PO-CH/NL/0869 PARTA

### CONFIDENTIAL

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MEETING OF THE EUROPEAN COMMUNITY (EC) ECONOMIC AND FINANCE COUNCIL (ECOFIN), 13 OCTOBER 1986, LUXEMBOURG

Begins: 7/7/86 Enols: 13/10/86

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Foreign and Commonwealth Office

London SW1A 2AH



#### From The Minister of State

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

Jean Nigel

PROMOTION OF BRITISH CHEESES DURING THE UK PRESIDENCY

7 July 1986

CH/EXCHEQUER

REG. 08 JUL 1986

ACTION MAT

"A poet's hope: to be, like some valley cheese, local, but prized elsewhere"

W H Auden

Whatever Auden had in mind, I do not think it was the way Europeans prize local British cheeses! This lack of awareness among our continental cousins of the delight of the rarer British cheeses has led to a group of our backbenchers suggesting that we should make a special promotion of them during our Presidency. When John Gummer and I met recently we agreed that the best way would be to make a point of serving British cheeses at meals which we are to host during the Presidency. I am arranging this for meetings involving Foreign Ministers and John will do the same in the Agriculture Council.

We are not seeking to exclude foreign cheeses, which would simply cause irritation, but rather to give our colleagues in other member states the chance to taste some of the excellent speciality British cheeses which are now becoming available and which would benefit from a wider European market.

May I suggest that you might serve British cheeses at any meals which you or colleagues host during the Presidency, in particular Council lunches or meals during any informal ministeral meetings?

I am writing in similar terms to all Ministers chairing such meetings. UKRep Brussels, or the Presidency Secretariat here, will help make the necessary arrangements for Councils or other Community meetings.

/ Juda

Mrs Lynda Chalker

392/17



Psichancellar PSI cst PS/est mr Lavello Mr Simpson - cisco Brigadier Consugat Mr Taylor COI

+ Sir G Littler

Treasury Chambers, Parliament Street, SWIP 3AG Bostock

Mrs Lynda Chalker Minister of State Foreign and Commonwealth Office LONDON SWIA 2AH

29 July 1986

CC

Den Lynda.

PROMOTION OF BRITISH CHEESES DURING THE UK PRESIDENCY

"By a wise doom of Heaven men were commanded to eat cheese, but not the same cheese. Being really universal it varies from valley to valley ... "

#### G K Chesterton

Is that where Auden drew his inspiration?

I warmly support your idea for promoting British cheeses and I will look out zealously for opportunities. My broad approach to this matter is summarised in the attached lines by one of the Treasury's poets in residence.

There is, unfortunately, no tradition of informal Budget Councils where we could follow up your ideas: the Budget Council's work is much too serious! The Chancellor is, however, holding an informal ECOFIN in September, and I have made sure that the organising officials are aware of your suggestion.

If the Council Secretariat could be persuaded to provide British cheeses at lunches during formal Council meetings, that would be marvellous. I imagine, however, that that is something for you to take up with the Secretariat as a general issue.

T.S. Elist once declined an invitation to teking, a city that night otherwise be taken to appeal to him, on the growth he could not bring himself to visit a Immera country which has no matrice cheese.

PETER BROOKE Difficult to ague with.

### ON THE SERVING OF CHEESE IN THE UK PRESIDENCY

Some boast of their French cheeses, Of Brie and Camembert; Some stock their tables full With rich Italian fare,

Bel Paese, Gorgonzola, Teleggio, Parmesan; While some like Gouda and Edam From Holland's rubbery clan;

Others serve at their banquets Bavarian smoked cheese too, Fetta and sheep's milk cheeses, And pungent Danish Blue.

But I'll serve British cheeses, Made from the milky yields Of glossy Friesian herds In our well-watered fields -

Rich, tasty, tempting Cheddars And Double Gloucester's gold, Mouth-watering Melbury, And succulent Limeswold;

And curd and cottage cheeses, Red Leicester, pastel-pale Caerphilly, Red Cheshire And crumbling Wensleydale.

And at the table's centre
I'll place a golden drum
Of glorious, dark-veined Stilton,
With bottled Port and Rum,

Which guests will be invited To spoon-scoop if they please; And surely this will be The Presidency cheese.

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FM UKREP BRUSSELS

TO IMMEDIATE FCO

TELNO 2727

OF 301122Z JULY 86

IMFO SAVING EUROPEAN COMMUNITY POSTS

FRAME ECONOMIC DRAFT DIRECTIVE ON VAT AND SMALL TRADERS.

#### SUMMARY

1. COMMISSION APPROVES PROPOSAL FOR MANDATORY SMALL TRADER EXEMPTION BELOW 10,000 ECU, OPTHONAL EXEMPTION BELOW 35,000 ECU, MANDATORY SHMPLIFFIED SCHEME BELOW 150,000 ECUM, OPTHONAL FLAT RATE DEDUCTION SCHEME.

#### DETAINL

- 2. COCKFILELD CABINET HAVE TOLD US THAT COMMISSION APPROVED YESTERDAY THE DRAFT DIRECTINE ON VAT AND SMALL TRADERS.
  - 3. MAINN POINTS AS FOLLOWS :
- (A) MEMBER STATES MUST ALLOW TRADERS WITH ANNUAL TURNOVER OF UNDER 10,000 ECU TO OPT FOR EXEMPTION FROM VAT.
- (B) MEMBER STATES MAY ALLOW TRADERS WINTH ANNUAL TURNOVER OF LESS THAN 35,000 ECU\_TO OPT FOR VAT EXEMPTION.
- (C) MEMBER STATES MUST HAVE A SHAPLHFILED SCHEME FOR TRADERS WHITH TURNOVER BELOW 35.000 ECU.
- (D) MEMBER STATES MAY INTRODUCE FLAT RATE DEDUCTION SCHEMES.
- (E) THRESHOLDS TO BE MADEXED.
- 4. COCKFIELD CABILINET ACKNOWLEDGE THAT THE PROPOSAL FOR A COMPULSORY SIMPLIFIED SCHEME IS UNLIKELY TO BE GOOD NEWS FOR THE UK, BUT SAY THAT LORD COCKFIELD HOPES WE WILL WELCOME THE PROPOSAL AS A WHOLE, AND VIEW OF THE HELP INT WOULD GIVE US OVER OUR OWN SMALL TRADER THRESHOLD.

#### COMMENT

- 5. THE 35,000 ECU THRESHOLD PROPOSED FOR THE OPTHONAL SMALL TRADER EXEMPTION FALLS SHORT OF OUR OWN TARGET BUT, LARGELY THANKS TO THE EFFORTS OF MATUTES, INS A GOOD DEAL BETTER THAN AT ONE THIME SEEMED LINKELY. INT WILL PROBABLY BE TO OUR OWN TACTHICAL ADVANTAGE NOT TO CRIMTHICHISE TOO SHARPLY AT THIS STAGE THE ELEMENTS IN THE DRAFT WHICH WE DO NOT SUPPORT, AS LORD COCKENELD SUGGESTS.
- 6. THE COMMISSION'S PROPOSAL WHILL NOW GO TO THE EUROPEAN PARLILAMENT FOR AN OPHINION. UNLESS THE COUNCID ASKS THE EP TO DEAL URGENTLY WINTH THEIR PROPOSAL HT HIS UNLEKELY THAT THERE WHILL BE MUCH

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OR ANY FORMAL DISCUSSION OF IT IN THE COUNCIL MACHINERY DURING THE UK PRESIDENCY. BUT WE SHALL NEED TO CONSIDER WHETHER THERE IS ANY INDIRECT WAY IN WHICH WE CAN USE THE PRESIDENCY TO GIVE THE PROPOSAL A PUSH - EG BY SUGGESTING THE INSERTION OF A SUBTABLE REFERENCE IN THE INDUSTRY COUNCIL CONCLUSIONS ON SMES FOR WHICH WE ARE WORKING.

HANNAY

YYYY
ADVANCE
WALL FCO
ARON FCO
JAY CAB
WILLIAMSON CAB
B KNOX C/E
WILMOTT C/E
MISS SINCLAIR TSY
MORTIMER TSY
MISS BARBER TSY
EMMOTT D/EM
I JONES D/EM
MAIN
FRAME ECONOMIC

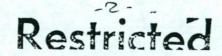
ADVANCED AS REQUESTED!

(REPEATED AS REQUESTED)

FCO PASS SAVING COPENHAGEN, THE HAGUE, ROME, DUBLIN, PARIS, BONN, LUXEMBOURG, ATHENS, LISBON, MADRID.

FRAME ECONOMIC.

COPES TO
ADVANCE ADDRESSES



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TELNO 2728

OF 301450Z JUL 86

HNFO SAVING EUROPEAN COMMUNITY POSTS

FRAME ECONOMIC

MY TEL NO 2727: 301122Z: CORRECT PARA 3 (C) TO READ:

3(C). MEMBER STATES MUST HAVE A SHMPLHFALED SCHEME FOR TRADERS WHITH TURNOVER BELOW 150,000 ECU.

FOR DESTRIBUTION SELECTORS:

PLEASE ADD D.J. HOWARD AND TREVETT TO FCO ADVANCES - (CUSTOMS AND EXCHSE).

HANNAY

YYYY

ADVANCE

WALL FCO

ARON FCO

JAY CAB

WILLIAMSON CAB

B KNOX C/E

WILMOTT C/E

DJ HOWARD C/E

TREVETT C/E

SHACLAIR TSY

MORTHMER TSY

BARBER TSY

EMMETT D/EM

HI JONES D/EM

MAHN

FRAME ECONOMIC

FCO PASS SAVING COPENHAGEN, THE HAGUE, ROME, DUBLINN, PARIS, BONN LUXEMBOURG, ATHENS, LISBON, MADRIED

UCLNAN 3510

FRAHE ECONOMIC

(ADVANCED AS REQUESTED)

ECD (1)

RESTRICTED

006/2762

CHILL SECTION OF SHAPE OF SHAP

FROM: PAUL PEGLER

DATE: 30 July 1986

PS/MINISTER OF STATE

cc:PS/Chancellor
PS/Economic Secretary
Mr Lavelle
Mr Edwards
Mr Simpson - CISCO
Brigadier Cowan - GHF
Mr Taylor - COI

# PROMOTION OF BRITISH CHEESES DURING THE UK PRESIDENCY

The Chief Secretary has seen the Minister of State's letter of 29 July to Mrs Chalker. He feels that the promotion should not be restricted to British cheeses but should also include English wines. The Chief Secretary wonders whether it would be possible to include English wine at the informal ECOFIN to be held by the Chancellor in September?

PAUL PEGLER

Assistant Private Secretary



FROM: M W NORGROVE DATE: 4 August 1986

MISS BARBER

PS/CX
PS/CST
PS/EST
Mr Lavelle (o/r)
Mr Edwards (o/r)
Mr Simpson - CISCO
Brigadier Cowan - GHF
Mr Taylor - COI

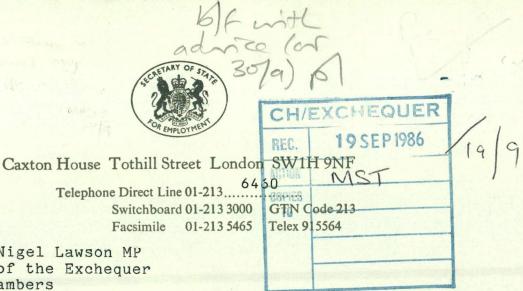
WITHOUT

ATTACHMENT

PROMOTION OF BRITISH CHEESES DURING THE UK PRESIDENCY

I am copying to you Mr Pegler's minute to me of 30 July, recording the Chief Secretary's wish for consideration to be given to the serving of English wine at September's informal ECO FIN; also attached is a copy of Mrs Chalker's letter to the Minister of State, and his reply, about British cheeses. I have discussed this briefly with Mr Edwards and our impression is that the Chancellor will wish to consider the question before deciding on the exclusive serving of British cheese; it may well be that he decides that the best solution would be a compromise - serving both British and other cheeses. Judging from recent personal experience, we feel that the Chancellor would also wish to be consulted about which wines to offer.

M W NORGROVE Private Secretary



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

18 September 1986

Mes Nijel.

#### VAT DRAFT TWENTY-SECOND DIRECTIVE

I have seen a copy of this directive which contains the proposals on registration limits for VAT and a simplified VAT system for smaller companies.

I welcome the proposals to introduce simplified VAT arrangements for companies with a turnover of less than £100,000. I believe this proposal can bring real benefit for small businesses, and will be seen as evidence that our deregulation strategy in Europe is beginning to bear fruit. understand your officials are proposing that the accelerated procedure should be used in the European Parliament to obtain an opinion from them during our Presidency. I would support this, and any other measures that can be taken to secure the early adoption of the directive. It is important that we should not allow the draft directive to lie dormant at this stage. I noted the suggestion in the telegram from UKREP which gave details of the scheme (Tel No 2727) that we might advance the proposal during our Presidency by suggesting the insertion of a suitable reference in the Industry Council's conclusions on SMEs. No doubt your official will be pursuing this.

You will appreciate that I am disappointed that the proposals on registration limits would enable us to make only a modest increase in our present level of exemption. I recognise that the present draft reflects a compromise between the different approaches of member states and that it may be difficult in practice to secure a higher registration limit. I hope however we do not at this stage need to abandon our pursuit of a higher threshold. In any case I believe we should continue to argue the merits of a higher threshold since this may at least help to resist any suggestions for cutting back the simplification proposals. I would be wholly opposed to making any concessions which would have the effect of watering down the present proposals on simplification.



I understand that our officials will soon be discussing the consultative document, announced in "Building Businesses ... Not Barriers", for simplifying the VAT regime on small business in the UK. I hope we shall be able to make real progress on this front too.

I am copying this leter to Geoffrey Howe and to Paul Channon.

#### SECRET

1. Alex 2. Jang 3 BIF 1019

From: Sir G.Littler Date: 22 September 1986

MR KELLY

c.c. Mr Kuczys

#### EXCHANGE CONTROL AND THE EC

The Chancellor raised this with Delors at a breakfast bilateral over the week-end. Delors listened with sympathetic interest. He raised at one point the question whether there might arise circumstances in which some exchange control action would be appropriate. The Chancellor firmly rejected this.

- 2. Delors not unnaturally said that he felt the need to take some further thought and advice on the Chancellor's question. He would do so and hope to return to the point with us again soon.
- 3. I think obvously bring up for reminder on the occasion of the next ECOFIN, now confirmed for Monday 13 October.

(Geoffrey Littler)

FROM: P TREVETT

DATE: 26 September 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

26 September 1986

cc Chancellor of the
Exchequer
Chief Secretary
Financial Secretary
Economic Secretary
Mr Scholer
Miss Sinclair
Mr Cropper
PS/Inland Revenue

Minister of State

#### VAT: DRAFT TWENTY-SECOND DIRECTIVE

In his letter of 18 September Lord Young welcomes the proposals in the draft 22nd Directive to introduce simplified VAT arrangements for companies with a turnover of less than £100,000. As we expected, he has, however, expressed some disappointment concerning the level of the higher registration threshold proposed by the Commission. We suggest that it would be desirable for you to reply to Lord Young ahead of the proposed discussion of the draft consultation document on VAT and small businesses and propose the following:-

below

"Thank you for your letter of 18 September expressing your general support for this draft Directive and the steps we have taken to use the accelerated procedure to obtain an opinion from the European Parliament during our Presidency.

Like you, I believe that we should press for early adoption of this Directive and not allow it to lie dormant, which is the fate of many proposals from the Commission to the Council. With this in mind, we should use all the measures at our disposal to ensure early discussion and progress towards its adoption and my officials are pursuing the suggestion of a suitable reference in the Industry Councils conclusion on SMEs.

While the higher registration limit proposed is, perhaps, a little disappointing it represents a real advance on the Commissions earlier thinking for a single limit of 10,000 ECU (about £6,400). For this advance I think that all Departments concerned can take considerable credit, and the support of Commissioner Matutes has, of course, been most helpful. When discussing the Directive in the Council we shall try to make the case for a higher limit, but if this were to prove to be the sole sticking point which could delay, perhaps indefintely, adoption of the Directive we would have to consider seriously whether then to accept the Commissions proposed upper registration limit.

#### Internal distribution

CPS Mr Knox Mr Howard Mr Jefferson Smith Mr Cockerell Mr Wilmott Mr Topping You will have seen that the Customs consultative document "VAT: Small Businesses Review" mirrors, in some part, the Commission's own proposals for simplification. Indeed as part of the consultative exercise we are asking for views on the draft Twenty-second Directive. The Customs paper, which we can discuss further when we meet on 6 October, is, I believe, a major step forward in lessening the burden of VAT for the small business."

17

P TREVETT

The President

Luxembourg, 26 September 1986

Mr P. SIMONSEN Chairman of the Board of Governors European Investment Bank Copenhagen

Dear Chairman :

The Council of Ministers will be asked to decide, very soon, on the establishment of a fourth New Community Instrument facility (NCI). As in the case of all previous NCI tranches, the Bank will be requested to accept a mandate to manage the new facility, if it is approved. In this event, although NCI operations are and would remain only a relatively small part of our total business, the position of the Court of Auditors will become once again a matter of great importance.

Following consultation with his fellow Governors, your predecessor as Chairman, Mr Eyskens, addressed a letter to me in May last which firmly supported the Bank's long-held position that, in the management of funds under mandate from the Community, only the discharge and audit procedures enshrined in the Bank's Statute shall apply. A copy of this letter is attached.

Nevertheless there continues to be serious disagreement between the Bank and the Court of Auditors, in particular over the Court's wish to make on-the-spot inspections of NCI-financed projects managed by the Bank. Such inspections are contrary to standard banking practice; they give rise to problems with existing and potential Bank customers; they are not understood in the financial markets in which the Bank operates; and they could prejudice not only the EIB's reputation as an international banking institution but even its credit-rating. In sum, they are inconsistent with our banking function. Furthermore they also duplicate the work of the Bank's own Statutory Audit Committee and Board of Directors.

This matter is of first importance to the Bank. I would therefore ask you to draw the attention of your fellow Governors to the particular importance which the Bank attaches to your clearly stating in any Decision to establish an NCI IV that the audit and discharge procedures applicable be those set out in the Statutes of the EIB and only those set out in the Statutes. In my view such a statement would have a considerable impact in safeguarding the institutional autonomy of the Bank.

Yours sincerely,

E.-G. Bröder

Encl.

100, boulevard Konrad Adenauer, Luxembourg-Kirchberg

Postal address: L-2950 Luxembourg Telegraphic address: bankeurop luxembourg

Telephone : 4379-1 Telex : 3530 bnkeu lu Telecopier : 43 77 04



BEI EIB

Den europæiske Investeringsbank
Europäische Investitionsbank
Euρωπαϊκή Τράπεζα Επενδύσεων
European Investment Bank
Banco Europeo de Inversiones
Banque européenne d'investissement
Banca europea per gli investimenti
Europese Investeringsbank
Banco Europeu de Investimento

The Chairman of the Board of Governors

Mr E.-G. BRÖDER
President of the
European Investment Bank
100 bld Konrad Adenauer

#### L-2950 LUXEMBOURG

Brussels, 9 May 1986

ref.

no.

Dear Sir,

I have pleasure in informing you that all Governors whom I have consulted on the matter of the European Investment Bank's relations with the Court of Auditors, notably with regard to arrangements for monitoring projects financed from resources managed by the Bank as agent for the Community, have firmly supported the following position:

The Bank must continue striving to adopt an extremely flexible approach in accommodating, via the Commission, the Court of Auditors' need for documentary information and be willing to examine, alongside the Commission, any requests for explanations or additional data stemming from the Court's documentary examination of such information. It cannot, however, agree to the Court conducting on-the-spot inspections of projects financed or vetting the EIB's accounts and internal management procedures.

The Treaty of Rome and the EIB's Statute, in fact, entrust the Bank with the institutional autonomy required to perform its functions, endowing it with its own decision-making and auditing bodies. Hence, our Bank can agree to manage operations under mandate and allow its loans to carry interest subsidies funded from budgetary resources only where such operations are managed and controlled by its own bodies and in accordance with its own internal procedures. This consideration also explains why documents governing such operations stipulate that the control and discharge procedures laid down in the Bank's Statute shall apply to them.

Yours faithfully,

M. Eyskens

Tf: 4379-1 Tx: 3530 bnkeu lu Fax: 43 77 04 PS/CST PS
PS/EST M
PS/EST M
PS/EST M
Mins Direlair
M Droller

M. Trenett-Case

PS/ Inland Renow ( Well

Treasury Chambers, Parliament Street, SWIP 3AG

The Rt Hon Lord Young of Graffham PC Secretary of State Department of Employment Caxton House Tothill Street LONDON SWIH 9NF

ECOFIN blod p

30 September 1986

Dear David.

VAT: DRAFT TWENTY-SECOND DIRECTIVE

Thank you for your letter of 18 September expressing your general support for this draft Directive and the steps we have taken to use the accelerated procedure to obtain an opinion from the European Parliament during our Presidency.

Like you, I believe that we should press for early adoption of this Directive and not allow it to lie dormant, which is the fate of so many proposals from the Commission to the Council. With this in mind, we should use all the measures at our disposal to ensure early discussion and progress towards its adoption and my officials are pursuing the suggestion of a suitable reference in the Industry Council's conclusion on SMEs.

While the higher registration limit proposed is, perhaps, a little disappointing it represents a real advance on the Commission's earlier thinking - a single limit of 10,000 ecu (about £6,400). For this advance I think that all Departments concerned can take considerable credit, and the support of Commissioner Matutes has, of course, been most helpful. When discussing the Directive in the Council we shall try to make the case for a higher limit, but if this were to prove to be the sole sticking point which could delay, perhaps indefinitely, adoption of the Directive we would have to consider seriously whether then to accept the Commission's proposed upper registration limit.

You will have seen that the Customs consultative document "VAT: Small Businesses Review" mirrors, in some part, the Commission's own proposals for simplification. Indeed, as part of the consultative exercise, we are asking for views on the draft Twenty-Second Directive. The Customs' paper is, I believe, a major step towards lessening the burden of VAT for the small business.

PETER BROOKE



# Office of the United Kingdom Permanent Representative to the European Community

Rond-Point Robert Schuman 6 1040 Brussels

Telephone 230.62.05

BY MUFAX

J E Mortimer Esq H M Treasury Parliament Street LONDON Your reference

Our reference

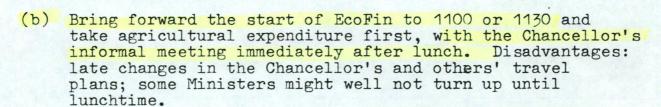
Date 1 October 1986

den Jamie

ECOFIN AND AGRICULTURE COUNCILS 13 OCTOBER: AGRICULTURAL EXPENDITURE

- 1. When the Ambassador saw the President of the Commission yesterday evening, Delors expressed great enthusiasm for the proposed EcoFin discussion of agricultural spending and said that he would instruct Andriessen to be present, alongside Christophersen and, probably, himself.
- 2. Delors's decision may well be unwelcome both to Andriessen and to Christophersen: the latter's cabinet have told us that he might be able to speak more freely in an informal discussion with no other Commissioners or their representatives present. But the likelihood is that Delors will stick to his decision of last night; the Treasury, MAFF and UKRep therefore need rapidly to agree on a timetable which allows Andriessen to be present for this part of the EcoFin discussions, notwithstanding that there is an Agriculture Council the same day (1500 start; no lunch).
- 3. There are three possibilities:
- (a) take agricultural expenditure immediately after lunch, probably in restricted session: Delors's preference. Disadvantage: we would have to delay the start of an Agriculture Council which has a heavy agenda and cause inconvenience to the Ministers concerned. There might well be requests from Agriculture Ministers to join in or be represented which it would be difficult to resist.





- (c) Take agricultural expenditure over lunch. Advantages: those Finance Ministers who are coming to Luxembourg at all will be present; so can Andriessen, without disrupting the Agriculture Council. Disadvantages: lunchtime discussion can be a bit chaotic, and interpretation is always a problem. (Pini claims Balladur's apparently poor English, Andersen's inability to operate except in Danish and others' resentment at not being able to speak in their own languages threaten. —to make informal discussion among Finance Ministers increasingly difficult.)
- 4. Our provisional view is that a lunchtime discussion is the best prospect. Grateful to know today whether the Treasury and MAFF agree.

Yours sincerely David Bostoch

D J Bostock

cc: R Lavelle Esq HMT

A J C Edwards Esq HMT

A Kuczys Esq HMT

R J Bonney Esq HMT

Miss J Barber HMT

D Andrews Esq MAFF

D Hadley Esq MAFF

B Dickinson Esq MAFF

C Llewelyn Esq MAFF

# RESTRICTED

RESTRICTED

FM UKREP BRUSSELS

TO DESKBY 020800Z FC0

TELNO 3200

OF 011817Z OCTOBER 86

INFO ROUTINE EUROPEAN COMMUNITY POSTS

FRAME ECONOMIC

CALL ON CHRISTOPHERSEN: 1 OCTOBER 1986

#### SUMMARY

1. HELPFUL EXPLANATION OF HOW CHRISTOPHERSEN WOULD INTRODUCE DISCUSSION OF AGRICULTURE EXPENDITURE AT 13 OCTOBER ECOFIN. HE WILL REFLECT ON THE DRAFT CONCLUSIONS I HANDED OVER. HE SEEMS LIKELY TO BE AN ALLY IN OUR OBJECTIVE OF ENSURING THE 90 MECU PROVISION FOR TRANSPORT INFRASTRUCTURE IS NOT USED.

#### DETAIL

ECOFIN COUNCIL - AGRICULTURE EXPENDITURE

- 2. I EXPLAINED THAT DELORS HAD TOLD ME HE VERY MUCH WELCOMED THIS DISCUSSION. BOTH DELORS AND ANDRIESSEN WOULD PROBABLY ALSO ATTEND. THE DISCUSSION WOULD PROBABLY TAKE PLACE OVER LUNCH WHICH, THOUGH NOT PERFECT, MIGHT ENCOURAGE MINISTERS TO SPEAK MORE FREELY. HOW DID CHRISTOPHERSEN SEE HIS INTRODUCTION OF THE SUBJECT AT THE COUNCIL?
- 3. CHRISTOPHERSEN SAID THE FIRST TASK WAS TO SET OUT A CLEAR REALISTIC PICTURE OF THE PRESENT POSITION ON FEOGA. HE WANTED TO AVOID BEING CRITICISED SUBSEQUENTLY FOR FAILING TO BRING HOME TO FINANCE MINISTERS THE SCALE OF THE PROBLEM. HE WOULD UP-DATE CERTAIN FIGURES, IN PARTICULAR THE LIKELY 1986 OUTTURN AND A REVISED FORECAST FOR 1987 COMPARED WITH THE GUIDELINE FIGURE. HE WOULD ALSO EXPLAIN THE MOST RECENT DEVELOPMENTS ON STOCKS WITH UP-DATED FIGURES. ON POTENTIAL LOSSES. GIVEN THE DIFFICULTIES IN ADHERING TO THE FINANCIAL GUIDELINE, HE WOULD EXAMINE WHETHER IT WOULD BE POSSIBLE TO REDRESS THE SITUATION OVER THE NEXT 2 YEARS. (I TOOK THIS TO BE A REFERENCE TO THE CLAWBACK PROVISION IN THE BUDGET DISCIPLINE CONCLUSIONS.) HE SUGGESTED HE MIGHT ALSO COVER THE QUESTION OF WHY FEOGA SPENDING IN THE TWO NEW MEMBER STATES WAS LESS THAN EXPECTED AND WHY THIS BUDGETARY PROVISION WAS BEING USED UP TO MEET THE EFFECTS OF THE FALL IN THE DOLLAR. I STRONGLY ADVISED AGAINST THIS. HE PERSONALLY WAS KEEN FOR FINANCE MINISTERS TO DISCUSS FEOGA BEFORE FINAL DECISIONS WERE TAKEN ON THE PRICE-FIXING. THIS HAD NOT BEEN POSSIBLE THIS YEAR BUT HE MIGHT MENTION THE IDEA AT ECOFIN. HE THOUGHT ANDRIESSEN COULD BE INVITED TO SAY HOW HE SAW THE MEMBER STATES APPROACH TO CAP REFORM IN THE LIGHT OF THE INFORMAL AGRICULTURE COUNCIL DISCUSSIONS THIS WEEK. IT WAS IMPORTANT FOR THE COMMISSION TO HEAR FINANCE MINISTERS' REACTIONS AT ECOFIN. FINALLY, HE SAID THERE WOULD BE NO NEW CONCRETE PROPOSALS TO PUT FORWARD AT THE ECOFIN COUNCIL.
  - 4. I ASSURED HIM WE WERE NOT EXPECTING NEW PROPOSALS AT ECOFIN.

HIS SUGGESTED PRESENTATION SEEMED FINE. IT WAS IMPORTANT FOR HIM TO STRESS THAT WITHOUT DECISIONS ON THE SUBSTANCE IT WOULD NOT BE POSSIBLE TO KEEP WITHIN THE 1986 AND 1987 BUDGET PROVISIONS. THIS APPLIED AS MUCH TO THE BEEF AND MILK PROPOSALS CURRENTLY BEFORE THE COUNCIL AS TO THE PROMISED PAPER ON CAP REFORM FOR THE END OF THE YEAR. I HANDED OVER OUR DRAFT CONCLUSIONS AND INVITED HIS COMMENTS. HE WILL REFLECT ON THESE. I SAID IT WOULD BE IMPORTANT FOR HIM AND ANDRIESSEN NOT TO GO ON TOO LONG LEST THE TIME FOR FINANCE MINISTERS' REACTIONS WAS CROWDED OUT. I ALSO ASKED FOR A COMMISSION REPRESENTATIVE TO PRESENT THEIR THINKING TO COREPER NEXT WEEK. KOLTE (CHRISTOPHERSEN'S BUDGET ADVISER) SUGGESTED THE CONCLUSIONS MIGHT ENCOURAGE THE MEMBER STATES TO SUBMIT THEIR OWN RESOURCES ESTIMATES NECESSARY FOR THE CALCULATION OF THE 1988 GUIDELINE IN GOOD TIME. I SUGGESTED CHRISTOPHERSEN RAISE THIS DURING THE COUNCIL.

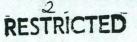
#### TRANSPORT INFRASTRUCTURE

5. I EXPLAINED HOW WE WOULD NOT MIND IF THE COMMISSION DID NOT COME FORWARD WITH AN AD HOC ONE YEAR REGULATION TO USE THE 90 MECU COMMITMENTS IN THE 1985 BUDGET WHICH HAD BEEN CARRIED FORWARD TO 1986. CHRISTOPHERSEN SAID IT WAS UNLIKELY THE COMMISSION'S PROPOSED MEDIUM-TERM REGULATION WOULD BE ADOPTED QUICKLY SO CONSIDERATION HAD TO BE GIVEN TO A FURTHER ONE YEAR REGULATION. KOLTE SOMEWHAT CONTRADICTED HIM BY SUGGESTING THERE WAS LITTLE LIKELIHOOD OF THE COMMISSION BRINGING OUT A ONE YEAR REGULATION. CHRISTOPHERSEN SAID HE HAD MENTIONED THE POSSIBILITY THAT THE 1985 MONEY WOULD LAPSE TO THE EP AND THAT THERE HAD BEEN NO VIOLENT REACTION. BUT AS HE ALSO WANTED TO USE THE 1986 TRANSPORT INFRASTRUCTURE COMMITMENTS TOWARDS FINANCING THE NEGATIVE COMMITMENTS RESERVE AGREED IN JULY, IT MIGHT BE TOO MUCH FOR THE EP TO ACCEPT NO INFRASTRUCTURE PROGRAMME AT ALL THIS YEAR. I CONCLUDED THAT IF ANY SHORT-TERM REGULATION WAS TO PUT FORWARD IT WOULD BE HELPFUL IF ITS SUBMISSION COULD BE DELAYED AS LONG AS POSSIBLE.

HANNAY ADVANCE RENWICH FCO WALL FCO BLOOMF IELD FCO WILLAMSON CAB JAY CAB MERCER CAB ANDREWS MAFF PERRIN MAFF PS/CHANCELLOR TSY PS/MST TSY LAVELLE TSY EDWARDS TSY BARBER TSY BONNEY TSY MCCARTHY D/TP MAIN FRAME ECONOMIC UCLNAN 4254 FRAME ECONOMIC .

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FM UKREP BRUSSELS

TO IMMEDIATE FCO

TELNO 3194

OF 011520Z OCTOBER 66

INFO IMMEDIATE ATHENS

INFO ROUTINE EUROPEAN COMMUNITY POSTS

FRAME ECONOMIC

GREEK TRADE MEASURES : CEMENT

ATHENS TELNO 461

- 1. THE ENCOURAGING SIGNALS FROM PAPANTONIOU, REPORTED IN ATHENS
  TUR, RAISE BOTH PROCEDURAL AND SUBSTANTIVE QUESTIONS.
- 2. ON THE PROCEDURE, WE NEED TO TAKE A DECISION NO LATER THAN 9 OCTOBER ON WHETHER WE ANNOUNCE AT COREPER THAT THERE WILL BE A DISCUSSION OF THE GREEK MEASURES OVER LUNCH AT THE 13 OCTOBER ECOFIN COUNCIL. IT WOULD SEEM UNREALISTIC TO EXPECT A SETTLEMENT OF THE CEMENT PROBLEM BY THEN. I RECOMMEND, THEREFORE, THAT WE LET THE GREEKS KNOW AS SOON AS POSSIBLE THAT WE MEED TO TAKE A VIEW BY 9 OCTOBER, SO AS TO MAINTAIN MAXIMUM PRESSURE ON THEM. WE SHOULD RECOGNISE, PRIVATELY, HOWEVER THAT IT WOULD PREABLY NOT BE IN OUR INTERESTS TO PRESS AHEAD WITH SUCH A DISCUSSION OVER LUNCH ON 13 OCTOBER: AND THAT, THEREFORE, UNLESS THEY APPEAR TO BE BLATANTLY STRINGING US ALONG, WE SHOULD BE READY TO LET THEM KNOW ON 9 OCTOBER THAT, AS A CONCESSION TO THEM, AND IN ORDER TO ALLOW THEM A LITTLE MORE TIME, THE PRESIDENCY WILL NOT INSIST ON ARRANGING A DISCUSSION AT THE 13 OCTOBER ECOFIN COUNCIL: BUT THAT ONE WILL BE INEVITABLE AT THE 17 NOVEMBER ECOFIN COUNCIL IF NO SATISFACTORY ARRANGEMENTS HAVE BEEN MADE.
- AND THE SUBSTANCE, AND AS AGREED IN TELECON BENDER/MOGG, WE HAVE EXPLORED INFORMALLY WITH THE CHEFS DE CABINET OF BOTH COCKFIELD (FORTESCUE) AND SUTHERLAND (O'TCOLE) THE GREEK SUGGESTION OF BILATERAL DISCUSSIONS ON THE CEMENT PROBLEM. NEITHER FORTESCUE MOR O'TOOLE (NOR INDEED I) THINK THAT INTER-INDUSTRY DISCUSSIONS WOULD BE A GOOD IDEA: SUCH TALKS COULD RAISE COMPETITION POLICY OUESTIONS. ON THE OTHER HAND, FORTESCUE AND O'TOOLE DID NOT SEE ANY INTRINSIC DIFFICULTY IN BILATERAL GOVERNMENT TO GOVERNMENT CONTACTS BETWEEN THE UK AND GREECE ON MEANS OF LIMITING THE INROADS OF GREEK CEMENT ONTO THE UK MARKET. WE WOULD HAVE TO MAKE CLEAR TO THE GREEKS THAT ANY MATTERS RELATING TO THEIR EXPORT SUBSIDIES WOULD REMAIN FOR THE COMMISSION TO DISCUSS WITH THEM: THAT ANY AGREEMENT WOULD BE WITHOUT PREJUDICE TO THE COMMISSION'S POSITION: AND THAT IN ANY CASE WE WOULD NEED TO REPORT THE OUTCOME TO THE COMMISSION BECAUSE OF THE WIDER IMPLICATIONS (AS REGARDS BOTH THE GREEK TRADE MEASURES AND,

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INDEED, THE RISK OF CONSEQUENTIAL DIVERSION OF CEMENT ONTO EG THE ITALIAN MARKET). BUT BOTH FORTESCUE AND O'TOOLE BELIEVED THAT THE COMMISSION WOULD BE CONTENT IF, AS A RESULT OF CONTACTS WITH THE UK GOVERNMENT, THE GREEKS SHOWED EXPORT RESTRAINT ON CEMENT.

4. ON THE WIDER COMMISSION/GREEK NECOTIATIONS ON THE TRADE MEASURES, YOU WILL WISH TO KNOW THAT PAPANTONIOU WILL BE IN BRUSSELS ON 2/3 OCTOBER FOR A FIRST ROUND OF TALKS WITH COMMISSION OFFICIALS (LED BY BRAUN). CONSIDERATION MIGHT BE GIVEN TO SUGGESTING URGENTLY TO PAPANTONTIOU THAT HE COMES TO BRUSSELS ACCOMPANIED BY AN OFFICIAL WHO COULD DISCUSS THE CEMENT PROBLEM WITH UK OFFICIALS (WHO WOULD THEN COME OUT FROM LONDON FOR THE PURPOSE).

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(REPEATED AS REQUESTED)

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FM UKREP BRUSSELS

TO IMMEDIATE FCO.

TELNO 3204

OF 011920Z OCTOBER 86

INFO IMMEDIATE LISBON, MADRID

INFO ROUTINE EUROPEAN COMMUNITY POSTS

FRAME ECONOMIC

COREPER (DEPTUTIES): 1 OCTOBER 1986

DRAFT 13TH VAT DIRECTIVE

#### SUMMARY

1. AGREEMENT TO SLIGHTLY AMENDED MINUTES STATEMENT RELATING TO ARTICLE 4. AGREEMENT IN PRINCIPLE THAT THERE SHOULD BE SPECIAL TREATMENT FOR THE CANARY ISLANDS, CEUTA AND MELILLA. FISCAL ATTACHES TO CONSIDER THE FORM AND CONTENT OF A SUITABLE TEXT ON 6 OCTOBER.

#### DETAIL

- 2. ALL DELEGATIONS ACCEPTED A SUGGESTION BY KITTEL (GERMANY)
  THAT THE END OF THE FIRST PARAGRAPH OF THE MINUTES STATEMENT
  RELATING THE ARTICLE 4 (DOCUMENT 9144/86, PAGE 2) SHOULD END
  ''... FRAMEWORK OF THE 12TH DIRECTIVE AND IF NECESSARY IN THE TEXTS
  TO BE ADOPTEF SUBSEQUENTLY''.
- 3. ELORZA (SPAIN) CONFIRMED THAT HE WAS STILL SEEKING AS
  FAVOURABLE TREATMENT AS POSSIBLE FOR REFUNDS OF VAT TO TRADERS
  ESTABLISHED IN THE CANARY ISLANDS, CEUTA AND MELILLA. BOSTOCK (UK)
  CONFIRMED THAT THERE WAS NO DIFFICULTY WITH THE SUBSTANCE OF SPAIN'S
  REQUEST, BUT THAT THERE WOULD HAVE TO BE A GUARANTEE OF RECIPROCAL
  TREATMENT FOR COMMUNITY TRADERS INCURRING TAXES IN THE CANARIES ETC,
  AND PROOF WOULD HAVE TO BE PROVIDED OF THE BUSINESS STATUS OF
  TRADERS IN THE CANARIES. GUIEU (COMMISSION) SUPPORTED, AND NO-ONE
  OBJECTED. ELLIOTT (PRESIDENCY) CIRCULATED A DRAFT MINUTES STATEMENT
  (BY FAX TO CRASKE, CUTOMS AND EXCISE) MEETING THE REQUIREMENT OF
  RECIPROCITY.
- 4. MENESES (PORTUGAL) SAID THAT PORTUGUESE TRADERS SHOULD NOT BE TREATED LESS FAVOURABLY THAN CANARY ISLAND TRADERS IN THE PERIOD UP TO 1 JANUARY 1989, BUT HE WOULD NOT HOLD UP AGREEMENT ON THE SPANISH REQUEST.

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- 5. ELORZA ASKED ABOUT THE LEGAL FORM WHICH ANY DECLARATION ABOUT THE TREATMENT OF CANARY ISLAND TRADERS SHOULD TAKE. GUIEU ARGUED IN FAVOUR OF A SIMPLE MINUTES STATEMENT, BUT DEWOST (COUNCIL LEGAL SERVICE) REPEATED HIS VIEW THAT SUCH A SOLUTION WAS NOT SUFFICIENT IF LEGAL CERTAINTY WERE REQUIRED. NO OTHER DELEGATION EXPRESSED STRONG VIEWS.
- 6. ELLIOTT CONCLUDED THAT THERE WAS NO OBJECTION IN PRINCIPLE TO THE SPANISH REQUEST, AND THAT FISCAL ATTACHES WOULD CONSIDER THE DETAILS ON 6 OCTOBER, WITH THE POSSIBILITY OF RETURNING TO COREPER ON 8 OCTOBER FOR PRESENTATION TO THE ECOFIN COUNCIL ON 13 OCTOBER.

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ADVANCE
BLOOMFIELD FCO
MERCER CAB
CRASKE C/E
FRENCH C/E
ROMANSKI TSY
BARBER TSY
MAIN
FRAME ECONOMIC
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(ADVANCED AS REQUESTED)

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FRAME ECONOMIC

Who was you had to show the show the show the short of th COREPER (DEPUTIES), 1 OCTOBER 1986 : LIBERALISATION OF CAP MOVEMENTS.

SUMMARY

1. PRESIDENCY INDICATES THAT DISCUSSION AT OCTOBER ECOFIN WILL PROBABLY CONCENTRATE ON DATE OF ENTRY INTO FORCE IN SPAIN AND PORTUGAL. NO SIGNIFICANT DISCUSSION OF SUBSTANCE. DENMARK ASKS (WITHOUT SUPPORT) FOR DISCUSSION OVER LUNCH.

#### DETAIL

- 2. COREPER CONSIDERED THE PRESIDENCY NOTE (9208/86) AND MORE DETAILED REPORT ON DISCUSSIONS IN THE FINANCIAL QUESTIONS GROUP (9206/86).
- 3. FROM THE CHAIR, ELLIOTT INDICATED THAT AT ECOFIN ON 20 OCTOBER THE CHANCELLOR WAS LIKELY TO CONCENTRATE ON DISCUSSION ON THE DATE OF APPLICATION OF THE DIRECTIVE TO SPAIN AND PORTUGAL. HE WOULD PROBABLY WISH TO KNOW FROM THE SPANISH AND PORTUGUESE MINISTERS WHETHER AGREEMENT TO THEIR DEMANDS ON THIS POINT WOULD MAKE IT MORE LIKELY THAT THEY COULD AGREE TO THE MAJORITY VIEW OF THE OTHER UNRESOLVED QUESTIONS: AND, IF SO, WHETHER OTHER MINISTERS MIGHT LOOK SYMPATHETICALLY ON THE SPANISH AND PORTUGUESE REQUEST. THE DETAILED ISSUES OUTSTANDING WOULD BE PURSUED IN THE FINANCIAL QUESTIONS GROUP ON 21 OCTOBER.
  - 4. THREE POINTS WERE RAISED IN DISCUSSION:-
- (A) DENMARK REQUESTED THAT THIS SUBJECT BE TAKEN OVER LUNCH BECAUSE OF ITS POLITICAL SENSITIVITY. GREECE OBJECTED. ELLIOTT TOOK NOTE BUT THOUGHT IT UNLIKELY THAT THE CHANCELLOR WOULD OPT FOR A LUNCHTIME DISCUSSION.
- (B) PORTUGAL AND SPAIN REPEATED THEIR CASE FOR A LONGER DELAY IN THE APPLICATION OF THE DIRECTIVE THAN THE COMMISSION HAD PROPOSED. THE COMMISSION DEFENDED THEIR PROPOSAL BUT INDICATED THAT THEY WOULD BE INTERESTED TO KNOW WHETHER DELAYING THE ENTRY INTO FORCE OF THE DIRECTIVE WOULD CHANGE SPAIN'S AND PORTUGAL'S ATTITUDE TO THE REST OF THE PROPOSAL.
- (C) GALLI, SPEAKING ON A PERSONAL BASIS, SUGGESTED THAT IT WOULD BE UNFORTUNATE IF ITALY FOUND ITSELF OPPOSING THE DIRECTIVE BECAUSE OF ITS DETAILED OBJECTIONS TO THE INCREASED LIBERALISATION OF TRANSACTIONS IN UNCO-ORDINATED UCITS. COULD NOT A SOLUTION BE FOUND

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TO ITALY'S PROBLEMS INVOLVING, ON THE ONE HAND, A DELAY OF A COUPLE OF YEARS BEFORE ANY CHANGE WAS MADE TO THE REGIME AGREED FOR UCITS IN 1985 AND, ON THE OTHER, A COUNCIL DECLARATION BASED ON THE ITALIAN DRAFT ON PAGE 9 OF 9206/86? (THIS LOOKS LIKE AN ATTEMPT BY THE ITALIANS TO WIN A LITTLE GROUND IN THE KNOWLEDGE THAT QUITE SOON THERE IS LIKELY TO BE A QUALIFIED MAJORITY FOR ALL OR MOST OF THE COMMISSION'S PROPOSAL, WHATEVER LINE ITALY TAKES.)

- 5. ELLIOTT CONFIRMED THAT THE INTENTION WAS TO INCLUDE IN THE COUNCIL MINUTES THE TWO COMMISSION DECLARATIONS SET OUT IN THE ANNEX TO 9206/36.
- 6. BARRING UNFORESEEN DEVELOPMENTS, THERE IS NO NEED FOR FURTHER DISCUSSION IN COREPER BEFORE THE 13 OCTOBER COUNCIL.

HANNAY

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ADVANCE:
BLOOMFIELD FCO

MERCER CAB

PS/CHANCELLOR TSY

PS/MST TSY

LAVELLE TSY

EDWARDS TSY

C.W.KELLY TSY

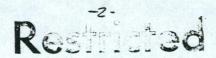
MARTIN TSY

BARBER TSY

ERSKINE BANK

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COLLES TO: ADDRESSEES.



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B) THAT THE INFORMAL MEETING WHICH THE CHANCELLOR HAD CALLED FOR

INDICATE THE CHANCELLOR'S FIRM INTENTIONS IN COREPER ON 9 OCTOBER:

WHEN THEY MOVED FROM LUNCH TO THE COUNCIL PROPER. I HOPED TO

INDICATE THE CHANCELLOR'S FIRM INTENTIONS IN COREPER ON 9 OCTOBER:

- B) THAT THE INFORMAL MEETING WHICH THE CHANCELLOR HAD CALLED FOR 1200 WAS FOR MINISTERS ONLY, WITH NO SUBSTITUTES ALLOWED, AND WAS IN NO SENSE A FORMAL COMMUNITY MEETING.
- 3. ESPER LARSEN (DENMARK) SUGGESTED THAT AGRICULTURAL SPENDING COULD BE TAKEN OFF THE AGENDA IF IT WAS TO BE DISCUSSED OVER LUNCH: LYBEROPOULOS (GREECE) URGED FULL PREPARATION IN NEXT WEEK'S COREPER. I SAID THAT THE SUBJECT MUST STAND AS A FORMAL AGENDA ITEM. AS FOR PREPARATION, I HOPED TO INDICATE NEXT WEEK HOW THE CHANCELLOR INTENDED TO PROCEED ON 13 OCTOBER: AND I UNDERSTOOD THAT THE COMMISSION WOULD GIVE A PREVIEW AT NEXT WEEK'S COREPER OF WHAT CHRISTOPHERSEN AND/OR ANDRIESSEN WOULD SAY TO FINANCE MINISTERS ON MONDAY WEEK. KRENZLER (COMMISSION) CONFIRMED THAT THIS WAS THE COMMISSION'S INTENTION, ADDING THAT THERE WOULD NOT BE A COMMISSION PAPER.
- 4. ESPER LARSEN REPEATED THE DANES' REQUEST THAT CAPITAL MOVEMENTS BE TAKEN OVER LUNCH AND PURSUED THE POINT WITH ME IN PRIVATE AFTERWARDS. THE DANISH GOVERNMENT'S CONCERN IS THAT THERE IS STRONG OBJECTION FROM THE OPPOSITION SOCIAL DEMOCRATS TO ANY INCREASE IN DENMARK'S COMMUNITY OBLIGATIONS SO FAR AS THE LIBERALISATION OF CAPITAL MOVEMENTS IS CONCERNED. THE GOVERNMENT HOPES TO DETACH THE RADICAL PARTY FROM THE SOCIAL DEMOCRATS: BUT FEARS THAT THIS PROCESS COULD BE UPSET BY THE APPEARANCE OF THIS SUBJECT IN THE OCTOBER COUNCIL AGENDA, AND THE CONSEQUENT NEED FOR AN EARLY DEBATE IN THE FOLKETING: IT IS WHETHER THE ITEM APPEARS FORMALLY ON A COUNCIL AGENDA AND NOT THE TIME, PLACE OR MANNER IN WHICH MINISTER ACTUALLY DISCUSS IT, THAT IS THE FOCUS OF DANISH CONCERN. I TOLD ESPER LARSEN THAT I WOULD REPORT HIS REQUEST TO LONDON, WITHOUT COMMITMENT.

#### COMMENT

- NOT AN IDEAL SUBJECT FOR A LUNCHTIME DISCUSSION. THOUGH WE HAVE INDICATED THAT THE CHANCELLOR WILL PROBABLY WANT TO FOCUS MAINLY ON THE POLITICAL ISSUE OF THE DATE OF ENTRY INTO FORCE OF THE NEW DIRECTIVE IN SPAIN AND PORTUGAL, WE CANNOT EXCLUDE THAT SOME MINISTERS WILL INTRODUCE INTO THE DICUSSION TECHNICAL POINTS WHICH WOULD BETTER BE TAKEN IN THE COUNCIL CHAMBERS WITH ADVISERS PRESENT THAN OVER LUNCH. BUT THERE IS NO FORMAL DECISION FOR THE COUNCIL TO TAKE ON THE PROPOSAL IN OCTOBER: AND THE DANISH REQUEST APPEARS TO SPRING FROM A GENUINE CONCERN ON THE PART OF DENMARK'S GOVERNMENT TO MINIMISE PARLIAMENTARY OBJECTIONS TO A PROPOSAL WHICH THE GOVERNMENT SUPPORTS AND FOR WHICH IT WANTS TO BE ABLE TO VOTE AT THE NOVEMBER ECOFIN. I THEREFORE RECOMMEND THAT WE PROCEED IN THE FOLLOWING WAY:
- I. REMOVE THE LIBERALISATION OF CAPITAL MOVEMENTS FROM THE AGENDA:
- LUNCHTIME DISCUSSION WHILE MAKING CLEAR THAT IN PRACTICE (EG BECAUSE OF THE DISCUSSION ON AGRICULTURAL SPENDING) IT IS UNLIKELY TO BE POSSIBLE TO COVER CAPITAL MOVEMENTS DURING LUNCHTIME ITSELF: IN THAT CASE THE 'LUNCHTIME' DISCUSSION WILL CONTINUE AFTER MINISTERS ENTER THE COUNCIL CHAMBER BUT BEFORE THE COUNCIL AS SUCH BEGINS.

POSSIBLE TO COVER CAPITAL MOVEMENTS DURING LUNCHTIME ITSELF: IN THAT CASE THE "LUNCHTIME" DISCUSSION WILL CONTINUE AFTER MINISTERS ENTER THE COUNCIL CHAMBER BUT BEFORE THE COUNCIL AS SUCH BEGINS.

6. THE DANES WOULD BE VERY HAPPY WITH THIS SLEIGHT OF HAND: 1 WOULD NOT EXPECT ANY SERIOUS OPPOSITION FROM OTHER MEMBER STATES.

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UCLNAN 4279

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TO A LONG THE PROPERTY OF THE PARTY.

FROM: MI

MISS R R WRIGHT

DATE:

2 October 1986

MR EDWARDS

MISS BARBER

MR OSBORNE

MR CRASKE C/E

MS LIFE

cc PS/Chancellor

PS/Minister of State

Mr Lavelle Mr Crabbie Miss Sinclair Mr Matthews Mr Mortimer

Mr Bonney Mr Donnelly

Mr Beales - UKREP

#### ECOFIN 13 OCTOBER

The next EC Economic and Finance Council will be in Luxembourg on 13 October. The Chancellor will chair the meeting, and the Minister of State will represent the UK. The latest information on timing is that the Council will start at 2.30pm preceded by the Ministerial lunch at 1.00pm.

- 2. The provisional agenda is as follows:
  - (a)Liberalization of capital movements.
  - (b) NIC IV
  - (c) Budgetary situation: agricultural expenditure;
  - (d) 13th VAT directive;

In addition there will be a private meeting of Finance Ministers possibly before lunch at 12.00 on

- (e) IMF managing director.
- 3. I would be grateful if briefing could be provided as follows: Item (a) Would Mr Osborne provide a brief on capital movements;
- Item (b) Miss Barber to provide a brief NIC IV;

Item (c) Would Mr Edwards please consider who should provide briefing on the budgetary situation: agricultural expenditure;

Item (d) Would Mr Craske please provide a brief on the 13th VAT directive.

Would Ms Life please consider whether any briefing should be provided on (e).

4. Briefing should follow the standard format (attached) and should reach Miss Barber by Wednesday 8 October. However, because of the Presidency, the objective and line to take should include a handling section for the Chancellor, and (as necessary) a separate objective and speaking note for the Minister of State.

RR Wight

### ECOFIN BRIEFING: STRUCTURE OF BRIEFS

General note: be as brief as possible, and try to get objectives and line to take/point to make on first page.

#### UK OBJECTIVES

These should be stated in a short paragraph. It should be made clear whether the Minister is required to intervene, or whether he will just be participating in a general discussion.

### POINTS TO MAKE/LINE TO TAKE

- (i) Line to take is appropriate when a proposal is being discussed, and when the Minister is asked to intervene.
- (ii) Points to make are for discussion documents where no operational decisions will be reached.
- (iii) Line to take/points to make should not include editorial comment except where absolutely essential and square bracketed; they should be set out in skeleton speaking note form, so that the Minister can read from them without further editing.
- (iv) Points to make should be interesting i.e not only simple restatements of UK policy where that is well known. It should be remembered that a Minister is limited in the number of points he can make e.g three.
- (v) Short Q/A defensive material should be included only if necessary e.g where the Minister will have to argue out a particular point.

#### BACKGROUND NOTE

Where possible, this should be confined to two sides.

ECOFIN, MARCH 12

SUBJECT

Relevant document:

UK objectives
[If any]

Line to take/Points to make

Defensive briefing [if necessary]

Background.

FCO

MR DIRECTIONS

CIR C TICKELL

MR RENWICK

MR BRAITHWAITE

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

PLUS FCO

CABINET OFFICE

MR D WILLIAMSON
MR JH HOLROYD
MISS S J LAMBERT
MR T J BURR MERCER
MR M H JAY

DIII no Heavey M.

PLUS OGD'S

MR P KENT

HM CUSTOMS & TXCISE

MR ARROWSMITH BLENGLAND

H M TREASURY

MR I UNITER

SIR GEOFFREY LITTLER

MR J E MORTIMER

MR C D CRABBIE |

MR R G LAYELLE

PS CHANCELER

PS (CHANCELER

PS (CHANCEL

MAFF

PERMANENT SECRETARY

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FM UKREP BRUSSELS
TO IMMEDIATE FCO
TELNO 3221
OF 021435Z OCTOBER 86

IMMEDIATE

FRAME ECONOMIC

COREPER : 2 OCTOBER 1986

PREPARATION OF ECOFIN COUNCIL 13 OCTOBER 1986 : NIC IV.

#### SUMMARY

1. NO CHANGE IN POSITIONS EXCEPT THAT UK INDICATES WILLINGNESS TO CONSIDER COMPROMISES BASED ON NIC PROPOSAL. I ASK DELEGATIONS TO CONSIDER POSSIBLE ELEMENTS IN A COMPROMISE. COMMISSION SUPPORTS EIB SUGGESTIONS ON AUDIT. FURTHER DISCUSSION ON 9 OCTOBER.

#### DETAIL

- 2. FROM THE CHAIR I SAID THAT IT WAS EVIDENT FROM DISCUSSIONS OVER LUNCH AT THE JULY ECOFIN AND AT GLENEAGLES THAT THERE WAS STILL SIGNIFICANT DISAGREEMENT OVER WHETHER THERE SHOULD BE A NIC IV. THERE HAD HOWEVER BEEN SOME ENCOURAGING ELEMENTS IN THOSE DISCUSSIONS: WE HOPED THAT IT WOULD BE POSSIBLE TO MAKE SUBSTANTIAL PROGRESS TOWARDS AGREEMENT ON 13 OCTOBER.
- 3. NIEMAN (NETHERLANDS) AND UNGERER (GERMANY) REPEATED THEIR GOVERNMENTS' OPPOSITION TO NIC IV. UNGERED SAID:
- A) NICS 1, 11 AND 111 HAD ALL BEEN AD HOC MEASURES TO DEAL WITH SPECIFIC PROBLEMS. A PERMANENT NIC FACILITY WAS NOT NECESSARY: THE EIB SHOULD BE LEFT TO CARRY OUT BORROWING AND LENDING A

A) NICS 1, 11 AND 111 HAD ALL BEEN AD HOC MEASURES TO DEAL WITH SPECIFIC PROBLEMS. A PERMANENT NIC FACILITY WAS NOT NECESSARY: THE EID SHOULD BE LEFT TO CARRY OUT BORROWING AND LENDING ACTIVITIES OF THIS TYPE. D) THERE WAS A DANGER OF A DRIFT FROM ARRANGEMENTS LIKE THE NIC TO BUDGETARY SUPPORT FOR SMALL AND MEDIUM SIZED ENTERPRISES AS THE EUROPEAN PARLIAMENT WANTED. 4. ESPER LARSEN (DENMARK) SAID THAT HIS GOVERNMENT'S POSITION WAS STILL RESERVED AND WOULD DEPEND IN PART ON THE QUESTIONS POSED ON PAGE 4 OF DOCUMENT 9112/86: DID ARTICLE 130 OF THE TREATY GIVE THE EIB THE POWERS TO PROVIDE A FACILITY EQUIVALENT TO NIC IV, AND WOULD THE BANK BE ABLE FULLY TO RESPECT THE COMMISSION'S OBJECTIVES FOR NIC IV WITHOUT ADVERSE EFFECTS ON ITS OTHER ACTIVITIES? 5. BOSTOCK (UK) SAID THAT WE REMAINED UNCONVINCED THAT NIC IV WAS NECESSARY. BUT HE WOULD EXPECT HMG TO GIVE SERIOUS AND POSITIVE CONSIDERATION TO ANY COMPROMISE BASED ON THE COMMISSION'S PROPOSAL WHICH SEEMED LIKELY TO COMMAND SUPPORT FROM ALL OTHER DELEGATIONS. 6. RAVASIO (COMMISSION) AND CHRISTIE (EIB) CONFIRMED THAT ARTICLE 130 OF THE TREATY GAVE THE BANK THE POWER TO PROVIDE A FACILITY EQUIVALENT TO NIC IV. BUT RAVASIO QUESTIONED THE POINT IN KILLING OFF NIC ONLY TO REVIVE IT AS A SPECIAL EIB FACILITY. 7. CALAMIA (ITALY), WESTENDORP (SPAIN) AND SCHEER (FRANCE) RESTATED THEIR SUPPORT FOR NIC, CITING ENLARGEMENT, THE GOOD TRACK RECORD OF NICS 1, 11 AND 111 AND THE DESTRABILITY OF AVOIDING AN

- 7. CALAMIA (ITALY), WESTENDORP (SPAIN) AND SCHEER (FRANCE)
  RESTATED THEIR SUPPORT FOR NIC, CITING ENLARGEMENT, THE GOOD TRACK
  RECORD OF NICS I, II AND III AND THE DESIRABILITY OF AVOIDING AN
  UNNECESSARY DISPUTE WITH THE EP IN SUPPORT OF THE COMMISSION'S
  PROPOSAL. RAVASIO POINTED OUT THAT IT WAS WRONG TO DRAW A
  DISTINCTION BETWEEN NIC ON THE ONE HAND AND AN EIB FACILITY ON THE
  OTHER: THE BANK WOULD BE RESPONSIBLE FOR MANAGING NIC.
- 8. I SAID THAT, INSOFAR AS THE GERMAN AND DUTCH CONCERNS SPRANG FROM CONCERN ABOUT CREEPING BUDGETISATION OF NIC, IT MIGHT BE POSSIBLE TO ALLAY THEM BY A SUITABLE COUNCIL MINUTES ENTRY. I THEN OUTLINED POSSIBLE ELEMENTS FOR COMPROMISES WHICH DELEGATIONS SHOULD CONSIDER AND TO WHICH COREPER WOULD RETURN ON 9 OCTOBER.
- A) AGREEMENT THAT THERE SHOULD BE A STUDY, INVOLVING THE COMMISSION AND BANK, ON THE ARGUMENTS FOR AND IMPLICATIONS OF MAKING THE BANK SOLELY RESPONSIBLE FOR FUTURE, SPECIAL COMMUNITY BORROWING AND LENDING OPERATIONS AKIN TO NIC:
- B) A PROVISION FOR SEPARATE TRANCHES WITHIN THE 1500 MECU TOTAL, AS HAD BEEN THE CASE WITH NICS 1, 11 AND 111:
- C) A TIME LIMIT AFTER WHICH NIC IV WOULD LAPSE EVEN IF THE LENDING FACILITY HAD NOT BEEN COMPLETELY UTILISED:
- D) AGREEMENT THAT NIC IV WAS THE COMMUNITY'S ONE AND ONLY FORM OF FINANCIAL SUPPORT FOR SMES, NOT THE FIRST OF A BUNCH.

I NOTED THAT IT WAS UNLIKELY THAT THE GERMAN AND DUTCH DELEGATIONS WOULD BE ABLE TO MAKE ANY SUBSTANTIVE CHANGE IN THEIR POSITION IN CORFEER: BUT IT WOULD BE USEFUL IF THEY COULD INDICATE WHICH OF

I NOTED THAT IT WAS UNLIKELY THAT THE GERMAN AND DUTCH DELEGATIONS WOULD BE ABLE TO MAKE ANY SUBSTANTIVE CHANGE IN THEIR POSITION IN COREPER: BUT IT WOULD BE USEFUL IF THEY COULD INDICATE WHICH OF THESE ELEMENTS WERE WORTH PUTTING BEFORE MINISTERS FOR CONSIDERATION.

9. WEYLAND (LUXEMBOURG) UNHELPFULLY SUGGESTED THAT THE COMMISSION SHOULD EXPLAIN ITS IDEAS ON FINANCIAL ENGINEERING NEXT WEEK.

10. ON AUDIT ARRANGEMENTS, RAVASIO SAID THAT THE COMMISSION FULLY SUPPORTED THE AMENDMENTS SUGGESTED BY THE EIB. THEY WOULD INDICATE THE COUNCIL'S INTENTION THAT THE BANK'S NORMAL AUDIT PROCEDURES SHOULD APPLY TO ITS ROLE IN MANAGING THE NIC WITHOUT CUTTING ACROSS THE LEGITIMATE POWERS OF THE COURT OF AUDITORS. I ASKED COLLEAGUES TO INDICATE ON 9 OCTOBER WHETHER THEY COULD AGREE TO WHAT WAS NOW A COMMISSION AMENDMENT TO ITS OWN PROPOSAL: WESTENDORP QUESTIONED THE INCLUSION OF 'EXCLUSIVELY' IN THE BANK'S AMENDMENTS TO ARTICLE 10.

11. BOSTOCK INDICATED THAT THE UNITED KINGDOM WISHED TO MAKE CERTAIN MINOR CHANGES IN THE DRAFT ENTRIES IN THE COUNCIL MINUTES SET OUT IN ANNEX 1 TO 9112/86 I SAID THAT THE MINOR ITEMS MENTIONED IN 9112/86 WOULD BE DEALT WITH IN THE LIGHT OF THE COUNCIL.

HANNAY

ADVANCE
BLOOMFIELD FCO
MERCER CAB
HEALEY DTI
PS/CHANCELLOR TSY
PS/MST TSY
LAVELLE TSY
EDWARDS TSY
MORTIMER TSY
BARBER TSY
ARROWSMITH BANK OF ENGLAND
LOVEN BANK OF ENGLAND
MAIN
FRAME ECONOMIC

UCLNAN 4282

NNNN



FROM: A W KUCZYS

DATE: 3 October 1986

MR LAVELLE

cc PS/Minister of State Mr A Edwards Mr Mortimer

#### TELEGRAMS FROM UKREP

The Chancellor has commented on two recent telegrams from UKREP. In telno 3194 of 1 October, on Greek cement, Sir D Hannay recommends that we let the Greeks know as soon as possible that we need to take a view by 9 October on whether there will be a discussion of Greek measures over lunch at ECOFIN on 13 October. The Chancellor thinks this is right, and agrees with Sir D Hannay's conclusions.

2. Telno 3201 of 1 October, reporting the Coreper (Deputies) discussion of liberalisation of capital movements, has prompted the Chancellor to ask whether we have yet heard from Delors on the proposition he put to him at Gleneagles?

A W KUCZYS

My My Answers / Mu, / Mu PI see note below. Roger has listed questions at the end! On logistics, I suggest:-1. We use an RAF plane, departing between 9.00am har band 9.30 am. That allows Khu — and a bit of beway Mr in case of tog at Luxembourg (a real danger at this time of year). 2. The party on the plane (max. 7) Std be: Hannay\*
Hannay\*
Lavelle
Edwards \*see over Kuczys

(Sir D. Hannay has acked to travel with you: are you content? And do you want Robert on this occasion, or will Stephen Pickford do?)

Aux 3/10

CHANCELLOR

FROM: R G LAVELLE

3 October 1986

cc Minister of State Sir P Middleton

Mr Edwards

Mr H Evans

Mr Mortimer

Mr Walsh

Mr Matthews

Mr Crabbie Mr Bonney

Miss Barber

# ECOFIN COUNCIL, 13 OCTOBER

You may find it useful to have a fairly full run over the prospects for the October ECOFIN at this stage, given your other preoccupations next week. Much of the preparatory work in COREPER has already taken place, following the idea that you will recall we had to advance these procedures. Points on which your views would be welcome are listed at the end.

# General

The agenda is essentially as envisaged at Gleneagles, with the addition of the special meeting on the Larosiere succession. On this basis, the day's events look to be bearable though not undemanding. The meatier items of the formal agenda will clearly be discussion of the threatened 1987 CAP expenditure overrun and NIC IV. On agriculture, the Council needs to provide an adequate response to the serious problem of the large threatened overrun in agricultural expenditure next year, and we need to keep up the momentum for reform (you will recall the useful guidelines to the 1987 budget discussion agreed last time). As regards NIC IV/EIB debate, it is still not clear how best to contrive a positive outcome on loans to SMEs (which it would be useful to have achieved by the December European Council). If the majority favour the NIC IV route, the trick may be to identify conditions which we ourselves would welcome and which will reconcile the Germans and Dutch to it. We should aim for some indications of movement this month followed by an agreement in November.

- 3. Once discussion on these subjects is complete, the remaining items ought not to be too troublesome. The <u>capital</u> movements item is essentially a stocktaking discussion designed to ensure that we can clock up a new directive by the end of the year. It is still not certain if the <u>13th VAT directive</u> will be fully cooked by the time of the ECOFIN meeting. But if it is, there ought not to be much for Ministers to do except to take credit for completion of a technical task.
- 4. As regards <u>logistics</u>, it looks as if it should be possible to go in and out on the day, by courtesy of the RAF. There is no time difference in October and the journey to Luxembourg takes about 1½ hours. Sir David Hannay has asked if he can travel over with you. This sounds sensible and should reduce briefing needs the other end. Other members of the party would include the Minister of State, mysclf and Mr Edwards plus your Private Secretary. We can sort out separately the most convenient travelling arrangements for other members of the team, including your Press Officer.
- 5. Perhaps we should provisionally plan on the basis of a 9.00 am departure time (= arrival at the Luxembourg Office by 10.30 am) which would allow for the possibility of some final Presidential contacts as necessary, eg with Mr Ruding (before the 12 o'clock meeting) or Christophersen. Past experience of unhelpful weather conditions on the October Luxembourg run also argues for allowing a little room for manoeuvre. We might find nearer the time that we could get away with a later departure, say 9.30 am.

#### Detail

- i. Larosiere succession
- 6. Sir Geoffrey Littler has arranged for Mr Lankester to send us on Monday night an up-to-date round-up of the likely voting pattern of the IMF membership generally. On logistics for your 12 o'clock discussion amongst EC Ministers, I imagine it would be best to use a Presidential briefing room with some limited (whispering) interpretation facilities.

- It is possible that by early next week it will be becoming apparent that one or other of the prime European candidates has fallen behind in the race. If that were the case, you might wish to have some telephonic contact with Ruding to take stock, possibly before departing for the Party Conference. As regards the ECOFIN discussion, Sir Geoffrey Littler has told me he could see three options. First, the Ruding candidature might be withdrawn. Second, there might be an inconclusive discussion but a desire to continue at a later stage (with a need for some holding statement). Third, it might be apparent that no agreement could be reached on a Community candidate (suggesting some indication to the press that following a useful discussion, the matter would be left to the Executive Board: which would be interpreted as meaning that Camdessus would carry the day).
- You may want to have a separate word at some stage 8. next week about points we need to watch and the handling of this part of the meeting generally. - Not really possible (Party Conference) & IV

ii. Greece

Following your discussion with Delors and thereafter a troubled Simitis at Gleneagles, the plot to reach a bilateral deal on Greek cement in exchange for not riding the Greeks too hard publicly at the October ECOFIN meeting seems to be coming along quite well. The Greeks are evidently taking the whole bargain seriously. Following contacts through the Embassy, the latest idea (still to be agreed by DTI Ministers) is that a deal should be struck at Ministerial level in the margins of the Internal Market Council next week. For this to work, we need to be prepared to hold back the threat of discussion in ECOFIN until the November meeting. One way and another, the Commission (and the Greeks) should now have got the message that they will not be given too easy a ride on the export subsidy/import deposit arrangements front generally. This should mean that lunch can be free of the Greek problem this time.

# iii. Agriculture

- 9. We have signalled for some time that the October ECOFIN

  Council needs to produce an adequate (and visibly adequate)
  response to the threatened overrun of 2 becu or more on
  agricultural expenditure next year (which would take expenditure
  far beyond the 1.4 per cent VAT ceiling). The Commission
  need to be encouraged to bring forward timely and adequate
  proposals to keep agricultural expenditure within the budget
  discipline guideline. We need more generally to reinforce
  the impetus to CAP reform.
- 11. Our understanding is that the Commission will not be circulating any formal papers before the meeting. Christophersen proposes to limit his own comments to an account of where the figures have now got. Against this background Mr Edwards has prepared and we have cleared around Whitehall the attached possible draft conclusions to a discussion which could put an ECOFIN stamp on this subject and future action. We are currently trying this approach out on Northern members and clearly some changes may well result from this process. Subject to your views on all this, one possibility might be to table the conclusions at a relatively late stage (as we did with the budget guidelines).
- 12. A possible procedural complication has flowed from
  Sir David Hannay's latest talk with Delors. Delors was sufficiently
  enthused by the Hannay presentation to take the view that
  Andriessen should attend the ECOFIN meeting and indeed that
  this part of the meeting should be held in restricted session.
  But the Agriculture Council has to meet in the afternoon
  and Andriessen will clearly have to be present for that.
  We think that the best way through will be to have discussion
  of agriculture at lunch (made easier if Greece disappears
  as a topic) and then to agree formal conclusions (if possible)
  in the Council room as the first substantive item of business
  after lunch. This would enable Andriessen to hear some expressions
  of views at first hand and to contribute to the discussion.

- iv. NIC IV
- 13. You will have been able to judge at first hand at Gleneagles the current state of opinion about a NIC IV. My impression is that it was not possible to detect a new consensus forming round the notion that the EIB should be left to carry forward the task of provision of adequate loan facilities to SMEs in non-assisted areas. But neither were the Germans and Dutch ready to give up their objection to the NIC IV approach.
- COREPER has done some more work to clean up the proposed NIC IV text so that there is a technically agreed document which can be presented by the Commission on 13 October. At the same time, in the Presidency role, Hannay has floated a number of possibilities for buying out German and Dutch reservations to this approach. These include ahtime limit after which NIC IV would lapse even if not completely utilised; acceptance that there should be no other NIC, eg for infrastructure projects; a provision for separate tranches within the 1500 mecu total; a full- blooded study before any further instruments of this kind are considered of whether future operations would be better carried out by the EIB; and a Commission undertaking to propose no budgetary expenditure on SMEs. However, given the absence of many policy makers in Washington, it is not proved possible yet to gauge whether any of these ideas will take. Against this background, we shall probably need to contemplate a round of discussion on 13 October, at which the Germans and Dutch might hint at some conditional flexibility, followed by some further Presidential manoeuvrings in COREPER or elsewhere so that a decision can be reached at the November ECOFIN. We are giving further thought with UKREP to all this and discussing informally with the Germans.

#### v. Capital Movements

15. As you will recall the Commission have proposed a new draft Directive to extend existing obligations to liberalise capital movements to cover such further areas as long-term commercial credits, transactions in unlisted securities and operations for the admission of securities to capital markets. The draft Directive has been processed in the

- Financial Questions Group. Good progress has been made but there are some outstanding issues so that the ECOFIN discussion can only be a progress report paving the way to a decision in November.
  - Apart from the Danish political problem explained below, the two main remaining disagreements relate to the date of application of the Directive in the two new Member States and the admission to capital markets of non-quoted securities. We might aim to get it established that Ministers would look favourably on Spanish and Portuguese derogations if in return they could drop reservations on other minor issues (on which in practice they could probably be outvoted). As regards non-quoted securities the latest Hannay/Delors discussion opened up the possibility that these might if necessary be covered not in this Directive but in the 1987 Directive. But it might be possible to do better than that if the reservations of the French on this issue were withdrawn at the next Financial Questions Group discussion so opening the way to a QM. The short point is that you will probably need to make clear that you are looking for early agreement on the Directive, by qualified majority if necessary, but would be prepared to contemplate some limited derogations for the newcomers.
  - 17. The Danish problem is that their Opposition object to liberalisation. The Government hope to detach the Radical Party from the Social Democrats and so support the Directive in November; but fear that this process would be upset by the appearance of this subject on the October ECOFIN agenda (a Folketing debate would be involved). Hannay's suggested answer to this is to schedule capital movements as a lunch time discussion item but in practice take it after lunch as previously planned. I take it this would mean we could not clock up the discussion in terms in the report to the House. But I see no real objection to this little piece of stage management.

# vi. 13th VAT Directive

18. Most of us find it difficult to remember what this is about. It covers arrangements for refund of value added tax to taxable persons not established in Community territory. Some points of arcane detail remain for resolution by officials.

The odds are said to be more or less even that it will be possible to adopt the Directive at the October meeting. I trust it will. There is something to be said for having at least one stunningly boring item to hand to keep the press and others in their place.

# Conclusions

19. This is not a meeting at which there are specifically UK interests to the fore. But there are items where guidance from the Chair will be necessary. Recapping on queries raised above:

i Logistics. Are you happy with the provisional arrangements in paragraph 5?

Larosiere succession. Will you want to speak or arrange to meet Ruding at some point? Can we tell the Dutch that they are welcome to send a substitute to your meeting, Ruding to choose?

Anything else we need to watch?

Agriculture. Are you content with our general approach on agriculture, and in particular the idea of lunchtime discussion (to accommodate Delors' wish that Andriessen should hear Finance Ministers at first hand) followed by formal discussion in

the Council? And with draft conclusions attacked

iv. Greece. Are you content that we keep Greece off the agenda if a reasonable deal is in sight on cement?

NIV IV. Any anxieties or directions about the approach we envisage here?

Capitall movements. Are you prepared to go along
with Hannay's solution to the Danish problem (paragraph 17)?

M

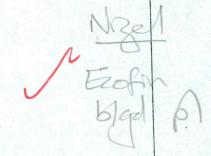
R G LAVELLE

# POSSIBLE ECOFIN CONCLUSIONS (PRELIMINARY DRAFT)

- 1. The Council recalls the conclusions of the Heads of Government at the European Council in the Hague that the common agricultural policy must continue to be adapted to changed circumstances and that a better control of total production must be ensured so that it is better adjusted to the market situation with the result that the share of public expenditure claimed by agriculture can be reduced.
- 2. The Council notes with concern the increasing burden placed on the Community budget as surpluses of agricultural produce accumulate The Council notes that further decisions on the operation of the market regimes will be needed in the near future to ensure that agricultural market support expenditure remains within the agreed 1987 budgetary limits. It welcomes the initiatives already taken by the Commission in putting forward proposals for such changes, in particular in the beef and milk sectors, on which early decisions will be required, and notes that further initiatives will be needed as well.
- 3. The Council considers that, with a view to bringing expenditure under better control and avoiding the economic waste of surplus production, the forthcoming policy decisions should have regard to the following principles:
  - i. Community support prices should more closely reflect supply, demand and market conditions, especially in sectors where there is surplus production;
  - ii. the intervention system should operate according to its intended role, as a safety net to support the market at times of particular pressure and not as a standard alternative marketing outlet;
  - iii. price support policies should wherever possible be flexibly operated so that trade and marketing risks are not borne in their entirety by the Community budget.
- 4. In view of the urgent need to restrain all sources of possible upward pressure on agricultural spending, the Council considers that the Commission should be invited to initiate straight away its review of the 1984 agreement on the agri-monetary system.

# RESTRICTED

RESTRICTED FM UKREP BRUSSELS TO PRIORITY FCO TELNO 3241 OF 031425Z OCTOBER 86 INFO ROUTINE EUROPEAN COMMUNITY POSTS



FRAME ECONOMIC

ECOFIN COUNCIL, 13 OCTOEBR: AGRICULTURE EXPENDITURE

#### SUMMARY

1. CONTACTS WITH THE GERMAN AND FRENCH REPRESENTATIONS SUGGEST GERMANS MAY OPPOSE DRAFT CONCLUSIONS, WHEREAS FRENCH MAY SUPPORT, THOUGH TEXT MIGHT HAVE TO BE AMENDED SLIGHTLY.

#### DETAIL

- 2. WIEBE (GERMAN REPRESENTATION) TOLD US TODAY THAT BONN HAD DECIDED TO OPPOSE OUR DRAFT CONCLUSIONS ON AGRICULTURAL EXPENDITURE. HE CLAIMED EVEN A FAIRLY WEAK TEXT COULD CAUSE EMBARRASSMENT IN THE ELECTION RUN-UP. THEY WOULD BE HAPPIEST WITH A LUNCH DISCUSSION WHICH THE CHANCELLOR COULD SUM UP, BUT NOT ISSUE ANY TEXT AFTERWARDS.
- 3. PLANQUE (FRENCH REPRESENTATION) TOLD US THE RUE DE RIVOLI WAS QUITE SATISFIED WITH THE TEXT, THOUGH THEY MIGHT WANT TO WEAKEN IT A LITTLE. A PROBLEM WAS THAT OTHER MINISTRIES IN PARIS HAD STILL NOT YET BEEN CONSULTED BY THE FINANCE MINISTRY. HE THOUGHT THE GERMANS WOULD IN THE END LIVE WITH ANY TEXT THE FRENCH COULD SUPPORT.

HANNAY

YYYY MAIN FRAME ECONOMIC ADDITIONAL WALL FCO BLOOMF IELD FCO JAY CAB MERCER CAB ANDREWS MAFF PERRINS MAFF LAVELLE TSY EDWARDS TSY BONNEY TSY BARBER TSY

UCLNAN 4307

FRAME ECONOMIC ECO(1)

COPIES TO. MY MERCER SCABINET OFFICE MAR ANDREWS JONAFF. MM LAVELLE MY EDWARDS } TREASURY MIR BARBER

# RESTRICTED

GRS 320 FRAME ECONOMIC) RESTRICTED FM PARIS TO PRIORITY F C O TELNO 976 OF 031057Z OCTOBER 86 INFO PRIORITY BONN, THE HAGUE, UKREP BRUSSELS

YOUR TELNO 476: ECOFIN COUNCIL 13 OCTOBER: CAP EXPENDITURE 1. TEXT OF DRAFT CONCLUSIONS SENT WITH COVERING LETTER INVITING COMMENT TO VILLAIN. BOISSIEU. TERRASSE, OBOLENSKY AND CONSTANS (DEPUTY SECRETARY-GENERAL, SGCI).

- 2. CONSTANS HAD DISCUSSED THE DRAFT WITH VILLAIN WHO, HE CONFIRMED, IS PRINCIPALLY RESPONSIBLE FOR THIS SUBJECT. HE HAS GIVEN US THE FOLLOWING COMMENTS WHICH HE DESCRIBED AS HIS OWN VIEWS. PROCEDURE
- 3. CONSTANS MADE TWO COMMENTS ON THE PROCEDURAL ASPECTS:
- A) IF AGRICULTURE EXPENDITURE IS HANDLED AS A FORMAL ITEM ON THE COUNCIL AGENDA THERE WILL BE TROUBLE WITH MINISTERS OF AGRICULTURE. THE WAS CONSTANS SAID IT SUGGESTED THAT THE MINISTRY OF FINANCE WOULD NOT TAKE TOO TRAGIC A VIEW OF THAT.
- B) IF THERE WERE TO BE A COMMISSION PAPER IT WOULD BE ADVISABLE NOT TO CIRCULATE IT TOO LATE. WE NOTE FROM UKREP BRUSSELS TELNO 3219 THAT KRENZLER HAS SINCE SAID THERE WILL BE NO COMMISSION PAPER. SUBSTANCE
- 4. CONSTANS SAID THAT THE THREE PRINCIPLES ENUNCIATED IN THE DRAFT SHOULD NOT CAUSE THE FRENCH TOO MUCH DIFFICULTY A PRIOR!, INDEED THEY WOULD LARGELY BE IN AGREEMENT WITH THEM. TWO OTHER FEATURES OF THE DRAFT WOULD HOWEVER CAUSE THEM DIFFICULTY:
- A) THE REFERENCE IN PARA 1 TO REDUCING THE SHARE OF PUBLIC EXPENDITURE DEVOTED TO AGRICULTURE. THE FRENCH HAD NEVER ACCEPTED AND COULD NOT NOW ACCEPT 'SUCH A CLEAR CUT' STATEMENT OF INTENT.
- B) THE WELCOME GIVEN IN PARA 2 TO THE COMMISSION'S PROPOSALS WAS BOTH TOO CLEAR CUT AND UNQUALIFIED. THE FRENCH COULD NOT GIVE UNRESERVED APPROVAL TO ALL THE PARTICULAR PROPOSALS PUT FORWARD BY THE COMMISSION, AND IF INDIVIDUAL PRODUCTS WERE TO BE MENTIONED THEN OLIVE OIL SHOULD FEATURE IN THE LIST, AND PERHAPS OTHERS. 5. CONSTANS' REMARKS ARE THE BEST INDICATION WE CAN EXPECT TO GET OF
- THE REACTION OF THE MINISTRY OF FINANCE. FINANCIAL COUNSELLOR SPOKE TODAY TO VILLEMUR TO SEE-IF THE QUAI HAD ANYTHING TO ADD, BUT HE WAS UNSIGHTED AND SAID HE WOULD HAVE NO OPPORTUNITY BEFORE 6 OCTOBER TO DISCUSS THE DRAFT WITH BOISSIEU, WHO HAS BEEN AWAY FOR THE LATTER HALF OF THIS WEEK.

FRETWELL

YYYY

PCLNAN 5405 FRAME ECONOMIC ECD(1)

RESTRICTED

# European Investment Bank

Or 10/10) A

The President

1.

1.

Luxembourg, 4 October 1986

Dear Chancellor,

On 26 September 1986, I sent a letter to Mr Simonsen, Chairman of the Board of Governors, concerning relations between the Bank and the Court of Auditors, notably with regard to arrangements for monitoring projects financed from NCI resources. This matter, to which I attach great importance, is currently of particular interest in view of discussions under way between Community authorities on a possible NCI IV.

Mr Simonsen, who fully endorses the approach which I suggested, has requested me to forward a copy of this letter to you with a view to Governors discussing the matter at the meeting of the Council of Economic and Finance Ministers on 13 October 1986, should it not have been resolved by then. I am also enclosing, for reference, a copy of the letter sent to me on this topic on 9 May 1986 by Mr Eyskens who was then Chairman of the Board of Governors.

Yours sincerely,

C: J. Judy E.-G. Bröder

Annexes: 2

The Rt. Hon. Nigel Lawson, M.P. Chancellor of the Exchequer Governor of the European Investment Bank Parliament Street

LONDON SW1P 3AG United Kingdom

CH/EXCHEQUER REC. 7 OCT 1986 ACTION LAVELLE COPIES TO Me MORTIMER MISS J. BARBER

MISS J. EDWARDS

100, boulevard Konrad Adenauer, Luxembourg-Kirchberg

Postal address: L-2950 Luxembourg Telegraphic address: bankeurop luxembourg

Telephone: 4379-1 Telex: 3530 bnkeu lu Telecopier: 43 77 04



Nizel ECOFIN Hada

FROM: A W KUCZYS
DATE: 6 OCTOBER 1986

MR LAVELLE

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

COREPER: 2 OCTOBER 1986: PREPARATION FOR ECOFIN COUNCIL 13 OCTOBER 1986

The Chancellor saw Sir D Hannay's telegram number 3219 of 2 October before receiving your minute of 3 October. He commented:

"If we are to discuss capital movements over lunch, agricultural expenditure must be discussed <u>after</u> lunch. We cannot do <u>both</u> these major items over lunch."

A W KIICZYS

361/26 Attachment to Brief F

#### CONFIDENTIAL

CHANCELLOR

FROM : R G LAVELLE

6 October 1986

cc PS/Minister of State
Mr Edwards
Mr Mortimer
Mr Matthews

# CAPITAL MOVEMENTS: EXCHANGE CONTROL ACT

You asked whether Delors had yet responded to the proposition you put to him at Gleneagles.

- 2. The answer is that we have not yet had a definitive reply but so far the omens look good.
- 3. The point came up in a Hannay meeting with Delors last week, which Hannay recorded as follows:

"At the end of our discussion Delors told me that he had not forgotten about the Chancellor's approach to him on the possible abolition of the Exchange Control Act. His preliminary conclusion, which had not been contradicted by Commission lawyers, was that the Commission had no right to stand in the British Government's way if it wished to abolish the Act. The idea that we would somehow be falling down on our Community obligations by being unable to implement Community—wide exchange controls was too far fetched to hold water. But he would like a little more time to reflect and would confirm his definitive view when he next saw me."

4. Lest, incidentally, you should believe this to be a stray piece of good will, I offer you another quote from Hannay's record of the same meeting:

"Delors began by telling me how much he had enjoyed the weekend at Gleneagles, how pleased he had been with his breakfast with the Chancellor, and how the formal discussion at Gleneagles was in his mind one of the best chaired and most substantive European meetings he had attended."

h

R G LAVELLE

4/10/

Roference ....

Nizel Ecofin blgd (Admin) (8)

Desk Officers and above Secretaries

# PRESIDENCY ROOMS AT THE KIRCHBERG

- 1. The Presidency has the use of Room no 23 in the Kirchberg building for briefings, bilaterals etc during Councils. This is situated close to the telephone booths near Salle D and has huissiers' tables outside it. When there is only one Council going on, there is an adjoining small office which can be used but this is occupied by the Council Secretariat when there are 2 Councils.
- 2. When there is more than one Council going on, desk officers responsible for co-ordinating their own Councils will have to work out timings for staggering the use of the Presidency room by both Council chairmen.

S. Evathbull-Algeore

Sally Knatchbull-Hugessen

6 October 1986

JKKEF BKU33EL5 000000000000

Mr Beale

86.10.08

# ECOPIN 13 OCTOBER: MEETING OF MINISTERS TO DISCUSS NEW MANAGING DIRECTOR FOR IMP

- 1. I have spoken today to Mr Lavelle and to Mr Pini.
- 2. Invitations to the meeting, which will take place at 1200, have been issued to Eyskens (Belgium), Simonsen (Denmark), Balladur (France), Stoltenberg (Germany), Simitis (Greece), Bruton (Ireland), Goria (Italy), Santer (Luxembourg) Ribiano (? Portugal), Solchaga (Spain) and Ruding (Netherlands) his invitation being accompanied by a suggestion that it would be embarrassing for him to accept.
- 3. We are bidden by the Treasury to arrange for the discussion to take place in a small room, with informal interpretation arrangements as necessary. Pini has taken this on amidst much wailing and gnashing of teeth. He points out:
- (a) that some of those invited may not turn up;
- (b) that the Portuguese and Danish Ministers to whom invitations have been issued are not those who usually attend EcoFin;
- (c) that there is a dearth of suitably sized rooms in Luxembourg.
- 4. Pini is exploring whether the meeting could take place in the space where the Ministers' lunch is served. As for interpretation, he is starting with the Danes on the grounds that they are the small Member State with an obscure language which is most likely tofield a monoglot (Andersen) and thus to spark off requests from others to be able to speak and listen in Greek, Portuguese, Dutch, etc.

D J Bostock

30 September 1986

12.00

PS 1. Pini says that the meeting could best take place in the ground floor room in the Kirchberg where FAC lunches take place. He has booked it.

2. Neither Pini nor his Portuguese Director has heard of the Portuguese mentioned above. I am trying to obtain his full name from the Treasury.

3. Artopeous mentioned to me that Stoltenberg would arrive at 1230. He is checking whether this is a mistake.

1ps po/

CHANCELLOR

Chy:

FROM: R G LAVELLE
6 October 1986

cc PS/Minister of State Mr Edwards Mr Mortimer Mr Matthews

#### CAPITAL MOVEMENTS: EXCHANGE CONTROL ACT

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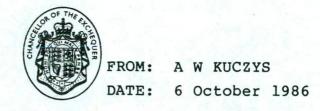
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"At the end of our discussion Delors told me that he had not forgotten about the Chancellor's approach to him on the possible abolition of the Exchange Control Act. His preliminary conclusion, which had not been contradicted by Commission lawyers, was that the Commission had no right to stand in the British Government's way if it wished to abolish the Act. The idea that we would somehow be falling down on our Community obligations by being unable to implement Community—wide exchange controls was too far fetched to hold water. But he would like a little more time to reflect and would confirm his definitive view when he next saw me."

4. Lest, incidentally, you should believe this to be a stray piece of good will, I offer you another quote from Hannay's record of the same meeting:

"Delors began by telling me how much he had enjoyed the weekend at Gleneagles, how pleased he had been with his breakfast with the Chancellor, and how the formal discussion at Gleneagles was in his mind one of the best chaired and most substantive European meetings he had attended."

R G LAVELLE



MR LAVELLE

cc PS/Minister of State
Sir P Middleton
Mr A Edwards
Mr H P Evans
Mr Mortimer
Mr Walsh
Mr S Matthews
Mr Crabbie
Mr Bonney
Mr Pickford
Miss Barber
Mrs Lester

# ECOFIN COUNCIL, 13 OCTOBER

The Chancellor has seen your minute of 3 October. You listed the questions for decision in paragraph 19, and the Chancellor's answers are listed below.

- (i) Logistics: He is content with the provisional plan you suggest, but wants to leave open the possibility of leaving even later around 10.00 am. The party on the RAF plane should be: Chancellor, Minister of State, Sir D Hannay, Mr Lavelle, Mr Edwards, Mr Pickford, Mr Kuczys.
- (ii) <u>Larosiere succession</u>: The Chancellor may phone Ruding once he has Mr Lankester's report of his canvassing opinion in Washington. The Chancellor agrees that Ruding can have Maas as his substitute. But he is <u>not</u> happy with the option of leaving it to the Executive Board to decide: this means the Europeans leaving it to the non-European majority a very bad business.
- (iii) Agriculture: The Chancellor is content with the general approach, and in particular the idea of lunchtime discussion followed by formal discussion in the Council.



- (iv) <u>Greece</u>: The Chancellor agrees to keeping this off the agenda if a reasonable deal is in sight.
  - (v) NIC IV: The Chancellor thinks we have to try and reach a compromise by pushing the Dutch and Germans.
- (vi) <u>Capital Movements</u> The Chancellor goes along with Sir D Hannay's solution to the Danish problem.

A W KUCZYS

SM2/14



Exofin blad

FROM: A W KUCZYS

DATE: 7 OCTOBER 1986

MR LAVELLE

cc PS/Minister of State

Mr A Edwards Mr Mortimer Mr S Matthews

# CAPITAL MOVEMENTS: EXCHANGE CONTROL ACT

The Chancellor was grateful for your minute of 6 October, and has commented "good".

A W KUCZYS



Ch

1. Commissioner Christophersen has asked to see you, to warn you of Commissioner Andressen's plans to "hijack" the lunchtime discussion on agriculture, and turn it into a demand for more money. David Bostock has provisionally suggested 11.30 am in the Residency Suite, Are you content?

2. Mr Moas we like a few minutes before the 12.00 meeting. I think the possibilities are either jost before Christophersen (say 11.15) or just after (say 11.45). We can firm this

PTO

on arrival; but are you content in principle to see him? (NB We should get to the Kirchbarg bldg about 11.00am) 



Sir D Hannay Oxford (0235) 850259

Flight No. ASCOT 1693 LD/118



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

Treasury Chambers, Parliament Street. SWIP 3AG PS/Sir D Hanna Miss D Lothian\*

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

7 October 1986 \*UKREP Brise!

Dear Sylvia

I am writing to firm up the arrangements for the Chancellor's trip to Luxembourg on Monday 13 October. The party will be as follows:

Chancellor (Rt Hon Nigel Lawson MP)
Minister of State, Treasury (Peter Brooke MP)
Sir David Hannay (HM Ambassador to the EC)
Mr Lavelle )
Mr Edwards )
Mr Pickford)
Mr Kuczys )

We hope to depart from Northolt at 09.30 local time, arriving Luxembourg Airport 10.45 local time. But it is possible that we may have to delay departure until 10.00 am (arrival 11.15). We would like coffee, biscuits, etc on the outward flight.

For the return, please could the plane stand by from 17.30 local time, with drinks and sandwiches, etc available? Please note that Sir David Hannay will not be returning with us.

Please could you confirm these arrangements, and let us know the flight number? And, for the purposes of charging the cost to us, please could you allocate 1/7th (Sir D Hannay's share) to the Foreign Office?

Yours ever,

A W KUCZYS

GRS 300

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FM UKREP BRUSSELS
TO IMMEDIATE FCO
TELNO 3266
OF 071705Z OCTOBER 86

FRAME ECONOMIC

FRAME AGRICULTURE

# ECOFIN 13 OCTOBER 1986 : AGRICULTURAL SPENDING



- 1. WE HAVE ASKED KOLTE (CHRISTOPHERSEN CABINET) WHAT LINE CHRISTOPHERSEN AND ANDRIESSEN ARE LIKELY TO TAKE IN DISCUSSION OF THIS SUBJECT IN LUXEMBOURG NEXT MONDAY.
- 2. KOLTE SAID THAT NO FINAL DECISION HAD YET BEEN TAKEN BUT IT WAS LIKELY THAT THE FOLLOWING POINTS WOULD BE MENTIONED:
- A) ON THE BASIS OF PRESENT POLICIES AND MARKET CONDITIONS,

  GUARANTEE SPENDING WOULD EXCEED THE GUIDELINE IN 1987 BY SOME 2.5

  BILLION ECU.
- B) THE PROSPECTS FOR 1988 AND BEYOND WERE WORSE, AS STOCKS BUILT UP AND AS GUARANTEE SPENDING BEGAN TO TAKE OFF IN SPAIN.
- C) THERE WOULD HAVE TO BE SOME CONSENSUS ON FUTURE ARRANGEMENTS FOR THE CAP AS PART OF THE EX NOVO DISCUSSIONS.
- 3. THE CHRISTOPHERSEN CABINET ALSO CLAIM THAT IN RECENT INTERNAL DISCUSSIONS (EG IN PREPARATION FOR NEXT MONDAY'S ECOFIN) ANDRIESSEN HAS BEEN MOVING CLOSER TO CHRISTOPHERSEN'S VIEWS THAN HAS PREVIOUSLY BEEN THE CASE, FOR EXAMPLE BY PROCLAIMING THE INADEQUACY OF THE COMMISSION'S RECENT PROPOSALS ON MILK. CHRISTOPHERSEN HAS ALSO SHOWN ANDRIESSEN OUR PRELIMINARY DRAFT CONCLUSIONS FOR ECOFIN: ANDRIESSEN'S PRINCIPAL COMMENT IS SAID TO HAVE BEEN THAT THE CONCLUSIONS GAVE NO INDICATION AS TO HOW STOCK DISPOSALS WERE TO BE FINANCED.

HANNAY

/44AA

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ADVANCE
WALL FCO
JAY CAB
HADLEY MAFF
HOLLIS MAFF
PERRINS MAFF
THOMAS MAFF
LAVELLE TSY
EDWARDS TSY
MORTIMER TSY
BONNEY TSY
MAIN
FRAME ECONOMIC
FRAME AGRICULTURE

(ADVANCED AS REQUESTED)

UCLNAN 4340

FRAME AGRICULTURE / ECONOMIC ECD (I)

RESTRICTED

FROM: JANET BARBER DATE: 10 OCTOBER 1986

1. MR LAVELLE - seen in druft

CC MINISTER OF STATE

2. CHANCELLOR

#### ECOFIN 13 OCTOBER

ECOFIN on 13 October will be held in the Kirchberg European Centre in Luxembourg. The meeting begins with lunch at 13.00, and the Council proper is scheduled to start at 14.30. In addition, you have arranged a special meeting of EC Finance Ministers at 12.00 to discuss the succession to Jacques de Larosiere. And you are meeting Commissioner Christophersen at 11.30 to discuss agricultural expenditure.

- 2. You will chair the meeting, and the Minister of State will represent the UK.
- 3. The subjects for discussion are as follows:

# At the special meeting:

(a) the Larosiere succession.

#### At ECOFIN:

- (b) over lunch, and also at 11.30 with Christophersen, agricultural expenditure;
- (c) technically over lunch but probably in the Council chamber before the formal Council starts, liberalisation of capital movements;
- (d) the New Community Instrument (NCI IV).

In the margins, you might like to raise

(e) with Simitis, progress on the Greek cement issue;

(f) with Delors, the repeal of our Exchange Control Act

Briefs are attached on all of these topics.

- 4. For items (b) to (d), where a Presidency input is necessary, the briefs are arranged as follows:
  - Presidency handling brief, with Presidency objective and speaking note (where appropriate)
  - UK objective and speaking note for the Minister of State
  - background.
  - relevant documents

You might like to have with you your copy of the blue booklet

circulated by the Cabinet Office "Council Meetins: Notes for the Guidance of Ministers". (Copy of end of folder)

The Larosiere Succession

5. This is to be discussed at the special meeting of Finance Ministers at 12.00. You are aware of the recent developments on this, so Brief A contains only the following background documents:

(1) your invitation to the special meeting;

(2) the 3 October minute from the Prime Minister's principal private secretary;

(3) some biographical background on the two candidates, Mr Ruding and Mr Camdessus.

Mr Maas has asked to see you briefly before the meeting. The start of the section 6. Brief B covers your meeting with Christophersen, and the ECOFIN discussion.

- 7. There is a threatened overrun of some 2-5billion ecu in CAP expenditure in 1987, and it was agreed at ECOFIN on 16 June that the Commission would report on possible savings to this ECOFIN. In fact the Commission will probably do no more at this meeting than describe the latest assessment of the 1987 position. The purpose of the discussion is to encourage the Commission and the Agriculture Council to come forward with proposals to deal with the 1987 problem, and to give further impetus to longer term CAP
- 8. This is a formal agenda item, but discussion will start over lunch (so that Commissioner Andriessen can participate and also attend the Agriculture Council in the afternoon). Depending on how the discussion goes, the object would be to continue in formal session immediately after lunch in order to get some Council conclusions agreed for the minutes. A draft of possible conclusions is included in Brief B.

Liberalisation of Capital Movements

- 9. This is covered in Brief C, which includes a Presidency handling brief provided by Mr Pini of the Council Secretariat (but written in conjunction with UKREP).
- 10. To meet a Danish constraint, capital movements is not on the formal agenda. However, discussion over lunch would be awkward, so we are planning an informal discussion in the Council chamber after lunch. This will be immediately after lunch if there is no formal discussion on agriculture, but if there is, the formal session will have to be suspended for the discussion of capital movements.
- 11. The aim is to move towards a compromise position on the new draft Directive so that it can be adopted this year during our Presidency. It is suggested that you focus discussion on Spanish and Portuguese requests for a two year extension of the derogations allowed to them in the draft Directive. The hope is that progress on this front would go a long way towards establishing a qualified majority for the Directive. As far as the

UK is concerned, this is, at the moment, the only aspect of the draft Directive which we could agree to change.

12. Coreper will take forward progress at this Council, and will aim to iron out the remaining problems, with a view to adoption on 17 November.

# The New Community Instrument (NCI IV)

- 13. This is covered in <u>Brief D</u>. Mr Pini has supplied a Presidency handling brief for this item, but we prefer our own. However, Mr Pini's offering is attached, for information, to the back of Brief D.
- 14. Again, the aim is to move towards a compromise on this issue, through attaching conditions to NCI IV which might make it acceptable to the opposition (principally the Germans and the Dutch).
- 15. The issue was discussed at Coreper yesterday, and the Germans particularly remained intransigent, their basic objection being that the Commission should not be involved in banking activity. So we are looking particularly for a German response to the Presidency compromise ideas.
- 16. As far as the UK is concerned, we have much sympathy with the German/Dutch position, but we are prepared to work towards a NCI IV compromise package, in order to get the issue settled, and to have a measure designed to help small firms chalked up to our Presidency.
- 17. Again, any movement towards a compromise will be taken forward by Coreper with a view to agreement at the November ECOFIN.

#### Greek Protective Measures: Cement

- 18. This is covered in <u>Brief E</u>. It is to be raised with Simitis in the margins of the meeting.
- 19. The issue is Greek export subsidies for cement, and the arrival of Greek floating cement terminals at UK ports. (Greece is currently allowed an export subsidy scheme as part of a package of Treaty derogations and a Community loan agreed last year to help with its balance of payments problem.)
- 20. You will recall that you spoke to both Delors and Simitis about this at Gleneagles. Simitis was keen to avoid a Council discussion of the Greek protective measures at this ECOFIN, and offered some prospect of a bilateral deal on cement in exchange. The DTI are currently pursuing this, but it might be useful to keep up the pressure by reminding Simitis that we want to reach an acceptable outcome quickly. We certainly want to keep open the possibility of discussion of the Greek loan / prospective measures at the November ECOFIN.

Repeal of our Exchange Control Act

21. This is covered in <u>Brief F</u>. It is to be raised with Delors in the margins of the meeting. (We think that Delors will attend ECOFIN to participate in the discussion on agriculture.)

Simitis is not expected to be I thee, so this is probably academic

22. You spoke to Delors about this at Gleneagles, and he undertook to reflect on whether repeal of our Exchange Control Act would put us in breach of Community law. This is a follow-up query.

Agenda for 17 November ECOFIN

- 23. You might be asked to say something about the agenda for the 17 November ECOFIN.
- 24. It is of course too soon to decide on a definitive agenda, but you could refer to the following as likely topics:
  - (a) liberalisation of capital movements hopefully adoption of the draft Directive, depending on discussion at the ECOFIN;
  - (b) NCI IV (depending on the outcome of discussion at this Council);
  - (c) the 1986-87 Annual Economic Report. We understand that this will be issued by the Commission soon (probably on 15 October), and would like ECOFIN to discuss it before the European Council. This suggests that it should be taken at the November Council (although it will probably be necessary to table it in December as well, for adoption).
  - (d) issues connected with the Community loan to Greece and the Greek protective measures. (This will have to be discussed sometime this year, because the Council is committed to giving its views on the release of the second tranche of the loan early next year.)

Other Matters

25. Personality notes are attached - top copy and Minister of State's copy only. (Chi have there if you want brefer to them) Auk

- 26. Some "A" points (ie items not requiring discussion) will be taken at the meeting the list we have so far received is attached.
- 27. Copies of this briefing go to those on the attached list.

Janet Barber

JANET BARBER EC1

# CIRCULATION

Chancellor
PS/Chancellor
Minister of State
PS/Minister of State
Mr Lavelle
Mr Edwards
Mr Culpin
The Governor B/E
Mr M H Jay, Cabinet Office
Mr J S Wall, FCO
Mr Bostock, UKREP (7 copies)
Sir David Hannay (100)

# Steering brief only

PS/Chief Secretary PS/Financial Secretary PS/Economic Secretary Sir Peter Middleton Sir Geoffrey Littler Mr Evans Mr P Cropper Mr Scholar Mr Riley Mr Crabbie Mr Mortimer Ms Sinclair Mr Matthews Mr Bonney Mr Donnelly Ms Goodman Mr Osborne Mr Milligan

Mr J Kirby - B/E Mr Garside - Paris Mr A C Thorpe - Bonn Mr Lankester - Washington Miss C Elmes - Rome ECOFIN 13 OCTOBER

BRIEF A

# THE LAROSIERE SUCCESSION AT THE IMF

This topic is for discussion at the special meeting of Finance Ministers at 12.00. The following background paper are attached: in separate

- (1) the Chancellor's invitation to the special meeting;
- (2) the 3 October minute from the Prime Minister's principal private secretary;
- (3) some biographical background on the two candidates, Mr Ruding and Mr Camdessus.

### DRAFT COUNCIL CONCLUSIONS ON CAP EXPENDITURE

- 1. The Council recalls the conclusions of the Heads of Government at the European Council in The Hague that, taking into account the specific nature of the European agricultural model, the Common Agricultural Policy must continue to be adapted to changing circumstances and that a better control of total production must be ensured so that it is better adjusted to the market situation.
- 2. The Council notes with concern the increasing burden placed on the Community budget as surpluses of agricultural produce accumulate. The Council notes that agricultural market support expenditure threatens to exceed the 1987 budgetary limits and that further decisions on the operation of the market regimes will be needed in the near future. It welcomes the initiatives already taken by the Commission in putting forward proposals for such changes in some of the sectors which are in structural surplus, on which early decisions will be required, and notes that further initiatives will be needed in the context of the 1987 price fixing and the "ex novo" review,
- 3. The Council considers that, with a view to bringing expenditure under better control and avoiding the production of surpluses for which markets cannot be found, forthcoming policy decisions should have regard to the following principles:
  - (i) Community support prices should more closely reflect supply, demand and market conditions, especially in sectors where there is surplus production;
  - (ii) the intervention system should operate according to its intended role, as a safety net to support the market at times of particular pressure and not as a standard alternative marketing outlet;
  - (iii) price support policies should wherever possible be flexibly operated so that commercial risks are shared between producers and taxpayers and are not borne in their entirety by taxpayers through the Community budget.



### DRAFT COUNCIL CONCLUSIONS ON CAP EXPENDITURE

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(IV)

## ECOFIN, 13 OCTOBER

CAP EXPENDITURE

### Objective

To support the Presidency in the quest for written conclusions on the lines of Annex A.

## Points to make

- Want to underline, not just on behalf of UK but also from my standpoint as Chairman of the Budget Council, how serious is the problem which we face on CAP expenditure.
- Budget Council has adopted a draft budget in which provision for CAP expenditure next year respects the financial guideline limit.
- But Commission have warned us, and repeated their warning today, that, unless action is taken, there will be an overrun of possibly [2.5] billion ecu compared with the budget figure. This would take us far beyond the 1.4 per cent VAT ceiling and the budget discipline limits set by this Council.
- Budget Council felt obliged to take restrictive decisions on non-compulsory expenditure, in accordance with the budget discipline conclusions agreed in this Council. Clearly necessary to take correspondingly restrictive line on agricultural spending. Little prospect of reaching agreement with the Parliament on a budget for 1987 on any other basis.
- Clearly incumbent on this Council to respond adequately to this very disturbing budgetary prospect. Not for us to usurp role of Agriculture Council. But we must be prepared to make clear our views on the budgetary dimension and on the economic and financial principles which we think should inform forthcoming policy decisions. In UK's view these need to include
  - a closer relationship between support prices and market conditions;
  - a more limited role for intervention;
  - a greater sharing of risks between the Community budget and farmer, taxpayer and producer; and
  - bringing forward the review of the 1984 agreement on the agri-monetary system.
- Point often made that there will be substantial delay before we can reap financial benefits of policy reforms. All the more reason for starting now.

As previously foreshadowed by the Chancellor, ECOFIN is due to discuss the problem of the threatened overrun of CAP guarantee expenditure next year. Other delegations have been told that the discussion will begin over lunch, when Andriessen and possibly Delors will be present as well as Christophersen, and will probably be concluded in the Council proper as the first substantial item of business.

## Background to discussions

The reason for arranging this discussion is, of course, that the Commission have warned that, if nothing is done, agricultural quarantee expenditure is likely to overrun the financial guideline figure in the Council's 1987 draft budget by [2.5] billion ecus: the Commission may well update this estimate in the course of the things equal, take expenditure well beyond the 1.4 per cent VAT ceiling as well as making a mockery of budget discipline.

# Strategy for meeting

Both as Presidency and as the UK, we should like to obtain a clear set of written conclusions from the Council on the lines of Annex A. We suggest that this should be the Chancellor's first objective.

The advantages of having written conclusions in the sense suggested are:

The Council needs to show the Parliament (a) and the rest of the world that it is dealing responsibly and adequately with the very serious budgetary and other problems of the CAP;

- (b) The Council needs to give the Commission every possible encouragement to come forward with adequate proposals for policy reforms;
- (c) The Finance Ministers need to provide an economic and budgetary perspective for their agricultural colleagues and to establish more clearly the role of ECOFIN in this area;
- (d) Written conclusions from ECOFIN on the lines of Annex A would probably become known as the "ECOFIN principles" and should have a continuing influence in the forthcoming discussions on agricultural policy, notably at the price fixing and in the "ex novo" review.

A second-best outcome would be for the Chancellor to <u>sum up</u> at the beginning of the Council meeting along the lines of the draft conclusions. If this has to be the outcome we recommend that he should personally ask Pini to record his summing up fully in the Council minutes. If this is the outcome, we should still have a reasonable story to tell the press and others; but the other benefits at (b), (c) and (d) above would be obtained only to a limited extent.

### Attitudes of other member states

We have shown a draft text similar to Annex A to the French, the Germans, the Dutch and the Commission. Other member states have not seen it but Sir David Hannay has warned them in COREPER in some detail what ground we expect the Council to cover (see reporting telegram at Annex C).

We would expect the <u>Commission</u> to be generally favourable to conclusions on these lines, which concisely express

principles underlying some of their own recent proposals. We expect the <u>Dutch</u> too to be supportive.

The <u>French</u> have told us that Mr Balladur will probably be willing to support a written text along the lines we have in mind, and the text at Annex A already incorporates a number of French suggestions on an earlier draft. The two main outstanding points are:

Later
information
from Paris
Supporte that
the French may
after all be
willing to go
along with
Something on
the lines of
our preferred
version
of 93 (iii).

(a)

(b)

Paragraph 3(iii): The French have expressed some doubts about this third principle.

We want however to retain it if possible in our preferred version, since it nicely complements the other two principles. We would hope to convert the French to the cause by the argument that this principle bears on olive oil and other non-intervention regimes for Mediterranean products in a way which the second principle does not. The alternative version of principle (iii) would be much better than nothing but is not quite so specific as the preferred version and will probably give the French and others as much difficulty.

Paragraph 4: The French feel that this reference to the agri-monetary agreement of 1984 would risk opening up old sores with the Germans. The fact is that the Commission will be launching this review shortly in any event. We are therefore inclined to agree to drop this paragraph in response to their suggestions.

The <u>Germans</u> have said at official level that they have no technical problems with the text but that Stoltenberg and Tietmeyer are certain to feel severe political inhibitions about subscribing to it in a pre-election period. Our Ambassador in Bonn went

to see Tietmeyer this week (see reporting telegram at Annex B). Tietmeyer claimed in that interview that the Germans had substantive objections to the text which we showed them and that these were more decisive than the general political worries. We have adapted the text slightly to meet some of the German points and have told them that we still expect that the Presidency will be seeking Council agreement to written conclusions.

Subject to any points which the Chancellor may have, we would propose to see Mr Vilain before lunch on Monday with a view to trying to reach agreement on a text which the French could support unequivocally. We will also reckon to make contact again with the Germans.

In the light of these exchanges, we would propose to prepare a clean text which the Chancellor could table at the beginning of the afternoon session unless the lunchtime discussion tells against this.

# Defensive points on draft conclusions

The manuscript annotations to the Annex A text indicate the pedigree of the some of the more sensitive passages. We expect before Monday morning to receive some later thoughts from Paris. We will bring these along on Monday morning.

# Points on Commission projections

There are two points, one of policy and the other technical, which might be made on the Commission's projections if the Commission do not forestall them in their own presentation.

(i) "Exceptional circumstances". Adriessen's Director General spoke to COREPER in terms

(see attached toble + groph)

suggesting that the Commission regard the continuing depreciation of the dollar and the recent agri-monetary changes as being "exceptional circumstances". We do not accept that agri-monetary changes are an exceptional circumstance, and we would regard only the massive slide in the dollar which took place last year as being an "exceptional circumstance" for the purposes of the budget discipline conclusions.

(ii) Accuracy. There has not been time to study the Commission's latest figures in detail. But it appears that they depend rather heavily on insecure assumptions about real exchange rates and do not allow for savings from the depreciation of non-ERM currencies.

# Meeting with Vice-President Christophersen

Vice-President Christophersen asked today if he could see the Chancellor for a short time before the Council meeting. UKREP have arranged provisionally for him to meet the Chancellor at 11.30am. Christophersen apparently has some fears that Andriessen may be tempted to use the opportunity of the ECOFIN lunch to make a plea for extra money for agriculture. We think that Christophersen may in fact have over-reacted and that Andriessen's more likely thesis will be that either the Council will need to face up to new decisions or more money will be needed.

### ANNEXES

- A. Draft Council conclusions
- B. Bonn telegram no 845 of 9 October giving Tietmeyer's reactions
- C. UKREP telegram no 3332 of 9 October recording COREPER discussion
- D. Table of figures derived from Commission's exposition at COREPER
- E. Note on 1984 agri-monetary agreement
- F. Council's December 1984 budget discipline conclusions

# DRAFT COUNCIL CONCLUSIONS ON CAP EXPENDITURE

This is a

Selective

Quotation from

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Conclusions:

no problems.

The French

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1. The Council recalls the conclusions of the Heads of Government at the European Council in The Hague that, taking into account the specific nature of the European agricultural model, the Common Agricultural Policy must continue to be adapted to changing circumstances and that a better control of total production must be ensured so that it is better adjusted to the market situation.

The Council notes with concern the increasing burden placed on the Community budget as surpluses of agricultural produce accumulate. The Council notes that agricultural market support expenditure threatens to exceed the 1987 budgetary limits and that further decisions on the operation of the market regimes will be needed in the near future. It welcomes the initiatives already taken by the Commission in putting forward proposals for such changes in some of the sectors which are in structural surplus, on which early decisions will be required, and notes that further initiatives will be needed [DESIRABLE ADDITION] in the context | help the forces of the 1987 price fixing and the "ex novo" review. of enlightenmen

3. The Council considers that, with a view to bringing expenditure under better control and avoiding the production of surpluses for which markets cannot be found, forthcoming policy decisions should have regard to the following principles:

Gennes are womed about this full have no respectable restors (ii) for disputing it.

Community support prices should more closely reflect supply, demand and market conditions, especially in sectors where there is surplus production;

the intervention system should operate according to its intended role, as a safety net to support the market at times of particular pressure and not as a standard alternative marketing outlet;

[PREFERRED VERSION] price support policies should wherever possible be flexibly operated so that trade and marketing risks are shared between producers and taxpayers and are not borne in their entirety by taxpayers through the Community budget.

[ALTERNATIVE TEXT] market support expenditure should not be open-ended but should have regard to the state of the individual product markets.

Latest indications (1111) are that French will go along with something like this.

depth we depth in a both this in need to restrain all sources of possible upward pressure on agricultural spending, the Council considers that the Commission should be invited to initiate straight away its review of the 1984 agreement on the agrimonetary system.

with French colleagues.

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ANNEX T

Mr RENWICK
HO ECO(1)
Mr EDWARDS TSY
No JAY CABOFFICE
No PERRINS NAFF

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FM BONN

TO IMMEDIATE FCO

TELNO 845

OF 091120Z OCTOBER 86

INFO IMMEDIATE UKREP BRUSSELS, PARIS
INFO SAVING OTHER EUROPEAN COMMUNITY POSTS

YOUR TELNO 432 TO UKREP BRUSSELS AND TELECON EDWARDS/THORPE: PREPARATION FOR ECOFIN DISCUSSION ON THE CAP

#### SUMMARY

1. TIETMEYER CONFIRMS THAT THE GERMANS ARE AGAINST AN AGREED WRITTEN

#### DETAIL

- 2. WHEN I SAW TIETMEYER ON 8 OCTOBER, I SAID THAT WE WERE SURPRISED THE GERMANS FOUND DIFFICULTY WITH OUR PRELIMINARY DRAFT OF THE ECOFIN CONCLUSIONS. WE ASSUMED THAT THE FEDERAL GOVERNMENT WAS INTERESTED IN KEEPING WITHIN THE 1.4 PERCENT CEILING IN 1987 AND WOULD NOT WANT ANOTHER SUPPLEMENTARY FINANCE MECHANISM. THE COMMUNITY WAS HEADING FOR A MASSIVE COST OVERRUN ON FEOGA EXPENDITURE IN 1987 WHICH WOULD TAKE US OVER THE 1.4 PERCENT CEILING AND UNDERMINE THE PRINCIPLE OF BUDGET DISCIPLINE TO WHICH WE WERE ALL COMMITTED. ECOFIN MUST PRODUCE AN ADEQUATE RESPONSE.
- 3. TIETMEYER DID NOT DISSENT FROM THIS BUT SAID THAT HE SAW THE FOLLOWING DIFFICULTIES WITH OUR TEXT:
  - (1) AGRICULTURAL EXPENDITURE SHOULD NOT BE SINGLED OUT FOR SAVINGS.

IN THE BUDGET COUNCIL DISCUSSION OF THE 1986 DRAFT RECTIFYING BUDGET ON 8-9 SEPTEMBER THE MAJORITY HAD OBJECTED TO THE MAIN BURDEN OF COMPENSATORY SAVINGS FALLING ON AN FEOGA GUARANTEE EXPENDITURE:

- (II) THE FEDERAL FINANCE MINISTRY COULD NOT INDORSE A SOLUTION WHICH WOULD NOT BRING REAL SAVINGS BUT WOULD MERELY SHIFT THE BURDEN OF AGRICULTURE EXPENDITURE FROM THE COMMUNITY TO MEMBER STATES. TIETMEYER CITED THE IMPLEMENTATION OF THE MILK QUOTA REGIME AS AN EXAMPLE:
- (111) OUR PROPOSAL TO ISSUE AGREED WRITTEN CONCLUSIONS FOLLOWING A DISCUSSION OVER LUNCH POSED PROCEDURAL DIFFICULTIES (CF WIEBE'S COMMENT RECORDED IN UKREP BRUSSELS TELNO 3241).
- 4. TIETMEYER WENT ON TO REFER BRIEFLY TO ELECTORAL CONSIDERATIONS (THE RISK THAT AN AGREED WRITTEN TEXT COULD CAUSE POLITICAL EMBARRASSMENT IN THE RUN-UP TO THE FEDERAL ELECTIONS) BUT DID NOT MAKE VERY MUCH OF THIS ARGUMENT. HE CLAIMED THAT THE MAIN PROBLEM FOR THE FRG LAY IN SUBSTANTIVE OBJECTIONS TO THE TEXT.

BULLARD

# Restricted

ANNEX C

RESTRICTED

FM UKREP BRUSSELS

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TELNO 3332

OF 092215Z OCT 86

INFO PRIORITY EUROPEAN COMMUNITY POSTS

FRAME ECONOMIC FRAME AGRICULTURE

COREPER (AMBASSADORS): 9 OCTOBER 1986
PREPARATION FOR 13 OCTOBER ECOFIN COUNCIL
AGRICULTURAL SPENDING
SUMMARY

- 1. I CONFIRMED THAT THIS ITEM WOULD BE DISCUSSED OVER LUNCH, WITH POSSIBLE FOLLOW-UP IN FORMAL SESSION AFTERWARDS, AND SUMMARISED THE POINTS THE CHANCELLOR WOULD WISH TO MAKE. LITTLE IMMEDIATE REACTION FROM OTHERS, EXCEPT DENMARK AND GERMANY WHO STRESSED THE LIMITATION OF ECOFIN'S ROLE ON AGRICULTURAL QUESTIONS.
- 2. THE COMMISSION SAID THAT ANDRIESSEN AND CHRISTOPHERSEN WOULD DESCRIBE THE GRIM OUTLOOK FOR AGRICULTURAL SPENDING IN 1987, AND EMPHASISE THAT COUNCIL SHOULD EITHER PROVIDE SUFFICIENT MONEY OR AGREE ON FUNDAMENTAL REFORMS OF THE CAP ON THE BASIS OF PROPOSALS THE COMMISSION WOULD PUT FORWARD AT NEXT PRICE-FIXING.

### DETAIL.

- 3. FROM THE CHAIR I EXPLAINED WHY THIS ITEM WOULD BE TAKEN AT LUNCH, AND EMPHASISED THAT IT WAS A FORMAL POINT ON THE AGENDA: DISCUSSION WOULD CONTINUE DURING THE AFTERNOON SESSION IF NECESSARY. ONLY FRANCE EXPRESSED DOUBTS ABOUT A LUNCHTIME DISCUSSION.
- 4. LEGRAS (COMMISSION), PREVIEWING ANDRIESSEN'S CONTRIBUTION, DESCRIBED THE OUTLOOK FOR AGRICULTURAL EXPENDITURE IN 1987 (DETAILED FIGURES BY MUFAX TO CRABBIE, HMT). TO THE 1.4 BECU OVERRUN FORESEEN IN THE 1987 PDB SHOULD BE ADDED THE EFFECTS OF THE FALL IN THE DOLLAR AND THE RECENT AGRIMONETARY CHANGES, WHICH WOULD INCREASE EXPENDITURE BY AT LEAST ANOTHER ONE BECU. THESE WERE EXCEPTIONAL AND UNFORSEEN CIRCUMSTANCES. THE BUDGET WOULD ALSO BE ADVERSELY AFFECTED BY INCREASED PRODUCTION (E.G. OF OIL SEEDS AND SUGAR) AND THE DECLINE IN MARKET PRICES (E.G. OF WHEAT). WHILE FARMERS COULD NOT BEAR THE WHOLE BURDEN OF MARKET FLUCTUATIONS, A FUNDAMENTAL REFORM OF CERTAIN MARKET SUPPORT MECHANISMS WAS NECESSARY AND WOULD BE PRESENTED IN TIME FOR THE NEXT PRICE-FIXING. THE COMMISSION HAD DONE ALL IT COULD THROUGH MANAGEMENT MEASURES: NOW COUNCIL MUST BEAR ITS RESPONSIBILITIES AND TAKE DECISIONS. THE PROBLEM OF STOCKS. CURRENTLY VALUED AT 12 BECU, WOULD REMAIN. THE ONLY WAY TO RELIEVE THIS BURDEN ON THE COMMUNITY BUDGET WAS A SPECIAL PROGRAMME OF STOCK DISPOSAL.

- 5. RAVASIO (COMMISSION) SAID CHRISTOPHERSEN WOULD EMPHASISE THE CONTRADICTION BETWEEN THE ''OPEN-TAP'' PRINCIPLE FOR AGRICULTURAL EXPENDITURE AND THE STRICT LIMIT ON GWN RESOURCES. THE FINANCIAL GUIDELINE FIGURE FOR 1987 AGRICULTURAL EXPENDITURE WAS INADEQUATE. THE EXISTING BUDGET DISCIPLINE ARRANGEMENTS WERE A NECESSARY BUT NOT A SUFFICIENT INSTRUMENT FOR RESTRAINING AGRICULTURAL EXPENDITURE. COUNCIL MUST THEREFORE TAKE THE DECISIONS NECESSARY FOR REFORM AS SOON AS POSSIBLE, THOUGH EVEN THESE WOULD TAKE TIME TO WORK THROUGH INTO REDUCED SPENDING. BUT WITHOUT SUCH MEASURES AGRICULTURE WOULD TAKE AN EVER-INCREASING PROPORTION OF THE COMMUNITY BUDGET, REDUCING FUNDS AVAILABLE FOR NEW POLICIES AND PUSHING SPENDING OVER THE OWN RESOURCES CEILING.
- 6. I NOTED THAT THE COMMUNITY HAD TO ESTABLISH A BUDGET WITHIN THE EXISTING LEGAL CEILING, AND THAT EXPENDITURE ON A STOCK DISPOSAL PROGRAMME WOULD ONLY BE ACCEPTABLE IF MEAURES WERE TAKEN TO PREVENT THE FUTURE BUILD-UP OF STOCKS.
- 7. I THEN OUTLINED THE CHANCELLOR'S INTENTIONS AS INSTRUCTED: THE HAGUE EUROPEAN COUNCIL HAD CONCLUDED THAT IT WAS NECESSARY TO ADAPT THE CAP TO THE EXISTING MARKET SITUATION, AND IT WAS OBVIOUS THAT SURPLUS PRODUCTION POSED AN EVER-INCREASING BURDEN ON THE EC BUDGET. THERE WAS NO INTENTION OF PRE-EMPTING DECISIONS TO BE TAKEN BY THE AGRICULTURE COUNCIL, BUT ECOFIN MINISTERS WERE RESPONSIBLE FOR PUBLIC EXPENDITURE AND THEREFORE AGRICULTURE AND FINANCE MINISTERS SHOULD BE AWARE OF EACH OTHER'S VIEWS ON THESE ISSUES. THE CHANCELLOR HOPED ECOFIN COULD ENDORSE THREE IMPORTANT PRINCIPLES: THAT SUPPORT PRICES SHOULD REFLECT THE MARKET SITUATION, THAT INTERVENTION SHOULD ACT AS A SAFETY NET ONY, AND THAT PRICE SUPPORT SHOULD BE MORE FLEXIBLE SO THE BUDGET DID NOT BEAR THE WHOLE MARKET RISK. ECOFIN SHOULD SUPPORT THE NEED FOR EARLY DECISIONS ON THE MILK AND BEEF PROPOSALS AND ENCOURAGE COMMISSION TO PRESENT ITS REVIEW OF AGRIMONETARY ARRANGEMENTS SOON. IF THE CHANCELLOR WISHED TO DRAW FORMAL CONCLUSIONS THESE WOULD BE PUT TO THE COUNCIL IN FORMAL SESSION AFTER LUNCH. RESPONDING TO A POINT MADE BY SCHEER (FRANCE), I ADDED THAT ECOFIN WOULD HAVE A CONTINUING ROLE IN THIS FIELD AND THAT THE CHANCELLOR MAY WANT ECOFIN TO RETURN TO THIS ISSUE AT A LATER STAGE.
- 8. THE COMMISSION (SUPPORTED BY FRANCE) RESISTED REQUESTS THAT IT MAKE ITS REVISED BUDGET ESTIMATES AVAILABLE, AND A REQUEST FROM CALAMIA (ITALY) THAT IT REVEAL WHAT REFORMS WERE PLANNED.
- 9. LARSEN (DENMARK) SAID HIS MINISTER COULD AGREE THAT ECOFIN HAD A ROLE, BUT THAT IT WAS A LIMITED ONE. IT SHOULD NOT INTERFERE WITH DECISIONS THE AGRICULTURE COUNCIL WOULD MAKE OR TRY TO INFLUENCE THE COMMISSION'S PROPOSALS FOR REFORM. HE NOTED THE COMMISSION'S REFERENCE TO EXCEPTIONAL CIRCUMSTANCES AND REPEATED DENMARK'S CONCERN THAT THE 650 MECU RESERVE IN THE 1987 DRAFT BUDGET BE KEPT UNCOMMITTED.

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10. UNGERER (GERMANY) SHARED THE VIEW THAT IT WAS NOT FOR ECOFIN TO ASSUME A FORMAL ROLE IN COMMUNITY DECISION-MAKING ON AGRICULTURE. ANY INFLUENCE SHOULD BE EXERTED WITHIN NATIONAL GOVERNMENTS. HE ALSO EXPRESED CONCERN THAT THERE SHOULD BE NO DELIBERATE LEAKS FROM THIS DISCUSSION. I ASSURED HIM THERE WAS NO INTENTION OF THAT, THE IDEA BEING SIMPLY TO ENSURE THAT ECOFIN, AGRICULTURE COUNCIL AND THE COMMISSION WERE ALL AWARE OF EACH OTHER'S VIEWS.

HANNAY

YYYY ADVANCE DESKBY 100800Z FOR TSY RENWICK FCO WALL FCO BLOOMFIELD FCO RICHARDSON FCO WILLIAMSON CAB JAY CAB MERCER CAB HADLEY MAFF PERRINS MAFF WENTWORTH MAFF PS/CHANCELLOR TSY PS/MST TSY LAVELLE TSY EDWARDS TSY CRABBIE TSY BONNEY TSY BARBER TSY DONNELLY TSY MAIN FRAME ECONOMIC

UCLNAN 4419

FRAME AGRICULTURE

FRAME ACMICULTURE

ADVANCED AS REQUESTED!

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# 1987 FEOGA OVERRUN

# An interpretation of the Commission's analysis mecu

(i)	1987 financial guideline/PDB provision	22,961
(ii)	1987 requirement on current policies	
	(at time of PDB)	24,360
(iii)	<u>less</u> Commission savings - 670	23,690
	[of which:	
	- management economies - 200 - delay in reimbursement - 280 - reduced stock disposals - 190 ]	
(iv)	plus carryover from 1986 + 665	24,365
	[ of which:	
	<pre>- excess admitted in July</pre>	
(v)	basic excess over guideline/PDB	1,404
(vi)	13% fall in dollar (from 1.10 ecu in 1987 PDB to 0.96 ecu on 8 October 1986)	+ 1,000
(vii)	agrimonetary changes (excluding 1987 Price Fixing)	+ 415
	[of which:	
	- August EMS Realignment + 256 - Irish punt devaluation + 112 - suggested green £ + 47 and green franc devaluations ]	
(viii)	total excess over guideline/PDB (before Price Fixing)	2,819

### Notes

# 1. World prices

wheat: PDB estimate \$120 per tonne\*

current \$ 80 per tonne

rapeseed/colza: 1984 average 420 ecu/tonne

PDB estimate 250 ecu/tonne current 200 ecu/tonne

### 2. Production

The Commission believe that oilseeds, milk, sugar and beef all liable to exceed PDB estimates of production and/or intervention purchases.

### 3. Stocks

Commission estimates:

total book value at end 1986 12.0 becu

book value of "normal" stocks 2.5 becu

9.5 becu

Loss on sale of excess stocks at

market prices 6.5 becu

EC butter stocks at end 1986: 1.4 m tonnes (310 days supply)

beef stocks: 507,000 tonnes (33 days supply)

### Storage costs

butter 325 ecu/tonne/year

beef 360 ecu/tonne/year

<sup>\*</sup> This statistic appears to be misleading: MAFF calculate that the PDB assumption was \$84/tonne



# THE 1984 AGRIMONETARY AGREEMENT PREVENTING INCREASES IN POSITIVE MCAS AT CURRENCY REALIGNMENTS

The April 1984 agrimonetary agreement provides that, for the period until the start of the 1987 milk marketing year (1 April 1987 unless delayed by the Council), EMS realignments will not lead to any increase in positive MCAs. A copy of the agreement is attached.

- 2. In the event of a realignment, and in the absence of any green rate changes, then, according to the 1984 agreement, common agricultural prices within the Community will be maintained by leaving unchanged the MCA of the member state with the most revalued currency and reducing the positive MCAs and increasing the negative MCAs of other member states. It is sometimes said that this arrangement is equivalent to revaluing the ecu for agricultural purposes by the amount of the revaluation of the most revalued currency.
- 3. The agreement was reached as part of the 1984 price fixing, and was one element of the overall settlement of budgetary issues that culminated in the Fontainebleau agreement. The idea of the new arrangements was to avoid the cut in domestic agricultural prices that would otherwise result from a revaluation of any currency (eg the DM) against the green ecu. It will not be easy to negotiate the agreement away.
  - 4. The main weakness of the agrimonetary agreement is that the new system tends to ratchet upwards CAP expenditure because:
    - (i) larger negative MCAs increase the scope for subsequent green rate devaluations. Since 1984, the effective revaluation of the green ecu has been 6.2 per cent. If we assume this will be reflected in the medium term in green rate devaluations of the same amount, the result will be equivalent to a 6.2 per cent increase in CAP support prices above whatever had been agreed at the annual price settlements.

- (ii) currency realignments increase the <u>scope</u> for raising export restitutions and other agricultural subsidies whose value is linked to world prices. Although the internal and export subsidies are not necessarily increased automatically or immediately following a realignment, it is assumed that they will have to be if stocks are not to build up in the longer term;
- 5. The Commission has to report to the Council on the working of the 1984 agreement by 31 December 1986. If the Council has not taken a decision by the start of the 1987 milk marketing year the 1984 agreement will lapse and the arrangements existing before then will be reintroduced automatically.

# EXTRACT FROM MINUTES OF AGRICULTURE COUNCIL, 26/27 AND 30/31 MARCH 1984

# 3. Dismantling of MCAs

# A. Future MCAs

fch?)

As regards future MCAs, the Council adopted the necessary provisions to ensure that up to the beginning of the 1987/1988 milk year no change in monetary parities may under any circumstance result in the creation of fixed positive MCAs.

The above will be effected by applying a corrective weighting to the central rates used in the context of the ECU.

The Commission will take the necessary measures to prevent the negative MCAs thus created from leading to distortions as regards export refunds.

The negative MCAs thus created will be dismantled on a proposal from the Commission, having regard to the Member States' economic situation, taking into account, in the light of past experience, the need to avoid disturbing market balance and to prevent any worsening of inflation in the Member States concerned.

Before 31 December 1986 the Commission will submit to the Council a report on the application of these arrangements and proposals which take into account the Community's economic and monetary situation, the trend in agricultural incomes and experience gained.

If, by the beginning of the 1987/1988 milk year, the Council has not adopted decisions, in the light of the abovementioned report, extending the system in force or setting up another, the arrangements applicable before the 1984/1985 milk year will be brought into force again.

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### ANNEX A

# CONCLUSIONS OF THE COUNCIL ON THE MEASURES NECESSARY TO GUARANTEE THE EFFECTIVE IMPLEMENTATION OF THE CONCLUSIONS OF THE EUROPEAN COUNCIL ON BUDGETARY DISCIPLINE

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaties establishing the European Communities,

Whereas at its meetings on 19 and 20 March and 25 and 26 June 1984 the European Council reached agreement on a series of decisions and guidelines to ensure the relaunch of the Community and establish a solid basis for further development during the present decade;

Whereas principles on budgetary and financial discipline are specifically laid down;

Whereas the European Council considered it essential that the rigorous rules which at present govern budgetary policy in each member state shall also apply to the budget of the Communities, and stated that the level of expenditure will be fixed on the basis of available revenue, and that budgetary discipline will apply to all budgetary expenditure;

Whereas the European Council invited the Council of Ministers to adopt the measures necessary to guarantee the effective application of the principles as set out in its conclusions,

HAS ADOPTED THE FOLLOWING CONCLUSIONS:

### Article 1

- 1. At the beginning of the budgetary procedure each year, the Council shall fix a reference framework, i.e. the maximum level of expenditure which it considers it must adopt to finance Community policies during the following financial year in accordance with Articles 2 to 5 inclusive and Article 9.
- 2. In order to fix the reference framework, the Council shall act by qualified majority in accordance with Article 148(2), second indent of the EEC Treaty.
- 3. The relevant provisions of the financial guidelines concerning the Common Agricultural Policy, set out in the Annex to the Commission communication of 6 March 1984, shall be implemented; these provisions are annexed to these Conclusions.

### Article 2

The Council shall ensure that the net expenditure relating to agricultural markets calculated in accordance with Article 4, will increase by less than the rate of growth of the own resources base. This development shall be assessed on comparable bases from one year to the next.

Account shall be taken of exceptional circumstances, in particular in connection with enlargement.

### Article 3

The amounts to be taken into account for the application of Article 2 shall be—

(a) as regards expenditure—

that chargeable to Section III, Part B, Titles 1 and 2 (EAGGF Guarantee) of the Budget. The calculation of agricultural expenditure for the purposes of the guideline referred to in Article 2 shall be this expenditure, reduced by the sum of amounts corresponding to the marketing of ACP sugar, refunds in connection with food aid and the payments by producers in respect of the sugar and isoglucose levies as well as the revenue from any future internal agricultural charges;

(b) as regards the own-resources base—

the potential revenue on the basis of which Titles 1 and 2 of the Revenue side of the Budget are determined. The calculation of the Community's own resources base for the purposes of the guideline referred to in Article 2 shall be the total VAT base upon which the VAT rate of the year in question is calculated, the amount of financial contributions (if any) included in the Budget of the year, together with the own resources, other than those derived from VAT, set out in Revenue Title 1, less the sugar and isoglucose levies as well as the revenue from any future internal agricultural charges.

When the potential revenue from VAT is changed following an alteration in the VAT ceiling, the guideline provided for in Article 2 shall thereafter be calculated as if the new maximum VAT rate had been applied in all the years relevant to the calculation of the guideline.

### Article 4

The level of net expenditure relating to agricultural markets for a given financial year shall be calculated as follows—

- (a) the level of expenditure, as defined in Article 3(a), shall be the average of the actual outturn expenditure for 1984, and the best estimate of the outturn for 1985;
- (b) the own resources factor shall be established by dividing the forecast level of the own resources base for the financial year in question, as defined in Article 3(b), by the average own resources base for 1984 and 1985;
- (c) the level of expenditure for the financial year in question shall be determined by multiplying the amounts obtained by the application of paragraphs (a) and (b), unless the Council acting by the majority defined in Article 1(2) decides otherwise;
- (d) the method of calculation shall be re-examined in accordance with the Fontainebleau conclusions under the heading "budgetary imbalances" on the basis of the report to be presented by the Commission one year before the 1·4 per cent VAT ceiling is reached.

### Article 5

In the event of failure to respect the qualitative guideline referred to in Article 2, the Council shall, during the following two financial years, ensure that, barring aberrant developments, agricultural expenditure is brought back within the limits imposed by this guideline. In so doing, the Council shall concentrate its activity primarily on the production sectors responsible for the failure to adhere to the guideline.

### Article 6

- 1. The Council shall, when exercising its powers as legislative authority or branch of the budgetary authority, ensure that the reference framework is respected.
- 2. At the request of a member of the Council or the Commission, the Council, acting by the majority referred to in Article 1(2), may amend the reference framework.

### Article 7

- 1. Except in the case of decisions mentioned in paragraph 4, when the Council is on the point of adopting an act which appears likely to increase expenditure for a financial year beyond the reference framework applicable to that year, the adoption of that act shall, at the request of a member of the Council or the Commission, be suspended.
- 2. Within a period not exceeding one month, the Council, acting by the majority referred to in Article 1(2), shall determine whether the proposed act would, if adopted, lead to the reference framework being exceeded.
- 3. If the Council concludes that the proposed act would, if adopted, lead to the reference framework being exceeded, it shall reconsider the proposed act with a view to taking appropriate measures.
- 4. In the case of decisions affecting net expenditure relating to agricultural markets, the procedures laid down in paragraphs 5(c) and 6(b) of the Annex to the Commission's communication of 6 March 1984 shall apply.

### Article 8

When the Council is on the point of adopting an act which has considerable financial implications for several years, the 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.

### Article 9

- 1. The Council shall comply with the maximum rate provided for in Article 203(9) of the EEC Treaty throughout the budgetary procedure.
  - 2. In order to achieve this:
  - —when establishing the Draft Budget, the Council shall keep the increase in expenditure other than that necessarily resulting from the Treaties

or from acts adopted in accordance therewith to a level no higher than half the maximum rate provided for in Article 203(9);

- -at the second reading, the Council shall adopt a position such that the maximum rate is not exceeded.
- 3. Paragraphs 1 and 2 of this Article are without prejudice to the provisions of Article 203 of the EEC Treaty, particularly those of the last sub-paragraph of paragraph 9.

### Article 10

On the assumption that the 1986 budget will be prepared on the basis of own resources being increased in that year, these conclusions shall first apply to the exercise of the Council's powers in 1985 concerning expenditure in the financial year 1986.

### ANNEX A I

# OF 6 MARCH 1984 REFERRED TO IN ARTICLE 1 PARAGRAPH 3

- "5. As regards the decisions which have a determinant effect on the volume of agricultural expenditure, that is the decision on agricultural prices which the Council of Agriculture Ministers must take each year on a proposal from the Commission, the Commission proposes the following rules—
  - (a) When submitting its agricultural proposals the Commission will supply a quantified estimate of their budget impact in relation to the movement in the growth of the Community's own resource base calculated according to a common and constant formula, namely the sliding average of the growth rates for the current year, the year immediately preceding and the year ahead. These figures will allow a judgement to be made of the compatibility of the proposals with the guideline referred to in paragraph 2.
  - (b) The Commission will draw up its proposals on prices (and related measures) in the light of the guideline referred to in paragraph 2. To this end the Commission confirms that it intends in the coming years to pursue a restrictive price policy for sectors in surplus and for those where a rapid growth in expenditure is coupled with limited outlets for disposal.
  - (c) On this basis the Commission suggests that the European Council request the Council to adopt the following rule: if in the Commission's opinion the Council of Agriculture Ministers seems likely to take decisions whose cost would exceed that of the original proposals of the Commission, the final decision must be referred to a special Council session attended by both Finance and Agriculture Ministers and can be taken only by that special session.
- 6. As regards the preparation and implementation of the budget the Commission proposes the following rules—
  - (a) In submitting its budget proposals in the context of its preliminary draft budget the Commission will take account of all foreseeable expenditure in the budget year concerned, including that stemming from its price proposals.

The aim of the Commission and the Council will thus be to keep EAGGF Guarantee expenditure within the appropriations for the year.

(b) The Commission will institute an early-warning procedure enabling it to detect promptly any risk during the year of budgetary over-runs and report to the Council and Parliament forthwith.\*

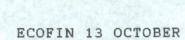
<sup>\*</sup> Apart from a Council decision on prices in excess of the Commission's proposals (when the special decision-making procedure in paragraph 5(c) would apply), such "over-runs" could only occur as a result of compelling economic developments which could not have been foreseen when the budget was adopted.

It will in any event report to the Council and Parliament each month on the trend of agricultural expenditure.

After making use of all the opportunities afforded by the routine management of the CAP it will if need be propose to the Council and Parliament measures designed, without detriment to the principles of the CAP, to restrict increases in agricultural expenditure. It will be incumbent on those institutions to take the necessary decisions as speedily as possible so that these measures can achieve their purpose. Where appropriate the Council's decisions could be taken at a special session of the kind referred to in paragraph 5(c).

The Commission will not introduce a supplementary budget until it has exhausted all the opportunities for savings afforded by the routine management of the CAP and by any additional Council decisions.

(c) In the event of failure to respect the qualitative guideline referred to in paragraph 2 (by reason either of a special Council decision (paragraph 5(c)) or of a supplementary budget), adherence thereto will mean both the Council and the Commission must during the following two financial years ensure that, barring aberrant developments, agricultural expenditure is brought back within the limits imposed by the qualitative guideline. In so doing they must concentrate primarily on the production sectors responsible for the failure to adhere to the guideline."



## LIBERALISATION OF CAPITAL MOVEMENTS

The following are attached:

- (1) a Presidency handling brief, prepared by the Council Secretariat
- (2) UK objective and speaking note for the Minister of State
- (3) background note
- (4) relevant documents, as listed in (1)

2. 7/10

# Council of Ministers (ECOFIN) Luxembourg, 13 October 1986

Point

- 4 3

: Liberalization of capital movements

/Because of the Danish wish to avoid this point appearing on the formal Council agenda, it will be discussed outside the formal session.

Lunch is one possibility. More likely is a discussion in the Council chamber but just before the "formal session" of the Council begins./

# REFERENCE DOCUMENTS

- 9208/86 MDC 3	10 :	Progress report of the Presidency, setting out the main outstanding questions
- 9206/86 MDC	8 :	Last summary of the proceedings of the Financial Questions Group
- 9207/86 MDC	9 :	Draft Directive resulting from the proceedings of the Financial Questions Group
- 9160/86 MDC	7 :	Note of the Spanish delegation
- 885 <b>3</b> /86 MDC	6 :	Report by the Committee of Central Bank Governors

# OBJECTIVES

- take note of progress made by Group and COREPER.
- request COREPER to find a solution for last outstanding questions, with a view to final adoption of Directive at next ECOFIN Council.
- give guidance to COREPER on date of application in Spain and Portugal. .../...

### DRAFT OPENING STATEMENT

For the convenience of our Danish friends, we have agreed to discuss this point outside the formal session. In any case, our objective for this subject is not to take any formal decision but to take note of the progress made by the Group and COREPER and to give them some guidance for the solution of the remaining problems.

To this end, we have received a progress-report, circulated under n° 9208/86 MDC 10. It indicates that the Group has already reached broad agreement on the draft directive and it sets out four outstanding questions. I want to express my satisfaction on this achievement and I am sure that the Group and COREPER will soon succeed in solving the remaining problems so that we can finally adopt the directive at our next session on 17 November. By then, we will have also received the European Parliament opinion, which is due for the week beginning the 20th October.

I am also grateful for the Report of our Central Bank Governors, circulated as doc. 8853/86 MDC 6 which gives a general welcome to the Commission's proposal. As to the Monetary Committee, it is my understanding, that it has given its general support to this proposal and that it does not intend to reconsider it unless a further examination seems necessary in order to provide political momentum.

I suggest that we focus our discussion today on the fourth outstanding problem, i.e. the <u>derogation for Spain and Portugal</u>. It is set out on page 3 of the progress report, document 9208/86.

To start things off, may I ask our Spanish and Portuguese colleagues, whether there would be a greater chance that they could join the majority on the two other outstanding issues, if their demands on the date of application were satisfied?

/These two issues, set out on page 2 of document 9208/86, are : Acquisition of UCITS and admission of securities to capital markets.7

After having heard their response, I would like to ask the other delegations and the Commission whether, on that basis, they are prepared to show some flexibility so far as the date of entry into force in Spain and Portugal is concerned.

.../...

# SUGGESTED CONCLUSIONS

- 1. Note that flexibility has been shown on both sides.
- 2. Request COREPER to solve the last outstanding questions with the intention of getting final agreement of this proposal at ECOFIN on 17 November 1986.

### EEC ECOFIN 13 OCTOBER 1986

BRIEF C MINISTER OF STATE'S SPEAKING NOTE

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

<u>UK Objective:</u> To secure agreement on the current proposal on the liberalisation of capital movements, preferably by the November ECOFIN so that it is safely within the terms of the UK Presidency.

## Line to Take (speaking note - Minister of State)

- the UK would like to see agreement on the Draft Directive in its current form [9207/86: the draft directive resulting from the proceedings of the Financial Questions Group];
- however, there is understanding of the difficulties of adjustment that some countries, like Spain and Portugal, are facing; some flexibility is surely in order;
- therefore, the UK is willing to accept a later date of entry into force for Spain and Portugal, if they will join us in agreement on the remaining points of the directive.

## Background:

. 3567,025

Relevant documents (attached):

9208/86	MDC	10:	Progress report of the Presidency, setting out the
			main outstanding questions.
9206/86	MDC	8:	Last summary of the proceedings of the Financial Questions Group
9207/86	MDC	9:	Draft Directive resulting from the proceedings of the Financial Questions Group.
9160/86	MDC	7:	Note of the Spanish delegation
8853/86	MDC	6:	Report by the Committe of the Central Bank Governors.

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.

It would transfer three categories of financial transaction 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 would create tighter constraints on the operation of the Belgians' dual exchange market.

# RESTRICTED

The main outstanding issues are given in 9208/86 and they are summarised in the following table;-

ISSUE	OPPOSING COUNTRY	COMMENT
A Liberalisation of		A qualified majority
the acquisition	Greece	will mean that Greece's
of securities not		opposition does not
dealt in on		matter.
stock exchanges.		
B Liberalisation of	Italy	If Spain's application for
transactions in unit	s Greece	a derogation (see issue D
of collective	Spain	below) is permitted they
investment		may give way on this
undertakings (UCITS)		issue.
[unit trusts]		
		The objections of Italy and
		Greece would then not matter
		because a qualified majority would
		exist.
C Liberalisation of	Spain	IF Spain and Portugal's application
securities in	Greece	for a derogation (see issue D below
the process of	Ireland	is permitted they may give
being admitted	Italy	way on this issue
to capital	Portugal	
markets.		AND IF France or Italy
	France	will agree to the proposal
	reserved its	
	position.	THEN a qualified majority
		will exist.

D Derogation for Spain and Portugal.

All countries
reserved
their position
because of
the political
nature of
the request.

An extension of two years on the derogations for Spain and Portugal is a reasonable concession

IF they agree to movement on issues B and C.

[1988 to 1990 for Spain and 1990 to 1992 for Portugal.

- 3. A point to be sustained is that Spain and Portugal agree to a trade-off between their request for extensions to their derogations and their reluctance to accept the issues in B and C.
- 4. However the UK is anxious to see as much as possible of the Directive go forward to Council for agreement. The Spanish/Portugese trade-off is not the only thing necessary for agreement: either France or Italy must agree to issue C, they are the only countries with enough votes to ensure a qualified majority. Italy has already taken a firm line but France has yet to decide and, given its recent efforts to liberalise its economy, may well agree. It is probably best that this point is not dealt with in EcoFin (apart from a general urging by the Presidency for all countries to support the passage of the Directive). If France wants to say Yes then there is no more to be done; if France wants to say No then it is best tackled in the Working Group because the point is technical and it involves some inconsistency on the part of the French delegation to the Group.
- 5. If France says No then a fallback position may be that issue C, trading in securities in the process of admission to a stock exchance, is removed from this directive and included in the second directive. This is not a desirable solution and it is one that the delegates to the Working Group will strive to avoid. The reason for this is that the countries taking a hard line on the issue, like Germany and the Netherlands, may object and so unstitch the whole directive.

THE NEW COMMUNITY INSTRUMENT (NCI IV): PRESIDENCY BRIEF

### PRESIDENCY OBJECTIVE

To move towards a compromise on this issue, through discussion of a number of conditions which could be attached to NCI IV in order to make it acceptable to those member states opposed to the NCI (Germany, the Netherlands) and to those still undecided (the UK, Denmark).

### PRESIDENCY SPEAKING NOTE

- Recall discussion over lunch at Gleneagles. Need some action on SMEs in light of discussion at Hague European Council.
- Considered at Gleneagles possibility of discontinuing the NCI, and letting the EIB take over its functions.
- Suggest discussion today should again focus on whether in principle the Commission's proposal for NCI IV should be accepted.
- In particular, on what conditions would those previously opposed to or sceptical about NCI IV be prepared to reconsider? Suggest following possibilities (some of which already discussed at Coreper) which could be elements in overall compromise:
  - (a) two separate tranches, each subject to Council Decision; or maximum time duration ie date beyond which unused NCI IV resources would lapse.
  - (b) agreement that Commission/EIB will conduct The fundamental study of case for EIB taking over NCI lending, before any further such facilities are considered;
  - (c) recognition that exclusion of infrastructure from NCI IV means that Community lending for infrastructure will now be exclusively undertaken by EIB;
  - (d) understanding that NCI IV will be the Community's complete response on provision of capital for small and medium sized undertakings, and that there will be no budgetary provision or guarantees for this purpose.

(Following discussion and summing up, and assuming that several delegates have supported NCI IV):

- suggest we ask (Dutch, German, Danish and UK) colleagues to reflect further on possibility of compromise solution (along lines indicated above), and that we come to 17
November ECOFIN with firm intentions to settle this matter.

 suggest Coreper takes forward today's discussion, with view to reaching agreed position for ECOFIN on 17 November.

PAPERS

See also lettes from President of EIB (immediately below)

NCI IV: BRIEF FOR MINISTER OF STATE

### UK OBJECTIVE

- 1. To support the Presidency in its attempts to reach a compromise.
- 2. To encourage the idea that any compromise package involving the continuation of the NCI should preclude:
  - (a) new Commission initiatives on Community lending for infrastructure, and
  - (b) Community budget provision or guarantees of risk capital for small firms;

and that there should be no future NCIs unless a very strong case can be made as to why the EIB should not carry out this lending.

### LINE TO TAKE

- UK still sceptical about need for separate NCI. Surely persuasive arguments for EIB taking over this work.
- Nevertheless, willing to consider compromise package involving Commission's NCI IV proposal. Note that the Commission and some member states regard this as of considerable importance in improving performance of SMEs. That is an overall objective which the UK shares.
- Package should include:
  - (a) agreement that there will be no new separate Community lending instruments or guarantees for infrastructure or for other types of projects now excluded from the NCI, and that EIB will be responsible for Community project lending for infrastructure;
  - (b) agreement that, with NCI IV, no need for Community budgetary provision for risk capital or guarantees for small firms.
- Agree on need for study of possibility of EIB taking over NCI function in future - this must be considered as serious option. Indeed, presumption should be that NCI will finish, unless the results of the study are very positively in favour of it continuing.
- No objection to tranches for NCI IV, or maximum time duration of suitable length.

#### BACKGROUND

Relevant documents (attached):

(1) text of NCI IV draft Decision, as it stands following Working Part discussion - Document 7991/86

(2) introductory note of the Council Secretariat setting out the open questions - Document 9112/86

(3) opinion of the European Parliament - Document 9979/85

(4) opinion of the Economic and Social Committee

(5) Presidency handling brief prepared by Council Secretariat (this is attached for information - we have prepared our own Presidency brief)

## The NCI IV Proposal

1. The New Community Instrument (NCI) enables the Commission to borrow on the capital markets, and to on-lend, via the European Investment Bank (EIB), to help finance energy, industry and infrastructure projects in member states. Like all EIB lending, NCI loans have to have adequate security; but, in addition, there is a second stage guarantee from the Community budget. So far, the Council has authorised the following amounts for lending under the NCI:

NCI	I	1978	1,000 mecu
NCI	II	1982	1,000 mecu
NCI	III	1983	3,000 mecu

The current NCI, NCI III, has been released by the Council in tranches. So far, two tranches totalling 2,900 mecu have been activated, but this is nearing exhaustion. The Commission have therefore proposed a new NCI IV. Its adoption would require unanimity in the Council.

- 2. The remaining 100 mecu in NCI III has been kept back by the Commission for "innovation loans" ie loans for higher risk projects combined with a guarantee fund provided from the Community budget. The Commission have never formally put this proposal to the Council, largely because of UK opposition, and it is not at all clear what they now plan for the remaining 100 mecu.
- 3. The amount of lending in the proposed NCI IV is 1500 mecu. Unlike previous NCIs (but reflecting the change in emphasis over the NCI's history), this would be entirely devoted to lending to small and medium sized enterprises (SMEs), mainly via global loans (ie where money is lent to financial intermediaries for on-lending in smaller parcels). As with previous NCIs, lending would be concentrated in non-assisted areas. The emphasis on SMEs, the Commission argue, requires some new financing arrangements (set out in Article 4 of the draft Decision):
  - (a) possible deferment of capital and interest payments;
  - (b) the possibility of finance for intangible assets such as patents, R&D;
  - (c) finance in the form of share capital, instead of loans, where appropriate.

The draft decision limits the ownership of share capital under (c) to the financial intermediaries operating global loans. But it

seems that (a) would apply both to loans from the EIB to the intermediaries, and from the intermediaries to the final borrowers.

Arguments on NCI Retention/Abolition

- 4. We have always favoured abolishing the NCI. The EIB is the Community institution charged with project lending in member states, and the Commission has not demonstrated that the private market and the EIB between them cannot meet the financing needs of SMEs with worthwhile projects. Even under the NCI, the EIB grants and administers the loans. Although it is true that EIB own resources global lending to SMEs has tended to be in the assisted areas only, this probably reflects the existence of the NCI and its concentration on non-assisted areas.
- 5. We have considered whether, from a legal point of view, the EIB could, under Article 130 of the EEC Treaty with its emphasis on regional development, undertake global lending to smes outside the asissted areas, thus allowing discontinuation of the NCI. Treasury Solicitors think that the EIB could so lend, and that NCI absorption could be formalised quickly and simply by means of a decision by the EIB Board of Governors under Article 9(2) of its Statute. The EIB itself thinks that there is no juridical barrier to its undertaking the NCI function.
- 6. Our dislike of the NCI is shared by the Dutch and the Germans, who have expressed outright opposition to NCI IV. The Danes are officially registered as undecided: there is an unresolved conflict between the Danish Ministry of Economic Affairs (which wants to reject the proposal) and the Danish Foreign Ministry (which wants to accept). Our position is formally reserved, but in the light of your reaction to the Gleneagles discussion we have indicated at Coreper that we would hope to be able to look positively and constructively at any compromise suggestion.
- 7. We have always recognised, however, that there are pragmatic arguments working against rejection of the NCI IV proposal:
  - (a) the NCI is already well entrenched, and is supported by the other eight member states (ie Belgium, Spain, France, Greece, Ireland, Italy, Luxembourg and Portugal). However, we understand that there is a slight possibility that France might weaken its support.
  - (b) the NCI costs us nothing (though a contingent liability on the Community budget), whereas some argue that its demise could just possibly lead to pressure for a further increase in the EIB's subscribed capital, which could have (small) public expenditure implications;
- 8. It is also the case that agreement on NCI IV could be presented as a positive contribution by ECOFIN and the UK Presidency towards improving the climate for SMEs - an area of Community policy to which we attach considerable importance in general and a theme which we have used to some advantage eg in getting a relatively helpful proposal out of the Commission on the VAT small traders Directive,
- 9. Therefore, the UK has been prepared to consider two options:
  - (1) abolishing the NCI, and allowing the EIB to undertake

global lending to smes in non-assisted areas;
(2) accepting NCI IV, and trading this off against no separate
NCI for infrastructure, and no Community budget guarantees
or provision of risk capital for small firms (for which the
Commission have included some items in the 1987 Preliminary
Draft Budget)

Recent discussion on NCI IV 10. At the July ECOFIN, the Germans spoke forcefully in favour of the EIB absorption option. Largely because of this, we raised the NCI over lunch at the informal ECOFIN in September, with the aim of marshalling agreement on this approach. However, it seems that there was little, if any, movement in this direction, and that member states stuck to their previous positions. Since then, the NCI has been discussed in Coreper, where we have floated several ideas on circumscribing the NCI to make it acceptable to the Dutch and the Germans (and, of course, to us). These ideas are along the lines of the following:

(a) a Commission/EIB study of the NCI on the <u>future</u> possibility of the EIB taking over the NCI function. This would at least officially leave open the possibility of NCI abolition. However, the idea would be that there would be a strong presumption that NCI IV would be the last NCI, unless the results of the study were very positively in favour of it continuing. Ideally, a commitment to no future NCI would be recorded as a Council declaration for the minutes; more realistically, some member states might make individual declarations to this effect.

(b) separate tranches (probably two) within NCI IV (as in some previous NCIs), each subject to a Council Decision. (The UK could go along with this, although, since the total involved is only 1500 mecu, it would seem to be a waste of Council time.) Alternatively, a maximum time duration (eg 2 years) could be placed on NCI IV, so that if it was not exhausted during this period, borrowing under it would cease.

## More controversially:

(c) agreement that the proposed reduction in the coverage of the NCI is appropriate, and that the Commission will not bring forward any proposals for NCI-type instruments for types of projects covered by previous NCIs but not covered by NCI IV, principally infrastructure.

(d) agreement that NCI IV would constitute the Community's response on smes as far as provision of capital is concerned, and that therefore there should be nothing in

the Community budget for this.

Again, we would prefer unanimous Council agreement on (c) and (d) to be recorded in the Council minutes when NCI IV is adopted; more likely, we will have to be content with some individual member states' declarations. Points (a) (c) and (d) are strong UK preferences, and are the points most likely to bring round the Germans and the Dutch (although we understand that the Germans are still adamant in their opposition to the NCI). However, the Commission can be expected to oppose them.

11. Sir David Hannay floated some of these ideas with Delors at a

recent meeting. Delors indicated that the Commission would consider them seriously, though we understand that there are serious doubts in his Cabinet and elsewhere within the Commission about any understanding that there will never again be anything like the NCI.

12. In respect of the new financing arrangements for NCI IV (see paragraph 4 above), we have considered whether these would constitute an increased risk to the Community budget, and indeed, we have so far reserved our position on them. However, the EIB has said that the first stage guarantee arrangements for the NCI would not be altered, and the Commission has offered a minutes statement to the effect that there will be no additional risk to the Community budget as compared to previous NCIs. On this basis, we are inclined to lift our reserve. However, the Council discussion is unlikely to get down to this level of detail.

# Discussion at this ECOFIN

Presidency role

13. The Presidency role at this ECOFIN, following the apparent rejection of the EIB option at Gleneagles, is to float the idea of a compromise circumscribed NCI IV on the lines of paragraph 10 above.

UK position

14. On the assumption that the EIB option is still a non-starter, to press the conditions at 10(a), (c) and (d) to be attached to NCI IV.

Possible outcome

15. It will not be possible to reach complete agreement at the ECOFIN. Even if the log jam is broken, there are still detailed points on the text to be cleared up by officials. But any movement towards a compromise could be carried forward by Coreper and the Financial Questions working group, and discussion resumed in ECOFIN on 17 November.

The NCI, the EIB and the Court of Auditors
16. A detailed point of which you should be aware is the following. As it becomes more likely that there will be a NCI IV, the EIB, who will administer the loans under it, are becoming anxious about the EC Court of Auditors' attempts to conduct on the spot checks on NCI financed projects. The EIB feels that such checks are a wasteful duplication of their own audit procedures, and pose a serious threat to normal bank confidentiality and competitiveness. The EIB's concern is to ensure that the relevant Article of the NCI IV Decision (Article 10) should state firmly that the audit and discharge procedures applicable should be those (and only those) set out in the Statutes of the EIB. The President of the EIB, Dr Broder, has written to the Chairman of the EIB Board of Governors, Mr Simonsen, who has endorsed the EIB line, and has authorised the circulation of Broder's letter to all the Governors.

17. We are not entirely convinced that the EIB's preferred wording of Article 10 would have the legal effect which it is seeking. However, we have previously supported EIB policy on this point, and are content, if asked, to support the EIB and to leave it to agree a suitable form of words with the Commission. Most member states seem happy to support the EIB, and we do not expect the

point to be raised at ECOFIN - this part of the text will be settled in the working group.

FROM: JANET BARBER DATE: 10 OCTOBER 1986

MR LAVELLE

cc PS/Chancellor

ECOFIN: GREEK CEMENT

After the ECOFIN briefing had been finalised, DTI rang me to say that they had just received a telegram from UKREP, saying the following:

- (a) Commissioner Sutherland is opposed to industry-to-industry talks on Greek cement, and:
- (b) he will be pursuing this with the Greeks on 13/14 October.

Whether (b) means with Simitis at ECOFIN is not clear.

2. This does not worry us, as we would greatly prefer official talks anyway, as is made clear in the ECOFIN brief. But the Chancellor ought to be aware.

Janet Barler

JANET BARBER EC1

The Secretariet do not now expect Similis to be in Luxemboury on Monday. So no road Alvaire Greak Coment. Lux

10



ECOFIN - 13 OCTOBER

BRIEF E

GREEK CEMENT

## UK Objective

- Keeping the pressure on Simitis for action on subsidies.

# Points to Make - initial

- We spoke about the Greek cement issue at Gleneagles.
- You asked me not to raise the matter to-day because of the elections in Greece.
  - We must have early action to remove this distortion of competition otherwise I shall have to raise the problem at the next ECOFIN. Hope that your offer of industry to industry talks (perhaps with Commission and Government officials being involved) will help resolve the problem quickly. Your industry must be ready to make substantial commitments to reduce exports to UK.

## Background

- 1. UK industry very concerned at threat of imports of subsidized Greek cement. Imports have now started on a limited scale. The main subsidy involved is the Greek export subsidy, part of the package of Greek trade measures authorised by the Commission.
- At Gleneagles (Informal ECOFIN, 19/20 September) Simitis said he would do something on subsidies if we kept this issue off the agenda for ECOFIN which coincides with elections in Greece. We have fulfilled our part of the bargain: the Greek response has been limited to the offer of talks between the two countries' cement industries to limit disruption of the UK market. We see subsidies as a problem for governments and asked for official talks. The Greeks have refused. We are therefore going ahead with industry talks providing the Commission clear competition policy aspects. We would prefer Government (and possibly Commission) officials to be associated with the talks although this is not a sticking point.
- 3. We doubt whether these talks will resolve the problem: we must therefore keep up the pressure on Simitis to



curb Greek cement exports and to reach a satisfactory conclusion on all the Greek trade measures.

European Commercial and Industrial Policy Division Department of Trade and Industry 10 October 1986 ECOFIN: 13 OCTOBER

### REPEAL OF THE EXCHANGE CONTROL ACT

## UK Objectives

To confirm that Delors has checked with Commission lawyers that there are no obstacles from the 1972 Directive to repeal of British Act.

### Line to take

Spoke about intention to repeal British Exchange Control Act at Gleneagles. Grateful to Delors for listening and understand that he has had opportunity to think about it and take advice from Commission lawyers. Is he yet able to give a definitive view?

## Background

At Gleneagles you spoke to Delors about the possibility that repeal of the Exchange Control Act might be construed as putting UK technically in breach of 1972 Directive on inflow controls. He said he would take advice on the point. Since then he has told Hannay his initial view is that there should be no problem (Mr Lavelle's minute of 6 October); that Commission lawyers have not contradicted this, but that he wanted a little more time to form definitive view.

ECOFIN BRIEFING: Exchange Control.

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FROM UKREP BRUSSELS
FROFIN 13 OCTOBER 1986

SUMMARY REPORT

1. THE CHANCELLOR OF THE EXCHEQUER CHAIRED THE COUNCIL:
MR BROOKE, MINISTER OF STATE, TREASURY, REPRESENTED THE UK.

" ATT POINTS

2. "A" POINTS LISTED IN DOCUMENT 9516/86 APPROVED.

#### CAPITAL MOVEMENTS

3. DISCUSSED BEFORE THE FORMAL OPENING OF THE COUNCIL SESSION.
NO OBJECTION TO SPANISH AND PORTUGUESE REQUESTS FOR DELAYING FOR
TWO YEARS THE APPLICATION OF THE PROPOSED DIRECTIVE TO THEM.
COREPER TO PREPARE FOR ADOPTION AT 17 NOVEMBER ECOFIN.

#### NIC IV

4. INCONCLUSIVE DISCUSSION IN WHICH DELEGATIONS MAINTAINED THEIR POSITIONS. BACK TO COREPER IN PREPARATION FOR NOVEMBER ECOFIN.

## AGRICULTURAL SPENDING

5. USEFUL DISCUSSION OVER LUNCH, WITH GENERAL AGREEMENT ON SERIOUSNESS AND URGENCY OF SITUATION. COMMISSION GIVE GLOOMY ESTIMATE OF 1987 SITUATION AND PROMISE DRASTIC REFORM PROPOSALS FOR 1987 PRICE-FIXING. PRESIDENCY CONCLUSIONS ISSUED INCLUDING REFERENCES TO NEED TO TAKE ACCOUNT OF MARKET CONDITIONS, TO MAKE INTERVENTION A SAFETY NET RATHER THAN A PRINCIPAL MARKET AND TO LIMIT RISKS TO PUBLIC FUNDS. GERMAN, DANISH AND DUTCH RESERVES.

5. DETAILS OF ITEMS 3-5 IN MY THREE IFTS. TEXT OF PRESIDENCY CONCLUSIONS IN MY FOURTH IFT.

YYYY ADVANCE WALL FOO BLOOMFIELD FCO RICHARDSON ECD(P) FCO RENWICK FCO JAY CAD MERCER CAB HADLEY MAFF PERRINSMAFF PS/CHANCELLOR TSY PS/MST TSY LAVELLE TSY EDWARDS TSY MORTIMER TSY BARBER TSY KIRBY BANK TYLER ECGD MAIN FRAME ECONOMIC

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INFO PRIORITY LISBON, MADRID

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

INFO ROUTINE PARIS, BONN, ATHENS

PS/MET: Mr beaber, Mr Osbarne, Mr Brakine

FRAME ECONOMIC

ECOFIN, 13 OCTOBER 1986 : CAPITAL MOVEMENTS.

#### SUMMARY

1. NO OBJECTION TO SPANISH AND PORTUGUESE REQUESTS FOR TWO YEARS' DELAY IN APPLICATION TO THEM. COREPER TO PREPARE FOR ADOPTION AT 17 NOVEMBER ECOFIN.

#### DETAIL

- 2. DISCUSSION TOOK PLACE BEFORE THE FORMAL OPENING OF THE COUNCIL SESSION, BECAUSE OF THE DANISH DESIRE TO AVOID A REFERENCE TO THE LIBERALISATION OF CAPITAL MOVEMENTS ON THE AGENDA OF THIS COUNCIL.
- 3. FROM THE CHAIR, THE CHANCELLOR NOTED THAT GOOD PROGRESS HAD BEEN MADE TOWARDS AGREEMENT ON THE COMMISSION'S PROPOSAL, WHICH HAD THE SUPPORT OF THE MONETARY COMMITTEE AND THE COMMITTEE OF CENTRAL BANK GOVERNORS. MINISTERS SHOULD CONCENTRATE ON THE POLITICAL ISSUE POSED BY THE SPANISH AND PORTUGUESE REQUESTS THAT THE NEW DIRECTIVE BE APPLIED TO THEM IN 1990 AND 1992 RESPECTIVELY, TWO YEARS LATER THAN THE COMMISSION PROPOSED. WOULD SPAIN AND PORTUGAL BE MORE LIKELY TO JOIN THE MAJORITY ON OTHER ASPECTS OF THE COMMISSION'S PROPOSAL IF THEIR CONCERNS WERE MET ON THE DATE OF ENTRY INTO FORCE?
- 4. SOLCHAGA (SPAIN) AND MARTINS (PORTUGAL) RESTATED THEIR ARGUMENTS FOR A LONGER DELAY THAN PROPOSED BY THE COMMISSION, SOLCHAGA EMPHASISING THAT THE SPANISH CONCERN WAS ONE OF PRINCIPLE MOT PRACTICE. SPAIN WOULD PROBABLY LIBERALISE

SOLCHAGA EMPHASISING THAT THE SPANISH CONCERN WAS ONE OF PRINCIPLE, NOT PRACTICE. SPAIN WOULD PROBABLY LIBERALISE SOME TRANSACTIONS EARLIER THAN REQUIRED BY THE TREATY OF ACCESSION, BUT NO NEW OBLIGATION SHOULD BE IMPOSED BEFORE 1990. ON OTHER ASPECTS OF THE PROPOSAL, SPAIN WOULD BE CO-OPERATIVE AND FLEXIBLE.

- 5. DELORS (COMMISSION) REFUSED TO ACCEPT SOLCHAGA'S ARGUMENT OF PRINCIPLE: THE COMMUNITY COULD NOT STAND STILL. BUT THE COMMISSION COULD ACCEPT THAT THE TWO NEW MEMBER STATES WOULD HAVE PROBLEMS IN COMPLYING WITH THE COMMISSION'S PROPOSAL. (DELORS' CABINET CONFIRMED AFTERWARDS THAT THIS WAS A CODED ACKNOWLEDGEMENT THAT THE COMMISSION WOULD AMEND ITS PROPOSAL IN DUE COURSE.)
- 6. NO OTHER MINISTER RESPONDED TO THE CHANCELLOR'S INVITATION TO COMMENT. THE CHANCELLOR TOOK SILENCE TO MEAN ASSENT TO THE SPANISH AND PORTUGUESE REQUESTS: AND SUMMED UP TO THE EFFECT THAT THE COUNCIL HAD SHOWN SUFFICIENT FLEXIBILITY TO PERMIT COREPER TO RESOLVE THE REMAINING PROBLEMS AND PERMIT ADOPTION AT THE 17 NOVEMBER ECOFIN.

MILES

YYYY ADVANCE: WALL FCO BLOOMFIELD FCO RICHARDSON ECD(P) FCO JAY CAB MERCER CAB PS/CHANCELLOR TSY PS/MST TSY LAVELLE TSY EDWARDS TSY MORTIMER TSY BARBER TSY OSBORNE TSY KIRBY BANK ERSKINE TSY MAIN: FRAME ECONOMIC UKREP DIST: - 31/29/ECON

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PERMANENT SECRETARY

MAFF

RESTRICTED

FM LUXEMBOURG

PS/16 housellor: PS/MST

TO DESKBY 140800Z FCO

for Edwards, her Mortimes, Mr Rances

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FROM UKREP BRUSSELS

ECOFIN 13 OCTOBER 1986 : NIC IV

#### SUMMARY

1. INCONCLUSIVE DISCUSSION IN WHICH DELEGATIONS MAINTAINED THEIR POSITIONS. COREPER TO RECONSIDER IN PREPARATION FOR NOVEMBER ECOFIN.

### DETAIL

- 2. THE CHANCELLOR REMINDED COLLEAGUES THAT AT GLENEAGLES ALL AGREED THAT THERE SHOULD BE A COMMUNITY FINANCING FACILITY FOR SMES WITH LENDING MANAGED BY THE EIB BUT THAT THERE WAS DISAGREEMENT ABOUT WHETHER BORROWING SHOULD BE THE BANK'S RESPONSIBILITY OR THE COMMISSION'S AS WOULD BE THE CASE UNDER NIC IV. PERHAPS THE ELEMENTS THAT HAD BEEN FLOATED AS A COMPROMISE DURING COREPER COULD BE COMBINED IN A WAY THAT WOULD ALLOW AN AGREEMENT TO BE REACHED. THESE ELEMENTS INCLUDED A STUDY ON WHICH INSTITUTION SHOULD HAVE RESPONSIBILITY FOR NIC-TYPE ACTIVITY IN THE FUTURE: A TWO-TRANCHE NIC OR A NIC WITH A MAXIMUM DURATION: AN AGREEMENT THAT INFRASTRUCTURE LENDING (EXCLUDED IN THE NIC IV PROPOSAL) SHOULD BE EXCLUSIVELY UNDERTAKEN BY THE EIB.
- 3. STOLTENBERG (GERMANY) REITERATED THAT THE COMMISSION SHOULD NOT BE INVOLVED IN BORROWING FOR BANKING PURPOSES. THE EIB'S RECENT CAPITAL INCREASE MEANT THAT ITS RESOURCES WERE ADEQUATE. THE

GERMAN PARLIAMENT WAS STRONGLY OPPOSED TO THE NIC PROPOSAL. MAAS (NETHERLANDS) ENDORSED STOLTENBERG'S OBSERVATIONS BUT SUGGESTED THAT A COMPROMISE WAS NECESSARY. THEY COULD SUPPORT A STUDY BUT A MAXIMUM DURATION FOR NIC IV MIGHT ENCOURAGE IMPRUDENT LENDING.

4. MATUTES (COMMISSION) REPEATED THE CASE FOR THE NIC ON STANDARD TERMS, IN SO DOING MISLEADING THE COUNCIL WITH THE ARGUMENT THAT THE EIB WOULD NOT BE ABLE TO MAKE THE TYPE OF EQUITY INVESTMENTS FOR SMES ENVISAGED IN ARTICLE 4 OF THE NIC PROPOSAL. THE CHANCELLOR EXPLAINED THAT SUCH FINANCE WOULD BE PROVIDED THROUGH FINANCIAL INTERMEDIARIES.

5. THE CHANCELLOR THEN TRIED OUT THE ALTERNATIVE APPROACH OF A SPECIFIC EIB DECISION TO TAKE ON THE FUNCTIONS PROPOSED BY NIC PENDING THE CONCLUSIONS OF A THOROUGH STUDY ON WHETHER THERE WAS A ROLE FOR THE COMMISSION IN THIS ACTIVITY. THIS SUGGESTION MET WITH SUPPORT FROM STOLTENBERG AND MAAS BUT OPPOSITION FROM SCHEER (FRANCE), PAPANTONIOU (GREECE) AND BRUTON (IRELAND). GORIA ALSO DOUBTED WHETHER ARTICLE 130 OF THE TREATY PERMITTED THE EIB TO UNDERTAKE THIS ACTIVITY. THE CHANCELLOR RULED THAT A CLEAR LEGAL VIEW FROM THE BANK WOULD BE HELPFUL, THE COUNCIL LEGAL SERVICES HAVING MEANWHILE DECLINED TO COMMENT. EYSKENS (BELGIUM) SUGGESTED THAT A COMPROMISE COULD PERHAPS INVOLVE: A NIC IV BORROWING 750 MECU WITH A ONE YEAR DURATION PENDING THE CONCLUSIONS OF A STUDY.

6. SUMMING UP THE DISCUSSION, THE CHANCELLOR NOTED THAT POSITIONS HAD NOT CHANGED SINCE GLENEAGLES AND URGED DELEGATIONS TO CONSIDER CAREFULLY THE ELEMENTS THAT MIGHT MAKE COMPROMISE POSSIBLE. HE HOPED THAT IT WOULD BE POSSIBLE TO REACH AGREEMENT AT THE NOVEMBER COUNCIL, IN THE LIGHT OF FURTHER WORK BY COREPER.

MILES

YYYY

ADVANCE WALL FCO V BLOOMFIELD FCO RICHARDSON ECD(P) FCO JAY CAB MERCER CAB HEALEY DTIV PS/CHANCELLOR TSY PS/MST TSY LAVELLE TSY EDWARDS TSY MORTIMER TSY BARBER TSY KIRBY BANK MAIN FRAME ECONOMIC

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PS/MRS CHALKER MR RENVICE

MR BRAITHWAITE

RESIDENT CLERK

HD/ECD(I) HD/NEWS DEPT HD/ECD (c)

EO (P)

PLUS FCO

IMMEDIATE

Mr Harrison BO(1)

CABINET OFFICE MR D WILLIAMSON MR JH HOLROYD MR M H JAY MR B E MCADAM H M TREASURY The Domituy R RT BONNEY GLITTLER

M J. E. MORTIMOR Na C. D. CRASSIE DA R.G. LAVOUE CHANCELLOR

DTI

SCOTTISH OFFICE MI A O HING MA I SNEDDON

MAFF

MR FRANKLIN MR D ANDREWS MR RS THOMAS MR THOMSON - ECDIN ne Perrins

PLUS OGDS

PSI DINISTER RESTRICTED

FM LUXEMBOURG TO IMMEDIATE F C O

TELNO 269

OF 131901Z OCTOBER 86

INFO IMMEDIATE UKREP BRUSSELS INFO PRIORITY EUROPEAN COMMUNITY POSTS

FRAME ECONOMIC/FRAME AGRICULTURE

FROM UKREP BRUSSELS

ECOFIN COUNCIL, 13 OCTOBER 1986. AGRICULTURAL SPENDING.

#### SUMMARY

1. DISCUSSION OVER LUNCH, WITH GENERAL AGREEMENT ON SERIOUSNESS AND URGENCY OF SITUATION. COMMISSION GIVE GLOOMY ESTIMATE OF 1987 SITUATION AND PROMISE DRASTIC REFORM PROPOSALS FOR 1987 PRICE-FIXING. PRESIDENCY CONCLUSIONS ISSUED INCLUDING REFERENCES TO NEED TO TAKE ACCOUNT OF MARKET CONDITIONS, TO MAKE INTERVENTION A SAFETY NET RATHER THAN A PRINCIPAL MARKET AND TO LIMIT RISKS TO PUBLIC FUNDS. GERMAN, DANISH AND DUTCH RESERVES.

### DETAIL

3. OVER LUNCH, THE CHANCELLOR OF THE EXCHEQUER OPENED DISCUSSION BY STRESSING THAT AGRICULTURAL EXPENDITURE WAS NOT JUST A SHORT-TERM PROBLEM IN 1987, BUT A LONG-TERM ONE. HE DID NOT WISH TO PRE-EMPT THE AGRICULTURE COUNCIL, BUT ECOFIN WAS CONCERNED ABOUT THE PUBLIC EXPENDITURE AND BUDGET DISCIPLINE ASPECTS. HE HOPED MINISTERS COULD AGREE ON THE NEED FOR EARLY ACTION AND THREE GUIDING PRINCIPLES: THAT PRICES SHOULD MORE CLOSELY REFLECT MARKET CONDITIONS, THAT INTERVENTION SHOULD OPERATE AS A SAFETY NET NOT AS A PRINCIPAL MARKET: AND THAT PRICE POLICIES SHOULD BE MORE FLEXIBLY OFERATED SO PUBLIC FINANCE DID NOT BEAR THE WHOLE INTERNATIONAL DISCUSSIONS ON ACRICULTURAL TRADE PROBLEMS WERE ALREADY UNDER WAY, BUT COMMUNITY PROBLEMS NEEDED MORE URGENT ACTION.

DELORS (COMMISSION) SAID REAL AGRICULTURAL PRICES HAD FALLEN 12% SINCE AGRICULTURE MINISTERS STARTED TAKING \*COURAGEOUS DECISIONS! IN 1984. BUT THE SITUATION WAS STILL NOT TOLERABLE AND THEREFORE THE COMMISSION WOULD PUT FORWARD NEW PROPOSALS BEFORE THE END OF THE YEAR. THE CAP FACED FOUR PROBLEMS: THE

AND THEREFORE THE CONMISSION WOULD PUT FORWARD NEW PROPOSALS

ALFORE THE END OF THE YEAR. THE CAP FACED FOUR PROBLEMS: THE

BUDGETARY ONE, WHICH HAD TO INCLUDE THE PROBLEM OF STOCKS: THE:

ECONOMIC AND SOCIAL ASPECT. GIVEN THAT IT WAS NOT CONSISTENT—

WITH REGIONAL POLICY TO FORCE PEOPLE OFF THE LAND WHEN UNEMPLOYMENT
IN THE COMMUNITY WAS ALREADY SO HIGH, THOUGH HE HIMSELF HAD

ALWAYS BELIEVED IN CUTTING THE LINK BETWEEN COMMON PRICES AND SOCIAL

SUPPORT: EXCESSIVE WORLD PRODUCTION, WHICH WAS NOT JUST A COMMUNITY

PROBLEM: AND TRADE POLICY ISSUES. IT WAS NECESSARY TO AVOID

ROWS WITH THE U.S. THOUGH THE COMMUNITY CURRENTLY IMPORTED HUGE

QUANTITIES OF SOYA FOR FOODSTUFFS WHICH INCREASED MILK YIELDS.

- ANDRIESSEN (COMMISSION) SID THE COMMISSION HAD BEEN WARNING OF THE POTENTIAL PROBLEMS SINCE 1981. THE 1986 PRICE-FIXING HAD SAVED 457 MECU, BUT THERE WAS NOW A POTENTIAL OVERSPEND OF FAR MORE THAN THE 1.4 BECU IN 1987 EARLIER ENVISAGED, AS A RESULT OF THE RECENT FALL IN THE DOLLAR, AGRI-MONETARY CHANGES, AND A PROBABLE CARRY-OVER FROM 1986 TO 1987. WORLD MARKET PRICES WERE FALLING WHILE PRODUCTION RACED AHEAD. THE COMMISSION HAD DONE ALL IT COULD ON ITS OWN AUTHORITY, SO FURTHER ACTION WOULD DEPEND ON COUNCIL DECISIONS. THE COMMISSION HAD ALREADY MADE PROPOSALS ON BEEF AND MILK, BUT WOULD HAVE TO GO FURTHER. IT WAS WORKING ON SOME REALLY DRASTIC NEW PROPOSALS TO COME FORWARD FOR THE 1987/88 PRICE-FIXING. THE PROBLEM OF STOCKS REMAINED. CURRENT STOCKS, OFFICIALLY VALUED AT 12 BECU, HAD A MARKET VALUE ONLY HALF THAT. THEY WERE COSTLY TO KEEP AND OVERHUNG THE MARKET. A DISPOSAL PROGRAMME WAS ESSENTIAL, COMBINED WITH MEASURES TO ENSURE THEY WOULD NOT BE BUILT UP AGAIN (THOUGH SOME FARMERS WERE STILL AIMING FOR INCREASED PRODUCTION AND HIGHER PRODUCTIVITY.) ALL THIS NEEDED FINANCE.
- 6. CHRISTOPHERSEN (COMMISSION) WELCOMED THE PRESIDENCY'S
  INITIATIVE. THE AGRICULTURAL GUIDELINE DID NOT GUIDE ANYTHING.
  IF NOTHING WAS DONE THERE WOULD BE INSUFFICIENT FUNDS TO PAY MEMBER
  STATES' ADVANCES IN 1987, RESULTING IN A HUGE CARRY-OVER TO 1988.
  TO PROVIDE FOR THE CAP AND SQUEEZE DNO WOULD BE UNACCEPTABLE TO
  THE PARLIAMENT. THEY COULD RUN UP STOCKS IN THE SHORT-TERM, BUT
  THAT MERELY ADDED TO BUDGET PROBLEMS IN 1988. A 3-5 YEAR
  PROGRAMME OF STOCK DEPRECIATION AND DISPOSAL WAS NECESSARY, WITH
  A NEW ACCOUNTING SYSTEM BASED ON THE REAL MARKET VALUE OF STOCKS.
  THE PRICE FIXING WOULD AIM FOR SAVINGS, BUT THEY COULD NOT FIND
  3 BECU AT ONE PRICE-FIXING. BUT CAP MONEY WENT LESS AND LESS TO
  FARMERS AND MORE AND MORE TO TRADERS, BANKERS AND THIRD COUNTRIES.
- 7. STOLTENEERG (GERMANY) EMPHASISED THE PROBLEM OF OVERPRODUCTION AND STOCKS. DECISIONS ON A MEDIUM-TERM STRATEGY TO
  DISCOURAGE PRODUCTION WERE NECESSARY COVERING (NEXT WORD UNDERLINED) ALL SECTORS, BUT STOCK DISPOSAL MUST BE GRADUAL.
  SOMETHING SHOULD BE DONE ABOUT THE IMPORT OF SUBSTITUTES. THERE
  WAS MUCH EXAGGERATED TALK OF RE-NATIONALISATION, BUT PERHAPS SOME
  MEASURE OF IT WAS POSSIBLE WITHOUT DESTROYING THE CAP E.G A
  NATIONAL MILK QUOTA FOR EACH MEMBER STATE. HE WAS SURPRISED
  THAT SOME AGRICULTURE MINISTERS SEEMED TO WANT STILL MORE
  SUBSIDIES ON SURPLUS PRODUCTS. THIS MUST BE STOPPED. HE COULD
  NOT, HOWEVER, AGREE COUNCIL CONCLUSIONS TODAY.
- 8. BALLADUR (FRANCE) SAID AGRICULTURE WAS FUNDAMENTAL TO SOCIETY AND THE FINANCIAL ANGLE WAS ONLY ONE ASPECT. THE REAL PROBLEM WAS THE WORLDWIDE STRUCTURAL SURPLUS.
- 9. THE MINISTER OF STATE COMMENTED THAT ON THE 1987 BUDGET THE COUNCIL WAS TAKING A TOUGH LINE ON DNO AND THE E.P WOULD INSIST ON EQUAL PAIN FOR AGRICULTURE.
- 10. EYSKENS (BELGIUM) AGREED THE SITUATION WAS INTENADED

IO. EYSKENS (BELGIUM) AGREED THE SITUATION WAS UNTERABLE, AND ELECTORAL PROBLEMS WERE NO JUSTIFICATION FOR IT, BUT RENATIONALISATION WOULD DESTROY THE COMMUNITY. PRICES MUST BE ALLOWED TO GET THROUGH TO PRODUCERS, BUT SOCIO-ECONOMIC PROBLEMS WOULD REQUIRE DIRECT SUBSIDIES NOT PACKET PRICES.

ESPER LARSEN OPPOSED RE-NATIONALISATION OR ECOFIN INTERFERENCE IN PROPOSALS THE COMMISSION WAS PREPARING.

11. BRUTON (IRELAND) OPPOSED ANY RE-NATIONALISATION AND WONDERED WHETHER IT WAS NOT POSSIBLE TO LIMIT FERTILISERS AND BAN FACTORY FARMING. CHRISTOPHERSEN COMMENTED THAT ALLOWING CARRY-OVERS TO BUILD UP WAS DE-FACTO RE-NATIONALISATION, AS FARMERS WOULD INSIST ON BEING PAID. PAPANTONIOU (GREECE) OPPOSED THE BUDGETARY APPROACH ALTOGETHER. ECOFIN SHOULD NOT BE INVOLVED IN RETHINKING THE CAP, THOUGH IT WAS CLOSELY LINKED TO THE NEW OWN RESOURCES PROBLEM.

12. THE CHANCELLOR SUMMED UP THAT EVERYONE AGREED ON THE SERIOUSNESS OF THE SITUATION AND THE NEED FOR URGENT ACTION FOR THE LONGER TERM AS WELL AS 1987. RE-NATIONALISATION WAS NOT A SOLUTION, THOUGH SET ASIDE MUST BE CONSIDERED. ALL MUST REFLECT WITH COLLEAGUES AT HOME, AND THE PRESIDENCY WOULD TRY TO PRODUCE SOME CONCLUSIONS ON THE GENERAL DIRECTION THE COMMUNITY SHOULD GO TO HELP THE COMMISSION WITH FUTURE WORK.

DURING THE FORMAL COUNCIL SESSION. MINISTERS REPEATED MANY OF THE COMMENTS THEY HAD MADE OVER LUNCH. THERE WAS GENERAL SUPPORT FROM SCHEER, GORIA, SOLCHAGA AND THE PORTUGUESE REPRESENTATIVE, THOUGH THEY, LIKE OTHERS MADE CLEAR THAT THEY HAD NOTED THAT THESE WERE PRESIDENCY CONCLUSIONS WHICH DID NOT BIND THE COUNCIL.

PAPANTONIOU (GREECE) DISOCCIATED HIMSELF FROM THE TEXT.

TIETMEYER (GERMANY) AND ESPER LARSEN (DENMARK) ASKED THAT THE MINUTES RECORD THAT THEY DISSOCIATED THEMSELVES FROM PARAGRAPH 3.

TIETMEYER SPECIFYING THAT THE GERMAN OBJECTIONS STEMMED FROM THE POLITICAL DIFFICULTIES INHERENT IN THE PRINCIPLES SET OUT RATHER THAN FROM THEORETICAL OBJECTIONS.

14. TEXT OF PRESIDENCY CONCLUSIONS (WHICH WERE SLIGHTLY AMENDED IN DISCUSSION TO REFER TO STOCKS AND TO ARTICLE 39 OF THE TREATY) IN M 1 F T.

15. THE CLOSE WORKING RELATIONSHIP THE TREASURY HAVE DEVELOPED WITH THE FRENCH ON THESE CONCLUSIONS OVER THE LAST COUPLE OF WEEKS CONTINUED TODAY, WITH VILLAIN CONTRIBUTING HELPFULLY BEHIND THE SCENES.

The second of the second

MILES

YYYY

ADVANCE:

RENWICK FCO

WALL FCO

HARRISON FCO

RICHARDSON ECD(P) FCO

WILLIAMSON CAB

JAY CAB

MERCER CAB

MCADAMS TSY

HADLEY MAFF

PERRINS MAFF

PS/CHANCELLOR TSY

PS/MST TSY

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FCO

PS/MRS CHALKER
MR RENWICK

MR BRAITHWAITE

RESIDENT CLERK

HD/ECD(I) (3)
HD/NEWS DEPT
HD/ECD(e)
HD/ECD(HD/ECD)

DTI

PLUS FCO

The Harrison ECD (1)

SCOTTISH OFFICE

MR A C HING

MR I SNEDDON.

CABINET OFFICE

MR D WILLIAMSON
MR JH HOLROYD
MISS BY LAMBERT
MR D D HUNTER NO NEW MR M H JAY M HADLEY
MR B E MCADAM
H M TREASURY

MAFF
MR FRANKLIN
MR D ANDREWS
MR D HADLEY

MR RS THOMAS

HR THOMSON - ECDIV

PLUS OGDS

THE P. KENT HM CUSTOMS

PS/ PINISTER.

MR RJ BONNEY

SIR G LITTLER.

PR CRABBIE

PR CRABBIE

PR LAVELLE

PS/ CHANCELOR

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FRAME ECONOMIC/FRAME AGRICULTURE

FROM UKREP BRUSSELS

ECOFIN COUNCIL, 13 OCTOBER 1986 : AGRICULTURAL SPENDING. PRESIDENCY CONCLUSIONS ON CAP EXPENDITURE.

### BEINGSEEEEEEE

#### BEGINS:

- 1. THE HEADS OF GOVERNMENT AT THE EUROPEAN COUNCIL IN THE HAGUE CONCLUDED THAT, TAKING INTO ACCOUNT THE SPECIFIC NATURE OF THE EUROPEAN AGRICULTURAL MODEL, THE COMMON AGRICULTURAL POLICY MUST CONTINUE TO BE ADAPTED TO CHANGING CIRCUMSTANCES AND THAT A BETTER CONTROL OF TOTAL PRODUCTION MUST BE ENSURED SO THAT IT IS BETTER ADJUSTED TO THE MARKET SITUATION.
- 2. THERE IS GENERAL CONCERN WITH THE INCREASING BURDEN PLACED ON THE COMMUNITY BUDGET AS SURPLUSES OF AGRICULTURAL PRODUCE AND STOCKS ACCUMULATE. THESE SURPLUSES AND STOCKS ARE COSTLY AND CONTRIBUTE TO A DEPRESSION OF WORLD MARKET PRICES. AGRICULTURAL MARKET SUPPORT EXPENDITURE THREATENS TO EXCEED THE 1987 DRAFT BUDGET FIGURE UNLESS FURTHER DECISIONS ON THE OPERATION OF THE MARKET REGIMES ARE TAKIN IN THE NEAR FUTURE. THE COMMISSION HAS RECENTLY PUT FORWARD PROPOSALS FOR SUCH CHANGES IN SOME OF THE SECTORS WHICH ARE IN STRUCTURAL SURPLUS, ON WHICH EARLY DECISIONS WILL BE REQUIRED, AND HAS INDICATED THAT FURTHER INITIATIVES WILL BE TAKEN.
- 3. WITH A VIEW TO BRINGING EXPENDITURE UNDER BETTER CONTROL AND TO AVOID THE PRODUCTION OF SURPLUSES FOR WHICH MARKETS CANNOT BE FOUND AND TO OPENING THE WAY FOR A MORE STRUCTURED APPROACH TO DISPOSAL OF EXISTING STOCKS FORTHCOMING POLICY DECISIONS SHOULD, WHILE RESPECTING THE PRINCIPLES SET OUT IN ARTICLE 39 OF THE

BE FOUND AND TO OPENING THE WAY FOR A MORE STRUCTURED APPROACH TO DISPOSAL OF EXISTING STOCKS FORTHCOMING POLICY DECISIONS SHOULD, WHILE RESPECTING THE PRINCIPLES SET OUT IN ARTICLE 39 OF THE TREATY, HAVE REGARD TO THE FOLLOWING PRINCIPLES:

- (1) COMMINITY SUPPORT PRICES SHOULD MORE CLOSELY REFLECT
  SUPPLY, DEMAND AND MARKET CONDITIONS, ESPECIALLY IN
  SECTORS WHERE THERE IS SURPLUS PRODUCTION:
- (11) THE INTERVENTION SYSTEM SHOULD OPERATE ACCORDING TO ITS INTENDED ROLE, AS A SAFETY NET TO SUPPORT THE MARKET AT TIMES OF PARTICULAR PRESSURE AND NOT AS A STANDARD ALTERNATIVE MARKETING OUTLET:
- (111) PRICE SUPPORT POLICIES SHOULD WHEREVER POSSIBLE BE FLEXIBLY OPERATED SO THAT COMMERCIAL RISKS ARE NOT BORNE IN THEIR ENTIRETY THROUGH PUBLIC FINANCE.

ENDS

MILES

YYYY ADVANCE: RENWICK FCO WALL FCO HARRISON FCO WILLIAMSON CAB JAY CAB MERCER CAB HADLEY MAFF PERRINS MAFF PS/CHANCELLOR TSY PS/MST TSY LAVELLE TSY EDWARDS TSY CRABBIE TSY BONNEY TSY DONNELLY TSY MAIN: FRAME ECONOMIC FRAME AGRICULTURE UKREP DIST: 46/2/31/42/ROBERTS/AG/ECON

LMLNAN 0840

CCN: UKREP DIST : 46/29/...ETC

NNNN

From: SIR PETER MIDDLETON

Date: 26 November 1987

CHANCELLOR

The.

Now arrived

## CHEVENING

I should like to announce the arrangements for Chevening early next month.

2. The meeting will start on the morning of 9 January and finish after lunch on 10 January. No work after dinner on the Saturday night.

## **Participants**

3. Can we confirm the following cast list:

## (a) Minister and Advisers

- (1) Chancellor
- (2) Chief Secretary
- (3) Financial Secretary
- (4) Paymaster General
- (5) Economic Secretary
- (6) Mr Cropper
- (7) Mr Tyrie
- (8) Mr Call

## (b) Senior Officials

- (9) Sir Peter Middleton
- (10) Sir Geoffrey Littler
- (11) Sir Terence Burns
- (12) Mr Anson
- (13) Mr Scholar
- (14) Mr Battishill
- (15) Mr Unwin

## (c) Supporting Officials

- (16) Mr Culpin
- (17) Mr Mace
- (18) Mr Allan.

I would propose to invite Mr Odling-Smee along for the discussion on Saturday morning.

## Wives

4. Wives would be invited as usual. The charge would be £30.

## Papers

- 5. Following last year's successful format I suggest two key papers:
  - (a) Sir Terence Burns' paper, on now familiar lines, on the policy background for the 1988 MTFS. This will cover both policy and broad issues of presentation.
  - (b) A paper on tax reform by Messrs Scholar and Culpin, which will be agreed with the Revenue departments. This will go through the main elements of the reform, together with any variants still on the table. will suggest themes - to be further developed in the weeks after Chevening - on the rationale for, and the presentation the reform proposals. There will be a section - as short as we can make it - on the secondary elements in the reform, and on Budget Starters. There will also be a few annexes - eg one on the main interconnections between the proposals, the timetable for implementing them, their costing, and their distributional effects (including and excluding the Community Charge).

- All these papers will be ready the weekend before Christmas (18 December), and we should resolve not to add to them thereafter, except for the usual:
  - (c) short preview of the forecast, by Mr Sedgwick;
  - (d) guide for the whole discussion by Mr Scholar.

P E MIDDLETON

mjd 1/8A

## CONFIDENTIAL



pp

FROM: A C S ALLAN

DATE: 27 November 1987

SIR P MIDDLETON

## CHEVENING

The Chancellor was grateful for your minute of 26 November, which he discussed with you at your Bilateral this afternoon. He is content with what you propose.

A C S ALLAN



#### DEPARTMENT OF THE TREASURY

Washington

Ch I have held but all tax papes (including eg Brian Mare on not ablishing UEL) to go with Chevening papers in Christones lose.

OV.

A.

pup

FROM: SIR P MIDDLETON

DATE: 7 December 1987

CHANCELLOR

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary

Mr Cropper
Mr Tyrie
Mr Call

Sir G Littler

Sir T Burns Mr Allan / Mr Anson Mr Odling-Smee

Mr Scholar Mr Culpin Mr Battishill

Mr Mace - IR

Mr Unwin - C&E

## CHEVENING 1987

This note sets out the arrangements for next month's meeting. I suggest that we assemble at 11am on Saturday 9 January, and work, as usual, through till dinner. We resume the discussion on Sunday morning and finish after lunch.

- 2. There will be two papers.
  - (a) Macro economic policy and the MTFS a paper by Sir T Burns.
  - (b) Tax issues
    - a paper by FP agreed with the Revenue Departments.
- 3. The two papers referred to above will be available on 18 December; it is normal practice not to ask for supplementary work to be done on the papers before the meeting. In addition there will be two notes on Thursday 7 January;
  - (a) a note by Mr Sedgwick giving a preview of the forecast;
  - (b) an annotated agenda for the whole discussion from

Mr Culpin.

4. We shall follow normal practice and take the macro-economic discussion first and then move on to tax issues, starting with indirect taxation.

## Attendance

5. Ministers and Advisers are invited to attend for the whole time. The following senior officials will also attend the full session.

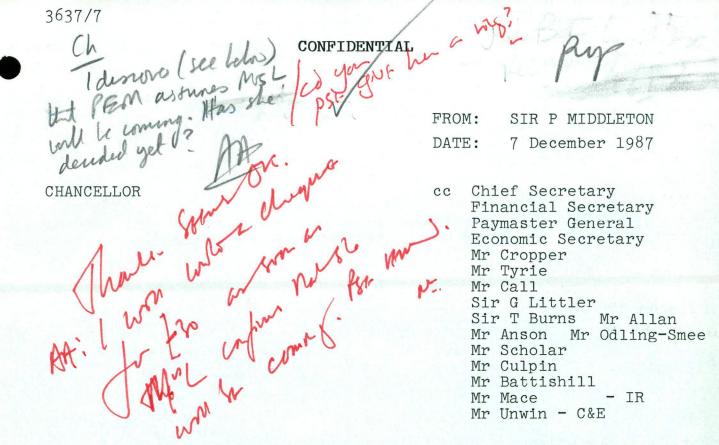
Sir Peter Middleton
Sir Geoffrey Littler
Sir Terence Burns
Mr Anson
Mr Battishill
Mr Scholar
Mr Culpin

Mr Allan

Mr Unwin will be present for the whole of the first day. Mr Odling Smee will attend the macro-economic discussion on Saturday morning. Mr Mace (IR) will provide additional support for the discussion on Tax Issues.

- 6. Wives are invited. The cost will be £30 for those wives staying over night. Could copy recipients let Miss Clarke know if wives will be attending.
- 7. The existence of the meeting must not be disclosed.

SIR PETER MIDDLETON



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Sir Geoffrey Littler
Sir Terence Burns
Mr Anson
Mr Battishill
Mr Scholar
Mr Culpin

Mr Allan

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SIR PETER MIDDLETON

From: MISS E A CLARKE Date: 10 December 1987

MR A C S ALLAN

PS/Chief Secretary CC PS/Financial Secretary PS/Economic Secretary PS/Paymaster General Sir Peter Middleton Sir Geoffrey Littler Sir Terence Burns Mr Anson Mr Odling-Smee Mr Scholar Mr Culpin Mr Cropper Mr Tyrie Mr Call Mr Battishill) IR Mr Mace ) Mr Unwin ) C&E Mrs Morrison ) FCO

# CHEVENING: SATURDAY 9 - SUNDAY 10 JANUARY 1988

Below is a list of acceptances for Chevening:

Chancellor of the Exchequer (Nigel Lawson)	and	Mrs Lawson (Therese)
Chief Secretary (The Rt Hon John Major)	and	Mrs Major (Norma)
Financial Secretary (The Rt Hon Norman Lamont)	and	Mrs Lamont (Rosemary)
Economic Secretary (Peter Lilley)	and	Mrs Lilley (Gail)
Paymaster General (The Hon Peter Brooke)		
Sir Peter Middleton		
Sir Geoffrey Littler	and	Lady Littler (Shirley)
Sir Terence Burns	and	Lady Burns (Anne)
John Anson	and	Mrs Anson (Myrica)

Michael Scholar and Mrs Scholar (Angela)

Alex Allan Robert Culpin

Peter Cropper

Andrew Tyrie

Mark Call and Mrs Call (Françoise)

Tony Battishill and Mrs Battishill (IR) (Heather)

Brian Mace (IR)

## Saturday only

Brian Unwin and Mrs Unwin (C&E) (lunch and dinner) (Diana)

John Odling-Smee (Saturday morning and Saturday lunch).

- 2. Please could recipients of this minute check this minute carefully for any mistakes in Christian names etc.
- 3. Also please could I ask at the same time for the registration number, colour and make of car you will be taking to Chevening; and to indicate whether you will be driving yourself or driven there by a Government driver; also if by Government driver could you let me know if they would like to have the buffet lunch at Chevening on Sunday 10 January.
- 4. The Saturday morning meeting at Chevening starts at 10.45 am and the weekend ends after lunch on Sunday (2 pm approximately). A programme will be circulated nearer the time.
- 5. Perhaps I could remind those bringing wives and who are staying overnight for their cheques for £30 made payable to HM Treasury.

MISS E A CLARKE

Assistant Private Secretary

## RESTRICTED

Contest?

Arabb. Charge. 23/1.

From: MISS E A CLARKE

Date: 21 December 1987

MR ALLAN

CC

Mrs Morrison - FCO

## CHEVENING: SATURDAY 9 - SUNDAY 10 JANUARY 1988

.. I attach a first shot at the table plans for the Chancellor to look at.

MISS E A CLARKE

Ex clark

Assistant Private Secretary

The Hon Peter Brooke

Mrs Battishill Mr Mace Mr Tyrie Sir Geoffrey Littler Lady Burns Mrs Lamont Mr Scholar The Rt Hon Nigel Lawson Mrs Lawson Mrs Scholar Sir T Burns Mr Battishill Mr Culpin Lady Littler

The Rt Hon Norman Lamont

# SATURDAY LUNCH

## Table 1

# 10 Men

The Rt Hon Nigel Lawson

The Rt Hon Norman Lamont

The Hon Peter Brooke

Sir Geoffrey Littler

Sir Terence Burns

Mr Scholar

Mr Culpin

Mr Tyrie

Mr Battishill

Mr Mace

## 6 Ladies

Mrs Lawson
Mrs Lamont
Lady Littler

Lady Burns

Mrs Scholar

Mrs Battishill

## SATURDAY LUNCH

Table 2

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Mrs Morrison

Mr Odling-Smee

Mrs Lilley

The Rt Hon John Major

Mrs Call

Capt David Husband

Mr Cropper

Mr Anson

Mrs Unwin

Sir Peter Middleton

Mrs Major

Mr Unwin

Mr Call

Mr Allan

Mr Lilley

# SATURDAY LUNCH

#### Table 2

## 10 Men

The Rt Hon John Major

Mr Peter Lilley

Sir Peter Middleton

Mr Anson

Mr Allan

Mr Cropper

Mr Call

Mr Unwin

Mr Odling-Smee

Capt David Husband

## 5 Ladies

Mrs Major

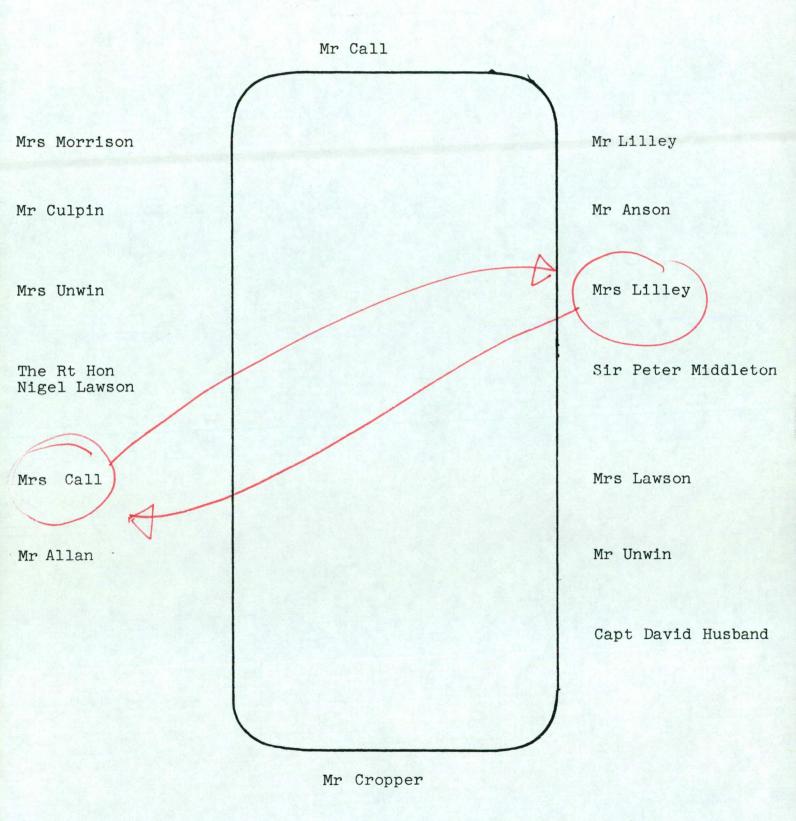
Mrs Lilley

Mrs Call

Mrs Unwin

Mrs Morrison





## ATURDAY DINNER

## Table 1

#### 10 Men

The Rt Hon Nigel Lawson

Mr Lilley

Sir Peter Middleton

Mr Anson

Mr Allan

Mr Cropper

Mr Call

Mr Unwin

Capt David Husband

Mr Culpin

## 5 Ladies

Mrs Lawson

Mrs Lilley

Mrs Call

Mrs Unwin

Mrs Morrison

# SATURDAY DINNER

Table 2

Mr Tyrie

Mrs Lamont

Mr Scholar

Lady Littler

The Rt Hon John Major

Lady Burns

The Rt Hon Norman Lamont

Mr Battishill

Mr Mace

Mrs Battishill

Sir Geoffrey Littler

Mrs Major

Sir Terence Burns

Mrs Scholar

The Hon Peter Brooke

#### ATURDAY DINNER

## Table 2

## 9 Men

The Rt Hon John Major

The Rt Hon Norman Lamont

The Hon Peter Brooke

Sir Geoffrey Littler

Sir Terence Burns

Mr Scholar

Mr Tyrie

Mr Battishill

Mr Mace

## 6 Ladies

Mrs Major

Mrs Lamont

Lady Littler

Lady Burns

Mrs Scholar

Mrs Battishill



# Secretary of State for Energy

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COPY NO. 3 of 4.

FROM: J M G TAYLOR

DATE: 31 December 1987

MR SCHOLAR

cc Mr Culpin

The Chancellor has read Mr Culpin's tax paper for Chevening. He has commented that this is excellent.

- 2. He would, however, be grateful if a further Annex to that paper could be produced (partly as an elaboration of paragraph 25).
- 3. This Annex should cover the case where the UEL is retained. It should have four costed variants:
  - (a) basic rate 25 per cent, higher rate 40 per cent, threshold £18700;
  - (b) basic rate 25 per cent, higher rate 45 per cent, threshold £21300;
  - (c) basic rate 24 per cent, higher rate 45 per cent, threshold £17900;
  - (d) basic rate 24 per cent, higher rate 44 per cent, threshold £17900.
- 4. In each case the cost of the package can be reduced (from Year 2 onwards) by a substantial increase in the taxation of car benefits, which the problems of the "kink losers" had hitherto ruled out. This is particularly so with (c) and (d), since the object would be to avoid losers taking the main IT changes and the car benefit changes together. Exemplification of who gets what should, of course, be on the same basis for all variants.
- 5. The characteristics of these variants are as follows:
  - (a) is the only option that is compatible with the alignment of IT and CGT rates. Assuming an ultimate objective of 20 per cent basic rate, 40 per cent higher rate, it enables the higher rate objective to be achieved



straightaway. But it is the most generous to the very rich, and the least "balanced";

- (b) more balanced than (a), and would imply getting to 20/40 by chipping equal amounts off both rates. But might find higher rate in practice "stuck" at 45 per cent;
- (c) virtually implies the higher rate "stuck" at 45 per cent, but achieves the surprise of the 24 per cent basic rate against the universally discounted 25 per cent basic rate - and clearly points the way to a 20 per cent basic rate target. A small number of taxpayers see an increase in their marginal rate;
- (d) combines the best features of (b) and (c) but is, of course, the most expensive variant. As with (c) a relatively small number of taxpayers see an <u>increase</u> (though a slightly smaller one) in their marginal rate.
- 6. You may also want to refer to other consequences of these variants, such as the effect on the costings of other elements of the overall package.
- 7. Most of the material for this Annex is contained in Mr Mace's submissions of 17 and 23 December. Miss Rhodes' submission of 23 December (car benefits) is also relevant: it is for consideration whether a 50 per cent increase is the most that could be done.

A

J M G TAYLOR



SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4GJ

Mr Scholan Hyand all No well, have prome was Mr Culpon's touther the prome for Clour, \$ 1 she like an Annex done. I so we that a was & pm to blan a workwile drawn Claren A. 1 factor a hole Soll out War I have a

M: Scholan and Mr Culpa 6 to his excelle Pre Product, as an annex, allowed to pare 25, This was har A variants: (a) Baga wit 25%, higher rate 40%, thrushold \$18,700 (b) baser rate 252, hopen 2012 45-2, thushow \$21,300 (c) Barn note 243, hopen note 45%, through 21,900 (1) Basin nat 242, hoperate 442, threshow \$ 2,900 In soch cost the cost gree package can be structed by (from you 2 mons) by a substantial never A De taxalon of can sometil, which he possible of No Kak lons' had hotento med out. This is partially to with (c) x (d), smeet he digital with the to avoid losses taking to the man partiage IT changes as the can singit change togother. Exemplification to of who gots what shid, of course, or a re came bass for all various. Chametenshis are as follows: (a) is protested. He only optim that is compatible with he alignment of 17 2 CGT rates. Homis also Assume an withmest byther of 20% barn rate 40% hopen rate, it sopre of the surface of t (b) Most 'Salance Ran (a), and would supply getty.

5 20/40 by chipper time amounts of son rates.

But supply ful higher rate a practity 'study' at 45%.

(c) Virtually supplied to high rate shock at 45%, but achieves the support of the 24? sain rate - and clear ports he was to a 20% sain rate - and clear humbs of taxpayers see an novare in their marshe rate.

(d) Compare the state patients of (b) & (c), but is of convert to march the sain variant. As with (c) so a colored seem of the sain supports see an increase (the sain allered seems of the sain supports see an increase (the sain allered seems of the sain supports and supports seems and supports seems and supports seems of the sain supports seems supports seems supports seems and supports seems se

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M