lent to SMEs.

[For ~~Ruding and Stoltenberg~~']

4a I know that you have been strongly opposed to the renewal of NIC IV; and I am very grateful for the willingness which you have shown to consider a compromise including the elements outlined above.

4b I understand however that over the last two weeks your representatives ^{have} said in discussion in Brussels that the quid pro quo for agreement to a further 750 mecu tranche of NIC IV lending should be recognition by the Council that all future such lending should be carried out by the EIB. I myself have great sympathy for that view. But I am bound to say that, from the Chair, I would expect it to be very difficult to obtain unanimous agreement that NIC IV is the end of the road for the New Community Instrument.

4c I wonder therefore whether you would be prepared to consider, as a fallback position, a unilateral declaration ~~in~~ ~~which I would expect you to have the support of at least one~~ ~~other Delegation~~ making clear that your Government would not be prepared to agree to any future extension of NIC IV. For a proposal which would require unanimous agreement by the Council, such a declaration would have just as much force and effect as a Council agreement. *[It is indeed my impression that the Commission has already seen that there is little future for NIC].*

5. We shall also be discussing, over lunch, the problem of travellers' allowances raised by our Danish colleague. I would like to take the opportunity to have a quick look at the range of other outstanding problems on the 7th and 8th Travellers Allowance Directives, though I doubt whether we can settle any of these issues at short notice.

[For Stoltenberg only:

I hope that this discussion will make it possible to advance your case on 'butterships'.]



Office of the United Kingdom Permanent Representative
to the European Community

Rond-Point Robert Schuman 6 1040 Brussels

Telephone 230.62.05

Meena
No need to copy. But pl ask

Tony
UKREP to ensure that in future stuff like this reaches us before
Any need to circ. this?
meena 18/11
Your reference
Our reference
Date

ensure that in future
stuff like this reaches us before
the ECOFIN - eg by
faxing it.
13 November 1986
T.

R Lavelle Esq
HM Treasury
Parliament Street
LONDON SW1

CH/EXCHEQUER	
REC.	18 NOV 1986
ACTION	
COPIES TO	

Dear Mr Lavelle

17 NOVEMBER ECOFIN BILATERALS

1. We have arranged an 1100 hours meeting between Pfeiffer and the Chancellor in the Presidency suite in the Charlemagne. Pfeiffer's office have confirmed that he will bring along an interpreter.

2. Pini has told me that he will be standing by to see the Chancellor from about 1045 hours if that seems useful (no doubt Pini considers that it will be).

3. Delors is still very keen to meet the Chancellor but his Cabinet have accepted that the Ecofin agenda is such that a brief word before lunch is all that is necessary. They have pencilled in 1310 hours (the lunch begins at 1315 hours). Delors will no doubt expect the Exchange Control question to be mentioned but, in addition, he wishes to hear the Chancellor's views about the possibility of the Commission including a section on EC/Japan as part of the Commission paper for the European Council. The time allocated for the Chancellor-Delors conversation is so short that the Chancellor should have no difficulty in ensuring that any conversation about Exchange Control can be extremely brief - particularly if he chooses to discuss the EC/Japan point first. This would enable him to say to Delors that although he regards the Exchange Control issue as important and urgent the Council agenda is too full to allow for a detailed discussion. He could then simply say that he is grateful to Delors for discussing the matter with the Ambassador and that he hopes that further discussion will enable a satisfactory solution to be found soon.

Yours ever

Peter Beales

P E BEALES

Copies to: C Kelly Esq, HM Treasury
T Kuczys Esq, HM Treasury
Miss J Barber, HM Treasury

FROM: MISS M E CUND
DATE: 13 NOVEMBER 1986

PS/CHANCELLOR 14/2

cc PS/Chief Secretary
PS/Minister of State
Sir P Middleton
Sir G Littler
Mr F E R Butler
Mr Lavelle
Mr Burgner
Mr Edwards
Mr H P Evans
Mr Mountfield
Mr Scholar
Mr Turnbull
Mr Bonney
Mr Crabbie
Mr P G F Davis
Mr Mortimer
Mr Cropper

Megra

EC FOOD AID

In view of the Chancellor's interest in a possible UK initiative on 'grain aid', he may wish to know of the latest developments at the EC Development Council held on 11 November, which have been widely reported.

2. The meeting, chaired by the Minister for Overseas Development, agreed in principle a reform package for the Community food aid programme, which in 1985 cost the EC £333 million. Although a small proportion of that food was of value in relieving desperate famine, the meeting agreed that reform was needed because most was used as part of long-term food aid support benefitting urban consumers, sometimes at subsidised prices; and that this was a disincentive to local producers, and could lead to permanent and increasing dependence on food aid.

3. Under the agreement, measures are to be taken which will improve procedures, give priority to emergency food aid, and make food aid more responsive to developing countries by allowing the EC to provide the types of food these countries actually need. In some cases that will mean purchasing food from neighbouring developing countries rather than from the

Community. There are still some institutional problems to be sorted out between the Council and the European Parliament. The Government is claiming the agreement as a major achievement for the UK Presidency.

4. The House of Commons Scrutiny Committee on European Legislation has recommended a debate on the draft Regulation. This is expected to take place shortly.

Margaret Eund

M E CUND



Copenhagen 14th of November 1986

The Rt. Hon., MP,
Chancellor of the Exchequer
Mr. Nigel Lawson

Dear colleague.

Monday 17th of November you are presiding the monthly Ecofin-Council in Brussels. I am looking forward to seeing you and to discuss the important matters on the agenda.

As you may have heard from the British permanent representative in Brussels I want to bring forward during our lunch a subject which is of extreme importance to my country.

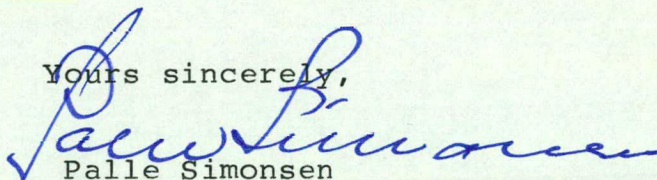
The Danish derogation from EEC provisions of travellers allowances will be eroded by the 1st of January 1987 unless the Commission suggests and the Council adopts a prolongation of the derogation.

If the derogation is not prolonged the Danish budget will lose revenue corresponding to approximately 1% of GDP, a revenue which cannot be replaced.

The enclosed PM has a more thorough analysis of the problems.

I am confident that you leave time during the lunch to allow for a discussion of the subject.

Yours sincerely,


Palle Simonsen

M e m o r a n d u m

Upon entry into the EC on 1 January 1973 Denmark was allowed an exemption scheme in respect of EEC provisions of travellers allowances, which has since been extended. The adjustments which Denmark has made to the EEC provisions on travellers allowances and the importance of the border traffic in goods subject to levy of VAT and excise duties are illustrated in Annexes 1 - 4 to this Memorandum.

Under the prevailing exemption, tax-free rations of heavily taxed goods are to be raised as of 1 January 1987. The exemption applies solely to shorttime travellers (currently 48 hours).

This jeopardizes the stability of the Danish economy.

The large difference in Danish and German VAT and excise duty levels has resulted in a border traffic which already under the existing exemption scheme is deliberately used to circumvent or distort normal trade and buying patterns. From most parts of Denmark bus trips are arranged for this very purpose at a price of about 1 ECU.

Furthermore, this circumvention of the taxation system of a Member State erodes Danish social policy and Danish distribution of income, both of which are founded on the tax system.

By removal of the exemption scheme the Danish treasury would lose revenue in the order of several billion Danish kroner, equivalent to 1 per cent of the Danish Gross National Product. Other elements of the Danish tax system cannot bear being further strained to cancel out such a loss of revenue.

No Member State could tolerate this kind of compulsory loss of revenue. It would also clash with the spirit of the Community if a Member State were forced to introduce measures questioning large parts of its political and economic system.

To citizens of other EC Member States entering Denmark the EEC provisions apply in full. Hence, the Danish exemption scheme covers only Danish citizens who try to evade Danish taxes and duties.

In connection with the Report on A People's Europe it was decided that it would be necessary to maintain for a certain period existing schemes in order to distinguish between ordinary travel and border traffic as a consequence of major differences in tax levels for the purpose of avoiding artificial trade flows. The purpose of the Danish exemption scheme is exactly to distinguish between these two categories of travel and thus avoid artificial trade flows.

Copenhagen, October 23, 1986

Danish concessions relating to
EEC provisions of travellers' allowances

- 1.1.1973 (accession): Danish rules concerning the tax free quantity of wine are harmonized to the EEC rules.
- 1.1.1978: For travellers staying more than 72 hours in another member state the Danish rules are harmonized to the EEC rules.
- Danish rules concerning citizens living in another member state are harmonized to the EEC rules.
- 1.1.1979: The tax free amount is raised from 120 to 180 ECU. (a maximum unit value for Denmark of 135 ECU until 31.12.1980.)
- The tax free quantity of wine is raised from 3 to 4 litres. This increase takes effect in Denmark as of 1.1.1984.
- 1.1.1981: The 72 hours' rule is reduced to 48 hours.
- The provisions with regard to Danish travellers returning from the Nordic countries are harmonized to the EEC provisions.
- 1.1.1982: The tax free quantity of cigarettes for travellers returning to Denmark after a stay in other member states of less than 48 hours is increased from 40 to 60 cigarettes.
- 1.1.1983: The tax free amount is raised from 180 to 210 ECU. This increase takes effect in Denmark as of 1.1.1984.
- 1.7.1984: The tax free amount is raised from 210 to 280 ECU.
- 1.1.1985: Danish rules concerning tobacco other than cigarettes and fine-cut tobacco are harmonized to the EEC rules.
- 1.10.1985: The tax free amount is raised from 280 to 350 ECU. (a maximum unit value of 280 ECU applies for Denmark)

Danish Indirect Taxation and Loss from Border Trade

1. Revenue from indirect taxation (1986)

		<u>Mill. D.Kr.</u>
VAT		62.700
Excise duties		..
- cigarettes, tobacco	6.700	
- fuel	5.500	
- Beer	2.850	
- alcohol	2.150	
- wine	1.300	
- sugar, other	<u>1.600</u>	
	20.100	<u>20.100</u>
VAT and excise duties		82.800

2. Estimated loss as a consequence of the present border trade

Estimated <u>extra</u> loss as a consequence of a termination of the Danish derogation from the EEC provisions of travellers allowances		2.450
		<u>5.400 - 6.400</u>
Total loss		7.850 - 8.850
Danish gross national product (1986):		665.000

X X X X

3. The above estimated extra loss as a consequence of the foreseen scheme of liquidation is based on the assumption that the number of travellers is unchanged from today and that the full franchise is used. Broken down on years and main categories of goods the loss is estimated as follows:

<u>Mill. D.Kr.</u>	<u>1.1.1987</u>	<u>1.1.1988</u>	<u>1.1.1989</u>	<u>1.1.1990</u>
Cigarettes	800	1.400	1.900	2.500
Alcohol	450	450	900	1.900
				<hr/>
Sum				4.400
Other sources of revenue loss (estimated)				1.000 - 2.000
				<hr/>
Total				5.400 - 6.400
				<hr/>

4. If in the alternative Denmark approximated the rates of the excise taxes to the German level the revenue loss would amount to (mill. D.Kr.): wine: 1.100, alcohol: 1.500, beer: 2.700, cigarettes: 3.250, fuel: 3.500, a total of 12.000 mill D.Kr.

PRICE DIFFERENCES BETWEEN DENMARK AND GERMANY

Cigarettes	20 pcs	10,00 dkr.
Alcohol	0,35 l	40,00 dkr.
Wine	1 bottle (0,70 l)	15,00 dkr.
Gasoline	1 l	2,50 dkr.
Beer	1 bottle (0,33 ltr)	2,00 dkr.
Sugar	1 kg	5,00 dkr.

Council Secretariat Presidency Brief
(attached for information)

P. 13/41

ECOFIN COUNCIL
17 November 1986

Lunch item : Danish request concerning travellers' allowances

REFERENCE DOCUMENTS

None

OBJECTIVE

Mandate to COREPER

- to pursue examination of Danish request and of other outstanding problems concerning travellers' allowances
- to submit report for decision by ECOFIN Council 8 December 1986.

SUGGESTED SPEAKING NOTE

Our Danish colleague, Mr. SIMONSEN, wants to raise a problem concerning travellers' allowances.

.....

/after Mr. SIMONSEN :7

We have all carefully taken note of the request of Mr. SIMONSEN.

If I am well informed, there are several other problems concerning travellers' allowances still outstanding. These are being examined by the Fiscal Group, and include notably the problems of tax-free sale of goods on special excursions at sea - what in the Brussels jargon is called the problem of the "Butterships" -, the problem of the duty-free shops to be established on the future cross-Channel fixed link, and an Irish request concerning the travellers' allowance for beer.

Subject to any observations that colleagues would like to make now, I would suggest that we invite COREPER to examine rapidly the Danish request and the other outstanding problems concerning travellers' allowances. Then they could report back to us, if possible in the form of a compromise package, to enable us to take a decision on 8 December 1986.

.../...

CONFIDENTIAL

FROM: JANET BARBER
DATE: 14 NOVEMBER 1986

1. MR LAVELLE - *seen in draft*

cc MINISTER OF STATE

2. CHANCELLOR

ECOFIN 17 NOVEMBER

ECOFIN on 17 November is in the Charlemagne in Brussels. You are meeting Commissioner Pfeiffer at ~~11.00~~ ^[10.45] and the Council begins at 11.30.

2. The subjects for discussion are as follows:

At meeting with Pfeiffer:

(a) the 1986-87 Annual Economic Report.

In the morning session of the Council:

(b) liberalisation of capital movements;
(c) the 1986-87 Annual Economic Report.

Over lunch:

(d) travellers' allowances;
(e) NCI IV.

In the afternoon session of the Council:

(f) review of progress on indirect tax matters;
(g) budgetary discipline - Community R&D;
(h) budgetary discipline - fish structures.

In the margins:

(i) we suggest that the Minister of State should speak to Simitis about Greek protective measures;
(j) you may have a brief meeting with Delors, covering UK exchange control legislation, and US/Japan.

Briefs are attached on all of these items (except (j) and (i) - see separate folders)

3. For items (b) to (h), where a separate Presidency input is necessary, the briefs are arranged as follows:

- Presidency handling brief, with Presidency objective and speaking note
- UK objective and speaking note for the Minister of State
- background
- relevant documents

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You might like to have with you your copy of the blue booklet circulated by the Cabinet Office "Council Meetings: Notes for the Guidance of Ministers". And a table showing voting entitlements in the Council is attached to this brief.

Meeting with Commissioner Pfeiffer

4. This meeting has been arranged at Pfeiffer's request, as a substitute for his visiting you in London. We understand that Pfeiffer wishes to discuss the Annual Economic Report, but that beyond this he has no particular points in mind. So we suggest that you tell him about our proposed handling of the Report in the Council (drawing on Brief A), and about the broad UK reaction to it (drawing on Brief C, particularly the Minister of State's speaking note).

Liberalisation of capital movements

5. This is covered in Brief B, which includes a Presidency handling brief provided by Mr Pini of the Council Secretariat.

6. At the October ECOFIN, progress was made by means of agreement on extensions of derogations for Spain and Portugal. Following intervening discussion, we fully expect at this ECOFIN to secure adoption of the Directive, on the basis of a qualified majority, or even unanimity (if Italy and Greece lift their reserves).

1986-87 Annual Economic Report

7. This is covered in Brief C. Mr Pini has provided a Presidency handling brief on this, and we have drawn on it heavily in producing the one included in Brief C.

8. We have scheduled this discussion so that ECOFIN can give its views in advance of the London European Council on 5/6 December. Discussion in the Co-ordinating Group earlier this week indicated that member states were broadly content with it (except for the section on "financial engineering").

9. On procedure, speakers should be invited as follows:

- (1) Commissioner Pfeiffer, to introduce the Report;
- (2) M. Milleron, to give the views of the Economic Policy Committee;
- (3) member states who wish to comment. The Minister of State should make the points in his speaking note.

10. The usual economic statistics on the Community, US and Japan are attached to Brief C.

Travellers' allowances

11. This will be taken over lunch, and is covered in Brief D. The Presidency handling brief is Customs and Excise's own - Mr Pini's version is attached to the back of the brief for information.

12. The Danes have requested this discussion, to air a problem which they have regarding a Danish derogation on travellers' allowances, due to run out at the end of this year, and which they

ish to retain. But others have problems too: the Germans on butterships, ourselves on the Channel fixed link, the Irish on beer, and the Belgians are opposing the whole package. Therefore the discussion should be general, covering all these points, not just the Danish one. The aim is to bring political weight to bear on the search for a compromise package, and to ask Coreper to pursue this, and to report back to ECOFIN in December.

13. The Danish Minister, Mr Simonsen, has written to you about his particular problem, and a copy of his letter and explanatory memorandum is attached to Brief D. (The letter came too late to be specifically reflected in Brief D.) The Danes have also written today to the Prime Minister, and indicated that unless their problem can be settled in ECOFIN, it will have to be raised at the European Council. (See separate folder)

New Community Instrument (NCI IV)

14. This is covered in Brief E.

15. Following impasse at the last two ECOFIN's, we are hoping that a common position can be reached at this ECOFIN on 1500 mecu Community lending to SMEs, made up of a NCI IV of 750 mecu, and EIB own resources of 750 mecu. The main problem is likely to be German insistence that the EIB should take over this work completely in the future, given that most other member states want to leave the Commission free to make proposals and to have a role in this area.

16. We hope that the draft ECOFIN minutes attached to the Presidency speaking note will command general agreement. These imply a continuing role for the EIB in this area without explicitly restricting the Commission.

17. We suggest that you speak to Stoltenberg at about 13.00 (ie just before lunch) to secure his acquiescence to this language. In practice, once the EIB have taken over this task it seems implausible that there should be a reversion to NCIs. (If, against expectations Stoltenberg is difficult on this, you may want to postpone discussion from lunch to the first item in the afternoon.)

Review of progress on indirect tax matters

18. This is covered in Brief F. The Presidency handling brief is Customs' own, but they have drawn on the brief provided by Mr Pini, which is attached at the back of Brief F for information.

19. We have tabled this item for two reasons:

- (a) to draw attention to the progress which has been made under our Presidency on indirect tax proposals in the internal market programme;
- (b) to obtain ECOFIN support for rapid progress on the small traders VAT Directive.

We do not expect a long discussion (perhaps 15-20 minutes). The Minister of State will want to make the points in his speaking note.

Budgetary discipline - Community R&D

20. This is covered in Brief G. The Presidency brief is our own.

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The one provided by Mr Pini is attached to Brief G for information.

21. The object of the discussion is to inject some financial realism into Community plans for R&D expenditure. ECOFIN will be asked to agree to conclusions (for the Council minutes) pointing out the impact which the Commission's extravagant proposal on the R&D framework programme would have on other Community expenditure, which would have to make way for it. These conclusions could then be fed into the Research Council's deliberations on 9 December. We do not want ECOFIN to vote ^{on} a figure for the R&D framework programme, because the likely outcome would be approval of the Commission's proposal.

22. A last minute Italian paper on this is attached at the end of Brief G.

Budgetary discipline - fish structures

23. This is covered in Brief H. The Presidency brief is our own. The one provided by Mr Pini is attached at the back of Brief H for information.

24. We hope to get agreement to ECOFIN conclusions which draw attention to the fact that the Commission's proposed programme on fish structures implies a rate of growth of expenditure greater than that allowed for non-obligatory expenditure under budget discipline rules, and asks the Fisheries Council (which will consider this in December) to scrutinise the programme carefully. We also want agreement that there will be no increase in the FEOGA guidance ceiling as a result of decisions on fish structures.

25. Mr Edwards may wish to update the briefing on Monday, following his quadrilateral meeting today in Paris.

Greek protective measures

26. This is covered in Brief I. We suggest that the Minister of State raises it with Simitis in the margins of the meeting. (We understand that Simitis will attend.)

27. The issue is Greek import deposits and export subsidies (particularly for cement, given the arrival of Greek floating cement terminals at UK ports). Greece is currently allowed these schemes as part of a package of Treaty derogations and a Community loan agreed last year to help with its balance of payments problem.

28. At the September informal ECOFIN, Simitis half promised a bilateral deal on cement, in order to avoid a full scale Council discussion of his protective measures, but it has proved difficult to secure firm commitments. In addition, we want both schemes phased out in accordance with agreed timetables. So we need to keep up the pressure. (The Greek economy and protective measures will be discussed in detail at the December ECOFIN, prior to a decision on the release of the second tranche of the loan.)

Meeting with Delors

29. We suggest that you see President Delors for a few minutes in the margins of the meeting (possibly immediately after lunch). (NB He has to leave promptly at 2.45pm, so this may not be the best time. UKREP will liaise with his Cabinet.)

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30. You may want to touch on the repeal of our Exchange Control Act with him, following the discussions at official level with the Commission. (Papers in separate folder)

31. Delors may raise with you a possible reference in his macro-economic paper for the European Council (see Brief A background) to the recent US/Japan agreement, and seek your views on it. You may like to suggest that any reference is quite modest. The agreement contained little of substance, and any value was primarily presentational: it may for example help to ward off protectionist pressures in Congress. Equally we should clearly not say anything to undermine it.

Agenda for 8 December ECOFIN

31. Likely items are as follows (although it is too soon to draw up a definitive agenda):

- (a) Annual Economic Report (for adoption);
- (b) the Greek economy, protective measures and release of the second tranche of the 1.75 becu Community loan agreed last November;
- (c) internal market - bank accounts Directive (where we have made very good progress);
- (d) travellers' allowances, following planned remit to Coreper at this Council;

Other matters

32. Personality notes are attached - top copy and Minister of State's copy only.

33. Some "A" points (ie items not requiring discussion) will be taken at the meeting. The list we have so far received is attached. This includes the 13th VAT Directive (see Brief F).

34. Copies of the briefing go to those on the attached list.

Janet Barber

JANET BARBER
ECL

Member States Votes

The number of votes for each member state is as follows:

Germany	10)	
France	10)	(large)
Italy	10)	
United Kingdom	10)	
Spain	8)	<i>quite large</i>
Belgium	5)	
Greece	5)	
Netherlands	5)	(intermediate)
Portugal	5)	
Denmark	3)	
Ireland	3)	(small)
Luxembourg	2)	<i>v. small</i>

Qualified Majority

A qualified majority is 54 out of 76 votes (in percentage terms - 71 per cent). A blocking minority is 23 votes (two large and one small (not Luxembourg) member states or one large plus Spain plus one intermediate).

*Simple maj. requires 39
Mbr*

mm Wright
GRS 200

Mrs Thomas.

UNCLASSIFIED
FM UKREP BRUSSELS
TO IMMEDIATE FCO
TELNO 3861

OF 131118Z NOVEMBER 86
AND TO IMMEDIATE DES, HOME OFFICE, DHSS, DEPT OF ENERGY LONDON
AND TO IMMEDIATE DEPT OF ENERGY LEICESTER, DEPT OF TRADE, MAFF
AND TO IMMEDIATE SCOTTISH OFFICE LONDON, TREASURY, ODA, DOE
AND TO IMMEDIATE INLAND REVENUE, CUSTOMS AND EXCISE, BANK OF ENGLAND
AND TO IMMEDIATE COI, WELSH OFFICE CARDIFF

FRAME FORECAST

SUBJECT : 1ST LIST OF 'A' ITEMS FOR 1118TH MEETING OF COUNCIL OF
EUROPEAN COMMUNITIES (ECONOMIC AND FINANCIAL QUESTIONS)
ON MONDAY 17 NOVEMBER 1986

- WRITTEN QUESTIONS PUT TO THE COUNCIL BY MEMBERS OF THE
EUROPEAN PARLIAMENT

NR 1209/86 PUT BY MR ROMERA Y ALCAZAR - CANCER RESEARCHERS'
RISK OF CONTRACTING CANCER

NR 1508/86 PUT BY MR GLINNE - EEC AID FOR LOCUST CONTROL IN
AFRICA

NR 1609/86 PUT BY MR GLINNE - PARTICIPATION BY A STATE-OWNED
LIBYAN COMPANY IN THE CAPITAL OF EUROPEAN UNDERTAKINGS

10160/86 ASSQUE 463

APPROVED BY COREPER PART 1 ON 12.11.86

- ADOPTION IN THE OFFICIAL LANGUAGES OF THE COMMUNITIES OF A
THIRTEENTH COUNCIL DIRECTIVE ON THE HARMONIZATION OF THE LAWS
OF THE MEMBER STATES RELATING TO TURNOVER TAXES - ARRANGEMENTS
FOR THE REFUND OF VALUED-ADDED TAX TO TAXABLE PERSONS NOT
ESTABLISHED IN COMMUNITY TERRITORY

9483/86 FISC 76, 9995/86 FISC 88

AMENDED BY COREPER PART 1 ON 15.10.86

*13-11-86
pauls*

HANNAY

ADVANCED AS REQUESTED

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21711 CONSIL B
ZCZC TLN013 14.11.86 10.54 PBI013
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TELEX A L'ATTENTION DE :

- MESSIEURS LES MINISTRES MEMBRES DU CONSEIL
(BELEXT B - COOPECO F - AFETR LU - YPEX BR (D/NSI SE EK) -
AABN D - MAE I - BUZA NL (VIA NPVEB B) - PRDRME B - EEC EI -
ETR DK - MCEE E - CSIE P)
- MONSIEUR LE SECRETAIRE GENERAL DE LA COMMISSION (COMEU B)

COPIE A :

- MESSIEURS LES REPRESENTANTS PERMANENTS
(DELBEL - DEFRA - RPLUX - DELGRE - EGBRU - ITRAP - NPVEB -
UKECBR - IVERN - DANRP - REPES - MIPORT)
- SBCI F
- ECO LU - ETAFIN LU
- YPEO GR (D/NSI EY)
- BMNI D (ABT. LEITER E - REF E3) - BKBN D (BUERO PSTS) - BMF D
- TRSY B
- FEEC EI - INDC EI - AGRI EI
- COCE CH
- AGRIFA B
- COMEU B (DIR. GEN ET SERV.)

BRUXELLES LE 14 NOVEMBRE 1986
TELEX NO 3374

**OBJET : COMPLEMENT A LA LISTE DES POINTS D'ASS DE LA 1110EME SESSION
DU CONSEIL DES COMMUNAUTES EUROPEENNES (QUESTIONS ECONOMIQUES
ET FINANCIERES) DU 17 NOVEMBRE 1986
REF. TELEX NO 3357**

- ADOPTION DANS LES LANGUES DES COMMUNAUTES DU REGLEMENT DU CONSEIL
PORTANT OUVERTURE, REPARTITION ET MODE DE GESTION DE CONTINGENTS
TARIFAIRES COMMUNAUTAIRES POUR CERTAINS PRODUITS DE LA PECHE ORIGI-
NAIRES DE SUEDE (1987)
DOCS 10320/86 UD 277
8981/1/86 UD 215 PECHE 191 REV 1
AMENDE PA LE COREPER 1ERE PARTIE DU 7.11.86

NIELS ERSBOELL, SECRETAIRE GENERAL

262405 TRSY B
21711 CONSIL B

INTERNATIONAL STATISTICS: COMMUNITY, US AND JAPAN**List of tables****Activity And Inflation**

1. GNP growth rates
2. Inflation rates
3. Unemployment rates

Interest Rates

4. Short term - 3 month interbank
5. Long term - 10 year bond yields

Trade and Competitiveness

6. Current accounts
7. Effective exchange rates
8. Relative wholesale prices

Reserves

9. Foreign exchange reserves
10. Total reserves

Budget Deficits and Money Supply

11. General government fiscal deficits
12. Monetary growth and targets

INTERNATIONAL STATISTICS: COMMUNITY, US AND JAPAN

(Commission's latest forecasts, September 1986, unless stated otherwise)

1. Gross domestic product (per cent changes)

	1985	1986	1987
Belgium	1½	2	1½
Denmark	3½	2	1½
Germany	2½	3	3½
Greece	2	½	-½
Spain	2	3	3
France	1½	2½	2½
Ireland	2	2½	3½
Italy	2½	2½	3½
Luxembourg	2½	2½	2½
Netherlands	1½	1½	1½
Portugal	3½	4	3½
UK	3½	2½	2½
EC	2½	2½	2½
USA	2½	2½	2½
Japan	4½	2	2½

2. Prices- consumers' expenditure deflator (per cent changes)

	1985	1986	1987
Belgium	4¾	1½	1½
Denmark	5	3½	2¾
Germany	2	-	1
Greece	18½	22½	12½
Spain	8½	8¾	5½
France	5½	2½	2½
Ireland	4½	3½	3½
Italy	9½	6	3¾
Luxembourg	4	½	1½
Netherlands	2½	-	-1
Portugal	19½	11¾	9
UK	5½	4½	4
EC	5¾	3¾	3
USA	3	2	3½
Japan	2½	¾	¾

3. Unemployment rate (per cent of civilian labour force)

	1985	1986	1987
Belgium	13½	13 ³⁼	13½
Denmark	9	7½ ¹¹	7½
Germany	8½	8 ⁹⁼	7½
Greece	7½	8 ⁹⁼	8½
Spain	22	21½ ¹	21
France	10½	10½ ⁷	10½
Ireland	17½	18 ²	17½
Italy	13	13 ³⁼	12½
Luxembourg	1½	1½ ^{1½}	1½
Netherlands	13	12 ⁵⁼	11
Portugal	8½	8½ ⁸	8½
UK	12	12 ⁵⁼	12
EC9	11	11	10½
USA	7½	7	7
Japan	2½	2½	3

4. Three-month interest rates (per cent per annum)

	1985				1986			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Latest
Germany	6½	5½	5	4½	4½	4½	4½	4½
France	10½	10½	9½	9	8½	7½	7½	7½
Italy	16½	15½	14½	14½	15½	12½	11½	11½
Netherlands	6½	6½	6½	6	5½	5½	5½	5½
UK	13	12½	11½	11½	12½	9½	10	10½
Major EC average	10½	10	9½	8½	9	7½	7½	7½
USA	8½	8	8	7½	7½	6½	6	5½
Japan	6½	6½	6½	7	6½	4½	4½	4½

Source: Bank of England

5. Long term government bond yields (per cent per annum)

	1985				1986			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Latest
Germany	7½	7½	6½	6½	6½	6½	6½	6½
France	11½	11	10½	10½	9½	8	7½	7½
Italy	13½	13½	14	13½	13½	11½	11	9½
Netherlands	7½	7½	7	7	6½	6½	6	6½
UK	11½	11½	10½	10½	10½	9	9½	11
Major EC average	10½	10	9½	9½	9½	8	8½	8½
USA	11½	11½	10½	9½	8½	7½	7½	7½
Japan	6½	6½	6½	6	5½	4½	4½	4½

Source: Bank of England

6. Current account balances (% of GDP)

	1985	1986	1987
Belgium	½	2½	2½
Denmark	-4½	-4½	-3½
Germany	2½	3½	2
Greece	-8¾	-7	-5
Spain	1¾	4¾	5
France	-¾	-	½
Ireland	-3½	-1½	-1½
Italy	-1	1½	1
Luxembourg	29½	31½	30¾
Netherlands	4½	4	2¾
Portugal	1¾	6	5¾
UK	1	-	-½
EC	½	1½	1
USA	-3	-3½	-3½
Japan	3¾	4½	3½

7. Effective exchange rates (1976 = 100)

	1985				1986			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Latest
Belgium	88.2	89.2	90.8	92.3	93.8	95.2	96.2	97.2
Germany	119.5	121.7	125.3	128.7	133.1	134.7	138.6	141.6
France	63.3	64.9	67.0	69.0	71.0	69.0	69.5	70.6
Italy	54.9	45.3	44.5	44.7	45.9	46.1	47.3	47.9
Netherlands	109.5	112.1	115.5	118.9	122.6	124.4	129.0	130.3
UK	72.1	78.9	82.1	79.8	75.1	76.0	71.9	68.1
US	150.0	145.8	138.4	128.8	121.2	116.0	111.4	109.5
Japan	154.5	155.3	157.8	175.1	186.7	202.8	214.8	216.1

Source: HMT

8. Relative wholesale prices for manufacturing (1980=100)¹

	1975-1980	1984		1985			1986
		Q1	Q1	Q2	Q3	Q4	Q1
Belgium	113.0	94.4	93.8	93.4	93.0	92.6	92.2
Denmark	100.5	112.8	113.6	113.8	112.9	112.0	111.3
Germany	113.3	92.2	90.9	90.3	90.5	90.2	89.7
Spain	87.6	127.1	132.8	133.5	134.8	135.9	139.5
France	93.7	115.5	119.0	120.1	121.0	121.4	121.0
Italy	86.1	127.3	132.7	134.5	134.5	135.8	135.8
Netherlands	109.0	97.2	95.4	95.2	94.7	93.8	94.2
Portugal							
UK	90.6	104.5	106.9	108.3	109.1	110.1	112.5
US	97.1	93.4	90.4	90.0	89.8	90.4	89.3
Japan	105.0	81.1	79.2	78.0	77.3	75.6	74.8

1 These indices are not a measure of real exchange rates. They are only relative prices and are not adjusted for exchange rate changes. Calculated relative to the thirteen largest industrial countries.

Source: IMF

9. Foreign exchange reserves (US\$ billion, end of period)

	1980	1984	1985		1986	
			H1	H2	Q1	Q2
Belgium	6.6	3.6	4.1	4.0	4.0	4.8
Denmark	3.1	2.6	4.2	5.0	4.2	3.8
Germany	44.5	35.0	34.4	39.0	39.9	38.9
Greece	1.3	0.9	0.9	0.8	1.1	1.0
Spain	11.3	11.4	10.2	10.5	11.4	11.5
France	25.3	19.1	21.7	24.3	24.1	32.1
Ireland	2.7	2.1	3.2	2.7	2.8	3.0
Italy	21.7	19.1	18.7	14.0	13.4	18.3
Netherlands	10.4	7.8	7.5	9.2	9.3	9.3
Portugal	0.8	0.5	0.8	1.3	1.1	1.1 (May)
UK	18.7	7.0	7.8	9.7	10.7	11.5e
US	10.1	6.7	7.4	12.9	14.0	15.2
Japan	21.6	22.3	23.4	22.3	23.5	29.5

Source: IMF

10. Total reserves including gold (at SDR 35 per Ounce) and IMF items (US\$ billion, end of period)

	1980	1984	1985		1986	
			H1	H2	Q1	Q2
Belgium	9.3	5.7	6.1	6.2	6.2	7.1
Denmark	3.5	3.1	4.6	5.5	4.7	4.4
Germany	52.8	43.4	42.8	48.0	49.3	48.6
Greece	1.5	1.1	1.1	1.0	1.3	1.2
Spain	12.5	12.5	11.3	11.7	12.7	12.9
France	31.0	23.7	26.5	29.7	29.8	38.0
Ireland	2.9	2.4	3.5	3.0	3.1	3.3
Italy	26.1	23.1	22.9	18.1	17.6	22.6
Netherlands	13.6	10.7	10.5	12.5	12.7	12.8
Portugal	1.8	1.2	1.6	2.2	2.0	2.0 (May)
UK	21.5	10.1	11.0	13.6	14.7	15.6
US	27.4	32.9	34.2	42.2	44.3	46.3
Japan	25.7	27.3	28.5	27.7	29.1	35.0

Source: IMF

11. General Government fiscal deficits (per cent of GNP)

	1985	1986	1987
Belgium	-8 $\frac{1}{2}$	-8	-6 $\frac{1}{4}$
Denmark	-2	-3	-3
Germany	-1	-1	- $\frac{3}{4}$
Greece	-14	-9 $\frac{1}{2}$	-6 $\frac{1}{4}$
Spain	-6 $\frac{1}{4}$	-5	-4 $\frac{3}{4}$
France	-2 $\frac{1}{2}$	-2 $\frac{3}{4}$	-2 $\frac{1}{2}$
Ireland	-11 $\frac{1}{2}$	10 $\frac{1}{2}$	-9 $\frac{3}{4}$
Italy	-14	-12 $\frac{3}{4}$	-11 $\frac{1}{2}$
Luxembourg	4	3 $\frac{3}{4}$	2 $\frac{1}{2}$
Netherlands	-5	-5 $\frac{1}{2}$	-6 $\frac{1}{2}$
Portugal	-11	-9 $\frac{1}{4}$	-9 $\frac{1}{4}$
UK	-2 $\frac{3}{4}$	-3	-7 $\frac{1}{2}$
EC10	-5	-4 $\frac{3}{4}$	-4 $\frac{1}{4}$
US	-3 $\frac{1}{2}$	-3 $\frac{1}{2}$	-2 $\frac{1}{4}$
Japan	-1 $\frac{1}{4}$	-1	- $\frac{1}{2}$

12. Money supply (change over previous period at annual rates)

	1984		1985		1986		Target range
	H1	H2	H1	H2	Latest over target base		
Germany (CBM)	4	4½	4½	4½	7	(Aug)	3½ - 5½
France (M3) ¹	n. av	9½	8½	6	4½	(July)	3 - 5
UK (MO)	5½	6½	4½	3	4½	(Sept) ²	2 - 6
US (M1)	7½	4½	9½	13½	14½	(22 Sep)	3 - 8
Japan (M2 + CDs)	8	7½	8½	9	8½	(June) ²	8 - 8½ ³

1 M3 replaced M2R as target measure in 1986.

2 Year on year

3. Projection

October 1986

IF2

HM TREASURY

Plans
"Instructions"

ABOLITION OF THE EXCHANGE CONTROL ACT (ECA)
IN THE UNITED KINGDOM

The Chancellor's letter communicating the British Government's decision to abolish the Exchange Control Act should also contain the following points :

- Despite the abolition of the ECA the United Kingdom Government would be able, should circumstances require it, to base itself on other existing legislative or regulatory texts in order to take appropriate measures according to the Directive of 21 March 1972 on regulating international capital flows and neutralizing their undesirable effects on domestic liquidity.
- The British Government is aware of the Commission's intention to present a proposal amending the 1972 Directive, in continuation of the programme for the liberalization of capital movements which was presented in May 1986.
- It intends to make a positive contribution to the adoption of this proposal and assures the Commission that the United Kingdom will take all the measures required in domestic law to conform with it.

[10.45]
 MEETING (AT 11.00) WITH COMMISSIONER PFEIFFER ON THE 1986-87
 ANNUAL ECONOMIC REPORT

(see also Brief C)

Relevant documents (both attached):

- (1) 1974 Council Decision on convergence of economic policies of member states
- (2) a Council Decision of 1975 amending (1)

OBJECTIVE

- (1) To keep Commissioner Pfeiffer informed about Presidency handling of the Annual Economic Report, and, if necessary, to reassure him that our decision to discuss it in November takes full account of Community legislation.
- (2) To tell Pfeiffer that, while we are broadly content with the Report (except in respect of what it says about financial engineering), we think it is too long.

SPEAKING NOTE

- see today's discussion as a first exchange of views on the main themes of the Report
- useful to have a preliminary ECOFIN view, as background to European Council discussion on economic topics, which we hope to concentrate on business and employment
- in today's discussion, will invite you to introduce Report. Will then ask M. Milleron, chairman of the Economic Policy Committee, for his views, before opening up discussion to member states. Is this acceptable?
- understand agreed at Co-ordinating Group that member states can give Commission suggested amendments on details in Report.
- ECOFIN will of course have further chance to discuss in December, when Report due for adoption. By then, should have opinions from Parliament and Economic and Social Committee.
- general UK view is that Report is on right lines, and that UK policies are consistent with it. (See Brief C.)
- one logistical problem - general part of Report rather long. Would be of more value, especially to Ministers, if shorter in future years.
- (if Pfeiffer still unhappy about November discussion). No question of adoption today. This year no different from last, when Report was discussed in November before opinions received, and adopted in December. Happy to have substantive discussion in December if member states want it.

BACKGROUND

1. This meeting has been arranged at Pfeiffer's request, as a substitute for his visiting you in London. We understand that he wishes to discuss the Annual Economic Report, but that beyond this he has no particular points in mind. This brief is about Presidency handling of the Report. There is a separate brief on the substance of the Report, and UK views on it, for use in the formal Council which you could draw on as necessary (see Brief C).

2. Pfeiffer does not speak English, and will have an interpreter with him. UKREP think that you might find it useful to have Mr Pini of the Council Secretariat with you for the meeting.

3. The Annual Economic Report is adopted under Article 4 of the 1974 "Convergence" Decision (attached). This requires the Council to act on a proposal by the Commission, and to consult the European Parliament and the Economic and Social Committee before adoption. The proposed Council Decision adopting the 1986-87 Annual Economic Report is shown on the back of the Report itself.

4. Pfeiffer may need reassuring about our decision to discuss the Report at this ECOFIN, rather than waiting until December. Our reasons for this were as follows:

- (a) to allow ECOFIN to have a substantive discussion on the Report, and on the economic situation in the Community, as background for the European Council discussions on 5/6 December;
- (b) to give member states a chance to air any problems with the Report which could complicate adoption in December.

(On (b), the Co-ordinating Group's discussion has now indicated that significant problems are unlikely.)

5. In respect of the European Council, we were hoping to avoid the usual discussion of the economic situation, and, as Presidency, we plan to focus the economic discussion on "business and jobs" ie the internal market, job creation, small businesses, deregulation, and consumer interests. However, there is likely to be some discussion of macro-economic issues, if only because the Commission themselves are planning to table a short paper on the macro-economic situation, which is very likely to be based on the Annual Economic Report. (The intention to produce a paper was revealed at a recent breakfast between Sir David Hannay and President Delors.) We feel that an ECOFIN discussion is, in these circumstances, sensible preparation, will keep ECOFIN firmly in the lead on this topic, and could allow us to keep discussion of the Commission's paper at the European Council to a minimum.

6. Pfeiffer may argue (as he did when we arranged the Co-ordinating Group meeting) that it is improper for ECOFIN to discuss the Report before opinions have been received from the European Parliament and the Economic and Social Committee. We think that these worries are unjustified, because:

- (a) there is no question of adopting the Report until ECOFIN on 8 December, and we are not excluding substantive discussion in December if member states want it;

(b) we are not doing anything new. Last year, the Report was discussed at ECOFIN in October and November before the EP and E&SC opinions were received, as well as being discussed and adopted in December.

However, we do not wish to antagonise Pfeiffer unnecessarily, so this item is being billed on the agenda as a "first discussion", and, in introducing the topic in the Council, you will be describing the discussion as a "broad exchange of views on the main issues".

7. For information, the European Parliament has today adopted its resolution on the Report at its current plenary session. We expect that the E&SC will adopt its opinion at its next plenary session starting 24 November.

8. On amendments to the Report, it was agreed at the Co-ordinating Group that member states could give details to the Commission. The Council Secretariat will probably then follow last year's procedure, and circulate for the December ECOFIN a list of requested amendments in two parts - those which the Commission have accepted, and those which they have rejected. We are currently revising the UK list of amendments, and will give it to the Commission soon.

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

(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,

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 guideline figures for the draft public budgets shall not be published at this juncture.

Article 4

A third examination shall take place ^{Council} towards the ^{end} of the ~~third~~ 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 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 ⁽¹⁾ 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 ⁽²⁾ 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:

- if, in the course of the consultations 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;

⁽¹⁾ OJ No L 73, 27. 3. 1971, p. 14. 

⁽²⁾ OJ No C 38, 18. 4. 1972, p. 3.

— or if economic developments in a Member State constitute a considerable danger for other Member States or 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:

- the Council Decision of 17 July 1969⁽¹⁾ on the coordination of short-term economic policies of the Member States;
- 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;
- the Council Decision of 22 March 1971⁽²⁾ 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

⁽¹⁾ OJ No L 183, 25. 7. 1969, p. 41.
⁽²⁾ OJ No L 73, 27. 3. 1971, p. 12.

COUNCIL DECISION

of 18 December 1975

on an amendment to the timetable for the preparation of the annual report on the economic situation in the Community

(75/787/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⁽¹⁾;

Having regard to the Opinion of the Economic and Social Committee⁽²⁾;

Whereas Council Decision 74/120/EEC⁽³⁾ 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, provided that the Council should hold three meetings yearly to examine the economic situation, the third towards the end of the third quarter, at which an annual report on the economic situation in the Community should be adopted;

Whereas experience has shown that because of the inadequacy of available statistics, the third quarter of the year is too early to review the economic policy — and particularly budgetary — guidelines adopted pursuant to Article 3 of the said Decision;

Whereas appropriate adjustments of the timetable for preparing the annual report on the economic situation of the Community would make it possible both to use new and adequate information and to adopt the annual report early enough for the national Parliaments to take it into account in budget debates,

HAS ADOPTED THIS DECISION:

Article 1

The first sentence of Article 4 of Decision 74/120/EEC shall be replaced by the following: 'A third examination shall take place during the fourth quarter'.

Article 2

This Decision is addressed to the Member States.

Done at Brussels, 18 December 1975.

For the Council

The President

M. TOROS

(1) OJ No C 239, 20. 10. 1975, p. 23.

(2) Opinion delivered on 30. 10. 1975 (not yet published in the Official Journal).

(3) OJ No L 63, 5. 3. 1974, p. 16.

Brussels, 11 November 1986

P. 12/41

COUNCIL (ECOFIN)

BRUSSELS, 17 November 1986

Item 3 : Liberalization of Capital Movements

- Proposal for a Council Directive amending the First Directive of 11 May 1960 for the implementation of Article 67 of the EEC Treaty

REFERENCE DOCUMENTS

attached to background

- 10340/86 MDC 15 : Introductory note of the Council Secretariat
- 10333/86 MDC 14 : Text of the Directive as finalized by the Legal Experts ("Juristes-linguistes") in each Community language. Not yet available, 9856/86 attached as substitute. *Now attached*
- 10341/86 MDC 16 : Statements for the Council minutes
- 9813/86 ASSRE 343 MDC 13 : Opinion delivered by the European Parliament

OBJECTIVE

Adoption of the Directive.

This Directive is based on Article 69 of the EEC Treaty and as a result can be adopted by qualified majority.

* now available - added separately

.../...

*Admitted to
D.D.N.S.*

2

SUGGESTED OPENING STATEMENT

We have already twice considered this draft Directive which constitutes an important step-forward in the long-awaited process of liberalizing financial markets within the Community. Now I hope that today we will be able to adopt it formally.

As a result of discussions in COREPER only a few reservations remain. They are set out in the introductory note, document 10340/86. I would like to invite those delegations which so far have maintained reservations to indicate if they are in a position to lift them. It would indeed be very satisfactory if we could adopt this Directive today on the basis of the widest possible measure of agreement. — *perfectly, if possible, unanimously.*

May I address myself first to Mr. GORIA in order to invite him to express his opinion concerning the declaration his delegation wants to enter into the Council minutes.

.../...

SUGGESTED PROCEDURE

1. Invite Mr. GORIA to express his opinion on the declaration his delegation wants to enter into the Council minutes (doc. 10340/86, page 2).

/The other delegations have already expressed the view that the issues raised by the Italian delegation, however well founded, can better be dealt with in discussions on future proposals. One solution would be to invite the Italian delegation to make a unilateral statement for the Council minutes, accompanied by a reply from the Commission, if the latter wishes to make one.7

2. Invite Italian and Greek delegations to lift their reservations (doc. 10340/86, page 3 and 4) on

- the acquisition of securities not dealt in on the stock exchanges, and
- the acquisition of UCITS units.

3. Invite the Danish delegation to state whether it is now in a position to lift its reservation on the proposal (doc. 10340/86, page 1).

/This reservation was entered pending completion of domestic parliamentary procedures.7

.../...

POSSIBLE CONCLUSIONS

The Council

- adopts ^{unanimously} ~~by qualified majority~~ the Directive as set out in document 10333/86 MDC 14
- decides to publish the Directive in the Official Journal of the European Communities
- decides to enter in its minutes the statements set out in document 10341/86 MDC 16 ~~as well as the declarations agreed at this meeting~~.

Handwritten notes:
 - ~~but~~ ^{in the} ~~minutes~~ ^{minutes} ~~of the~~ ^{of the} ~~meeting~~ ^{meeting}
 - ~~the~~ ^{the} ~~statements~~ ^{statements} ~~set~~ ^{set} ~~out~~ ^{out} ~~in~~ ⁱⁿ ~~document~~ ^{document} ~~10341/86~~ ^{10341/86} ~~MDC~~ ^{MDC} ~~16~~ ¹⁶ ~~as~~ ^{as} ~~well~~ ^{well} ~~as~~ ^{as} ~~the~~ ^{the} ~~declarations~~ ^{declarations} ~~agreed~~ ^{agreed} ~~at~~ ^{at} ~~this~~ ^{this} ~~meeting~~ ^{meeting}.

MINISTER OF STATE'S BRIEF

EEC ECOFIN 17 NOVEMBER 1986

BRIEF

SUBJECT: The proposed Directive on the liberalisation of capital movements.

UK OBJECTIVE: To secure agreement on the current proposal on the liberalisation of capital movements.

Line to take (speaking note - Minister of State)

Though the UK would have preferred a more ambitious Directive, the current proposal is a very welcome step towards full liberalisation by 1992.

RESTRICTED

BACKGROUND:

Relevant documents (attached *except for **)

9856/86 MDC12: Text of the Directive *after* the last meeting of the Working Party on Financial Questions (*in lieu of* (now available) ← 10333/86 which is not available).

10333/86 MDC14: * Text of the Directive as finalised by the Legal Experts.

10340/86 MDC15: Introductory note of the Council Secretariat.

10341/86 MDC16: Statements for the Council minutes.

9813/86 MDC13: Opinion delivered by the European Parliament.

Telex UKREP Brussels to FCO concerning
COREPER 6 November 1986.

1. The proposed directive is the first of two necessary to achieve the objective of liberalising all capital movements within the EEC by 1992. The objective is the result of a personal initiative by Delors. This first directive is seen as the least contentious of the two. It will amend, for the third time, the first Directive for implementation of Article 67 of the EEC Treaty, the Article which urges freedom of movement for capital.

2. The proposed directive is now in the final stage of its passage through the machinery of the EEC. It has passed through our meetings of the Working Party on Financial Questions, (10 and 24 July, 18 September and 21 October), it was considered by the European Parliament on 22 October and, of course, it was the subject of discussion at the most recent meetings of COREPER (6 November) and EcoFin (13 October).

3. It will transfer three categories of financial transactions from list C (the optional list) to list A (the obligatory list).

(a) Long-term commercial credits (eg longer term export credits).

(b) The acquisition by residents of foreign securities not dealt in on a stock exchange (unlisted securities) and, vice versa, the acquisition of similar domestic securities by non-residents.

(c) The admission to domestic capital markets of equities listed on another stock exchange, unit trusts falling within the scope of the recent coordination directive, corporate bonds and bonds issued by community institutions or the EIB.

The Commission also propose to merge list A and B. This will create tighter constraints on the operation of the Belgians' dual exchange market.

4. The main outstanding issues are summarised in the telex from UKREP Brussels to the FCO (attached) and the following table which makes it clear that a qualified majority exists.

<u>ISSUE</u>	<u>OPPOSING COUNTRY</u>	<u>COMMENTS</u>
A. Liberalisation of the acquisition of securities not dealt in on stock exchanges.	Greece	The opposition of Greece and Italy does not matter because a qualified majority exists.
B. Liberalisation of transactions in units of collective investment undertakings (UCITS) [unit trusts]	Greece Italy	However a unanimous decision would be pleasing and the two countries have indicated that they might lift their reservations.
C. Liberalisation of securities in the process of being admitted to capital markets.	Greece Italy	

5. NOTE - the UK has a small qualifying minutes statement (see page 3 of 10341/86)

- the Danes have a general reserve on the whole proposal pending completion of domestic parliamentary procedures. *We now know that this will* be lifted.
- the Italian delegation is likely to make a verbal statement in the Council meeting of a general nature along the lines of the note in document 10340/86.

6. After this Directive is passed by EcoFin the next stage will be the introduction by the Commission of a new directive designed to complete Delors' plan of full liberalisation of capital movements by 1992. The new directive will be introduced early in 1987, and its progress is likely to be much more difficult than that of the current Directive because it will be much more ambitious.

ECOFIN 17 NOVEMBER

BRIEF C

1986-87 ANNUAL ECONOMIC REPORT: PRESIDENCY BRIEF

Relevant Documents

- 10155/86: Annual Report 1986-87 - attached where necessary.
- (unnumbered): Report by Chairman of Economic Policy Committee (circulated to EPC members only) - attached.

Ch
Too bulky. In separate folders.

Presidency Objective

Preliminary discussion of the Annual Economic Report 1986-87, in view of the London European Council.

SPEAKING NOTE

We have received from the Commission their draft Annual Economic Report. In accordance with the Convergence Decision of 1974 we have to adopt it before the end of the year. As we have not yet received the opinions of the European Parliament and the Economic and Social Committee I propose to limit our discussion today to a broad exchange of views on the main issues set out in the Commission's communication. This exchange of views will enable us to prepare the ground for the discussion which the Heads of State and of Government will have during their forthcoming meeting in London.

The Co-ordinating Group for Economic and Financial Policy examined the Commission's communication last Monday. I was told that there was broad agreement on the Commission's communication and that all Members of the Group stressed the high quality of the analysis undertaken by the Commission. Most member states welcomed the emphasis on supply side improvements and monetary and fiscal consolidation, and felt that their policies were fully consistent with the strategy set out in the Report, taking account of their differing circumstances. I understand, however, that the section on financial engineering was ^{Witchy} thought to detract from the overall value of the Report. The amendments presented by members of the Group are being examined by the Commission and will be presented to the Council for its December meeting.

I would like first to invite Commissioner PFEIFFER to introduce our discussion, and then we will hear from M. Milleron, chairman of the Economic Policy Committee.

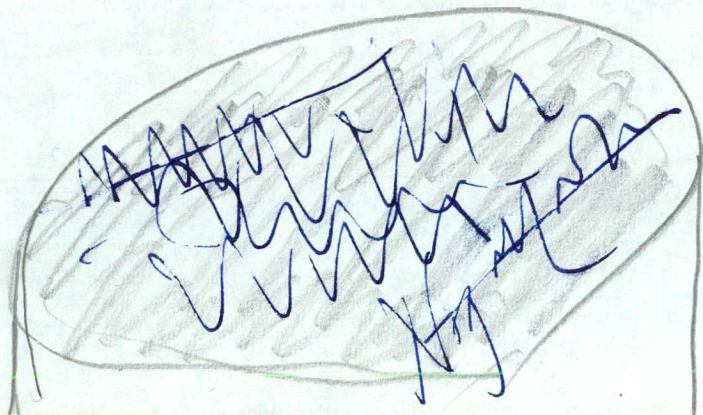
Suggested Procedure

1. Invite Commissioner PFEIFFER to introduce the discussion. *ho!*
2. Invite M. Milleron to give EPC's views.
3. Give the floor to those who ask for it. Avoid "tour de table". *When, how, do we want to speak? Who will be there?*

Possible Conclusions

1. Discussion has confirmed Co-ordinating Group's views on importance of supply side improvements, monetary consolidation, and budgetary discipline. *In view of comments, Commission may wish to remove ~~section~~ ^{part} on financial engineering.* *separately, rather than include it in the Economic report*
2. Each Minister will inform his Head of State and of Government about the positions taken during the discussions. This will be useful background to the European Council discussions on economic matters.
3. The Council will adopt the Annual Economic Report in December, after having received the opinions of the European Parliament and the Economic and Social Committee.

*Commission
 have taken into
 account the
 views of
 the Council
 and the
 Parliament
 in the
 Economic
 Report*



ANNUAL ECONOMIC REPORT: MINISTER OF STATE'S BRIEF

UK Objectives

To present our views on the Annual Economic Report and to make clear our objections to the Commission's proposals on financial engineering.

Points to make

- (i) In general, believe Report is on right lines. Don't suppose everyone would go along with every word. UK already pursuing policies recommended in Report. Particularly pleased that UK not expected to make major change in fiscal policy - no scope for such action.
- (ii) Right that Report places continued emphasis on need for monetary policy to provide framework for stability and states that fiscal policy must continue to be directed at medium term consolidation. Also welcome call for moderation of real wages and emphasis on increased labour market flexibility to promote sustained reduction in unemployment. UK, Ireland and Italy have presented new initiative designed to promote enterprise and employment and to encourage training.
- (iii) Inclusion of section on financial engineering in Report inappropriate. Commission has not previously presented proposal to Council, nor has it justified use of budgetary funds. Private sector and existing community project lending instruments can cope with demand for capital for worthwhile projects.
- (iv) Agree with Economic Policy Committee that any figures purporting to show medium-term effects of co-operative strategy best interpreted as illustrations not targets. Targets of this kind would be dangerous - and indeed contrary to the thrust of the strategy.
- (v) May wish to write to Commission suggesting few minor amendments to Report.

Background

1. The Annual Economic Report for 1986-87 has been prepared by the Commission following established procedure and was adopted by them and published on 15 October. The Report comprises two parts. The first considers the Community economy and the recovery now under way and the policies needed to strengthen it. The second contains the Commission's assessment and recommendations for each individual Member State.

2. Part I of the Report aims for an effective implementation of the "Cooperative strategy" set out in last year's Report. The principal aim remains a substantial and durable reduction in unemployment.

3. Most of the assessment in the Report of the present economic situation is similar to our own. Economic recovery in the Community is continuing and lower inflation and interest rates have improved medium-term growth prospects. There has been a welcome improvement in convergence of inflation rates and fiscal policies, but in recent years real convergence, i.e. of living standards, has not progressed.

4. The Cooperative Strategy is restated in section 3 of part I of the Report. There are rather too many figures in this section (see especially the table on page 84). These imply wonderful results for the Commission's strategy, but it is not clear to us that the underlying analysis supports these results.

5. The most important section of the Report is probably section 4 of Part I. This contains general policy recommendations for the Community.

6. On monetary policy, the Report provides support for firm medium-term policies designed to reduce and control inflation, while allowing scope for different countries facing different circumstances to react accordingly. If anything, the Report is a little sanguine on the prospect for inflation, and perhaps does not stress quite enough the need for monetary policy to continue exerting downward pressure sufficiently.

7. The section on budgetary policy is slightly more problematic, in part because it seeks to be all things to all men. There is recognition of the need for fiscal consolidation and clear guidance to countries with large budget deficits to continue to reduce them. Germany, and to a lesser extent the UK and France are urged to use available "room for manoeuvre" to support demand in the Community. The Commission favours increased government investment, though it recognises this must produce a suitable rate of return and notes that tax cuts may be more appropriate in some countries. While budgetary policy is expected to be supportive of demand rather than boosting it we are happy to go along with the Commission.

8. The Report calls for moderation in real wage settlements to allow an improvement in profitability and thus greater investment and output. This is welcome, though it is less strong than the call in last year's Report for moderation of real wages. The Commission are rather sounder on market flexibility. Specific proposals to improve labour market flexibility include encouraging new businesses by deregulation, vocational training and profit sharing. The joint Italian, Irish, UK Memorandum "Employment Growth into the 1990s - a Strategy for the Labour Market" is welcomed. The Report also urges rapid progress towards the completion of the "Internal Market" and welcomes steps being taken to liberalise capital movements.

9. The Community budget section on pages 136-138 reflect rather heavily the Commission's desire to restrain agricultural expenditure in order to increase spending on the structural funds. While we agree on the need to restrain agriculture spending, it is essential that other elements of Community spending are determined strictly in line with the budget discipline rules.

10. The proposals on pages 138-139 of the Report, on financial engineering, involve the use of budgetary funds or guarantees to provide capital for high technology projects, small firms and major infrastructure. The small print of the Report makes it clear that at this stage these are Commission proposals only,

but their inclusion in the Report will give them some status prior to any Council consideration. The budget provision mentioned in the text has now been reduced to a "pour memoire" entry in the draft budget. Our list of amendments requests the deletion of this section.

11. Our main objection is that the Community already supports worthwhile investment projects through loans, principally from the EIB, at competitive market rates, and that the Commission has presented no evidence to suggest that there are gaps left by the private sector and the existing Community lending instruments.

12. The section mentions small firms, which we would recognise as a worthwhile cause. We are currently trying to find a compromise in the Council on a tranche of Community lending to SMEs, either as a fourth New Community Instrument (NCI IV) or via the EIB. However, the SME proposals in the financial engineering section appear to go further than this.

13. One novelty this year is that on page 9 of the Report the Commission "invites governments of the Member States to submit by the beginning of May a short report on the initiatives and tangible economic policy measures taken by them in their own country to implement the Community Strategy". It is hard to resist a suggestion of this kind, though it could be time-consuming for all concerned and is unlikely to result in any improvement in economic policies.

14. The UK chapter of Part II of the Report was amended before publication to take account of our views. It does not now present us with any particular difficulties, although in a number of places we would ideally wish the argument to be put somewhat differently.

15. The Economic Policy Committee discussed an early draft of the Annual Economic Report on 1 October. This draft was strongly criticised, but many of the Committee's concerns were reflected

in changes to the published version. The Report of the Chairman of the EPC (a copy of which is attached) is, therefore, less critical than it might otherwise have been.

16. The Coordinating Group also discussed the Annual Report, on 10 November. There was general agreement that the Report was along the right lines and only the section on financial engineering came in for any criticism. The Chancellor will present the conclusions of the Coordinating Group to ECOFIN

17. Delors has said that he intends that the Commission should produce three short papers for the European Council on 5 and 6 December. These would include a paper on the microeconomic situation and a paper on "structural measures to improve productivity in Europe" (The latter might be a front for putting forward the financial engineering proposals). ECOFIN needs to have formed a preliminary view on the Annual Report so that the Prime Minister can justifiably minimise discussion on these items at the European Council and turn the discussion to more specific matters, in particular deregulation and the UK, Ireland, Italy initiative on unemployment.

IF2
H M TREASURY
13 November 1986

TRAVELLERS ALLOWANCES : PRESIDENCY BRIEF

Relevant document - letter from Mr Simonsen (attached)

PRESIDENCY OBJECTIVE

Context: 7th travellers allowance
Belgium?
Italy?
Spain?

To take advantage of urgent Danish, German and Irish needs for special concessions of economic and political importance to them to apply pressure on the Belgians to drop their total opposition to a package deal on travellers' allowances (including the Channel Tunnel) and to persuade others opposed to certain elements of the package (Italy, Spain, Netherlands, Portugal and possibly Greece) to lift reserves.

PRESIDENCY SPEAKING NOTE

- refer to Danish request for discussion of travellers' allowances and invite Mr Simonsen to outline the problem;

- [after Mr Simonsen]

by the Danish request

- express sympathy for Danish position but refer to several other problems being examined by the Fiscal Group which are still outstanding and include, notably, the problems of tax-free sales on special excursions at sea - what is known as the Buttership problem - the request to allow duty-free shops to be established for the Channel Fixed Link, and an Irish request concerning travellers' allowances on beer;

- subject to any observations colleagues would like to make now, suggest that we invite COREPER to examine rapidly the Danish request and the other outstanding problems. Then they could report back to us, if possible in the form of a compromise package, to enable us to take a decision on 8 December.

[if needed during discussion - limited harmful effect of individual derogations which, apart from CFL, only cover existing practices:

German cruises mainly used by German nationals

Danish restrictions only imposed on Danish residents

Irish beer restrictions impact mainly on UK who are prepared to accept derogation

And Channel Tunnel will benefit whole Community.]

TRAVELLERS' ALLOWANCES : BRIEF FOR MINISTER OF STATE

UK OBJECTIVE

To support the Presidency in its attempt to reach agreement on a complete package on the 7th and 8th Directives provided it includes legal recognition of purchases made at duty- and tax-free shops at airports, ports and the entrances to the Channel Tunnel as well as on board aircraft, sea-going vessels and hovercraft making international journeys.

LINE TO TAKE

- the UK considers it essential to remove operators' uncertainty for the immediate future caused by the hiatus in the present law.
- duty-free shopping is very popular with transport operators and the travelling public. It keeps fares down, encourages travel and creates jobs.
- the UK recognises the special economic and political problems of the member states who have requested to continue their present practices. We can accept the derogations proposed since they do not create major distortions in travel across the Community or give rise to serious grievances from operators or the public.
- The UK has asked for the Channel Tunnel to be included in the 7th Directive because under the Channel Tunnel Treaty, the UK's and France's intention is to allow travellers using the tunnel the same duty-free facilities as those enjoyed by sea and air travellers across the Channel provided this is consistent with our international obligations. It is a privately funded project - we have categorically stated that no public money whatsoever will be involved - and it has reached the vulnerable planning stage during which its economic viability is under close scrutiny while the necessary finances are being raised. Its immediate and ultimate future depends significantly on its appeal to passengers, and duty-free facilities are a major ingredient in this.
- If challenged (possibly by Italy) that the Channel Tunnel is no different from Mont Blanc Tunnel:

The Channel Tunnel is unique. It will run under international waters and unlike the Mont Blanc Tunnel has no road. Vehicles will be transported by rail on shuttle services more akin to ferry operations and in direct competition with them. The duty-free shops would be at the entrances to the Tunnel, not on the shuttle trains themselves (and of course not on the through rail services to Waterloo or at the termini).

BACKGROUND NOTE

1. The 7th Directive is intended to provide a firm legal basis for duty- and tax-free shopping in intra-Community travel following the uncertainty created by the European Court judgments outlawing the German buttership operations. The wish of the duty-free trade to have its legal basis made certain, coupled with the desirability for the British Airports Authority privatisation prospectus to contain some positive statement on the future of the duty-free trade and the need to put the Channel Fixed Link (CFL) on the same competitive footing as the cross-channel ferries, have led to assurances being given that the UK would give this proposal and the 8th Directive, which increases the third country "other goods" allowance to 100 ECU, priority during our Presidency.

2. However, following inter-departmental discussions, you obtained the agreement of your ODE colleagues that the CFL issue was paramount and if agreement was not reached on its inclusion in the 7th Directive our objective would be to work for its non-adoption.

3. After two working group discussions, at which the Presidency has worked for agreement on a complete package as the only means of achieving our objectives, four major elements remain unresolved:

4. **Butterships:** The Presidency has tabled a general derogation for existing special cruises which do not call in another member state. This was intended to cover not only German butterships but similar operations in other member states such as the Netherlands. Italy, Spain and Portugal recognise the political sensitivity of this issue but are opposed. Netherlands are opposed because their existing cruises meet the requirements of the European Court ruling in that they call at another member state and a derogation for Germany under more favourable conditions would lead travellers to use German butterships rather than Dutch cruises. The French are opposed in principle but we have emphasised that failure to reach agreement on this issue will sink the whole Directive. Their final position is not yet known.

5. As you know from your discussions at Gleneagles Dr Stoltenberg is greatly concerned to get the buttership concession through before the German elections in January and is willing to support all elements of the package. (We understand that his constituency is situated in an area economically dependent upon these cruises.) The Germans are also

under pressure from the Commission which has begun infraction proceedings.

6. **Channel Fixed Link:** The Commission recognises the need to preserve equality of competition with the sea and air services across the Channel and is being supportive, while regarding intra-Community duty-free facilities as an anomaly which would have no place when fiscal frontiers are abolished. Italy, Spain and Netherlands have some hesitations but recognise that the final decision will have to be taken at a higher level. France did not have Ministerial clearance at the last working group discussion but supported our request for a contingency provision expressed in general terms to cover the CFL. The Commission and some member states preferred a direct reference to the CFL in the text. We have advised the French that we agree with this approach but their final position is not yet clear and it is hoped that the French Minister will not be inhibited on the point during discussions.

7. **Irish derogation on Beer:** Ireland wants to continue its arrangement to restrict intra-Community travellers entering the Republic to importations of 12 litres of beer and travellers coming from third countries to 6 litres.

8. There is no quantitative restriction in the existing Directive for beer which is treated as part of the general ECU allowances (the highest of these is 350 ECU). However, the UK has imposed a limit of 50 litres to curb excessive importations of cheap French beer. We have not been challenged by the Commission possibly because quantities above 50 litres could be regarded as commercial importations which are proscribed by the Directive, but the Commission is currently taking infraction proceedings against Ireland for its practice and is opposed to such a derogation. No member state took a position on this request in the working group.

9. **Danish Derogation:** The Danish Government attaches great importance to the solution of this problem before the end of the year when the present derogation starts to unwind - the amounts allowed to be imported tax-free by Danish residents begin to increase towards Community levels from 1 January 1987. Several billion crowns are at stake for the Danish exchequer (it is regarded as important as the Fontainebleau rebate for the UK) but the Commission has refused to come forward with a proposal to prolong the derogation. If no

acceptable proposal is forthcoming shortly the Danish Prime Minister intends to take the matter up at the European Council in London and insist on a solution then and there.

10. The Danish Minister of Taxation (Foighel) met the Minister of State on 24 September when UK support was promised in return for Danish support for duty-free shops on the CFL. We tabled a Presidency text at the last working group meeting. It was sympathetically received by other delegations who recognised it as a matter for political decision, but the Commission insisted that any proposal to meet the Danish request could only be put forward by them. This they have not yet done.

OTHER PROBLEMS

11. Belgium. The Belgians have been consistent in opposing the 7th Directive and any extension of duty-free facilities is anathema to them. We understand that their intransigence stems from assessed revenue losses in the region of 10 billion Belgian francs a year because of low rates of excise duty and VAT in force in Luxembourg but they have not mentioned this in discussions. Belgian citizens are apparently prepared to travel long distances in order to make purchases there. The Government is also very sensitive about proposed artificial cruises (Aquamarts) which are planned to operate from the Netherlands to France where the passengers would disembark with their duty-free allowances and return to Belgium by coach. No technical solution has been found to solve this particular problem.

12. There are indications that the Belgian position may be a reflection of official views rather than those of Ministers. Eyskens may therefore be more receptive to the idea of a package particularly if he sees his colleagues are all prepared to seek a compromise solution which would include arrangements for Belgium to deal effectively with Aquamarts.

13. Greece. In contrast to Belgium the Greek position has been less certain. Their latest position is a request for a derogation from the 8th Directive for them to keep the present third country allowance of 45 ECU. We believe this can be solved in COREPER but their unpredictability may lead to unhelpful interventions on the main issues.

NCI IV

Nigel

Possible ECOFIN Conclusions

The Council has considered the Commission's proposal for a new instalment of lending under the New Community Instrument and the Opinions of the European Parliament and the Economic and Social Committee and reaches provisionally the following common position:

- (i) the Community's institutions should make available a further 1.5 billion ecu of project finance for small and medium sized enterprises in non-assisted regions of the Community, in addition to the sums already being made available by the European Investment Bank in assisted regions;
- (ii) the Commission should borrow amounts enabling it to provide loans of up to the equivalent of 750 mecu for this purpose, the borrowing and lending operations being carried out in accordance with the agreed version of the Decision and the understandings reached with the European Investment Bank;
- (iii) ~~in addition,~~ the European Investment Bank should be invited to make available ^{its own} resources to finance ^{lending} to small and medium sized enterprises throughout the Community (and in particular to finance the remainder of the 1.5 billion ecu total) after completion of the 750 mecu borrowing by the Commission.

2. The Council invites COREPER to reach agreement on the Decision and any other matters outstanding as soon as possible. The next steps will then be:

- (a) adoption by the Council of a formal position;
- (b) a letter from the President of the Council to the President of the European Parliament explaining the Council's position and offering a conciliation meeting; and
- (c) confirmation of the invitation to the European Investment Bank.

- ✓
- (looking at Stoltenberg to start discussion) recognise that German colleagues have strong views on this issue.

Summing up (in formal Council, if agreement over lunch)
(Speak to draft Council ~~conclusions~~ attached. If you feel it would be useful, these can be circulated. They should in any case be given to Mr Pini for the Council minutes.)

NCI IV: BRIEF FOR MINISTER OF STATEUK OBJECTIVE

To support the Presidency attempt to reach a common position, along the lines of a NCI IV of 750 million ecu, plus a further 750 million ecu tranche of loans from EIB own resources, for SMEs in non-assisted areas, and a continuing role for the EIB in this area.

LINE TO TAKE

- UK anxious to resolve this matter quickly, and to agree suitable Community action on capital for SMEs.
- would be happy to support total lending of 1500 mecu, made up of an NCI IV of 750 mecu and EIB contribution of 750 mecu.
- appropriate that EIB should take the lead in project finance in Community, and be responsible for all Community lending hitherto provided under the NCIs from its own resources rather than continue with the present division of responsibilities.

(If Germany indicates wish to make unilateral declaration for minutes that there should be no future NCIs):

- UK would like to be associated with this.

(If anyone suggests that EIB subscribed capital should be increased, or the date of the next capital increase brought forward, to compensate for additional EIB lending to SMEs in non-assisted areas):

- UK believes premature to reach a view on this. EIB has advised that it can absorb this lending comfortably.

BACKGROUND

Relevant documents (attached):

- (1) text of NCI IV draft Decision, as it stands following Working Party discussion - Document 7991/86
- (2) letter from the President of the European Investment Bank, on the EIB's position with respect to the NCI IV Decision - Document 9949/86
- (3) opinion of the European Parliament - Document 9979/85.

The Commission proposal on NCI IV

1. In summary, this is as follows:

- (a) Commission borrows on capital market
- (b) EIB on-lends at market rates for investment projects carried out by small and medium sized enterprises (SMEs), in non-assisted areas (if NCI tradition followed)
- (c) amount of lending: 1500 million ecu
- (d) lending mainly through global loans to financial intermediaries
- (e) lending to include new features where appropriate:
 - deferment of capital and interest
 - finance for intangible assets
 - where lending through financial intermediaries, intermediaries to provide finance in form of share capital.

The NCI IV proposal is based on Article 235 of the Treaty of Rome, and requires unanimity.

Member States' views on NCI IV

2. These are as follows:

- (a) Germany, Netherlands against, on grounds that the Commission should not engage in banking, and that EIB should take over this activity fully, ie the EIB would do the borrowing as well as the lending, as part of its own resources operations.
- (b) Denmark, UK reserved. We incline to German view, but have recognised the attraction of being seen to do something for SMEs, and on that basis have indicated our willingness to agree to a compromise which commands general assent.
- (c) other member states, broadly in favour.

Previous ECOFIN discussion

3. This was as follows:

- (a) in July, Germans spoke forcefully in favour of the EIB option.
- (b) in September, at Gleneagles, we tried to marshall support for the EIB option, but member states stuck to their previous positions.
- (c) in October, we floated some points which might have been elements in a compromise package including a NCI IV of some sort. Again, member states maintained their positions.

4. In October, we asked for a clear legal view from the EIB as to whether it could take over NCI IV activity ie lending to SMEs in non-assisted areas. The EIB response is in document 9949/86. There is no legal difficulty with the EIB undertaking these operations, and the necessary authority could be given by a Decision of its Board of Governors (finance ministers in another guise).

French/German agreement

5. In order to make progress on a compromise, we asked the French and Germans to consider the matter at their recent summit. The result was the following compromise:

- (a) a NCI of 750 million ecu, followed by
- (b) EIB own resources lending to smes in non-assisted areas of another 750 mecu
- (c) some sort of declaration (either Council or member states') that any further NCI-type lending would be for the EIB.

At this ECOFIN, we shall, as Presidency, be attempting to get agreement on a compromise along these lines.

6. From the UK point of view, we want to get a package on capital for SMEs settled in time for the European Council on 5/6 December. Our only sticking point would be if it was suggested that the EIB's subscribed capital would have to be increased, or that the planned date of the next capital increase (October 1991 at the earliest) would have to be brought forward, for EIB to participate as suggested in the compromise. (This might arise because EIB own resources loans outstanding cannot exceed 2.5 times its subscribed capital.)

Prospects for agreement on the compromise

7. The compromise was allowed to emerge at Coreper on 6 November. All member states seemed willing to consider it. The EIB helpfully explained that 750 million ecus own resources lending for SMEs would be very small in relation to the anticipated scale of EIB lending in the near future, so that it could easily be absorbed. The Commission, however, expressed outright opposition to the proposal.

8. The compromise was discussed again by Coreper on 13 November. While all member states seemed able to accept the 750 mecu NCI/750

mecu EIB idea, there was still an outstanding problem over German insistence on a Council declaration in respect of 5(c). This would imply no future NCIs, and was unacceptable to the Commission and to a number of other member states. The Germans were not, however, supported by the Dutch on this point. We hope that in the end the Germans will not insist upon a Council declaration, and will be content with a declaration by themselves (supported probably by the Dutch, and possibly by ourselves and the Danes) and the draft Council minutes (attached to Presidency speaking note).

9. Exchanges outside Coreper indicate that the sticking point for Germany must be some recognition of a continuing role for the EIB. From the French point of view, the Commission must not be debarred from proposing further initiatives in this field. The draft Council minutes (attached to Presidency speaking note) aim to respect both positions and we have reason to believe will command both French and German support.

10. The Commission remain opposed to the compromise. Delors has privately threatened to withdraw the Commission's NCI IV proposal. He is unlikely to carry out this threat, but if there is any hint of it, the Presidency response should be in terms of handing the whole operation over to the EIB (exploring this in the Council if that is where the Delors threat is made).

Procedure

11. We plan to start the NCI IV discussion over lunch. If agreement on the compromise emerges over lunch, discussion could continue in the formal Council after lunch, giving the Presidency an opportunity to summarise the elements of the Council's common position, speaking to the draft Council minutes attached to the Presidency speaking note. The Presidency would then ask Coreper to take the necessary formal steps.

12. At that point, the Germans might make a declaration for the minutes, as in paragraph 8 above. Depending on the precise

wording, the UK should be associated with such a declaration.

13. As far as the pro-NCI IV member states are concerned, some of them might want to make declarations to the effect that there is nothing to stop the Commission proposing further NCIs in future.

European Parliament

14. An NCI IV of only 750 million ecu, as envisaged in the compromise, is likely to be unwelcome to the European Parliament, which, in its Opinion on NCI IV, said that it would request conciliation if the 1500 million ecu proposed by the Commission were reduced. On the basis of precedents set in respect of previous NCIs, it is clear that NCI IV is subject to conciliation. The Presidency should therefore ask Coreper to take this forward (as indicated in the draft Council minutes).

ECOFIN 17 NOVEMBER

BRIEF E

THE NEW COMMUNITY INSTRUMENT (NCI IV): PRESIDENCY BRIEFPRESIDENCY OBJECTIVE

To establish a common Council position, if necessary in opposition to the Commission, along the lines of the following:

- (a) a NCI IV of 750 million ecu, followed by
- (b) EIB own resources lending to smes in non-assisted areas of another 750 mecu.
- (c) some presumption of a continuing EIB role in this field.
- (d) but Commission left free to propose initiatives on Community lending in future.

PRESIDENCY SPEAKING NOTEIntroduction (over lunch)

- recall discussion at October ECOFIN. All agreed on Commission proposition of 1500 mecu lending for SMEs, but differences on how this should be implemented. Asked colleagues then to reconsider positions with view to reaching a common position as soon as possible.
- understand that some member states have expressed willingness to compromise in Coreper, and that Coreper has discussed possibility of splitting the 1500 mecu in Commission proposal into two parts - a NCI IV of 750 mecu, followed by EIB own resources lending to SMEs in non-assisted areas of 750 mecu.
- EIB has now confirmed that there is no legal barrier to this (document 9949/86).
- perhaps colleagues could indicate whether they can confirm agreement to 750 mecu NCI/750 mecu EIB suggestion.

*Push
Compromise
by this
first stage*

ECOFIN: 17 NOVEMBER

BRIEF F

Use Paul

REVIEW OF PROGRESS ON INDIRECT TAX MATTERS: PRESIDENCY BRIEF

Relevant document: Note from the Presidency 10159/86, (attached)

PRESIDENCY OBJECTIVE: To present in the best possible light the work done on indirect tax matters during the UK Presidency of the Council. And to obtain the Council's endorsement for further progress on VAT and excise structural proposals.

Paul separate?

PRESIDENCY SPEAKING NOTE

- Note, with approval, adoption of the 13th VAT directive as an 'A' point.
- Remind colleagues of the Hague European Council and June ECOFIN mandates to pursue work on VAT and excise structural directives. Presidency has fulfilled remit by concentrating on fiscal section of internal market Rolling Action Programme. Total of eighteen items, but only eleven ready for and worth discussion: of these will have tackled eight. Have found solutions to encouraging number of technical problems. Believe compromise solutions possible in certain cases and urge renewed efforts to achieve progress in 1987.
- Welcome, in particular, new Commission proposal on VAT treatment of small and medium-sized businesses, which hope to start discussing shortly. Look forward to Commission's forthcoming proposals for common VAT rate structure and level of rates and excise duty rate bands which should help Council to reach important decisions of principle in connection with completion of the internal market.
- Unless colleagues feel strongly want to comment on report, suggest simply take note and reiterate request to COREPER to make rapid progress on the Commission's VAT and excise duty structural proposals.

POSSIBLE CONCLUSIONS:

The Council

- takes note of the progress report from the Presidency

- invites COREPER to speed up examination of the Commission's proposals on VAT and excise duties, notably of the draft VAT directive on small and medium-sized enterprises.

GENERAL SECRETARIAT
OF THE COUNCIL

Brussels, 11 November 1986

Brief F : Presidency brief provided by
Council Secretariat - attached for information

P. 4/21

COUNCIL (ECOFIN)

BRUSSELS, 17 November 1986

Item 6 : Progress report of the Presidency concerning
Indirect Taxation Proposals

REFERENCE DOCUMENT

- 10159/86 FISC 91 : Progress report of the Presidency

.../...



SUGGESTED OPENING STATEMENT

You will have received a report prepared by the Presidency reviewing progress on indirect taxation proposals.

You will recall that at our June session the Commission informed us of its intention to submit, before 1st April 1987, detailed proposals on indirect tax rate approximation as well as the VAT clearing system. And we requested COREPER to examine the proposals already submitted covering the common basis of assessment of VAT and the common excise structure.

The European Council in The Hague confirmed this approach, and decided that at its December meeting it would evaluate the progress made in all fields covered by the White Paper on the Internal Market.

It is in this context that the Presidency submitted the progress report which you have before you.

Unless colleagues feel strongly that they need to comment on this report, I would suggest that we simply take note of it, hoping that further work in COREPER on this item will quickly bear fruit. This applies notably to the draft VAT-Directive on small and medium sized enterprises which has been submitted to us only recently.

SUGGESTED PROCEDURE

Give floor to those who ask for it.

POSSIBLE CONCLUSIONS

The Council

- takes note of the progress report from the Presidency
 - invites COREPER to speed up the examination of the Commission's proposals on VAT and excise duties, notably of the draft VAT-Directive on small and medium sized enterprises.
-

REVIEW OF PROGRESS ON INDIRECT TAX MATTERS: UK DELEGATE'S BRIEF (MINISTER OF STATE)

UK OBJECTIVE: To get Council endorsement for the small traders' VAT directive.

LINE TO TAKE:

- Welcome Presidency review of progress; delighted that able to adopt 13th VAT directive.
- Agree that need to redouble efforts to make progress and UK will work to find solutions to its outstanding problems.
- Welcome Presidency's intention to start discussion of small traders' VAT directive which UK sees as valuable contribution to Council's efforts to assist small businesses. Hope Council will endorse importance of proposal and will undertake to make rapid progress towards its adoption.

BACKGROUND

The Milan European Council (June 1985) remitted tax aspects of the Commission's internal market White Paper to ECOFIN for further action. ECOFIN in turn set up an ad hoc High Level Group of senior officials to advise them. The group's final report was debated by ECOFIN in June.

The ad hoc group's basic message was that the Commission's proposals as they stand are inadequate and until further work has been done to elaborate them ECOFIN cannot be expected to take decisions of principle. At their June meeting ECOFIN therefore asked the Commission to produce more detailed proposals by 1 April 1987 on the rates and rate structure of indirect taxation and on the VAT clearing system. In the meantime, ECOFIN asked COREPER to deal with the structural VAT and excise duty proposals (ie those affecting tax coverage and procedures but not rates) already on the table.

The Hague European Council confirmed that basic decisions on removing fiscal barriers need to be taken rapidly and welcomed the work programme endorsed by ECOFIN.

During the UK Presidency we have fulfilled this remit by concentrating on the VAT and excise duty proposals contained in the internal market Presidency Rolling Action Programme (RAP). The fiscal barriers section of the RAP contains eighteen items (see annexe); of these, three have not yet been presented by the Commission; two more are in need of substantial revision by the Commission before discussion is worthwhile; one is completely redundant and two separate items refer to the same proposal. Of the eleven items realistically worth discussing, we will have considered eight since June.

This should make the Presidency immune to attack from the Commission for failure to push work forward. The lack of real progress (one adoption and two items where adoption could be possible in 1987) is more a reflection of continued intransigence by Member States than any failing on the part of the Presidency.

The long-awaited small traders' VAT directive (formerly known as the 22nd VAT directive) was submitted to the Council in October. It provides for a mandatory tax exemption of 10,000 ECU (about £6,900); an optional registration threshold of 35,000 ECU (about £24,100); and a mandatory simplified accounting scheme for traders with a turnover of less than 150,000 ECU (about £103,000). The proposal is a UK priority both because of its value as a means of reducing the burden of VAT for small traders and because its adoption would remove the threat of infraction proceedings against our current registration threshold which the Commission maintain is higher than is permitted under the 6th VAT directive. The proposal forms part of the action programme on small and medium-sized businesses, the main policy lines of which were agreed in a Resolution adopted by the Industry Council on 20 October.

We will be beginning technical discussion of the proposal during our Presidency but cannot hope to make much progress given the limited time available to us. Endorsement by ECOFIN now should, at least, ensure that the proposal is not left on the shelf in the coming months.

PRESIDENCY ROLLING ACTION PROGRAMME

ITEM NO. REMOVAL OF FISCAL BARRIERS

VAT

132. Proposal for a Council Decision providing for a standstill ensuring:
- no proliferation of VAT rates in Member States
 - no widening of the gap between VAT rates in each Member State
133. Proposal for a 14th Directive concerning deferred payment on importation
- * 134. Proposal relating to farmers subject to flat-rate taxation
- * 135. Proposal on passenger transport
- * 136. Proposal on special schemes for small businesses
- * 137. 7th VAT Directive: works of art, collectors' items, antiques and used goods
138. 12th VAT Directive concerning expenditure on which tax is not deductible
- * 139. 13th VAT Directive concerning tax refunds to persons not established in the Community
- * 140. 16th VAT Directive concerning imports by final consumers of goods which have already borne tax in another Member State
- * 141. 18th VAT Directive concerning the abolition of certain derogations (Article 28(3) of Directive 77/388/EEC)
- * 142. 19th VAT Directive: miscellaneous supplementary and amending provisions of Directive 77/388/EEC
143. Directive on the stores of ships, aircraft and international trains

REDUNDANT

EXCISE DUTIES

144. Proposal for a Council Decision providing for a standstill ensuring no introduction of new excise duties which give rise to border formalities
- SINGLE PROPOSAL WITH ITEM 132
- * 145. Proposals concerning harmonization of the structure of excise duties on alcoholic drinks
- COM(72) 225 final
 - COM(82) 153 final
 - COM(85) 150 final
 - COM(85) 151 final
- * 146. Proposal for excise duties on wine
147. { Proposal concerning the introduction of a third stage concerning the harmonization of the structure of cigarette duty
- * 148. { Proposal concerning the harmonization of the structure of excise duties on mineral oils
- * 149. Proposal concerning the harmonization of the structures of excise duties on other manufactured tobacco

* Proposals discussed during the UK Presidency

** Proposals still awaited from the Commission

ECOFIN 17 NOVEMBER

PRESIDENCY BRIEF

EC RESEARCH AND DEVELOPMENT FRAMEWORK PROGRAMME**Objectives**

1. To obtain support for written conclusions (Annex A), acknowledging the significant impact which the Commission's proposals for a 7.7 becu five year framework programme would have on the Community budget.

Notes for introducing discussion

- Budget Discipline conclusions provide for ECOFIN to study the financial implications of a multi-annual programme to see if they are compatible "with the principles and guidelines governing the Community's budgetary policy as a whole". Important that Research Ministers should be fully aware of the financial consequences of their decisions about the major R&D framework proposed by the Commission.

- The Presidency is committed to achieving agreement if possible at 9 December Research Council on new framework programme. This discussion is intended to help that process by setting the Commission's framework proposals in a broader financial context.

- As our discussion of CAP expenditure on 13 October illustrated, the overall budget situation is difficult and likely to remain so. The Presidency paper (Annex B) illustrates the significant effect on other non-obligatory expenditure that adoption of the Commission's proposal for a 7.7 becu framework programme would have.

- We are of course committed by the European Council decision of March 1984 to increasing the proportion of Community resources devoted to financing priority Community R&D activities. How can we achieve this in a manner consistent with the Council's commitment in December 1984 to maintaining proper control over Community expenditure?

- The Budget Committee's work has identified the following important points:

- (a) the Commission's proposals involve more than doubling

UK: Max 5/10m

the proportion of the total budget payment appropriations devoted to R&D (from about 2% up to 4.35%):

(b) the proposals greatly exceed the threshold figure necessary to comply with the Council's commitment to increase the proportion of R&D expenditure in the Community budget;

(c) assuming that the rest of the budget remains within the guidelines which we have agreed should govern it, the proposed average annual rate of growth for R&D of over 25% would involve a substantial reduction in the rate of growth of other non-obligatory expenditure.

Whichever statistics are used, it is clear that the proposed new framework would occupy a substantially larger proportion of available non-obligatory expenditure than the existing one.

- The Presidency has circulated draft conclusions for the Council to consider. These do not suggest solutions: they simply identify the problems to be addressed and the wider context in which decisions on Community Research and Development need to be taken.

- Invite colleagues to say whether these draft conclusions are acceptable in their present form.

Following discussion and summing up

[If majority of delegations indicate broad agreement with draft conclusions]

- Not surprisingly colleagues have indicated different preferences on the way in which the problems should be resolved. Nevertheless, I detect that a majority accept the description of the difficulty set out in the draft conclusions. Research Ministers should therefore find it useful to have these observations as an integral part of their consideration of the substantive issues in December.

- Invite the Secretariat to include Council's conclusions (as amended) in minutes.

(If insufficient support expressed)

We have not sought to reach view at this stage on how the problems identified should be resolved in terms of detailed agreement. But it is appropriate that the analysis which has formed the basis of our discussion, and delegations' comments this afternoon, should inform subsequent deliberation at the Research Council.

Massy

ECOFIN 17 NOVEMBER

UK BRIEF
(MINISTER OF STATE)

EC RESEARCH AND DEVELOPMENT FRAMEWORK PROGRAMME

1. UK Objectives

- (a) to make clear that any decisions on the R&D framework programme should be fitted into an overall budget in which budget discipline limits are observed;
- (b) to argue that to the extent R&D uses up more of the resources available for non-obligatory expenditure, corresponding reductions in the rate of growth of other non-obligatory expenditure will have to be made;
- (c) to repeat UK view expressed in previous Research Councils that the Commission's proposals are too large and that the new framework should emphasise quality rather than quantity;
- (d) to support the draft conclusions (Annex A).

2. Line to take

- Welcome discussion of the Commission's proposals for a major multi-annual framework and their impact on the general budget situation. Presidency paper has usefully identified the difficulties of fitting a programme of this size into budget which respects limits of the reference framework and the maximum rate.

- The UK is firmly committed to a budget which observes those limits. Community spending, like national spending, must be properly controlled, particularly in the present circumstances when there is such pressure on existing resources. We obviously need to reform the existing structure of Community expenditure. But until that is done, it makes no sense at all to enter into major long-term commitments which might not be met without further exacerbating the budget difficulties we face.

- So the question is essentially about priorities. The Community has finite resources and we obviously cannot do

everything we would like. We cannot view major proposals for new expenditure in isolation from the constraints which apply to the budget as a whole.

- Clearly, if we decide to give Research and Development priority, then this will inevitably have consequences elsewhere in the Budget. It follows that if a programme of the size proposed by the Commission were to be agreed, then the growth of other non-obligatory expenditure would have to be reduced.

- We consider that the impact on the Budget which the Commission's proposals would have could be made more manageable by a reduction in the size of the new framework itself. The Commission's proposals involve more than doubling the payments appropriations devoted to R&D. A substantial reduction of this would not in our view undermine the Council's commitment to increasing the proportion of spending on R&D.

- As British colleagues have made clear in the Research Council, the UK judges that we need to focus more on quality than quantity. A well directed programme of substantially less than that proposed by the Commission is an entirely reasonable objective.

- The UK is confident that such a programme would be scientifically justifiable; it would also be consistent with the European Council's acceptance of the need to increase the proportion of Community resources devoted to financing **priority** Community R&D activities; and finally it would allow a new framework to fit into the overall budgetary context without causing significant distortions elsewhere.

R&D FRAMEWORK PROGRAMME: BACKGROUND**References**

- A. Draft Conclusions.
- B. Presidency Report.
- C. Relevant articles of Single European Act.
- D. Summary of framework proposals.
- E. UK preferred position.
- F. Report of 21 October Research Council.
- G. Extract from Budget Discipline conclusions.
- H. Commission's different calculations.

*How far
the
UK
no support?*

Purpose of ECOFIN discussion

1. Our specific aim is to focus minds on the fact that the Commission's proposals for an extravagant new R&D framework would have a significant effect on the Community budget, particularly on other non-obligatory expenditure. The discussion is part of UK, Germany and French efforts to drag the others down to a new programme of not more than 5 becu over 5 years.

2. Unlike the previous occasion when ECOFIN invoked its rights under Article 8 of the budget discipline conclusions (the FEOGA guidance fund in March 1985), it is not the intention that ECOFIN should try to agree a figure for the overall size of the framework. The Council Legal Services advise that any vote on such a figure would probably have to be taken by simple majority. Since those who could accept the Commission's proposals could probably muster such a majority, we run a risk of being saddled with a commitment we strongly oppose. It is therefore important to avoid a **formal** vote.

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of X*

3. The Presidency conclusions we would like to see approved confine themselves to noting the minimum level of expenditure necessary to comply with the March 1984 European Council's commitment to increase the share of Community resources devoted to priority Community R&D activities; the large increases implicit in the Commission's proposal; and the significant impact this would have on other non-obligatory expenditure if budget discipline was to be preserved.

The Single European Act

4. The Single European Act includes a section for the EEC Treaty

on research and technological development (Annex C). It provides for the establishment of a multi-annual framework programme for Community expenditure on research and technological development in a number of areas. The framework programme is supposed to

'lay down the scientific and technical objectives, define their respective priorities, set out the main areas of the activities envisaged and fix the amount deemed necessary, the detailed rules for financing participation by the Community in the programme as a whole and the breakdown of this amount between the various activities envisaged.'
(Article 1301).

5. The framework programme will be decided by unanimity. It will include the amount "deemed necessary" to fulfill the framework's objectives. The UK, along with most members of the Council, regards this as an effective ceiling on expenditure under the programme although an agreement with the European Parliament means that it cannot formally be described as such. Specific programmes within the framework, including their financing, will be agreed by qualified majority. Although there is supposed to be a guarantee that the specific programmes will not, in aggregate, exceed the framework, it is essential to ensure that the provisions of the framework programme, including its broad distribution between areas of research, and especially its overall size, are acceptable to us.

|| X

Commission proposals

6. Community R&D is at present covered by a framework that was due to run from 1984-87. The Commission decided, however, to introduce the new framework under the new Treaty provisions immediately from 1987, thus subsuming the final year of the old programme. They claimed that this was necessary because otherwise some programmes would have to be wound up because they had exhausted their available funding. They accordingly published in July proposals for a new framework totalling 7735 mecu in commitments (summary at D) for the period 1987-91.

7. The Commission's original intention had been to propose a programme of 10.3 billion ecus. They were, however, left in no doubt that this would be quite unnegotiable and have therefore lowered their sights. They were also intending to stick rigidly to their interpretation of the SEA, and in particular to the idea that the framework programme should contain only the barest outline of the proposals. One of the real gains of the intensive discussions over the past months has been to convince the Commission that the Council is not simply going to write them a blank cheque and that they will have to be more specific about what exactly they are hoping to spend money on.

UK views

8. UK departments have considered what level of EC R&D expenditure could be justified on scientific, technological and value-for-money grounds. They concluded that the largest figure that could be justified on those grounds was 5000 mecu. The preferred breakdown of this is at Annex E, together with a comparison with the Commission's figures. This was endorsed by E(RD) in June. Our only publicly stated position was at the 21 October Research Council, where we said that we thought that we could identify activities of importance to us of 3600 mecus, but accepted that this could be supplemented to take account of the needs of others.

Other Member States' views

9. When the Research Council discussed the framework in October, the following national positions emerged. (Annex F). France and Germany share the UK's view that a programme in the region of 3000-3500 mecu is the most that they could justify scientifically, although they also accept that others' interests might require a slightly larger outturn. Their 'core' programmes are not identical with ours: the chief disagreement is with the Germans over the importance we attach to Information Technology research. Italy agrees with the Commission that

7735 mecu is the minimum necessary, while another five member states - Ireland, Denmark, Spain, Greece and Portugal - have formally supported the Commission figure. Luxembourg indicated a willingness to settle for 7000 mecu, the Netherlands for between 6000 and 7000 mecu and Belgium for 6500 to 7000 mecu. There have, however, been informal indications that Spain, Denmark, the Netherlands and Belgium would all be prepared to move down from their publicly announced positions to arrive at a compromise. Similarly, Germany has indicated privately a readiness to go to 5000 mecu, and France would probably take the same position.

The budget discipline dimension

11. As a multi-annual expenditure programme with potentially extensive budgetary and financial consequences, the R&D framework programme is clearly subject to Article 8 of the budget discipline conclusions (Annex G). With encouragement from us, the French, Germans [and Spanish] asked for ECOFIN to consider the question. In preparation for this, Budget Committee and COREPER have produced the report attached at Annex B as a basis for the Council's discussions. Because of disagreement in COREPER, this is a Presidency paper. It concentrates on a factual analysis of the impact of the Commission's proposals on Community expenditure, in the light of successive European Council's commitments both to a growth in the importance to be attached to R&D spending and to budget discipline itself.

12. This analysis is complicated by several uncertainties over the basic data. First, a decision about the level of own resources and therefore of total expenditure which should be assumed for the years of the framework programme, presupposes a judgement on whether or not the VAT ceiling will be raised and whether or not agricultural spending will be brought under control. Second, whether the figures being discussed constitute either an increase in the share of the budget being devoted to R&D, or a real increase in the level of R&D expenditure depends crucially on the base year with which they are compared. COREPER finally agreed that it should be assumed that own resources grew at the rate necessary to accommodate the agricultural

guideline and the maximum rate for other expenditure and that the figures should be based on both a 1986 baseline and on an average of the three years 1984-6.

13. On this basis, the Report reaches the following conclusions:

- (a) starting from the 1986 base, the Commission's figures imply an increase by 1991 in R&D's shares of the budget from 2.03% to 4.42% for commitments and 1.97% to 4.35% for payments, increases of 117% and 121% respectively;
- (b) starting from the 1984-86 average base, the Commission's figures imply an increase by 1991 in R&D's share of the budget from 2.50% to 4.42% for commitments and from 2% to 4.35% for payments, increases of 77% and 117% respectively;
- (c) ^{AS 7/11/85} ~~the~~ as the Commission's figures, R&D's share of DNO commitments would increase from 6.99% in 1986 to 14.83% in 1991, an increase of 112%. ~~the~~ ^P payments share would increase from 7.37% in 1986 to 15.75% in 1991, an increase of 114%;
- (d) assuming the maximum rate were respected, the Commission's proposals would require other DNO spending to increase over the period by only 5.3% for commitments and 4.7% for payments, compared to the average maximum rate of 6.6%;
- (e) the rate of expenditure required to maintain R&D's share of the budget at the 1986 figure is 3970 mecu. The rate required to maintain it at the average 1984-86 share is 4890 mecu;
- (f) both these figures would allow other DNO spending to increase in line with the maximum rate.

RESEARCH AND DEVELOPMENT FRAMEWORK PROGRAMME

1. The Council has examined the Commission's proposal for a framework programme for Research and Development for the period 1987 to 1991, in the light of the Budget Discipline Conclusions of 4 December 1984 and of the European Council's agreement on Research and Development of March 1984.
2. The Council notes the following general features of the Commission's proposal:
 - (a) The Commission has proposed that the framework programme should include credits of 7.735 billion ecu;
 - (b) The figure of 7.735 billion ecu is a figure set in cash terms, which will not be increased to take account of inflation. The figure includes all personnel costs attributable to the framework programme. The Council welcomes the fact that the Commission's proposal thus permits the Budget Authority to take a global view, over the period concerned, of the total costs of the proposed new framework programme;
 - (c) The Commission has now made available its estimate of the breakdown, year by year, of commitments and payments under the proposed new framework programme. The Council welcomes the Commission's decision to make this information available as a valuable contribution to multi-annual financial planning in the Community.
3. The Council notes that, at its meeting in March 1984, the European Council agreed that it was necessary to increase the proportion of Community resources devoted to financing priority Community R and D activities. The Council notes that this implies that agreement should be reached on a new framework programme which exceeds a threshold figure based on the present share of R and D expenditure in the Community Budget. On the basis of

/credits

credits in the 1986 budget, the threshold is 2.73% of total commitments and 1.97% of total payments appropriations. Using the average of 1984, 1985 and 1986 as the basis of comparison, the figure is 2.35% of total commitments and 2.00% of total payments appropriations.

4. The Council notes that the Commission's proposals imply that the proportion of Community expenditure devoted to Research and Development should be substantially larger than the figures quoted above. On the assumptions that agricultural guarantee expenditure increases in line with the agricultural guideline, and that other compulsory expenditure and non-compulsory expenditure both increase at the maximum rate, the Commission's proposals appear to imply that research and development credits would represent 4.42% of commitment credits and 4.35% of payment credits in 1991. As compared with credits for R and D in the 1986 budget, or with payment credits on average in the 1984, 1985 and 1986 budgets, the share of R and D in the EC budget would more than double; as compared with commitment credits on average over the period 1984-85-86, the share of R and D in the EC budget would increase by some 75 per cent.

5. The Council notes that, within a framework of budget discipline, the Commission's proposals for an average annual growth in R and D expenditure of 25.4% in commitments and 24.5% in payments (as compared with the 1986 level) necessarily mean that other areas of expenditure would have to grow by less than would otherwise have been the case. In particular, if Non-Compulsory Expenditure in total grows by no more than the estimated average maximum rate (6.6% per annum over the period 1987 to 1991), the rate of growth of Non-Compulsory Expenditure other than R and D would be constrained on average to 4.6% for commitments and 4.4% for payments. These figures could only be raised by a decision to divert more resources to non-compulsory expenditure.

CHANCELLOR

R&D FRAMEWORK PROGRAMME ETC

1. Attached are:

- (a) A revised Presidency speaking note to introduce discussion on the R&D Framework.
- (b) Revised notes for summing up the R&D discussion, on various hypotheses as to progress, and a defensive note for use if anyone suggests a vote.

2. Please note that the speaking note at (a) now incorporates some small corrections which need to be made to the figures in the draft conclusions and the circulated Presidency note. I am sorry that the combined forces of EC Group and UKRep did not spot the errors, which originated with the Council Secretariat.

3. As regards voting, you may wish to know that the Fisheries Structures Programme is subject to QM voting in the Fisheries Council. This contrasts with the R&D Framework Programme, which is subject to unanimity in the Research Council.

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R & D FRAMEWORK PROGRAMME: SPEAKING NOTE

1. Suggest we turn now to R & D Framework Programme.
2. Presidency is committed to achieving agreement on this programme if possible at 9 December Research Council.
3. Want to stress that it is not for this Council to take decisions on the Framework Programme or the total expenditure figure. That has to be for the Research Council to resolve by unanimity in the normal way.
4. Purpose of today's discussion is rather to help the decision making process in the Research Council by setting the Commission's framework proposals in a wider budgetary context.
5. This is in accordance with Article 8 of the Council's 1984 Budget Discipline Conclusions, which provide for EcoFin to consider whether proposals for multi-annual programmes are compatible "with the principles and guidelines governing the Community's budgetary policy as a whole".
6. Also highly relevant to our discussion is the European Council's agreement in 1984 that the proportion of Community Resources devoted to financing priority Community R & D activities should be increased.

7. Presidency has circulated draft conclusions for Council to consider. These draw heavily on work done in Budget Committee.

8. Want to emphasise, in keeping with what I said a moment ago, that the draft conclusions do not suggest solutions. What they do attempt^{is} to set out the arithmetical implications of the Commission's proposals for the Community budget generally, with special reference to the European Council's 1984 Agreement as well as the Budget Discipline Conclusions.

9. If colleagues will bear with me, I must ask them to make some small corrections to the figures in the draft conclusions. First, in paragraph 3, two lines from the end in the English version, the percentage of total commitments figure should be 2.5%, not 2.35%.

10. Second, I ask colleagues to correct two of the figures which appear in paragraph 5 of the draft conclusions, second sentence from the end. Towards the end of this sentence, 4.6% should be 4.7% and 4.4% should be 4.6%. The end of the sentence should read:

"... the rate of growth of non-compulsory expenditure other than R&D would be constrained on average to 4.7% for commitments and 4.6% for payments."

Similar changes should be made in the Presidency paper 10500/86, paragraph 7(b), last sentence.]

11. Invite colleagues to say whether they are content with draft conclusions on the lines suggested, bearing in mind the significant but limited role which this Council has in this matter.

12. [Would French or German colleagues like to begin, as having requested this discussion?]

R & D FRAMEWORK PROGRAMME: NOTES FOR SUMMING UP

First Preference [If Delegations are prepared to support the Conclusions, doubtless with amendments]

1. We have had a constructive discussion.
2. Suggest we invite Secretariat to include the conclusions, as amended, in the minutes.
3. Ask them also to ensure that they are brought to the attention of our Research Council colleagues.

Second Preference [If substantial measure of agreement]

1. Clear that there are some differences of view in the Council on these conclusions.
2. Believe nevertheless that there is a wide measure of agreement on the facts set out in them.
3. Ask Secretariat to record this together with the reservations expressed by certain Delegations [and the Commission] and to make this record available to our Research Council colleagues.

Third Preference [If no agreement]

1. Clear that variety of views in the Council on the draft conclusions.
2. Do not think it would be fruitful to discuss further when decisions are for our colleagues in Research Council rather than for this Council.
3. Suggest we invite Secretariat to record the various points of view put forward in our discussion and to make the record available to our Research Council colleagues.

[If anyone suggests that vote be taken]

Do not think that formal vote would be appropriate. Not for this Council to take decisions. Aims should be either to reach a consensus or to note the differing points of view put forward in the Council.

ECOFIN 17 NOVEMBER 1986

BRIEF H

FISHERIES STRUCTURES: PRESIDENCY BRIEF

PRESIDENCY OBJECTIVE

To secure agreement to draft conclusions circulated by Presidency.

PRESIDENCY SPEAKING NOTE

- Recall the Budget discipline conclusions (Article 8) provide that "When the Council is on the point of adopting an act which has considerable financial implications for several years, the [ECOFIN] Council shall, before taking the final decision, formulate an opinion on whether the financial implications of the proposed act are compatible with the principles and guidelines governing the Community's budgetary policy".

- Clear that Commission's proposals on fisheries structures (COM(86)446 final) involve a long term expenditure commitment and French and German delegations have asked for ECOFIN discussion.

- Useful report by Budget Committee (10146/86) identifies financial issues on which ECOFIN should give view, notably

(i) overall level of 5 year financial envelope proposed;

(ii) whether some fisheries measures should continue to be financed from the FEOGA Guidance Section; and

(iii) in that case whether the current 5 year framework for FEOGA Guidance commitments of 6.35 becu should be raised.

- The Presidency has circulated draft conclusions for the Council to consider. Invite delegations (starting with French and Germans) to comment on the 3 main financial issues and to say whether draft conclusions acceptable in their present form.

[- Should emphasise that Presidency hopes to make early progress with fisheries structures measures at Fisheries Council on 3 December. Therefore highly desirable for ECOFIN to express a clear view on the financial consequences today.]

(Following discussion and summing up) (if majority of delegations have indicated broad agreement to draft conclusions)

- invite Secretariat to include Council's conclusions [as amended] in minutes.

Note In deciding whether to attempt to include the UK's amendments in the final conclusions the Chancellor will wish to consider whether they are likely to provoke counter suggestions from other Member States.

Handwritten notes in red ink:
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John Law
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ECOFIN 17 NOVEMBER 1986

FISHERIES STRUCTURES: BRIEF FOR MINISTER OF STATE

UK OBJECTIVES

to seek ECOFIN agreement to Presidency conclusions with (if negotiable) some amendments to indicate more clearly that in ECOFIN's view

(i) the cost of the Commission's proposals should be reduced below the current estimate of 850 mecu (commitments) over 5 years; and (less important)

(ii) the cost of those fisheries measures which are at present financed from the FEOGA Guidance ceiling should continue to be so financed without any increase in the 5 year framework for Guidance commitments

UK LINE TO TAKE

- Welcome the opportunity for ECOFIN to express a view under the budget discipline arrangements on the Commission's proposal for a long term expenditure commitment on fisheries strictures
- UK considers that the Commission's figure of 850 mecu over 5 years is likely to preempt too high a share of available budgetary resources over the period 1987 to 1991. The implied annual growth rates in payment appropriations (12.8% in 1987 rising to 33.5% in 1990) would be much higher than are allowed for other categories of expenditure, which is hard to justify on objective grounds.
- Although recognise commitments made to Spain and Portugal

in the Accession negotiations, not convinced that structural programme for EC10 should simply be rolled forward with adjustments for inflation. Structural programmes should at some point fulfil their objectives.

- For these reasons UK would support substantial reduction in Commission's proposal. [Agree with French/German delegation if they have quoted figure in range 625-650 mecu]. Suggest that we should invite Fisheries Council to consider specifically whether policy objectives could not be achieved with continuation of expenditure at existing levels. Would like this view to be reflected in ECOFIN conclusions.

- UK sees no reason to change the present arrangements under which some fisheries measures are funded from the FEOGA Guidance Section. There is, however, clearly no need to increase the current 5 year framework for Guidance commitments of 6.35 becu as only about 1.7 becu has been committed in the first 2 years.

- Can accept the Presidency conclusions with the following additions:

(i) paragraph 4 should invite the Fisheries Council to consider whether its essential objectives could be achieved by continuing the structures programme broadly at its existing level [i.e. about 625 mecu over 5 years];

(ii) paragraph 6 should ideally be completed as follows:
"The Council considers that such categories of measures as have previously been financed within the FEOGA Guidance Section should continue to be so financed within the 5 year framework on Guidance commitments."

BACKGROUNDRelevant documents (attached)

(i) Draft Presidency conclusions [UK additions not yet circulated indicated in square brackets]

(ii) Budget Committee report (document 10146/86)

(iii) Commission proposal on fisheries structures (COM(86)446 final)

(iv) Report from Coreper to Council (document 10285/86)

Fisheries structures

1. The present fisheries structures programme expires at the end of the year. The Commission have only recently tabled a proposal for a new ten year programme with financial estimates for the first 5 years (1987-1991). There is some pressure (not least from the UK Presidency) for the Fisheries Council to adopt these proposals at its next meeting on 3 December (it had a first reading discussion on 5 November and detailed work has been continuing in Council working groups).

2. MAFF (supported by FCO and UKREP) take the view that early agreement would be in the UK's interests both because it could be logged up as a "Presidency success" and (more seriously) because it would avoid complicating the negotiations on fish quotas and other conservation measures which need to be adopted at the final Fisheries Council this year on 17-18 December. The Treasury view is that, though administratively tidy, an early agreement on structures is not essential: there are numerous precedents for not respecting Commission deadlines for renewing structures programmes. Expenditure will anyway continue from existing commitments. Much will depend on whether delay is likely to result in a more or less expensive programme.

This will need to be reassessed in the light of the ECOFIN discussion.

Financial implications

3. The Commission have costed their proposals at 850 mecu (commitments) over the first 5 years (1987-1991) giving rise to payment appropriations of 442 mecu over the same period and 408 mecu in subsequent years. The Budget Committee report indicates that these estimates have been derived by applying 3 cumulative factors to the provision available in 1983-85 (250 mecu): viz.

(i) a factor of 1.70 to take account of Spanish and Portuguese accession (as this has increased the Community's fishing fleet by 70%);

(ii) a factor of $1.66(5/3)$ because the new envelope will apply to 5 years not 3; and

(iii) a factor of 1.082 to take account of inflation between 1983 and 1987 (2% a year for 4 years).

Together these adjustments produce a figure of 746 mecu over 5 years to which the Commission have added a further 104 mecu to cover various additional measures asterisked in paragraph 4 below. MAFF's estimates of the public expenditure effects of the Commission's proposals are set out in Table 1 attached. There is of course no need to treat the Commission's methodology as in anyway sacrosanct. An alternative approach which we support would be to start from the 1986 provision of 110 mecu (which included Spain and Portugal) and apply a reasonable growth rate (see paragraph 7 below).

4. The breakdown of the main measures in the package is as follows:

	<u>mecu</u>
fleet renewal and modernisation (vessels less than 33m)	380
aquaculture	125
artificial reefs	30
exploratory fishing voyages	100
joint ventures	20
laying up grants	27
decommissioning grants	64
fleet renewal (vessels over 33m)*	40
social measures *	19
fishing port facilities *	8
marketing *	5
"specific" measures * (not yet identified)	30
administrative costs *	2
	<hr/>
	850

(* new measures)

MAFF consider that the cost effectiveness of a number of these items is open to question but it is unlikely that ECOFIN will get into this level of detail.

Reference to ECOFIN

5. The French and German delegations have sought the reference to ECOFIN under Article 8 of the 1984 Budget Discipline conclusions (quoted in the Presidency speaking note). ECOFIN's locus is to express an opinion on whether a long term expenditure commitment is compatible with the available budgetary resources and the budget discipline conclusions. In COREPER neither the French nor the Germans have been prepared to specify what conclusions ECOFIN might be prepared to draw. Other contacts with their Finance Ministries suggest that both would support a significant reduction in the 5 year provision proposed from 850 mecu to about 625 mecu. However, other Member States are likely to take the view that the Commission's proposal is inadequate.

6. UK interest

Departments accept that the major UK interest in this proposal is to reduce its overall cost, as our share of receipts is likely to be less than 5% (compared to 11-12% before Spanish and Portuguese Accession). However MAFF consider that there would be advantage in reaching an early agreement on the proposals but that in view of the widely different views expressed in the Fisheries Council the outcome is likely to be not far removed from the Commission's original proposal.

7. If the French and the Germans can be persuaded to propose a lower overall financial envelope, the UK will wish to support the lowest number quoted. The French have informally suggested a figure of 625 mecu, believed to be based on applying "reasonable" growth to the 1986 provision of 110 mecu (which includes Spain and Portugal). [Application of the own resources growth factor (5.7% pa) would appear to produce about 650 mecu; the maximum rate (6.8% p.a.) about 675 mecu.] If a significant number of delegations support a lower figure, this could be reflected (even if only as the view of several Member States) in the Council/Presidency conclusions.

8. The other point where the Presidency conclusions could be improved is the reference to the future financing of the sort of fisheries measures (mainly fleet renewal and modernisation) which are currently funded from the FEOGA Guidance Section. The proposed UK addition to paragraph 6 could make it clear that this sort of measure should continue to be financed in this way (and thus be subject to the existing "framework" (ie ceiling) on FEOGA Guidance commitments).

[9. Mr Edwards may wish to provide supplementary briefing on the likely attitudes of other Member States in the light of his quadrilateral meeting with the French, Germans and Dutch in Paris on Friday.]

EC FISHERIES STRUCTURES PACKAGE

(MAFF calculations based on Commission estimates)

	mecu						
	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>Later years</u>	<u>TOTAL</u>
1. EC expenditure (payment appropriations)	10	46	89	132	165	408	850
2. UK gross contribution (20%)	2.0	9.2	17.8	26.4	33.0	81.6	170
3. UK receipts	2.3	7.7	6.1	5.1	5.9	11.0	38.9
4. UK net contribution	-0.3	1.5	11.7	20.5	27.1	70.6	131.1
5. Fontainebleau effect	-	-0.2	.9	7.7	13.5	64.4	86.5
6. UK Adjusted Net Contribution	-0.3	1.7	10.8	12.8	13.6	6.2	44.6
						<u>£m (£1=1.45 ecu)</u>	
7. Effect on programme 2.7 (£ counterpart of line 6)	-0.2	1.2	7.4	8.8	9.4	4.3	30.8
8. National expenditure (line 3 and matching UK expenditure)	3.2	10.8	8.1	8.0	8.0	14.9	53.3
9. Total PES	3.0	12.0	15.5	16.8	17.4	19.2	84.1

DRAFT ECOFIN CONCLUSIONS ON FISHERIES STRUCTURES

1. The Council has examined the Commission's proposal for Community measures for the improvement of fisheries structures (COM(86)446 final) in the light of the Council's conclusions on budget discipline of 4 December 1984.
2. The Council notes that the Commission's proposal is for a new 10 year structural policy involving commitment appropriations of 850 mecu in the first five years (1987-91) and payment appropriations of 442 mecu in the same period and 408 mecu thereafter. Taken together with the continuing cost of the existing structural programme this implies annual rates of growth in payment appropriations rising from 12.8% in 1987 (by comparison with 1986) to 33.5% in 1990 (by comparison with 1989).
3. The Council recalls that by comparison the Commission's estimates for the maximum rate of growth for non-compulsory expenditure over the same period and for the rate of growth in the own resources base (which forms the basis of the guideline for most compulsory expenditure) are on average approximately 6.8% and 5.7% per annum respectively over the period 1987 to 1990.
4. In view of the many competing claims on the available resources in the Community Budget, the Council takes the view that Community finances can only be made available for measures which can be rigorously defended on grounds of cost effectiveness and which are essential to achieve the Community's objectives. It therefore invites the Fisheries Council to scrutinise the present proposals in the light of these budgetary imperatives and to fix an overall financial framework with them in mind. [Several delegations take the view that the Fisheries Council should be invited to consider in particular whether the basic

objectives of the programme could not be achieved with a continuation of expenditure at existing levels.]

5. In any event the Council notes that the provision for these measures to be adopted in any particular year can only be determined in the context of the annual budget procedure and in the light of the available resources for all Community programmes.

6. The Council notes that a substantial proportion of fisheries structures measures has been financed from the Guidance Section of the EAGGF and that a number of the present proposals represent a continuation of existing measures which have been so financed.* Taking account of the level of commitments entered into in the first two years of the framework period, the Council considers that there is no need to increase the framework above its present level of 6.35 becu on account of the new measures.

*[The Council considers that such categories of measures as have previously been financed within the FEOGA Guidance Section should continue to be so financed within the 5 year framework on Guidance commitments].



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MST's brief for speaking
to Simitis in margins
of ECOFIN
LWK ✓

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ECOFIN 17 NOVEMBER

BRIEF I

GREEK PROTECTIVE MEASURES (FOR MINISTER OF STATE)

UK objective

To remind Mr Simitis of continued importance UK attaches to removal on schedule of all trade measures, and to maintain pressure on Mr Simitis to offer a solution to UK problems on the Greek export subsidy, notably in relation to cement.

Line to take

- Understand you are actively negotiating with the Commission on the future of the special recovery measures agreed last November. Interested to know state of play, particularly on export subsidy.
- Welcome in principle your positive statements on the introduction of VAT and the phasing out of the import deposit scheme on schedule. Important to ensure that the detailed implementation and phasing out is followed through.
- You are also well aware of our concern on the export subsidy scheme which remains a serious problem to us, especially because of disruptive cement imports. Effect on British industry a significant political issue in the UK.
- Hope you can help find a solution on cement before the December ECOFIN. We would certainly not want to have the problem unresolved when the economic package is discussed, and second tranche of the loan is discussed.

Background

1 In November 1985, ECOFIN agreed a package of measures to help the Greek economy including:

- a a loan under the Community Loan Mechanism in two equal tranches, the second due to be paid in January/February next year.
- b postponement of the introduction of VAT until 1 January 1987.
- c an import deposit scheme for certain goods.
- d continuation of a scheme for offering subsidies to exports.
- e Targets for economic improvement in Greece to be reviewed by end 1986.

2 The December ECOFIN will discuss the Greek economy, release of the second tranche of the loan and the future of the protective measures. Our policy is to press for these measures to be phased out on schedule because



they cause considerable problems for UK industry. Greece is negotiating with the Commission on phasing out and the current position is believed to be:

- a VAT will be introduced on schedule. VAT rates have recently been announced at 3 rates - 6%, 18% and 36% for certain luxury items. We are examining the impact of these rates. A parallel price freeze has also been announced.
- b Import Deposit Scheme will be withdrawn on schedule in phases ending May 1987. We have not yet been able to discover future phasing.
- c Export subsidy scheme was due to expire at the end of 1986 but Greece is seeking an extension. The Commission are inclined to agree to a phased withdrawal.

UK Concerns

4 The withdrawal of the import deposit scheme on schedule will remove a major source of complaint for UK exporters, notably textile and scotch whisky exporters. Our present aims are to press for more information on the detail of the phasing out envisaged, and an immediate end to the higher (80%) deposit rate; (40% is standard).

5 On the continuation of the export subsidy we continue to have serious problems. Greek cement has begun to be imported into the UK at prices well below prevailing UK market prices. The imports benefit from export subsidies of at least 18% of the export price. The UK cement and coal industries have mounted a significant political and public lobby against these imports. Several thousands jobs are said to be at risk. The Minister of Trade wrote to Commissioner Sutherland in September pressing the Commission to review its authorization. The Commission is pressing the Greeks to remove the subsidy on cement or offer an alternative solution such as a restraint agreement. Mr Simitis is understood to be keen to resolve the problem but no solution has been offered to date.

6 We need to use the leverage of the December ECOFIN discussion to press the Greeks to act on cement. The matter should therefore be raised with Mr Simitis in the margins of this meeting.

European Commercial and Industrial Policy Division
Department of Trade and Industry

14 November 1986

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FRAME ECONOMIC

ECOFIN COUNCIL : 17 NOVEMBER 1986

SUMMARY REPORT

1. THE CHANCELLOR OF THE EXCHEQUER CHAIRED THE COUNCIL: MR BROOKE, MINISTER OF STATE, TREASURY, REPRESENTED THE UK.

'A' POINTS

2. 'A' POINTS LISTED IN DOCUMENT 10455/86 APPROVED. CAPITAL MOVEMENTS DIRECTIVE.

3. COMMISSION'S PROPOSAL ADOPTED UNANIMOUSLY. ANNUAL ECONOMIC REPORT (FIRST DISCUSSION)

4. GENERAL SUPPORT FOR ANNUAL ECONOMIC REPORT. COMMISSION TO CONSIDER DETAILED AMENDMENTS. REPORT TO BE ADOPTED AT DECEMBER ECOFIN IN THE LIGHT OF EP AND ESC OPINIONS.

NIC IV

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7TH AND 8TH TRAVELLERS ALLOWANCES DIRECTIVES (DUTY FREE SHOPS ETC)

6. DISCUSSED OVER LUNCH. COREPER TO WORK UP COMPROMISE PACKAGE, DEALING NOTABLY WITH DANISH DEROGATION, GERMAN BUTTERSHPIS, IRISH BEER IMPORTS AND DUTY-FREE SHOPS ON THE CFL, FOR SUBMISSION TO ECOFIN ON 8 DECEMBER.

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RESEARCH FRAMEWORK PROGRAMME: BUDGET DISCIPLINE CONCLUSIONS

8. CONCLUSIONS AGREED UNDER ARTICLE 8 OF BUDGET DISCIPLINE CONCLUSIONS WHICH STRESS NEED FOR COST-EFFECTIVENESS OF FRAMEWORK PROGRAMME AND NOTE THAT PROVISION CAN ONLY BE CONSIDERED IN THE CONTEXT OF THE ANNUAL BUDGET PROCEDURE, AND IN THE LIGHT OF AVAILABLE RESOURCES FOR ALL COMMUNITY PROGRAMMES.

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10. DETAILS OF ITEMS IN PARAGRAPHS 3-9 IN MY 9 IFTS.

HANNAY

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LOUGHEAD DTI

KEDDIE DTI

HADLEY MAFF

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ECOFIN COUNCIL : 17 NOVEMBER 1986 : (CORRECTED VERSION)

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ECOFIN 17 NOVEMBER 1986

PROPOSAL FOR A DIRECTIVE ON CAPITAL MOVEMENTS

SUMMARY

1. COMMISSION'S PROPOSAL (TEXT 10333/86) ADOPTED UNANIMOUSLY.

DETAIL

2. GORIA (ITALY), SIMITIS (GREECE) AND SIMONSEN (DENMARK) LIFTED THEIR RESERVATIONS. GORIA MADE A UNILATERAL MINUTES STATEMENT, ON THE BASIS OF THE TEXT CONTAINED IN DOCUMENT 10340/86, HIGHLIGHTING THE NEED FOR PARALLEL ADVANCES IN THE CONVERGENCE OF ECONOMIC POLICIES AND THE DEVELOPMENT OF NEW COMMUNITY INSTRUMENTS TO DEAL WITH THE POSSIBLY DESTABILISING CONSEQUENCES OF LIBERALISING CAPITAL MOVEMENTS; SIMITIS PROMISED A MINUTES STATEMENT ON SIMILAR LINES; SIMONSEN WARNED THAT THERE MIGHT BE DIFFICULTIES FOR DENMARK WITH THE COMMISSION'S NEXT PROPOSAL, DUE NEXT YEAR. THE INFORMAL ECOFIN UNDER THE BELGIAN PRESIDENCY SHOULD CONSIDER THE ISSUES PRIOR TO THE COMMISSION BRINGING FORWARD THEIR PROPOSAL.

3. DELORS (COMMISSION) WELCOMED THE START THE COUNCIL HAD MADE ON THE LIBERALISATION OF CAPITAL MOVEMENTS AND THANKED THE UK PRESIDENCY FOR ITS DILIGENT WORK. THE COMMISSION'S NEXT STEP WOULD BE TO PRODUCE A STUDY ON THE CONSEQUENCES OF A MORE FAR-REACHING

PRESIDENCY FOR ITS DILIGENT WORK. THE COMMISSION'S NEXT STEP WOULD BE TO PRODUCE A STUDY ON THE CONSEQUENCES OF A MORE FAR-REACHING MEASURE, IN PARTICULAR WITH REGARD TO BANKING PRUDENTIAL RULES, FISCAL ARRANGEMENTS AND GREATER ECONOMIC CONVERGENCE. THERE WAS ALSO A NEED TO REFLECT ON NEW FINANCIAL INSTRUMENTS FOR DEALING WITH DESTABILISATION AND ON REINFORCING THE EMS.

4. THE CHANCELLOR THEN FORMALLY DECLARED THE DIRECTIVE ADOPTED.

HANNAY

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FRAME ECONOMIC

ECOFIN, 17 NOVEMBER : ANNUAL ECONOMIC REPORT.

SUMMARY

1. GENERAL SUPPORT FOR ANNUAL ECONOMIC REPORT. COMMISSION TO CONSIDER DETAILED AMENDMENTS. REPORT TO BE ADOPTED AT DECEMBER ECOFIN IN THE LIGHT OF E.P AND ESC OPINIONS.

DETAIL

2. FROM THE CHAIR THE CHANCELLOR SAID THAT IN THE ABSENCE OF OPINIONS FROM THE EUROPEAN PARLIAMENT AND ECONOMIC AND SOCIAL COMMITTEE (ESC) THE COUNCIL COULD NOT TODAY GO BEYOND A BROAD EXCHANGE OF VIEWS ON THE MAIN ISSUES SET OUT IN THE COMMISSION'S COMMUNICATION. DISCUSSION IN THE CO-ORDINATING GROUP FOR ECONOMIC AND FINANCIAL POLICY HAD REVEALED THAT THERE WAS BROAD AGREEMENT ON THE COMMISSION'S APPROACH, THAT MOST MEMBER STATES WELCOMED THE EMPHASIS ON SUPPLY SIDE IMPROVEMENTS AND MONETARY AND FISCAL CONSOLIDATION BUT THAT DOUBTS HAD BEEN EXPRESSED ABOUT THE COMMENTS ON THE COMMUNITY BUDGET AND IN PARTICULAR THE SECTION ON FINANCIAL ENGINEERING.

3. PFEIFFER (COMMISSION) SUMMARISED THE MAIN POINTS OF THE REPORT. IN SOME RESPECTS EUROPEAN ECONOMIC PERFORMANCE HAD IMPROVED CONSIDERABLY: INFLATION WAS DOWN, PROFITABILITY UP. BUT UNEMPLOYMENT WAS STILL UNACCEPTABLY HIGH. THE CO-OPERATIVE GROWTH STRATEGY MUST BE MADE MORE EFFECTIVE. THE JOINT OPINION REACHED BY THE SOCIAL PARTNERS AT THEIR MEETING ON 6 NOVEMBER SHOWED THAT THE COMMISSION'S APPROACH COMMANDED WIDE ASSENT. THE COMMISSION HAD NOTED THE DETAILED COMMENTS ON THE REPORT MADE DURING THE CO-ORDINATING GROUP MEETING. SUGGESTIONS FOR CHANGES WERE BEING EXAMINED. THE COMMISSION WOULD TRY TO SETTLE AS MANY POINTS AS POSSIBLE BILATERALLY BEFORE 8 DECEMBER.

4. MILLERON (CHAIRMAN OF ECONOMIC POLICY COMMITTEE) OUTLINED THE EPC'S REACTIONS TO THE REPORT. GOOD PROGRESS HAD BEEN MADE IN ECONOMIC CONVERGENCE: BUT PERSISTENT PUBLIC SECTOR DEFICITS IN SEVERAL MEMBER STATES WERE CAUSE FOR CONCERN. THE CO-OPERATIVE GROWTH STRATEGY SHOULD BE SUPPORTED: ON THE OTHER HAND THE QUANTITATIVE DATA WHICH THE COMMISSION CITED IN ITS SUPPORT SHOULD BE REGARDED AS ILLUSTRATIONS, NOT TARGETS. THE STRATEGY MUST BE APPLIED IN A WAY WHICH TOOK ACCOUNT OF DIFFERENCES IN THE ECONOMIC SITUATION OF INDIVIDUAL MEMBER STATES. IN THE MEDIUM-TERM AND ON AVERAGE REAL INTEREST RATES SHOULD FALL BUT IT WAS ESSENTIAL TO AVOID THE RISK OF A RESURGENCE IN INFLATION: MONETARY POLICY SHOULD BE APPLIED FLEXIBLY. IF THE CO-OPERATIVE GROWTH STRATEGY WERE TO PROCEED, THERE MUST BE AN IMPROVEMENT IN THE DIALOGUE BETWEEN THE TWO SIDES OF INDUSTRY.

5. IN THE TABLE ROUND WHICH FOLLOWED, ALL MINISTERS EXPRESSED GENERAL SUPPORT FOR THE REPORT, THOUGH WITH EXPECTED NUANCES AND DIFFERENCES OF EMPHASIS. SCHLECHT (GERMANY), EYSKENS (BELGIUM) AND MAAS (NETHERLANDS) FOR EXAMPLE EMPHASISED THE NEED TO AVOID TAKING ACTION WHICH WOULD CALL IN QUESTION THE IMPROVEMENTS WHICH HAD BEEN MADE IN PUBLIC FINANCE. SCHLECHT, SCHEER (FRANCE) AND MR BROOKE UNDERLINED THAT THE FINAL VERSION OF THE REPORT SHOULD MAKE CLEAR THAT THE COUNCIL HAD NOT ENDORSED SOME OF THE COMMISSION'S BUDGETARY IDEAS, E.G RELATING TO FINANCIAL ENGINEERING. MINISTERS FROM THE MEDITERRANEAN MEMBER STATES STRESSED THE NEED TO REDUCE THE DIVERGENCE IN REAL INCOME AND WEALTH AMONG MEMBER STATES. THE LIVELIEST COMMENTS CAME FROM EYSKENS, WHO URGED THAT MORE EXPANSIONARY DEMAND POLICIES WOULD DO NOTHING TO BRING INTO EMPLOYMENT A HALF OR TWO-THIRDS OF THOSE AT PRESENT UNEMPLOYED: AND FROM BRUTON (IRELAND) WHO SAID THAT DISCUSSION AMONG INDIVIDUAL EMPLOYERS AND UNIONS WERE LITTLE INFLUENCED BY THE MERE CONVERGENCE OF ORATORY AMONG REPRESENTATIVES OF THE SOCIAL PARTNERS.

6. PFEIFFER RESPONDED ONLY TO THIS LAST POINT, ARGUING THAT THE COMMISSION WAS MERELY TRYING TO MAKE SURE THAT EMPLOYERS AND EMPLOYEES HAD A SUFFICIENTLY OPEN MIND.

7. THE CHANCELLOR SUMMED UP THAT ECOFIN WOULD ENDEAVOUR TO ADOPT THE AER IN DECEMBER, IN THE LIGHT OF TODAY'S FULL DISCUSSION, THE E.P.'S AND ESC'S OPINIONS AND THE FURTHER BILATERAL CONTACTS WHICH THE COMMISSION HAD PROMISED. MEANWHILE FINANCE MINISTERS WOULD BE ABLE TO INFORM HEADS OF STATE AND GOVERNMENT OF THE OUTCOME OF TODAY'S DISCUSSION IN PREPARATION FOR THE DECEMBER EUROPEAN COUNCIL.

HANNAY

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PS/MST TSY

LAVELLE TSY

EDWARDS TSY

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<u>CABINET OFFICE</u> MR D WILLIAMSON MR JH HOLROYD MR MERCER MR M H JAY	<u>DTI</u> <i>Mr Nealey</i>	<u>PLUS CGD's</u> MR P KENT HM CUSTOMS & EXCISE <i>Rb/England</i> <i>Mr Rieby</i> <i>Mr Shilton</i>
<u>H M TREASURY</u> <i>PS/Chancellor</i> SIR GEOFFREY LITTLER MR J E MORTIMER MR C D CRABBE MR R G LAVELLE <i>PS/MSTR</i> <i>Mr Edwards</i> <i>Mr Barber</i>	<u>MAFF</u> PERMANENT SECRETARY	

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ECOFIN COUNCIL, 17 NOVEMBER 1986 : LUNCH DISCUSSIONS : NIC IV.

SUMMARY

1. AGREEMENT THAT 1.5 BECU SHOULD BE MADE AVAILABLE TO SMES IN TWO TRANCHES, THE FIRST RAISED BY THE COMMISSION, THE SECOND BY THE EIB. PRESIDENCY AND COMMISSION TO BRING FORWARD THE TEXTS NEEDED TO GIVE EFFECT TO THIS POLITICAL AGREEMENT FOR FORMAL AGREEMENT AT THE DECEMBER ECOFIN.

DETAIL

2. OVER LUNCH THE CHANCELLOR NOTED THAT ALL MEMBER STATES COULD AGREE THE COMMISSION'S GENERAL PROPOSITION THAT THERE SHOULD BE 1.5 BECU COMMUNITY FACILITY FOR FINANCING SMALL AND MEDIUM-SIZED ENTERPRISES (SMES). THERE WAS DISAGREEMENT, HOWEVER, ABOUT THE APPROPRIATE MEANS. THE PRESIDENCY CONSIDERED THAT A COMPROMISE UNDER WHICH 750 MECU WOULD BE BORROWED BY THE COMMISSION AND 750 MECU BE PROVIDED BY THE EIB FROM ITS OWN RESOURCES WAS THE ONLY WAY FORWARD LIKELY TO SECURE AGREEMENT. THE COMPROMISE WOULD NOT SATISFY ANYONE COMPLETELY, BUT THE BEST SHOULD NOT BECOME THE ENEMY OF THE GOOD. THE EIB HAD NOW CONFIRMED THAT THE TREATY PERMITTED THE BANK TO UNDERTAKE THE SORT OF LENDING ENVISAGED.

3. SIMITIS (GREECE), MR BROOKE (U.K) AND SIMONSEN (DENMARK) SUPPORTED THE COMPROMISE. OTHERS' INITIAL COMMENTS SHOWED SOME RESISTANCE TO AGREEMENT ON THESE TERMS, AND THESE TERMS ALONE. STOLTENBERG (GERMANY) HALF-HEARTEDLY SUPPORTED BY MAAS (NETHERLANDS) WANTED IT MADE CLEAR THAT THE EIB WOULD BE THE ONLY COMMUNITY BODY RESPONSIBLE FOR SME FINANCING. GORIA (ITALY) SUGGESTED THE COUNCIL CONFINE ITSELF TO AGREEING A 750 MECU NIC IV, PLUS A STUDY INTO FUTURE ARRANGEMENTS FOR LENDING TO SMES. THIS WAS ALSO THE PREFERENCE OF MATUTES (COMMISSION) THOUGH HE MADE CLEAR THAT THE COMMISSION COULD RECONCILE ITSELF TO OTHER SOLUTIONS PROVIDED THEY DID NOT PURPORT TO AFFECT THE COMMISSION'S RIGHT TO MAKE FUTURE PROPOSALS.

4. THE CHANCELLOR PRESSED FOR AN AGREEMENT WHICH WOULD MAKE

PROPOSALS.

4. THE CHANCELLOR PRESSED FOR AN AGREEMENT WHICH WOULD MAKE CLEAR THAT 1,500 MECU WOULD BE MADE AVAILABLE TO SMES. ONLY TO AGREE TO THE FIRST 750 MECU TRANCHE WOULD NOT DO. DELORS (COMMISSION) SAID THAT HE DID NOT WISH TO STOP AGREEMENT. BUT THERE MUST BE NO INDICATION THAT THIS WAS THE END OF NIC. THE COMMISSION MUST BE ABLE TO MAKE PROPOSALS WHEN THERE WAS A NEED. THE CHANCELLOR UNDERTOOK THAT THE PRESIDENCY TEXT RECORDING AGREEMENT WOULD NOT SUGGEST THAT THE COMMISSION WAS AT ALL RENOUNCING ITS RIGHT OF INITIATIVE. EYSKENS (BELGIUM) SAID THAT AN AD HOC, WITHOUT PREJUDICE SOLUTION WAS WHAT WAS BEING DISCUSSED. STOLTENBERG COMMENTED THAT THE COMMISSION MUST NOT CITE THE NIC IV COMPROMISE AS A PRECEDENT FOR ANY FUTURE PROPOSALS. DELORS RESPONDED THAT IN THAT CASE THERE WAS DISAGREEMENT AND THREATENED TO WITHDRAW THE COMMISSION'S PROPOSAL.

5. THE CHANCELLOR AGAIN URGED COMPROMISE AND FINALLY OBTAINED IT, STOLTENBERG RECOGNISING THAT THE PRESIDENCY HAD MADE A MAJOR EFFORT AND LEAVING IT TO THE PRESIDENCY AND COMMISSION TO AGREE THE PRECISE TERMS IN WHICH AGREEMENT WAS EXPRESSED; DELORS CONCEDING THAT NO-ONE'S POSITION MUST BE JEOPARDISED AND THAT, TO AVOID EMBARRASSING GERMANY, HE WOULD NOT INDICATE THAT THERE WOULD BE A NIC V.

6. IN THE COUNCIL LATER, THE CHANCELLOR SUMMED-UP AGREEMENT IN THE FOLLOWING TERMS:

- A. MINISTERS REACHED AGREEMENT ON THE SUBSTANCE OF THE COMMISSION'S PROPOSALS FOR NEW LENDING TO SMALL AND MEDIUM ENTERPRISES.
- B. 1,500 MECU WILL BE MADE AVAILABLE IN TWO TRANCHES, THE FIRST RAISED BY THE COMMISSION, THE SECOND BY THE EIB.
- C. THE PRESIDENCY AND THE COMMISSION HAVE BEEN ASKED TO BRING FORWARD THE LEGAL TEXTS NEEDED TO GIVE EFFECT TO THIS AGREEMENT FOR FORMAL AGREEMENT AT THE DECEMBER ECOFIN COUNCIL.

7. COREPER AND THE FINANCIAL QUESTIONS GROUP WILL NOW LOOK AT THE TEXTS.

HANNAY

YYYY

ADVANCE:

WALL FCO ✓
BLOOMFIELD FCO ✓
RICHARDSON ECD(P) FCO ✓
ARON FCO ✓
JAY CAB ✓
MERCER CAB ✓
HEALEY DTI ✓
PS/CHANCELLOR TSY ✓
PS/MST TSY ✓
LAVELLE TSY ✓
EDWARDS TSY ✓
MORTIMER TSY ✓
BARBER TSY ✓
KIRBY BANK ✓
SHILSON BANK ✓

MAIN:

FRAME ECONOMIC

UCLNAN 5220

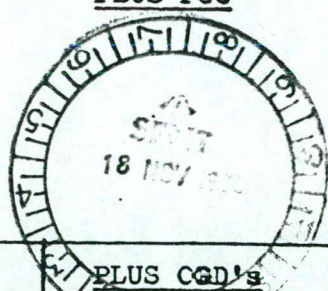
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CO

MR BENWICK
MR BRAITHWAITE

RESIDENT CLERK
HD/ECD(I) (3)
HD/NEWS DEPT
HD/ERD
HD/
HD/
HD/

PLUS FCO



CABINET OFFICE
MR D WILLIAMSON
MR JM HOLROYD
MR MERCER
MR M H JAY

DTI

PLUS CGD's
MR P KENT
HM CUSTOMS & EXCISE

Mr Knox C/E
Mr Bolt C/E

H M TREASURY
PS/ Mr Chancellor
SIR GEOFFREY LITTLER
MR J E MORTIMER
MR C D CRABBIE I
MR R G LAVELLE
PS/ MSTR
Mr Edwards
Mr Sinclair

M A P F
PERMANENT SECRETARY

D/Transport
Mr Lambert

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FRAME ECONOMIC

ECOFIN COUNCIL LUNCH : 17 NOVEMBER 1986

7TH AND 8TH TRAVELLERS ALLOWANCES DIRECTIVES

(DUTY FREE SHOPS, INCLUDING CFL)

SUMMARY

1. COREPER TO WORK UP COMPROMISE PACKAGE, DEALING NOTABLY WITH DANISH DEROGATION, GERMAN BUTTERSHIPS, IRISH BEER IMPORTS AND DUTY-FREE SHOPS ON THE CFL, FOR SUBMISSION TO ECOFIN ON 5 DECEMBER.

DETAIL

2. OVER LUNCH SIMONSEN (DENMARK) EXPLAINED THE SERIOUS BUDGETARY CONSEQUENCES WHICH WOULD OCCUR (LOSS OF 1 PER CENT GNP) UNLESS THE DANISH DEROGATION WAS EXTENDED FOR 3 YEARS FROM 1 JANUARY 1987. THE DEROGATION ONLY AFFECTED DANISH RESIDENTS. HE HOPED THE COUNCIL AND COMMISSION WOULD HELP, BUT IF NO PROGRESS WAS MADE THE DANISH PRIME MINISTER WOULD RAISE THE ISSUE AT THE LONDON EUROPEAN COUNCIL.

3. THE CHANCELLOR OF THE EXCHEQUER EXPRESSED SYMPATHY FOR THE DANISH PROBLEM AND REFERRED TO OTHER DIFFICULTIES WHICH NEEDED TO BE SOLVED IN THE CONTEXT OF THE 7TH TRAVELLERS ALLOWANCES DIRECTIVE - GERMAN BUTTERSHIPS, LIMITS ON IMPORTS OF BEER INTO IRELAND AND

THESE PROBLEMS WOULD BE SOLVED BY TAX APPROXIMATION. BUT IN THE INTERIM VIABLE INTERNAL MARKET AND BY TAX APPROXIMATION. BUT IN THE INTERIM VIABLE ARRANGEMENTS HAD TO BE MADE REFLECTING THE POLITICAL REALITIES. HE HOPED A PACKAGE COULD THEREFORE SUBMITTED TO ECOFIN IN DECEMBER.

4. LORD COCKFIELD (COMMISSION) SAID THE COMMISSION WAS CONSIDERING THE DANISH PROBLEM AND WOULD MAKE A PROPOSAL IN DUE COURSE. BUT THE OTHER PROBLEMS HAD NOT BEEN EXAMINED, AND WERE VERY COMPLICATED.

5. STOLTENBERG (GERMANY) SAID THAT GERMANY HAD ALREADY REDUCED THE SCOPE OF BUTTERSHIP CRUISES AND ASSOCIATED TAX-FREE SALES, BUT THOSE THAT REMAINED HAD TO CONTINUE. HE COULD NOT AGREE TO A PACKAGE WHICH CONTAINED SOLUTIONS FOR THE PROBLEMS OF OTHER MEMBER STATES UNLESS HIS OWN PROBLEM WAS ALSO RESOLVED.

6. EYSKENS (BELGIUM) COMMENTED THAT DEROGATIONS MOVED AWAY FROM THE OBJECTIVE OF FISCAL HARMONISATION. HE HAD SYMPATHY FOR THE DANISH PROBLEM, BUT HOPED THAT ANY SPECIAL ARRANGEMENTS WOULD BE TEMPORARY AND ^{DEGRESSIVE} FAIR ^{HE ACCEPTED THE NEED FOR} COMPETITION BETWEEN FERRIES AND THE CFL, BUT WAS ANXIOUS TO AVOID THE POSSIBILITY OF BELGIAN RESIDENTS BEING ALLOWED TO BUY DUTY-FREE GOODS AT THE FRENCH END OF THE TUNNEL WITHOUT MAKING A GENUINE JOURNEY. IT WOULD PROBABLY BE ACCEPTABLE IF THEY HAD TO BUY A TICKET TO THE UK BEFORE THEY COULD BUY DUTY-FREE GOODS IN FRANCE. HE WAS NOT PARTICULARLY KEEN, BUT COULD PROBABLY GO ALONG WITH A PACKAGE OF DEROGATIONS IF ALL OTHERS AGREED. SCHEER (FRANCE) SUPPORTED EYSKENS, AND MR BROOKE WAS SURE THAT EYSKENS' POINT ABOUT CFL DUTY-FREE SALES COULD BE MET.

7. SIMONSEN WELCOMED THE COMPROMISE IDEAS. HE REMINDED HIS COLLEAGUES THAT IF THE DEROGATION WAS NOT GRANTED OTHER TAXES WOULD HAVE TO BE RAISED. LORD COCKFIELD SAID THE COMMISSION HAD TAKEN ON BOARD THE DANISH PROBLEM BUT NEEDED MORE TIME TO CONSIDER THE OTHERS.

8. THE CHANCELLOR SAID THAT EVERYONE APPEARED WILLING TO LOOK FOR A COMPROMISE, STRIKING A BALANCE BETWEEN FISCAL DOCTRINE AND POLITICAL REALITIES. HE HOPED THE COMMISSION WOULD CO-OPERATE IN PRODUCING A PACKAGE AND URGED MEMBER STATES TO GIVE THE COMMISSION DETAILS OF THEIR NEEDS. HE CONCLUDED THAT COREPER SHOULD PRODUCE A PACKAGE QUICKLY, FOR SUBMISSION TO ECOFIN ON 8 DECEMBER, AND NOTED THE PARTICULAR URGENCY OF THE DANISH AND GERMAN PROBLEMS.

COMMENT

9. DISCUSSION OF THIS DOSSIER WILL BE TAKEN FORWARD AT COREPER ON 25 NOVEMBER, BEFORE THEN WE NEED TO HAVE A FULLY DETAILED AND CONVINCING ANSWER TO EYSKENS'S FEARS THAT BELGIAN RESIDENTS COULD BUY DUTY FREE AT CFL TERMINALS WITHOUT MAKING A JOURNEY. WE ALSO NEED TO MOVE THE FRENCH TO TAKE A MORE POSITIVE LINE THAN DID SCHEER TODAY. YOU WILL WISH TO CONSIDER WHETHER PARIS SHOULD COMPLEMENT CUSTOMS' CONTACTS WITH THE FRENCH CUSTIOMS ADMINISTRATION.

10. CONTACTS WITH THE BELGIAN PR SUGGEST THAT THEY THINK EYSKENS SHOWED FLEXIBILITY ON THE CFL AND THE DANISH PROBLEM, BUT NOT OTHER ITEMS, NOTABLY BUTTERSHIPS. BRUSSELS MAY WISH TO CONSIDER IF THEY CAN REINFORCE WITH THE BELGIANS THE MESSAGE THAT ANY COMPROMISE MUST

CAN REINFORCE WITH THE BELGIANS THE MESSAGE THAT ANY COMPROMISE MUST
COVER ALL SUBJECTS AT ISSUE.

HANNAY

YYYY

ADVANCE

RENWICK FCO ✓

WALL FCO ✓

WILLIAMSON CAB ✓

JAY CAB ✓

KNOX C/E ✓

BOLT C/E ✓

PS/CHANCELLOR TSY ✓

PS/MST TSY ✓

LAVELLE TSY ✓

EDWARDS TSY ✓

SINCLAIR TSY ✓

LAMBERT D/TP

MAIN

FRAME ECONOMIC

UCLNAN 5222

NNNN

<u>FCO</u> MR RENWICK MR BRAITHWAITE	RESIDENT CLERK HD/ECD(I) (3) HD/NEWS DEPT HD/ERD HD/ HD/ HD/	<u>PLUS FCO</u>
<u>CABINET OFFICE</u> MR D WILLIAMSON MR JH HOLROYD MR MERCER MR M H JAY	<u>DTI</u> <i>Mr Longhead ECIP</i>	<u>PLUS OGD's</u> MR P KENT HM CUSTOMS & EXCISE <i>Mr Wilmott C/E</i> <u>DEM</u>
<u>H M TREASURY</u> <i>PS/Chancellor</i> SIR GEOFFREY LITTLER MR J E MORTIMER MR C D CRABBIE MR R G LAVELLE <i>PS/Msgr</i> <i>Miss Sinclair</i>	<u>MAFF</u> PERMANENT SECRETARY	<i>Mr Emmott</i> <i>Mr Mitchell</i>

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 OF 171945Z NOVEMBER 86
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FRAME ECONOMIC

ECOFIN COUNCIL, 17 NOVEMBER 1986 : PRESIDENCY PROGRESS REPORT
 ON INDIRECT TAXATION PROPOSALS.

SUMMARY

1. COUNCIL NOTES PRESIDENCY REPORT; AND INVITES COREPER TO SPEED UP EXAMINATION OF PROPOSALS ON VAT AND EXCISE DUTIES, NOTABLY THE DRAFT VAT DIRECTIVE ON SMALL AND MEDIUM-SIZED ENTERPRISES.

DETAIL

2. FROM THE CHAIR THE CHANCELLOR OF THE EXCHEQUER INTRODUCED THE PRESIDENCY'S REPORT (DOC.10159/86). LORD COCKFIELD (COMMISSION) WELCOMED THE REPORT, BUT FELT THAT REFERENCE SHOULD HAVE BEEN MADE TO THE SLOW PROGRESS UNDER BOTH THE DUTCH AND U.K PRESIDENCIES ON AGREEING TAXATION PROPOSALS. HE REGRETTED THAT THE VAT AND EXCISE DUTY STANDSTILL PROPOSAL HAD NOT BEEN MENTIONED IN THE REPORT SINCE HEADS OF GOVERNMENT HAD ATTACHED IMPORTANCE TO ENSURING THAT COMPLETION OF THE INTERNAL MARKET WAS NOT MADE MORE DIFFICULT IN THE FISCAL AREA. HE AND MATUTES (COMMISSION) STRESSED THE IMPORTANCE OF THE RECENTLY SUBMITTED DRAFT VAT DIRECTIVE ON SMALL AND MEDIUM-SIZED ENTERPRISES, AND RECALLED THAT HEADS OF GOVERNMENT HAD SPECIFICALLY ASKED FOR THIS PROPOSAL AND WISHED TO SEE VERY RAPID PROGRESS.

3. THE CHANCELLOR CONCLUDED AS IN PARAGRAPH 1, STRESSING THE IMPORTANCE OF EARLY ADOPTION OF THE VAT DIRECTIVE ON SMALL AND

3. THE CHANCELLOR CONSIDERED AS A PARLIAMENTARY 1, STRESSING THE
IMPORTANCE OF EARLY ADOPTION OF THE VAT DIRECTIVE ON SMALL AND
MEDIUM-SIZED ENTERPRISES.

HANNAY

YYYY

ADVANCE:

WALL FCO ✓

JAY CAB ✓

WILMOTT C/E ✓

LOUGHEAD ECIP DTI ✓

PS/CHANCELLOR TSY ✓

PS/MST TSY ✓

LAVELLE TSY ✓

EDWARDS TSY ✓

MISS SINCLAIR TSY ✓

EMMOTT DEM ✓

MITCHELL DEM ✓

MAIN:

FRAME ECONOMIC

UCLNAN 5221

NNNN

FCO

MR RENWICK
MR BRAITHWAITE

RESIDENT CLERK
HD/ECD(I) (3)
HD/NEWS DEPT
HD/ERD
HD/
HD/
HD/

PLUS FCO

Mr Blaenfield Ecd(i)
Mr Aron — " —

CABINET OFFICE

MR D WILLIAMSON
MR JH HOLROYD
Mr Dannelly
MR MERCER
MR M H JAY

DTI

Dr Keddle

PLUS CGD's

MR P KENT
HM CUSTOMS & EXCISE

D/EN

Mr Stevens

H M TREASURY

ps/ 16 Chancellor
SIR GEOFFREY LITTLER
MR J E MORTIMER
MR C D CRABBIE I
MR R G LAVELLE
DS/MSTR
Mr Edwards

M A F F

PERMANENT SECRETARY

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TO DESKBY 180900Z FCO

TELNO 3947

OF 171946Z NOVEMBER 86

INFO ROUTINE COPENHAGEN, THE HAGUE, ROME, DUBLIN, PARIS, BONN

INFO ROUTINE LUXEMBOURG, ATHENS, LISBON, MADRID

INFO SAVING BRUSSELS

FRAME ECONOMIC/RESEARCH

ECOFIN COUNCIL: 17 NOVEMBER 1986

RESEARCH FRAMEWORK PROGRAMME: BUDGET DISCIPLINE CONCLUSIONS

SUMMARY

1. CONCLUSIONS AGREED UNDER ARTICLE 8 OF BUDGET DISCIPLINE CONCLUSIONS WHICH STRESS NEED FOR COST-EFFECTIVENESS OF FRAMEWORK PROGRAMME AND NOTE THAT PROVISION CAN ONLY BE CONSIDERED IN THE CONTEXT OF THE ANNUAL BUDGET PROCEDURE, AND IN THE LIGHT OF AVAILABLE RESOURCES FOR ALL COMMUNITY PROGRAMMES.

DETAIL

2. THE CHANCELLOR, SPEAKING FROM THE CHAIR, SAID THE BUDGET DISCIPLINE CONCLUSIONS REQUIRED ECOFIN TO GIVE AN OPINION ON THE FINANCIAL IMPLICATIONS OF THE FRAMEWORK PROGRAMME. THE DECEMBER RESEARCH COUNCIL WOULD DECIDE THE OVERALL AMOUNT. THE PRESIDENCY PAPER (10500/86) SHOWED THE IMPACT THE COMMISSION'S PROPOSAL COULD HAVE ON OTHER NON-OBLIGATORY EXPENDITURE. RESEARCH SPENDING WOULD INCREASE SIGNIFICANTLY FROM 2 PER CENT TO ABOUT 4.5 PER CENT OF THE BUDGET, AN AVERAGE ANNUAL GROWTH RATE OF OVER 25 PER CENT. THIS WAS BOUND TO REDUCE THE RATE OF GROWTH OF OTHER NON-OBLIGATORY SPENDING. THE CHANCELLOR INVITED COMMENTS ON THE DRAFT CONCLUSIONS HE HAD CIRCULATED.

3. TIETMEYER (GERMANY) DREW TWO MAIN CONCLUSIONS: THE LEVEL OF TOTAL EXPENDITURE HAD TO BE BASED ON AVAILABLE RESOURCES; AND THE MAXIMUM RATE HAD TO BE COMPLIED WITH. THE PRESIDENCY REPORT HIGHLIGHTED THE RISKS FOR BOTH IF THE COMMISSION'S PROPOSAL WERE TO BE ACCEPTED. THE STRUCTURAL FUNDS WOULD BE EFFECTED. THIS WAS NOT THE COMMISSION'S INTENTION BUT IT HAD TO BE MADE CLEAR IN THE CONCLUSIONS. SCHEER (FRANCE) AGREED THOUGH HE WANTED THE LAST SENTENCE OF THE DRAFT CONCLUSIONS DROPPED.

4. GORIA (ITALY) WAS NOT SATISFIED WITH THE DRAFT CONCLUSIONS. RESEARCH WAS A PRIORITY BUT THE COUNCIL SHOULD NOT PRONOUNCE ON THE IMPACT ON OTHER SECTORS. SIMONSEN (DENMARK) SAID THE 7.7 BECU COULD BE FINANCED WITHOUT DIFFICULTY. THERE WAS ROOM FOR THIS AND CONSIDERABLE GROWTH IN OTHER NON-OBLIGATORY SPENDING. GROWTH IN THESE AREAS WOULD BE HIGHER THAN FOR FEOGA GUARANTEE. THE RESEARCH COUNCIL SHOULD BE ENCOURAGED TO ADOPT THE FRAMEWORK PROGRAMME STRAIGHT-AWAY.

5. MAAS (NETHERLANDS) SAID THE COMMISSION OUGHT TO PROVIDE BETTER INFORMATION ON THE OVERALL BUDGET SITUATION WHEN THE COUNCIL WAS ASKED TO LOOK AT MULTI-ANNUAL PROGRAMMES. AVAILABLE REVENUE HAD TO LIMIT EXPENDITURE. HE COULD AGREE THE DRAFT CONCLUSIONS EXCEPT FOR THE LAST TWO SENTENCES. EYSKENS (BELGIUM) SAID IT WAS A DELUSION TO THINK THAT NATIONAL PROGRAMMES COULD SUBSTITUTE FOR COMMUNITY ONES. THE AMOUNT FOR THE FRAMEWORK PROGRAMME WOULD REQUIRE FURTHER DISCUSSION BUT IT WAS OBVIOUS THAT IT WOULD AFFECT THE ABILITY TO ADHERE TO THE MAXIMUM RATE. EITHER OWN RESOURCES COULD BE INCREASED OR CLEARER DECISIONS ON PRIORITIES WOULD BE NEEDED. TO COIN A PHRASE, THE CHOICE LAY BETWEEN BUTTER AND RESEARCH. PERHAPS THE EUROPEAN COUNCIL COULD LOOK FURTHER AT THIS. POOS (LUXEMBOURG) PICKED THIS UP ARGUING THAT THE FAC SHOULD TAKE THE DECISION ON THE FRAMEWORK TOTAL AND ONLY IF THIS WAS NOT POSSIBLE SHOULD THE EUROPEAN COUNCIL PICK THIS UP. THE CHANCELLOR SAID FIRMLY IN RESPONSE THAT THE RESEARCH COUNCIL WOULD TAKE THIS DECISION.

6. DOYLE (IRELAND) NOTED THAT THE TREATY ALLOWED THE POSSIBILITY FOR EXCEEDING THE MAXIMUM RATE. THIS SHOULD BE MADE CLEAR IN THE CONCLUSIONS. LYBEROPOULOS (GREECE) AGREED. ECOFIN RISKED CONFRONTATION WITH THE RESEARCH COUNCIL AND THE EUROPEAN PARLIAMENT IF IT DID NOT ACCEPT THIS.

7. MR BROOKE SUPPORTED THE GERMAN APPROACH. IF PRIORITY WAS GIVEN TO RESEARCH THE GROWTH OF OTHER NON-OBLIGATORY SPENDING WOULD HAVE TO BE REDUCED. THE RATE OF INCREASE IN RESEARCH SPENDING SEEMED EXCESSIVE AND MORE EMPHASIS NEEDED TO BE PLACED ON COST-EFFECTIVENESS.

8. SOLCHAGA (SPAIN) SAID THERE WERE THREE WAYS OF FINANCING THE FRAMEWORK PROGRAMME: BY CUTTING OTHER NON-OBLIGATORY; BY SWITCHING FROM OBLIGATORY TO NON-OBLIGATORY EXPENDITURE; AND BY INCREASING OWN RESOURCES. THE FIRST OPTION WAS NOT OPEN GIVEN THE EUROPEAN COUNCIL'S COMMITMENTS TO INCREASE THE STRUCTURAL FUNDS. THE CHOICE LAY BETWEEN THE OTHER TWO.

9. COMMISSIONERS CHRISTOPHERSEN AND NARJES THEN SPOKE AT LENGTH

ABOUT THE POLITICAL COMMITMENTS TO INCREASE RESEARCH SPENDING AND HOW THE COMMISSION'S PROPOSAL DID NOT, AFTER TAKING ACCOUNT OF ENLARGEMENT, INFLATION, COVERAGE AND THE LONGER TIME SCALE AMOUNT TO A SIGNIFICANT REAL INCREASE.

10. THE CHANCELLOR SAID IT WAS IMPERATIVE TO REACH AGREED CONCLUSIONS. HE PROPOSED REVISIONS WHICH WOULD SIMPLIFY SUBSTANTIALLY THE PRESIDENCY TEXT AND WOULD REPRESENT A REASONABLE COMPROMISE. AFTER A SHORT PAUSE, HE CIRCULATED REVISED CONCLUSIONS (MIFT). THESE WERE AGREED UNANIMOUSLY THOUGH GERMANY, FRANCE AND THE UK ENTERED A JOINT MINUTES STATEMENT WHICH PICKED UP PARTS OF THE PREVIOUS DRAFT CONCLUSIONS OMITTED FROM THE FINAL VERSION. ITALY AND SPAIN ALSO ENTERED MINUTES STATEMENTS COMMENTING ON THE FINAL TEXT.

HANNAY

YYYY

ADVANCE

RENWICK FCO ✓

WALL FCO ✓

BLOOMFIELD FCO ✓

ARON FCO ✓

WILLIAMSON CAB ✓

DONNELLY CAB ✓

JAY CAB ✓

MERCER CAB ✓

DR KEDDIE DTI ✓

PS/CHANCELLOR TSY ✓

PS/MST TSY ✓

LAVELLE TSY ✓

EDWARDS TSY

CRABBIE TSY ✓

STEVENS D/EN ✓

MAIN

FRAME ECONOMIC/RESEARCH

UCLNAN 5224

NNNN

FCOMR RENWICK
MR BRAITHWAITERESIDENT CLERK
HD/ECG(I) (3)
HD/NEWS DEPT
HD/ERD
HD/
HD/
HD/PLUS FGO*Mr Bloomfield - ECG (P)*
Mr Aron — " —

<u>CABINET OFFICE</u> MR D WILLIAMSON MR JH HOLROYD <i>Mr Donnelly</i> MR MERCER MR M H JAY	<u>D T I</u> <i>Dr Keddie</i>	<u>PLUS CGD's</u> MR P KENT HM CUSTOMS & EXCISE <u>DEN</u> <i>Mr Stevens</i>
<u>H M TREASURY</u> <i>PS / 16 Chancellor</i> SIR GEOFFREY LITTLER MR J E MORTIMER MR C D CRABBIE I MR R G LAVELLE <i>PS / MSTR</i> <i>Mr Edwards</i>	<u>M A F F</u> PERMANENT SECRETARY	

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TELNO 3948
 OF 171947Z NOVEMBER 86
 INFO ROUTINE COPENHAGEN, THE HAGUE, ROME, DUBLIN, PARIS, BONN
 INFO ROUTINE LUXEMBOURG, ATHENS, LISBON, MADRID
 INFO SAVING BRUSSELS

FRAME ECONOMIC/RESEARCH

ECOFIN COUNCIL, 17 NOVEMBER 1986 : AGREED CONCLUSIONS ON
 RESEARCH AND DEVELOPMENT FRAMEWORK PROGRAMME.

1. THE COUNCIL HAS EXAMINED THE COMMISSION'S PROPOSAL FOR A FRAMEWORK PROGRAMME FOR RESEARCH AND DEVELOPMENT FOR THE PERIOD 1987 TO 1991, IN THE LIGHT OF THE BUDGET DISCIPLINE CONCLUSIONS OF 4 DECEMBER 1984 AND OF THE EUROPEAN COUNCIL'S AGREEMENT ON RESEARCH AND DEVELOPMENT OF MARCH 1984.
2. THE COUNCIL NOTED THAT THE DECISION ON THIS PROGRAMME FALLS TO BE TAKEN BY THE COUNCIL (RESEARCH).
3. THE COUNCIL NOTES THE FOLLOWING GENERAL FEATURES OF THE COMMISSION'S PROPOSAL:
 - (A) THE COMMISSION HAS PROPOSED THAT THE FRAMEWORK PROGRAMME SHOULD INCLUDE CREDITS OF 7.735 BILLION ECU:
 - (B) THE FIGURE OF 7.735 BILLION ECU IS A FIGURE SET IN CASH TERMS, WHICH WILL NOT BE INCREASED TO TAKE ACCOUNT OF INFLATION. THE FIGURE INCLUDES ALL PERSONNEL COSTS ATTRIBUTABLE TO THE FRAMEWORK PROGRAMME. THE COUNCIL WELCOMES THE FACT THAT THE COMMISSION'S PROPOSAL THUS PERMITS THE BUDGET AUTHORITY TO TAKE A GLOBAL VIEW, OVER THE PERIOD CONCERNED, OF THE TOTAL COSTS OF THE PROPOSED NEW FRAMEWORK PROGRAMME:
 - (C) THE COMMISSION HAS NOW MADE AVAILABLE ITS ESTIMATE OF THE BREAKDOWN, YEAR BY YEAR, OF COMMITMENTS AND PAYMENTS UNDER THE PROPOSED NEW FRAMEWORK PROGRAMME. THE COUNCIL WELCOMES THE COMMISSION'S DECISION TO MAKE THIS INFORMATION AVAILABLE AS A VALUABLE CONTRIBUTION TO MULTI-ANNUAL FINANCIAL PLANNING IN THE COMMUNITY.

4. THE COUNCIL NOTES THAT, AT ITS MEETING IN MARCH 1985, THE EUROPEAN COUNCIL AGREED THAT IT WAS NECESSARY TO INCREASE THE PROPORTION OF COMMUNITY RESOURCES DEVOTED TO FINANCING PRIORITY COMMUNITY R+D ACTIVITIES. THE COUNCIL NOTES THAT THIS IMPLIES THAT AGREEMENT SHOULD BE REACHED ON A NEW FRAMEWORK PROGRAMME WHICH EXCEEDS A THRESHOLD FIGURE BASED ON THE PRESENT SHARE OF R+D EXPENDITURE IN THE COMMUNITY BUDGET. IN VIEW OF THE MANY COMPETING CLAIMS ON THE AVAILABLE RESOURCES IN THE COMMUNITY BUDGET, THE COUNCIL TAKES THE VIEW THAT COMMUNITY FINANCE CAN ONLY BE MADE AVAILABLE FOR MEASURES WHICH CAN BE RIGOROUSLY DEFENDED ON GROUNDS OF COST EFFECTIVENESS AND WHICH ARE ESSENTIAL TO ACHIEVE THE COMMUNITY'S OBJECTIVES. IT THEREFORE INVITES THE RESEARCH COUNCIL TO SCRUTINISE THE PRESENT PROPOSALS IN THE LIGHT OF THESE BUDGETARY IMPERATIVES AND TO FIX AN OVERALL FINANCIAL FRAMEWORK WITH THEM IN MIND.

5. IN ANY EVENT THE COUNCIL NOTES THAT THE PROVISION FOR THESE MEASURES TO BE ADOPTED IN ANY PARTICULAR YEAR CAN ONLY BE CONSIDERED IN THE CONTEXT OF THE ANNUAL BUDGET PROCEDURE AND IN THE LIGHT OF THE AVAILABLE RESOURCES FOR ALL COMMUNITY PROGRAMMES.

HANNAY

YYYY

ADVANCE: ✓
RENWICK FCO ✓
WALL FCO ✓
BLOOMFIELD FCO ✓
ARON FCO ✓
WILLIAMSON CAB ✓
DONNELLY CAB ✓
JAY CAB ✓
MERCER CAB ✓
DR KEDDIE DTI ✓
PS/CHANCELLOR TSY ✓
PS/MST TSY ✓
LAVELLE TSY ✓
EDWARDS TSY ✓
CRABBIE TSY ✓
STEVENS DEN ✓

MAIN:

FRAME ECONOMIC
FRAME RESEARCH

UCLNAN 5223

NNNN

ADVANCE COPY

IMMEDIATE

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YYYY
ADVANCE
WALL FCO
BLOOMFIELD FCO
JAY CAB
MERCER CAB
HADLEY MAFF
NOBLE MAFF
PERRINS MAFF
~~PS/CHANCELLOR TSY~~
PS/MST TSY
LAVELLE TSY
EDWARDS TSY
CRABBIE TSY
BONNEY TSY
BARBER TSY
DONNELLY TSY
MAIN
FRAME ECONOMIC/FISHERIES/AGRICULTURE

RESTRICTED
FM UKREP BRUSSELS
TO IMMEDIATE FCO
TELNO 3949
OF 171948Z NOVEMBER 86
INFO ROUTINE BONN, COPENHAGEN, DUBLIN, LUXEMBOURG, PARIS, THE HAGUE
INFO ROUTINE LISBON, MADRID, ATHENS, ROME
INFO SAVING BRUSSELS

FRAME ECONOMIC/FISHERIES/AGRICULTURE

ECOFIN COUNCIL : 17 NOVEMBER 1986

FISH STRUCTURES

SUMMARY

1. COUNCIL CONCLUSIONS AGREED AS IN MIFT URGING FISH COUNCIL TO SCRUTINISE PRESENT PROPOSALS IN THE LIGHT OF EXISTING BUDGETARY IMPERATIVES AND TO FIX AN OVERALL FINANCIAL FRAMEWORK WITH THEM IN MIND. REFERENCE TO INCLUSION OF SOME MEASURES WITHIN FEOCA GUIDANCE DELETED, WITH ONLY A MINUTES STATEMENT TO THIS EFFECT BY FRANCE, GERMANY AND THE UK.

DETAIL

2. THE CHANCELLOR, SPEAKING FROM THE CHAIR, INTRODUCED THE DRAFT CONCLUSIONS WHICH NOTED THAT THE RATE OF INCREASE IN EXPENDITURE ON FISH STRUCTURES EXCEEDED THE MAXIMUM RATE, AND URGED THE FISH COUNCIL TO BEAR THE CONSTRAINT ON BUDGET RESOURCES IN MIND WHEN ESTABLISHING THE 5-YEAR FRAMEWORK. PARAGRAPH 6 ALSO NOTED THAT SOME OF THE MEASURES BEING EXTENDED HAD HITHERTO BEEN CONTAINED IN FEOCA GUIDANCE.

3. TIETMEYER (GERMANY) WELCOMED THE DRAFT CONCLUSIONS BUT WANTED THEM MADE MORE EXPLICIT BY

- (A) INDICATING A BASE LINE FIGURE FOR THE GLOBAL 5-YEAR TOTAL GIVEN BY INCREASES LIMITED TO THE MAXIMUM RATE (650 MECU);
- (B) MAKING IT CLEAR THE TOTAL AGREED COVERED ONLY THE FIRST 5 YEARS;
- (C) STATING THAT THE RELEVANT EXPENDITURE BE RETAINED WITHIN FEOCA GUIDANCE AND NOT HIVED OFF.

4. MR BROOKE SUPPORTED, ARGUING THAT THE COMMISSION PROPOSAL TO

4. MR BROOKE SUPPORTED, ARGUING THAT THE COMMISSION PROPOSAL TO ROLL FORWARD AND EXPAND THE PREVIOUS PROGRAMME GAVE A MUCH HIGHER FIGURE THAN WAS JUSTIFIED. THE FISH COUNCIL SHOULD SUBSTANTIALLY REDUCE THE TOTAL, AND THE RELEVANT PARTS OF IT SHOULD BE FOUND WITHIN THE EXISTING GUIDANCE CEILING. SCHEER (FRANCE) SUPPORTED ON GUIDANCE AND STRESSED THE IMPORTANCE OF RETAINING THE ~~LFM~~
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GUIDANCE AND STRESSED THE IMPORTANCE OF RETAINING THE EXISTING DO CLASSIFICATION.

5. DENMARK NOTED THAT THIS EXPENDITURE REPRESENTED 0.5 PER CENT OF THE COMMUNITY BUDGET. THIS WAS SCARCELY 'CONSIDERABLE'. HE OPPOSED THE GERMAN AMENDMENTS AND WANTED PARAGRAPH 6 ON GUIDANCE DELETED AND THE REFERENCE IN PARAGRAPH 5 TO THE ANNUAL AMOUNT BEING DETERMINED IN THE BUDGETARY PROCEDURE SOFTENED. PORTUGAL AND SPAIN SUPPORTED. THE NETHERLANDS WERE OPEN ON THE GUIDANCE ISSUE BUT ITALY THOUGHT IT WOULD BE BETTER NOT TO MENTION IT. IRELAND OPPOSED ANY REFERENCE TO FEOGA GUIDANCE.

6. CHRISTOPHERSEN AND CARDOSO (COMMISSION) BOTH ARGUED STRONGLY THAT THERE WAS NO QUESTION OF INCLUDING THE NEW FISH STRUCTURES EXPENDITURE WITHIN THE EXISTING GUIDANCE CEILING. IT ALREADY PROVIDED FOR NORMAL AGRICULTURAL STRUCTURES EXPENDITURE, FOR VARIOUS IMPS AND FOR THE 100 MECU RESERVE FOR SPAIN AND PORTUGAL IN THE 1987 BUDGET. CAP REFORM WOULD ALSO REQUIRE HEAVIER SPENDING ON STRUCTURAL SUPPORT FROM FEOGA GUIDANCE. THE COMMISSION COULD NOT THEREFORE AGREE TO THE INCLUSION OF FISH STRUCTURES WITHIN THE CURRENT GUIDANCE CEILING. THE 850 MECU PROPOSED BY THE COMMISSION WAS FULLY JUSTIFIED BY THE 70 PER CENT INCREASE IN THE SIZE OF THE FISHING FLEET FOLLOWING ENLARGEMENT.

7. THE CHANCELLOR PROPOSED THAT THE CONCLUSIONS BE AMENDED BY:
(A) REPLACING 'DETERMINED' BY 'CONSIDERED' IN THE PARAGRAPH 5 REFERENCE TO THE BUDGETARY PROCEDURE;
(B) ADDING TO PARAGRAPH 5 THE SENTENCE: 'THE FISH COUNCIL SHOULD REFRAIN FROM FIXING AN AMOUNT FROM 1992-96 AT THIS JUNCTURE'.
(C) DELETING PARAGRAPH 6 ON GUIDANCE.

THE CONCLUSIONS WERE AGREED ON THIS BASIS. TWO STATEMENTS FOR THE MINUTES WERE MADE: BY GERMANY, FRANCE AND THE UK IN FAVOUR OF INCLUDING SOME FISH MEASURES WITHIN GUIDANCE, AND BY ITALY, IRELAND AND GREECE AGAINST THEIR INCLUSION. SPAIN ENTERED A SEPARATE STATEMENT ON THE INADEQUACY OF THE PROPOSED PACKAGE.

HANNAY

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ADVANCE
WALL FCO
BLOOMFIELD FCO
JAY CAB
MERCER CAB
HADLEY MAFF
NOBLE MAFF
PERRINS MAFF
PS/CHANCELLOR TSY
PS/MST TSY
LAVELLE TSY
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MAIN
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UCLNAN 5226

ADVANCE COPY

IMMEDIATE

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ADVANCE:
WALL FCO
BLOOMFIELD FCO
JAY CAB
MERCER CAB
HADLEY MAFF
NOBLE MAFF
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PS/CHANCELLOR TSY
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RESTRICTED
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TO IMMEDIATELY F C O
TELNO 3950
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INFO SAVING BRUSSELS

FRAME ECONOMIC/FISH/AGRICULTURE

ECOFIN COUNCIL, 17 NOVEMBER 1986 :
COUNCIL CONCLUSIONS ON FISHERIES STRUCTURES.

1. THE COUNCIL HAS EXAMINED THE COMMISSION'S PROPOSAL FOR COMMUNITY MEASURES FOR THE IMPROVEMENT OF FISHERIES STRUCTURES (COM(86)446 FINAL) IN THE LIGHT OF THE COUNCIL'S CONCLUSIONS ON BUDGET DISCIPLINE OF 4 DECEMBER 1984.
2. THE COUNCIL NOTES THAT THE COMMISSION'S PROPOSAL IS FOR A NEW 10-YEAR STRUCTURAL POLICY INVOLVING COMMITMENT APPROPRIATIONS OF 850 MECU IN THE FIRST FIVE YEARS (1987-91) AND PAYMENT APPROPRIATIONS OF 442 MECU IN THE SAME PERIOD AND 408 MECU THEREAFTER. TAKEN TOGETHER WITH THE CONTINUING COST OF THE EXISTING STRUCTURAL PROGRAMME THIS IMPLIES ANNUAL RATES OF GROWTH IN PAYMENT APPROPRIATIONS RISING FROM 12.8% IN 1987 (BY COMPARISON WITH 1986) TO 33.5% IN 1990 (BY COMPARISON WITH 1989).

3. THE COUNCIL RECALLS THAT BY COMPARISON THE COMMISSION'S ESTIMATES FOR THE MAXIMUM RATE OF GROWTH FOR NON-COMPULSORY

(WHICH FORMS THE BASIS OF THE GUIDELINE FOR MOST COMPULSORY EXPENDITURE) ARE ON AVERAGE APPROXIMATELY 6.8% AND 5.7% PER ANNUM RESPECTIVELY OVER THE PERIOD 1987 TO 1990.

4. IN VIEW OF THE MANY COMPETING CLAIMS ON THE AVAILABLE RESOURCES IN THE COMMUNITY BUDGET, THE COUNCIL TAKES THE VIEW THAT COMMUNITY FINANCE CAN ONLY BE MADE AVAILABLE FOR MEASURES WHICH CAN BE RIGOROUSLY DEFENDED ON GROUNDS OF COST EFFECTIVENESS AND WHICH ARE ESSENTIAL TO ACHIEVE THE COMMUNITY'S OBJECTIVES. IT THEREFORE INVITES THE FISHERIES COUNCIL TO SCRUTINISE THE PRESENT PROPOSALS IN THE LIGHT OF THESE BUDGETARY IMPERATIVES AND TO FIX AN OVERALL FINANCIAL FRAMEWORK WITH THEM IN MIND.

5. IN ANY EVENT THE COUNCIL NOTES THAT THE PROVISION FOR THESE MEASURES TO BE ADOPTED IN ANY PARTICULAR YEAR CAN ONLY BE CONSIDERED IN THE CONTEXT OF THE ANNUAL BUDGET PROCEDURE AND IN THE LIGHT OF THE AVAILABLE RESOURCES FOR ALL COMMUNITY PROGRAMMES. THE FISH COUNCIL SHOULD REFRAIN FROM FIXING AN AMOUNT FOR 1992-6 AT THIS JUNCTURE.

HANNAY

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ADVANCE:

WALL FCO

BLOOMFIELD FCO

JAY CAB

MERCER CAB

HADLEY MAFF

NOBLE MAFF

PERRINS MAFF

PS/CHANCELLOR TSY

PS/MST TSY

LAVELLE TSY

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CRABBIE TSY

DONNELLY TSY

BONNEY TSY

BARBER TSY

MAIN::

FRAME ECONOMIC

FRAME FISH

FRAME AGRICULTURE

UCLNAN 5225

NNNN



cc Mr Lavelle
Mr C Kelly
Miss Barber
Mr Kuczys

mpf

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

19 November 1986

Mr P E Beales
First Secretary (Economics & Financial Markets)
Office of the UK Permanent
Representative to the European Community
rond-point Robert Schuman 6
1040, Brussels

Dear Mr Beales

17 NOVEMBER ECOFIN BILATERALS

Tony Kuczys has asked me to thank you for sending him a copy of your letter to Mr Lavelle of 13 November regarding the meeting between the Chancellor and Pfeiffer.

However, we did not receive your letter until 18 November, the day after the ECOFIN meeting. I wonder if in future, arrangements could be made for us to receive information of this kind in advance of meetings, for example by mufaxing letters direct to the Chancellor's Office? The number of the fax machine is 839 2029. Unfortunately, the fax machine is an 'open' line, but in the circumstances you might feel that the necessity of giving us any information in advance outweighs the security implications.

Thanking you in advance.

Yours ever,

Nigel Fray
N G FRAY

RESTRICTED

FROM: N G FRAY

DATE: 19 NOVEMBER 1986

MR P E BEALES - UKREP

cc Mr ~~Lavelle~~
Kuczys
Mr Kelly
Miss Barber
Mr Kuczys

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NIGEL FRAY